3rd Webinar on Life Insurance

1st October 2021
1400 – 1700 IST

Mortality Protection Gap study 2020

Rajeev Sharan
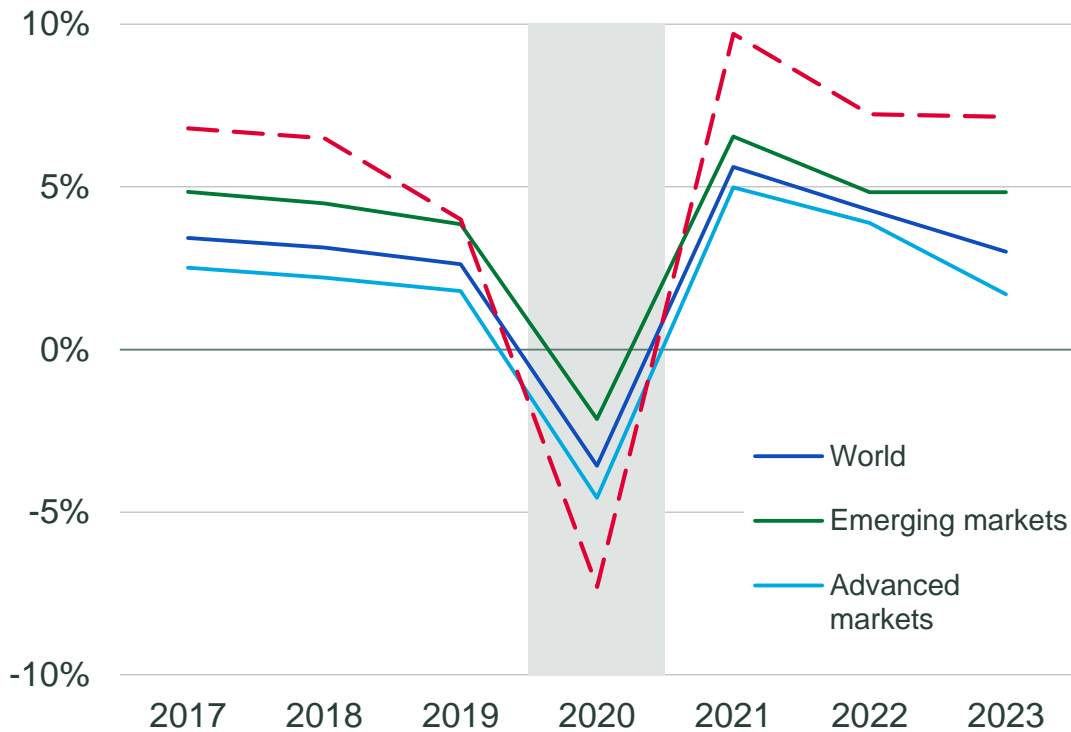Senior Economist

Mahesh H Puttaiah
Senior Insurance Economist

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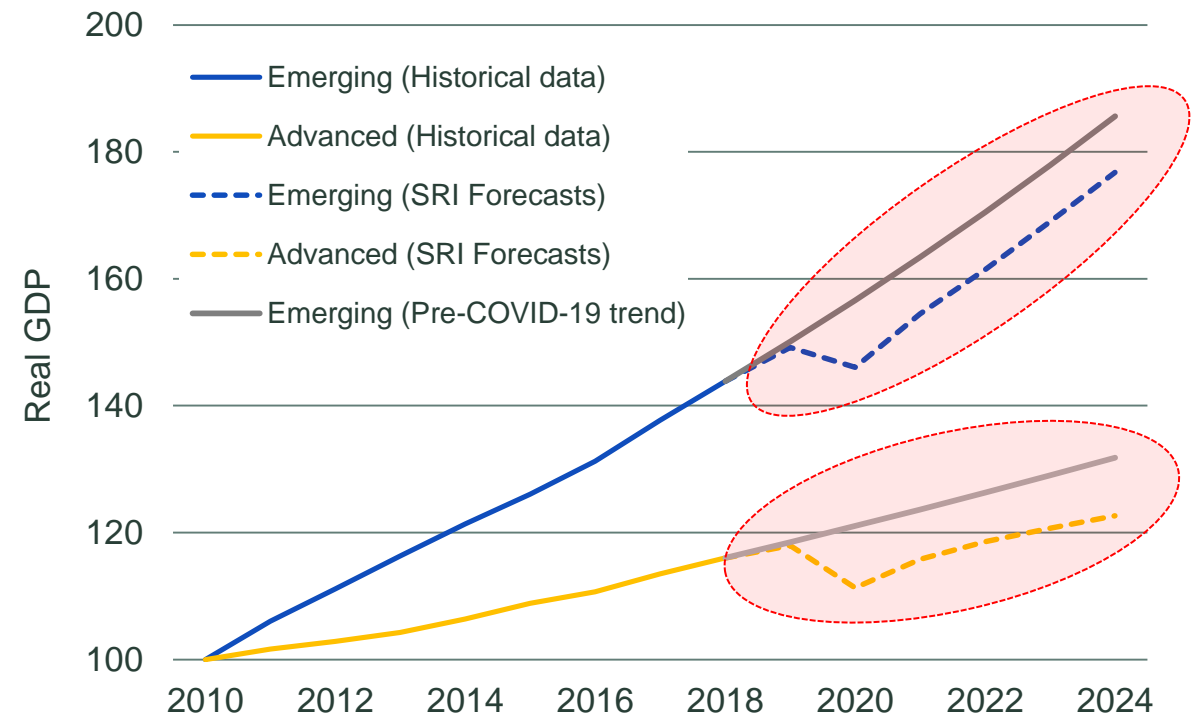# Recession: output lost will not be recovered
Growth will bounce back but the recovery remains fragile
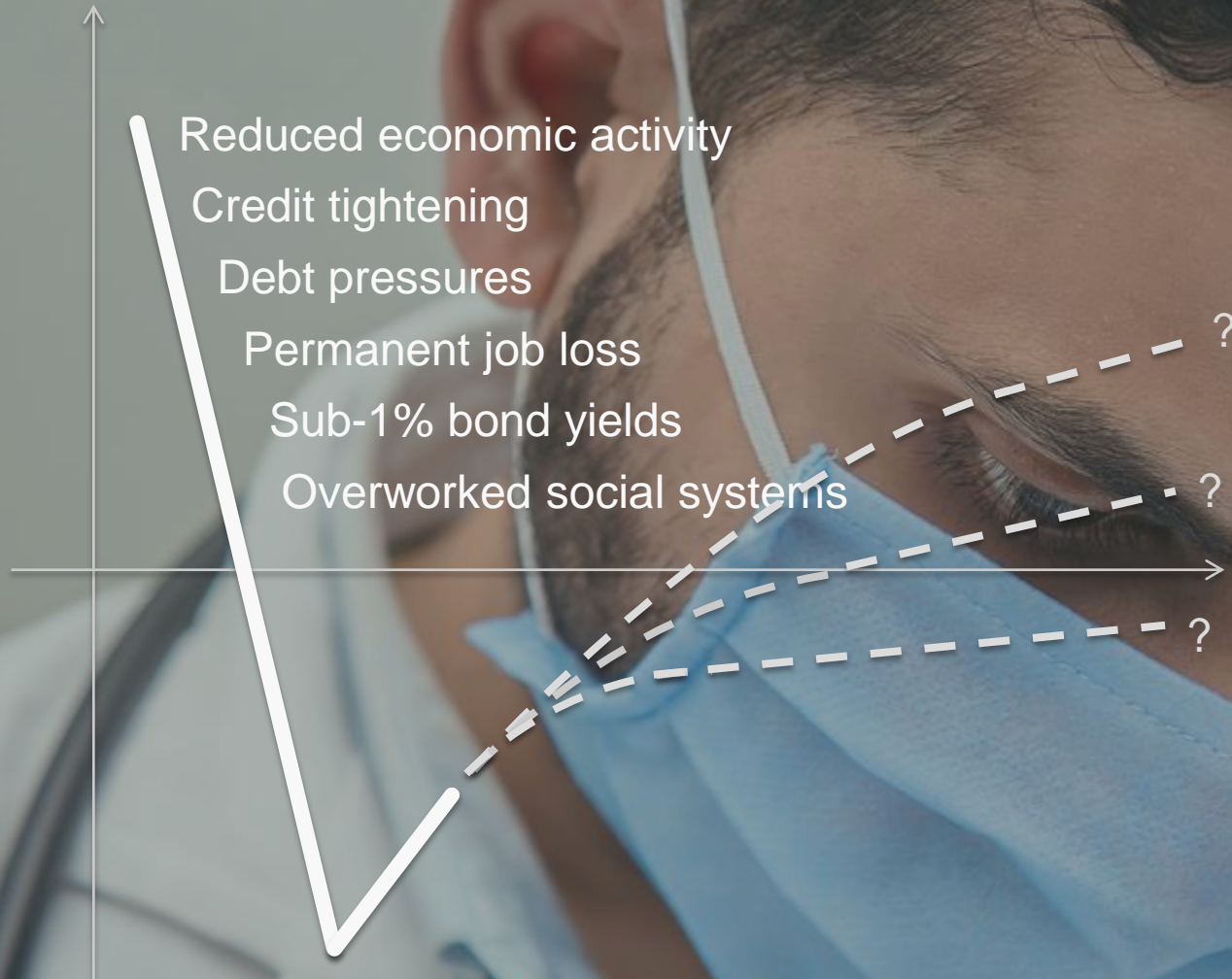
Real GDP growth

Source: Swiss Re Institute

GDP growth will bounce back but lost output to remain

Source: Swiss Re Institute

2020/21 – Adapting to an uncertain normal

Reduced economic activity
Credit tightening
Debt pressures
Permanent job loss
Sub-1% bond yields
Overworked social systems

?
?
?

1 in 3 Indians are **overwhelmed and anxious** about their financial future

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Swiss Re Covid-19 Consumer Survey, 2020

Quantifying the mortality protection gap

Swiss Re Institute

How is the mortality protection gap calculated?

Calculating the mortality protection gap in present value terms

Mortality Protection Gap =

Protection Need

Income Replacement

Income needed to maintain surviving family's lifestyle. Based on age, household income & expenditure, dependents

Household Debt

Outstanding personal liabilities, e.g. home loans, education loans & etc.

−

Resources Available

Total Savings

Accumulated household savings, e.g. bank deposits, stocks

Non-primary Property Value

Any property a family owns but does not use for own-living purposes.

Life Insurance

Total sum assured of existing life insurance policies

Other Assets*

Other accessible funds, e.g. social security benefits, pension payouts, employer compensation

*includes social security survivor's benefit and compensation from employers

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Mortality Protection Gap Research 2020

We surveyed

14,745

consumers across Asia

Asked about:

Financial Situation

Concerns about Mortality

Perceptions of Life Insurance

Breakdown of respondents

Country	Respondents
China	4,212
India	1,710
South Korea	1,267
Thailand	1,154
Australia	1,119
Japan	1,079
Malaysia	1,074
Singapore	1,054
Indonesia	1,039
Hong Kong	1,037
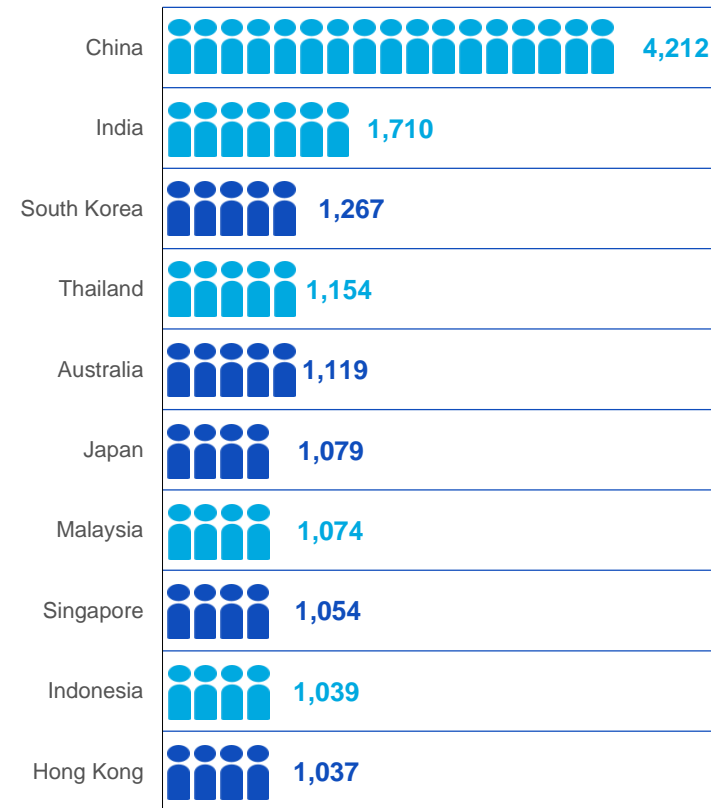
Note: In this presentation, China refers to mainland China and Hong Kong refers to the Hong Kong Special Administrative Region (SAR) of the People's Republic of China.

The Asia Mortality Protection Gap

Mortality Protection Gap

83 USD trillion
Asia-Pacific Region

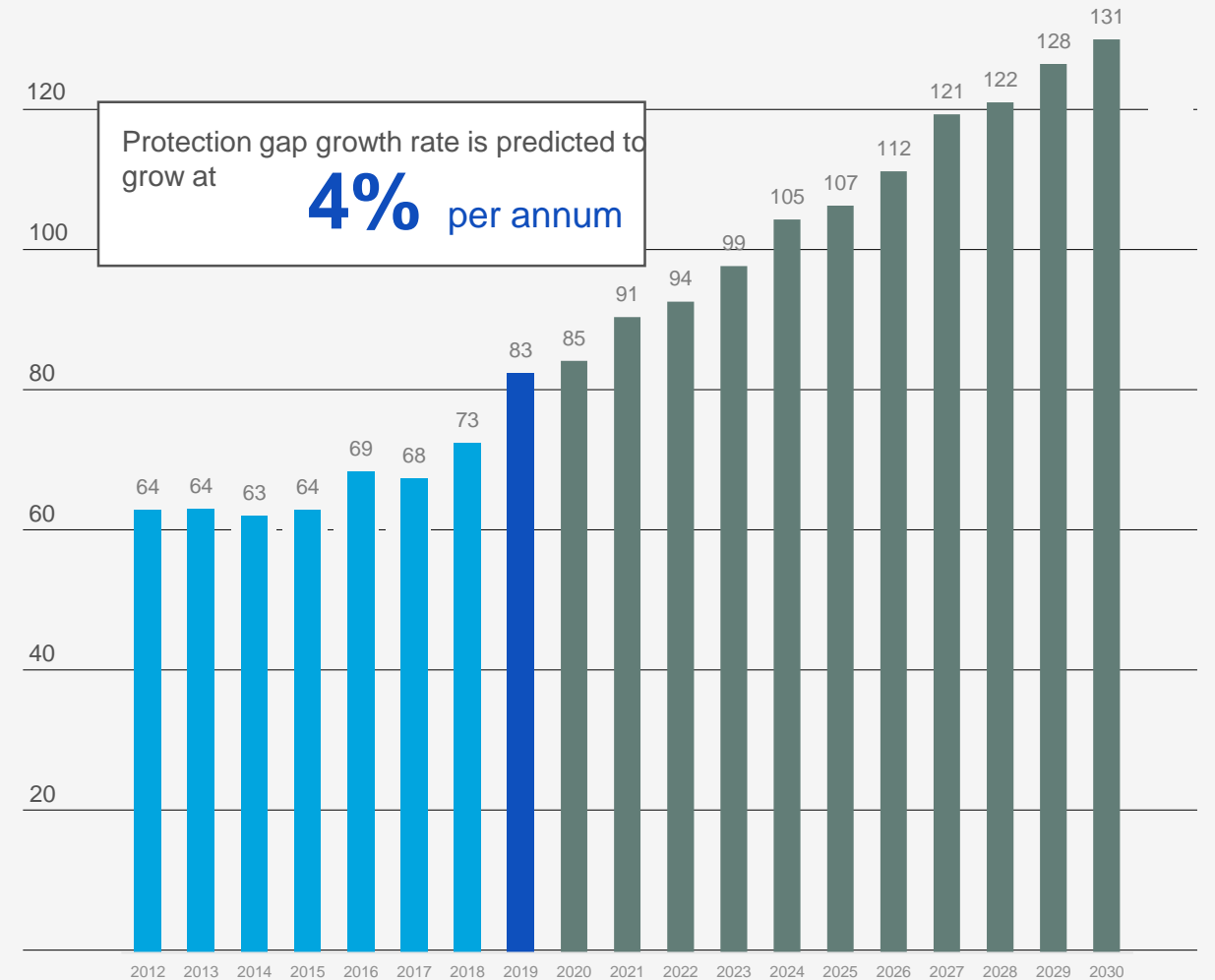**69.1%** protection need is still unmet

Average of **7.5x** annual household income is unprotected

This has been driven by:

- Young households with unprotected future income
- Aging population with insufficient social benefits
- Increase in household debts
- Ongoing shortfall in life insurance coverage

Asia mortality protection gap trend & prediction (in USD trillion)

Protection gap growth rate is predicted to grow at **4%** per annum

Year	Value
2012	64
2013	64
2014	63
2015	64
2016	69
2017	68
2018	73
2019	83
2020	85
2021	91
2022	94
2023	99
2024	105
2025	107
2026	112
2027	121
2028	122
2029	128
2030	131

Note: The data is from the 2019 Mortality Protection Gap model by SRI.

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The Mortality Protection Gap in Asia

Mortality Protection Gap

83 USD trillion

Asia-Pacific region

Market Opportunity

292.1 USD billion

additional premiums
per annum between 2020 and 2030
for surveyed 10 Asian markets

Largest absolute gap:

China **40.6** USD trillion

Largest gap as % of protection need:

India **83%**

Emerging Asia (USD60.6 trillion)   **Advanced Asia (USD16.1 trillion)**

In USD trillion

As % of protection need

	China	India	Indonesia	Thailand	Malaysia	Japan	South Korea	Australia	Singapore	Hong Kong
Total MPG	40.6	16.5	2.0	0.9	0.7	8.4	3.9	2.8	0.6	0.4
MPG %	70%	83%	76%	71%	74%	61%	55%	54%	55%	41%

■ Total MPG in USD trillion   ○ MPG as a percentage of protection need
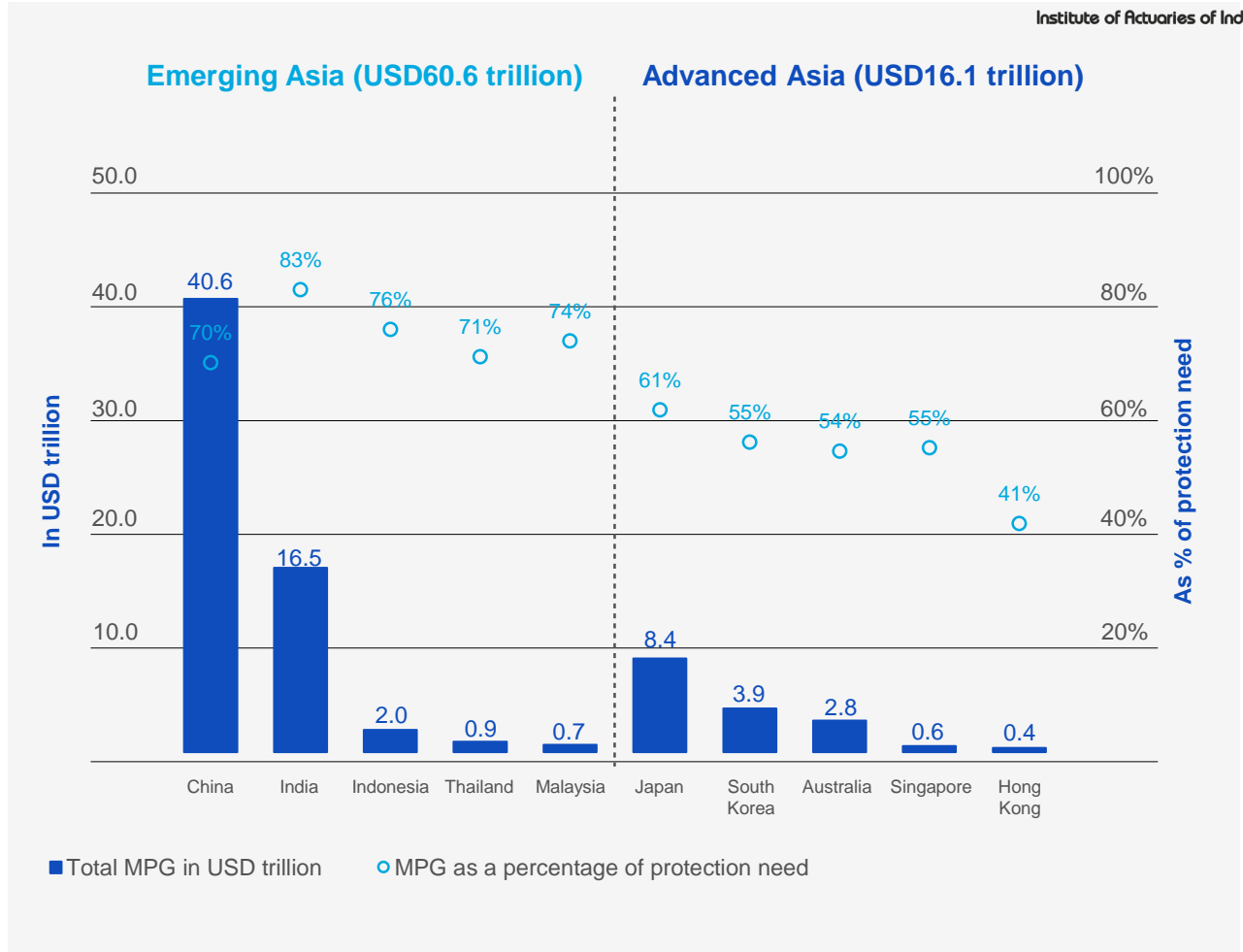
Note: The data is from the 2019 Mortality Protection Gap model by SRI.

The mortality protection gap in Asia is **USD 83 trillion**, translating to an insurance market opportunity of about **USD 292.1 billion per annum between 2020 and 2030**.

The Mortality Protection Gap in India

Absolute mortality protection gap :

India

16.5 USD trillion | Asia Total **83** USD trillion
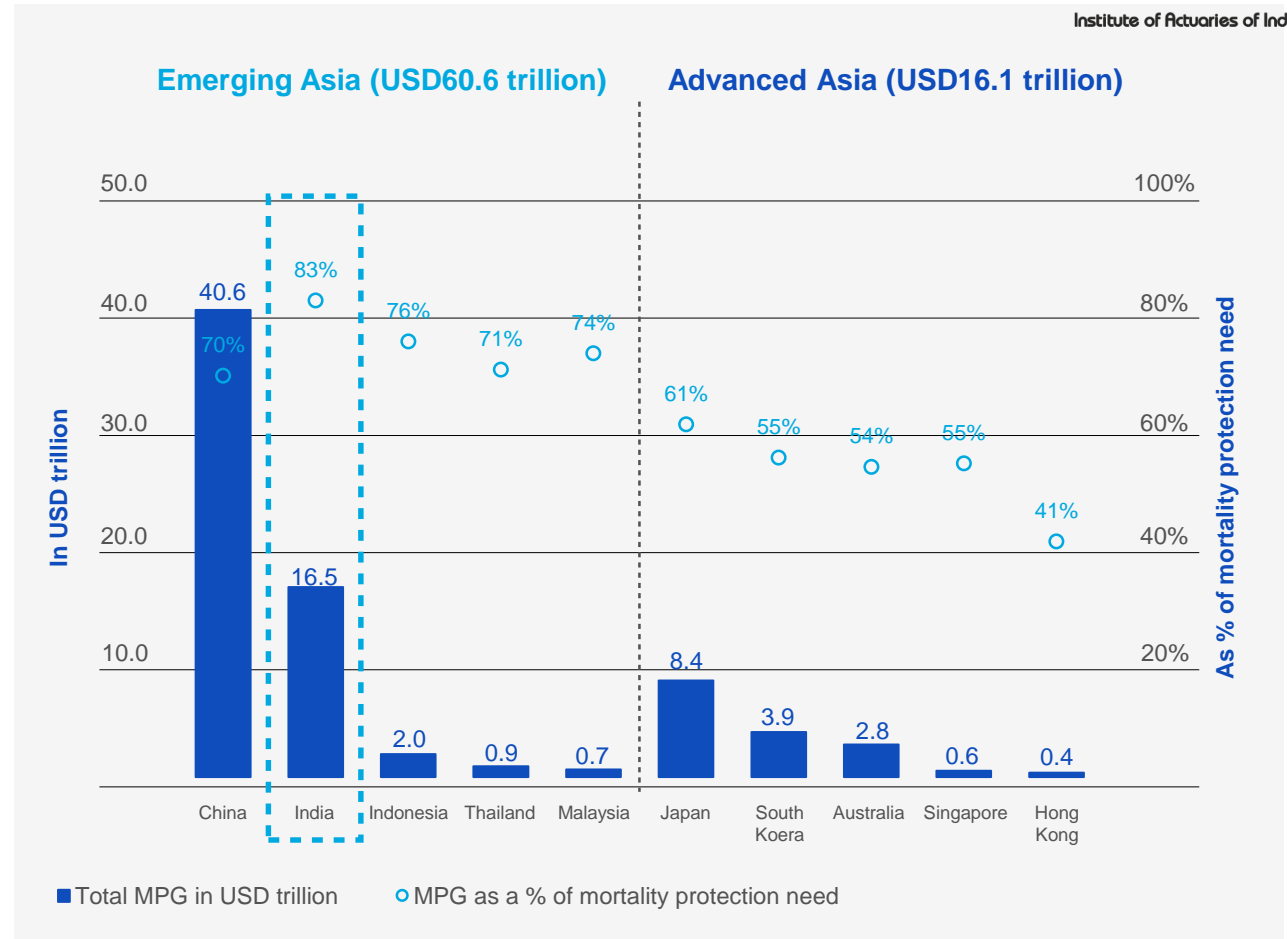
Gap as % of mortality protection need:

India

83% | Asia Average **69%**

Gap as a multiple of annual household income:

India

14.5x | Asia Average **7.5x**

Emerging Asia (USD60.6 trillion) | **Advanced Asia (USD16.1 trillion)**

In USD trillion

As % of mortality protection need

| China | India | Indonesia | Thailand | Malaysia | Japan | South Koera | Australia | Singapore | Hong Kong |

- China: 40.6 (70%, 83%)
- India: 16.5 (83%)
- Indonesia: 2.0 (76%)
- Thailand: 0.9 (71%)
- Malaysia: 0.7 (74%)
- Japan: 8.4 (61%)
- South Koera: 3.9 (55%)
- Australia: 2.8 (54%)
- Singapore: 0.6 (55%)
- Hong Kong: 0.4 (41%)

■ Total MPG in USD trillion   ○ MPG as a % of mortality protection need

Note: The data is from the 2019 Mortality Protection Gap model by SRI.

Closing the protection gap presents a market opportunity of **USD 78.2 billion** in **additional annual premiums** between 2020 and 2030
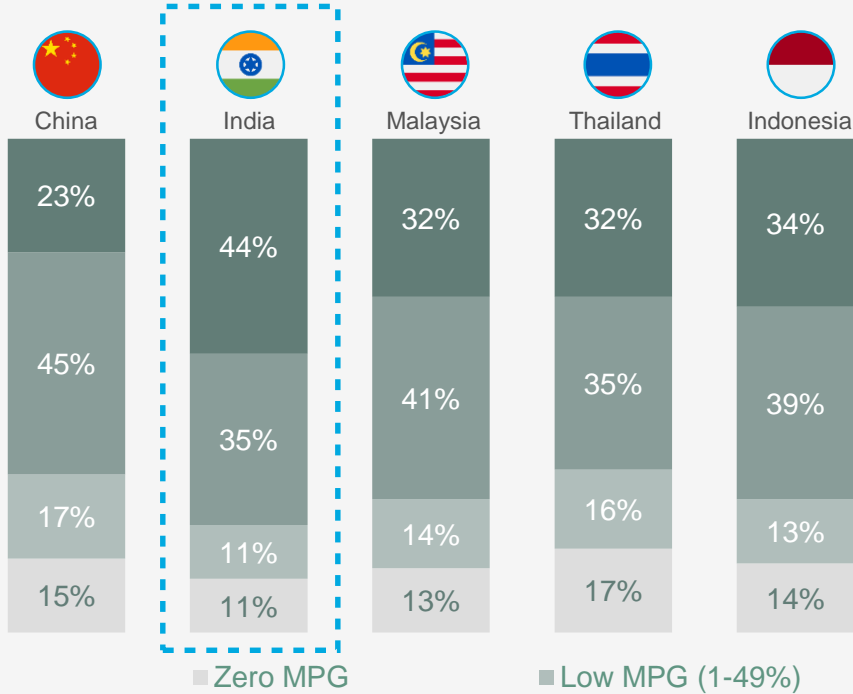
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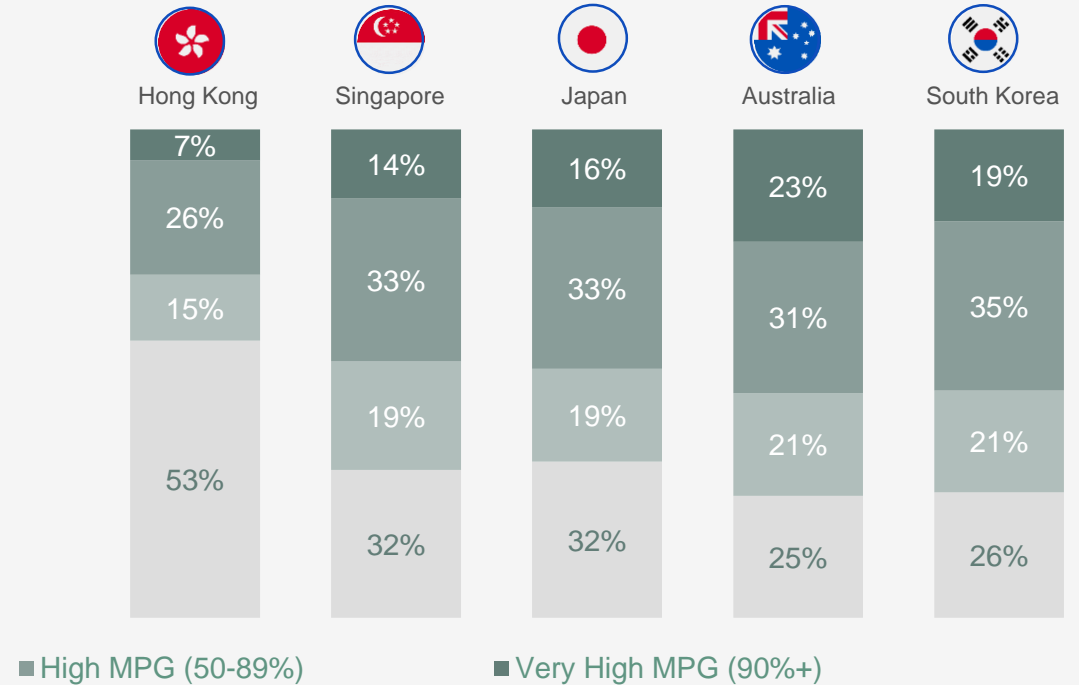# More than 75% of households in Asia have a protection gap

Emerging Asia

India is the market with the **highest** severity of protection need, with more than two-fifths (44%) having very high gaps and only 11% being fully provided for.

Advanced Asia

Despite higher insurance penetration in Advanced markets, over **half of consumers** still have a **high or very high protection gap**.

Emerging Asia

	China	India	Malaysia	Thailand	Indonesia
Very High MPG (90%+)	23%	44%	32%	32%	34%
High MPG (50-89%)	45%	35%	41%	35%	39%
Low MPG (1-49%)	17%	11%	14%	16%	13%
Zero MPG	15%	11%	13%	17%	14%

Advanced Asia

	Hong Kong	Singapore	Japan	Australia	South Korea
Very High MPG (90%+)	7%	14%	16%	23%	19%
High MPG (50-89%)	26%	33%	33%	31%	35%
Low MPG (1-49%)	15%	19%	19%	21%	21%
Zero MPG	53%	32%	32%	25%	26%

■ Zero MPG   ■ Low MPG (1-49%)   ■ High MPG (50-89%)   ■ Very High MPG (90%+)

Note: The data is from the 2019 Mortality Protection Gap model by Swiss Re Institute

Understanding the Gap - India

- Drivers
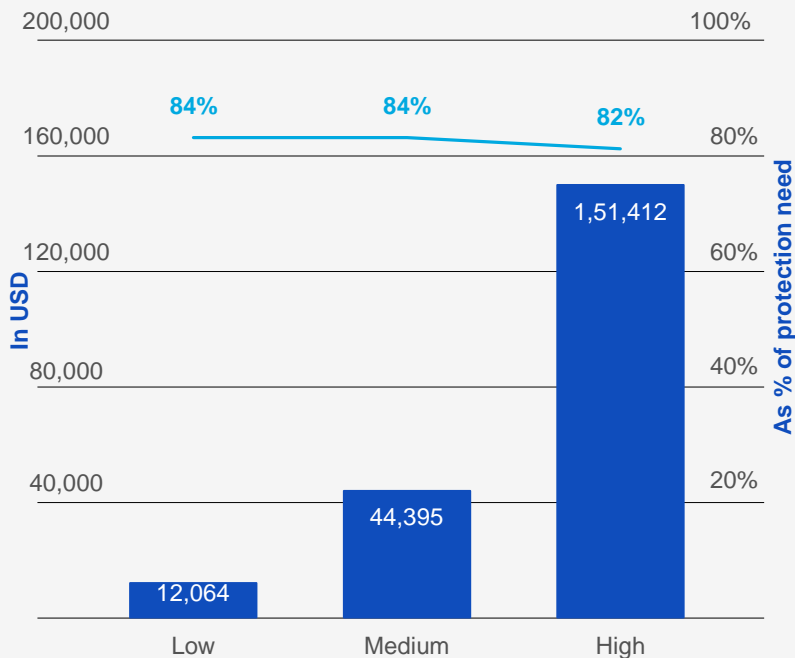- Mindsets
- Barriers to purchase

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Households with <u>high income</u>, in <u>early career</u>, or with <u>high mortgage</u> contribute to the gap

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By income:

Average household mortality protection gap in USD and gap as % of need by household income

Low	Medium	High
12,064	44,395	1,51,412
84%	84%	82%

Life insurance ownership: 29% 46% 51%

By age:

Average household mortality protection gap in USD and gap as % of need by age

25-34	35-44	45-54	55+
1,29,002	38,198	16,890	4,214
87%	78%	69%	52%

Life insurance ownership: 38% 50% 48% 36%
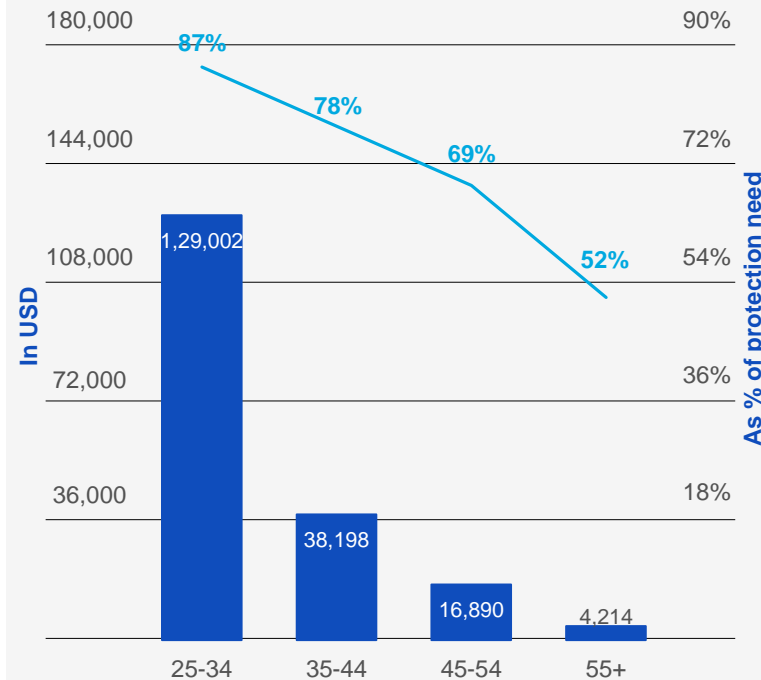
By mortgage:

Average household mortality protection gap in USD and gap as % of need by outstanding mortgage levels

No mortgage	Low	Medium	High
55,117	40,394	80,587	81,013
84%	87%	81%	67%

Life insurance ownership: 43% 44% 52% 36%
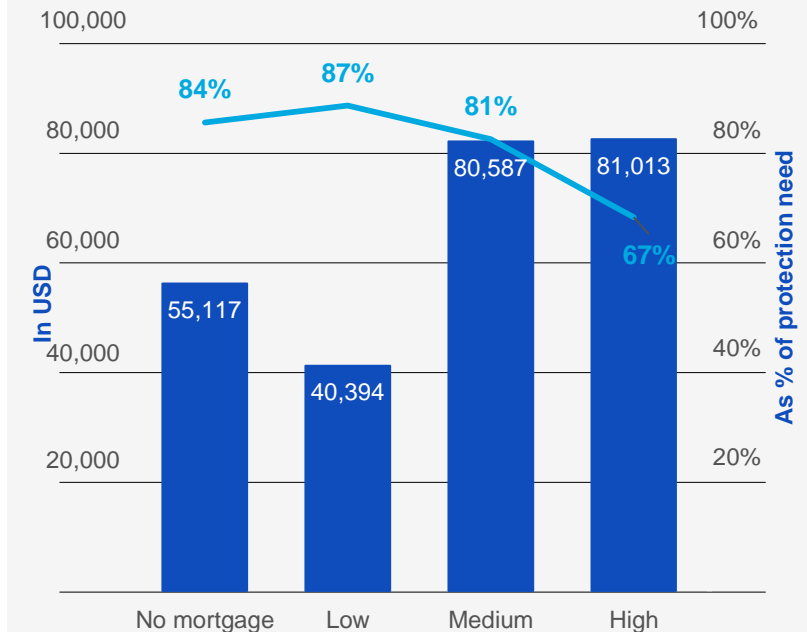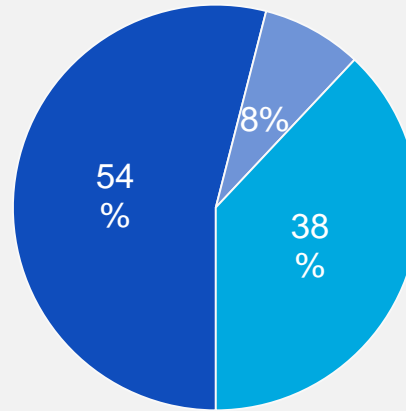
Consumers consistently <u>underestimate</u> their mortality risk and protection need
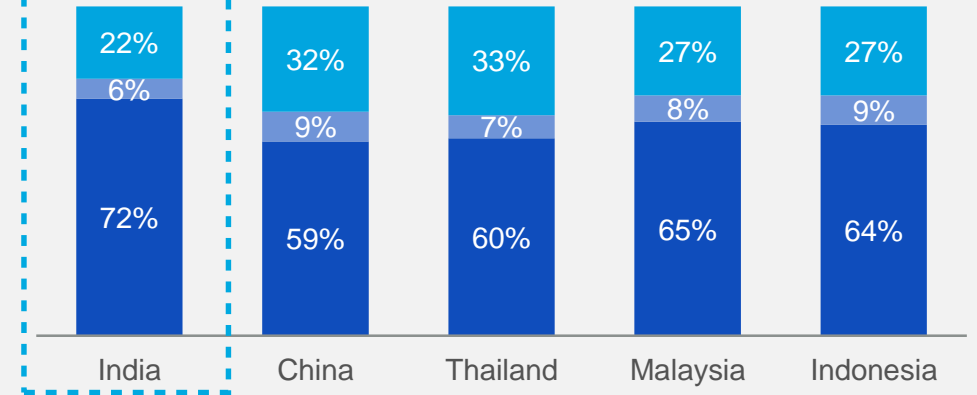
72%

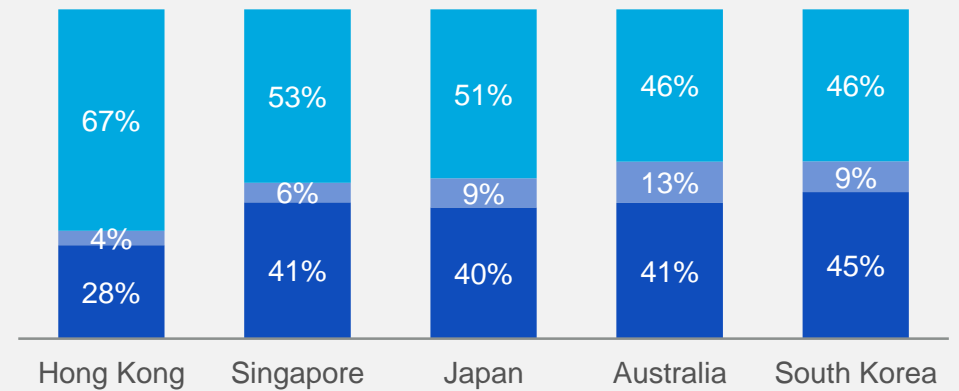households in India **underestimate** their protection gaps **highest** among surveyed markets

Asia

- Underestimate high risk: 54%
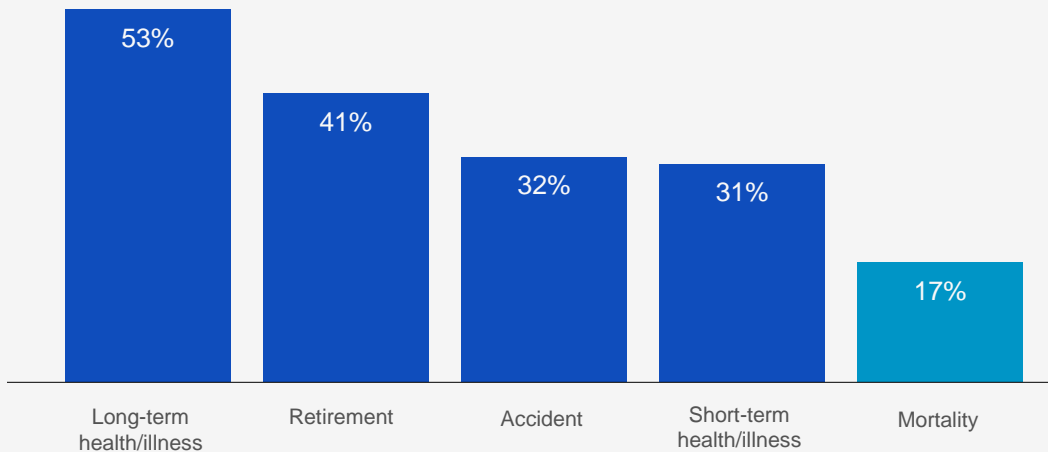- Acknowledge high risk: 8%
- Low risk: 38%

Emerging Asia

	India	China	Thailand	Malaysia	Indonesia
Low risk	22%	32%	33%	27%	27%
Acknowledge high risk	6%	9%	7%	8%	9%
Underestimate high risk	72%	59%	60%	65%	64%

Advanced Asia

	Hong Kong	Singapore	Japan	Australia	South Korea
Low risk	67%	53%	51%	46%	46%
Acknowledge high risk	4%	6%	9%	13%	9%
Underestimate high risk	28%	41%	40%	41%	45%

- ■ Underestimate high risk
- ■ Acknowledge high risk
- ■ Low risk

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Reasons for underestimation include <u>lack of concern</u> for mortality risk and <u>misunderstanding of insurance</u>

Family future concerns

	53%	41%	32%	31%	17%
	Long-term health/illness	Retirement	Accident	Short-term health/illness	Mortality

Mortality risk is **ranked the lowest** in terms of family's future concern in India. Higher concern for mortality risks lead to **higher life insurance ownership rate**

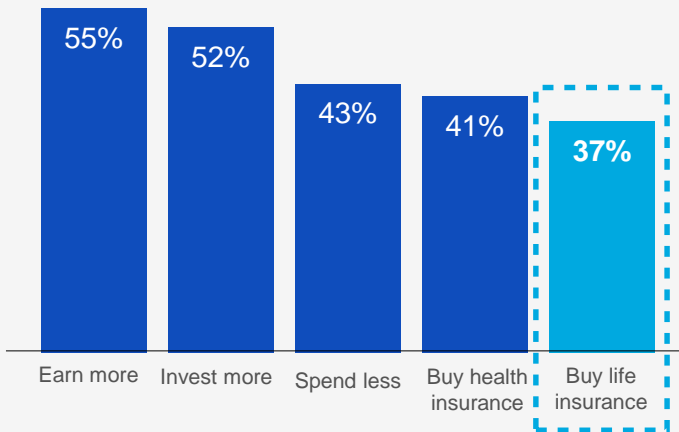## Confidence in coping financially with death of breadwinner

	Don't own a policy	Own a policy	
Critical Illness	57%	70%	↑ 13%
Accident	58%	67%	↑ 9%
Medical Reimbursement	58%	65%	↑ 7%
Life insurance	60%	64%	↑ 4%

Owning life insurance **does not bring** much more **confidence to mortality protection**, however, Critical Illness, Accident and Medical Reimbursement do

Consumer perceptions also cause <u>barriers to purchase</u> of life insurance

Plans to increase protection for households not confident of handling breadwinner mortality

55%	Earn more
52%	Invest more
43%	Spend less
41%	Buy health insurance
37%	Buy life insurance

Only **37%** will consider **life insurance**

Top reasons for not purchasing life insurance

Consumers who have <u>never considered</u> life insurance

#1 Too expensive

#2 Poor perception of insurance

#3 Product is confusing

Consumers who considered, but <u>did not buy</u>

#1 Product is confusing

#2 Too expensive

#3 No agent approached

Perceived costs deter consumers from even considering life insurance. Confusing products, poor impression of insurance and lack of agents approaching are other deterrents.
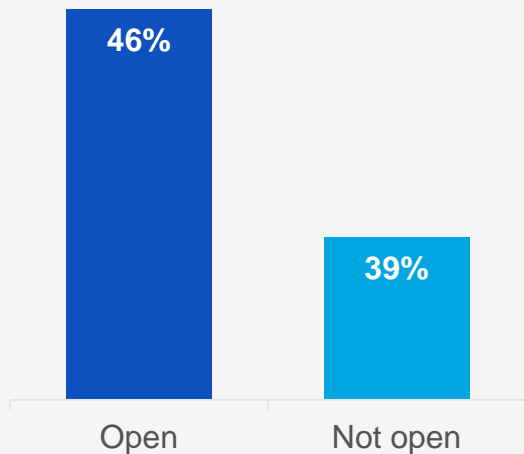
Closing the Gap

Death is not taboo. It needs to be discussed

Openness to family

71%
respondents open to discuss death

Life insurance ownership by openness to discussing mortality

46%

39%

Open   Not open

Respondents who are **open to discuss death** have **higher life insurance ownership rate**

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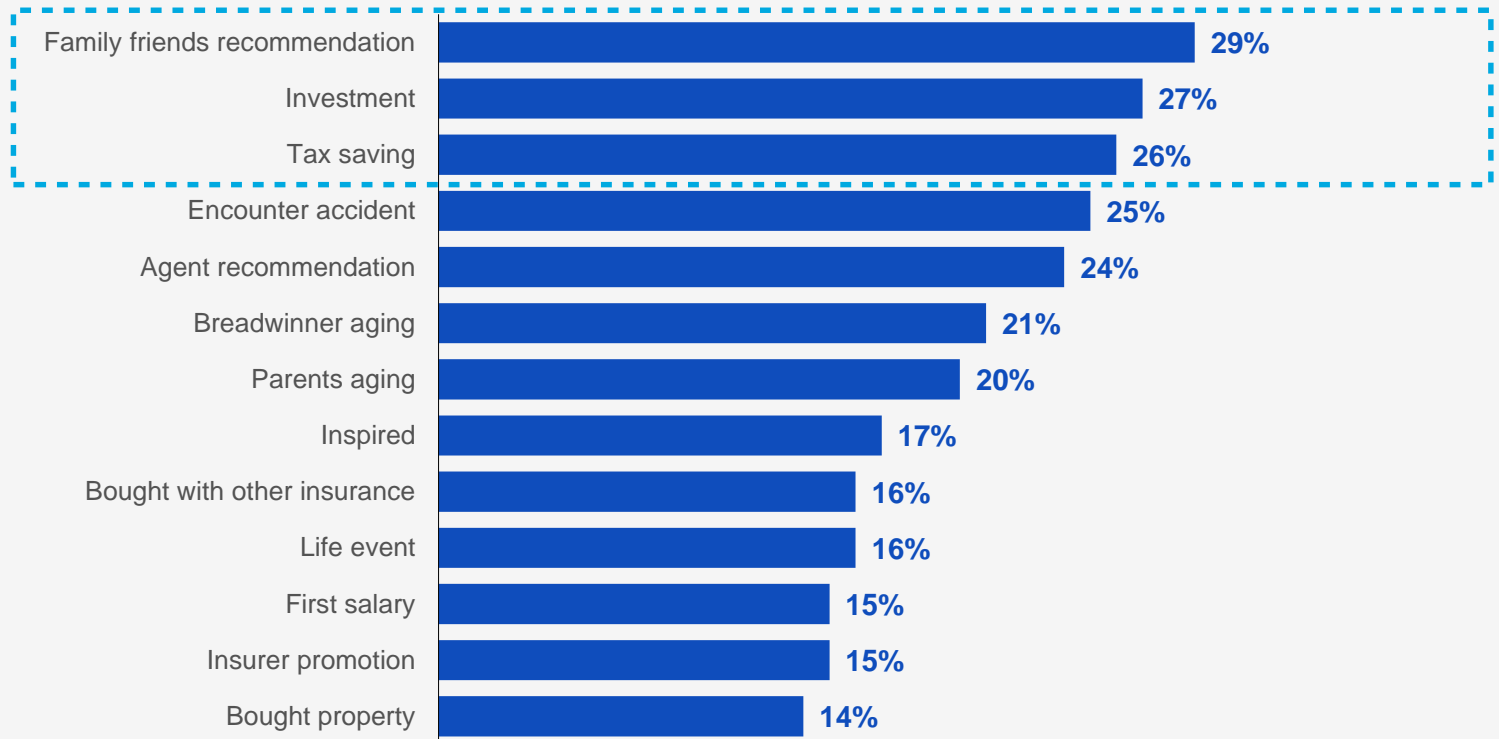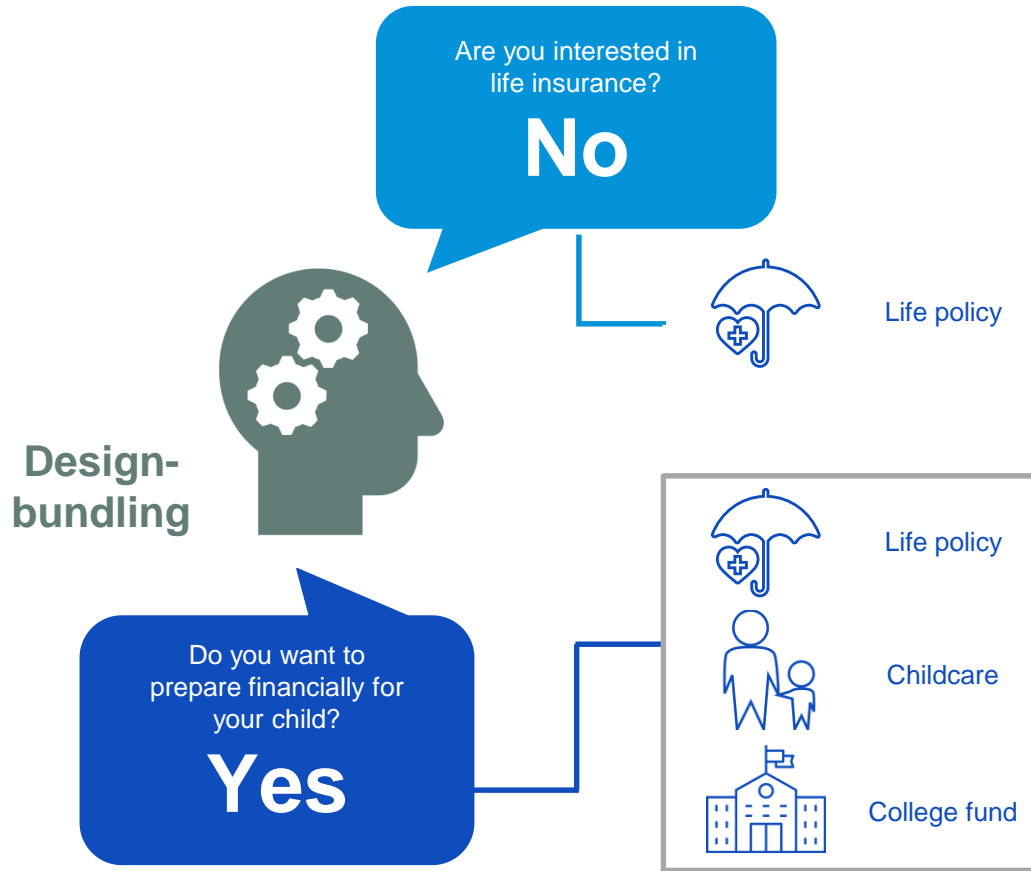
Engaging consumers at the right time and with the right channels of influence is necessary to drive purchase behaviour
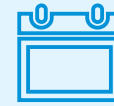
Consumers' purchase behaviour is highly influenced by **closed one's recommendations** as well as **financial incentives**

Purchase trigger for life insurance

Trigger	%
Family friends recommendation	29%
Investment	27%
Tax saving	26%
Encounter accident	25%
Agent recommendation	24%
Breadwinner aging	21%
Parents aging	20%
Inspired	17%
Bought with other insurance	16%
Life event	16%
First salary	15%
Insurer promotion	15%
Bought property	14%

Challenge consumer mindsets with Behavioural Economics

Are you interested in life insurance?

No

Life policy

Design-bundling

Do you want to prepare financially for your child?

Yes

Life policy

Childcare

College fund

Customers are influenced by the way options are presented and the way attributes are described

When

Design-bundling
Bundling insurance considerations as part of planning for life events will enable consumers to assess their need for protection

Future visioning
Reframing life insurance as a step towards a promising future, rather than selling the concept as compensation in case of death

How

Future regret
Encouraging consumers to imagine the potential consequences of current decisions is another way to increase engagement

With what

Short-term rewards:
Insurers can introduce short-term benefits that complement long-term mortality protection, like bundling with cheap health cover or providing intermittent gifts/ rewards

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Products should be customised around **financial value** and **flexibility**

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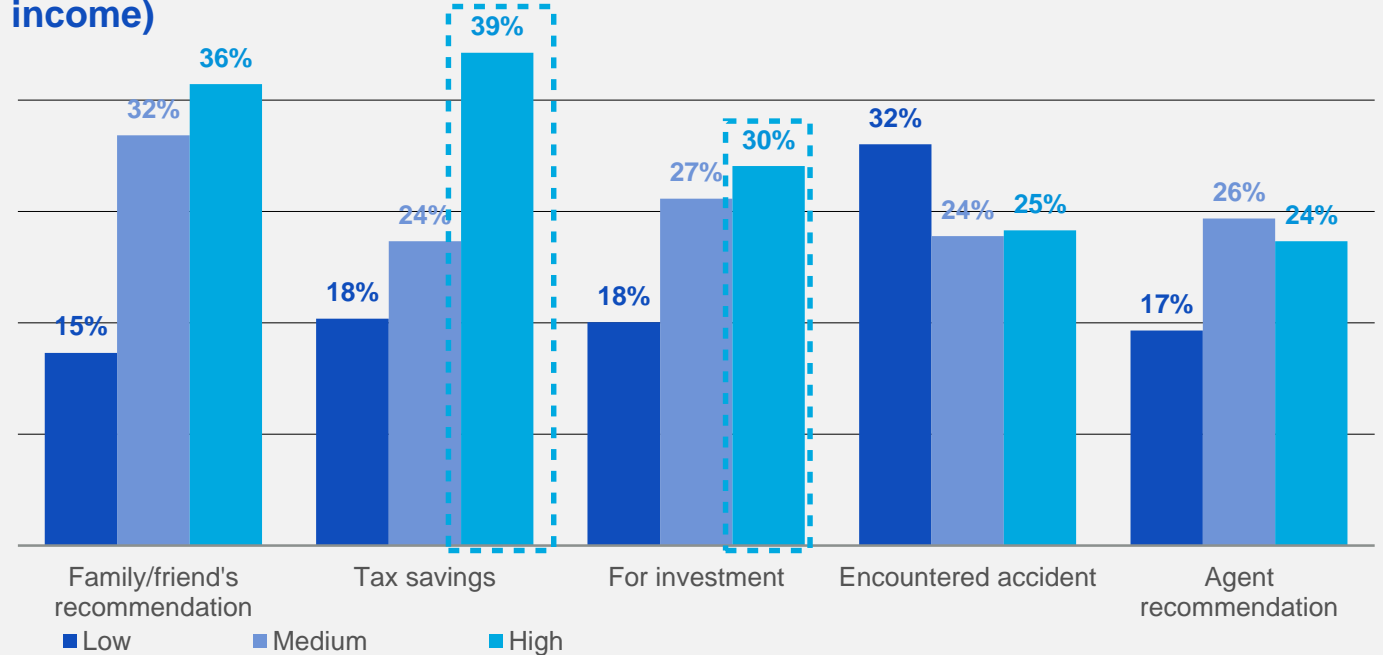# When it comes to life insurance, consumers seek financial value

Top considerations for purchasing life insurance

1	Sum assured	45%
2	Return of premiums	43%
3	Ease of making claim	41%
	Period of coverage	40%
	Overall cost	35%
	Ease of application	32%
	Insurer reputation	29%
	Service level	27%
	Family friend recommend	26%

Purchase triggers (by household income)

	Low	Medium	High
Family/friend's recommendation	15%	32%	36%
Tax savings	18%	24%	39%
For investment	18%	27%	30%
Encountered accident	32%	24%	25%
Agent recommendation	17%	26%	24%

Note: This chart focuses on the some of the selections, the others were excluded

Direct financial considerations such as cost and sum assured are the most important across all segments

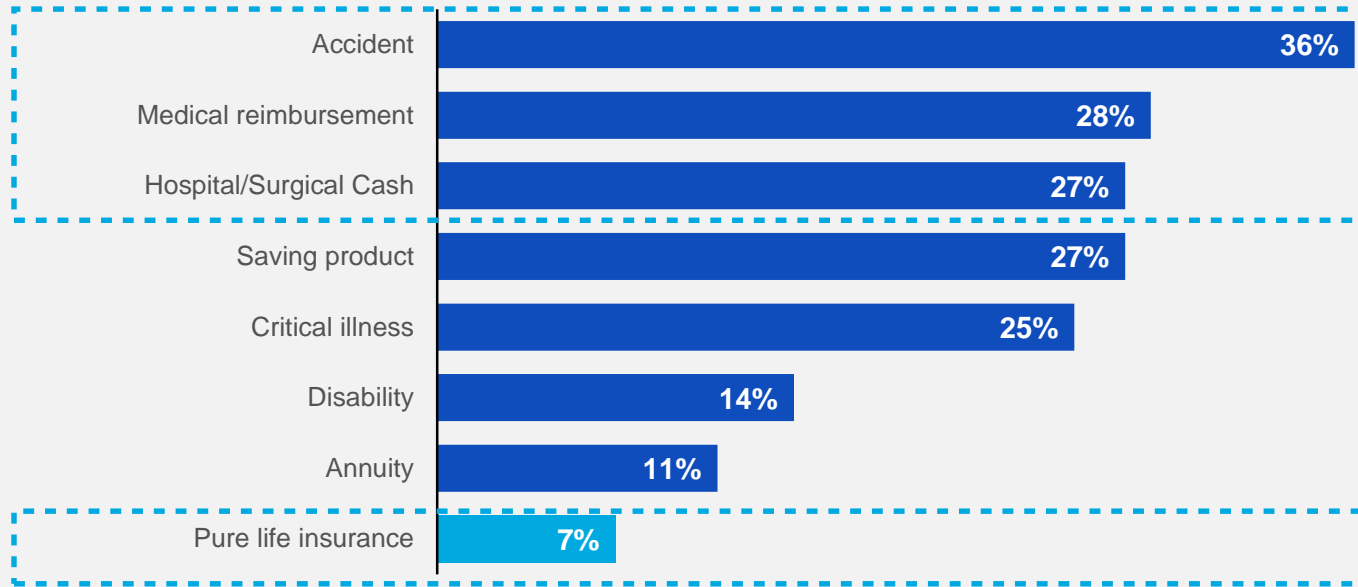High income consumers in particular are attracted by tax saving and investment aspects

Consumers have a clear preference for product bundling

Preference for bundling option with life insurance

Accident	36%
Medical reimbursement	28%
Hospital/Surgical Cash	27%
Saving product	27%
Critical illness	25%
Disability	14%
Annuity	11%
Pure life insurance	7%

Note: For ease of reading, some minor selections were excluded

Strong preference for **bundling life with health protection**:

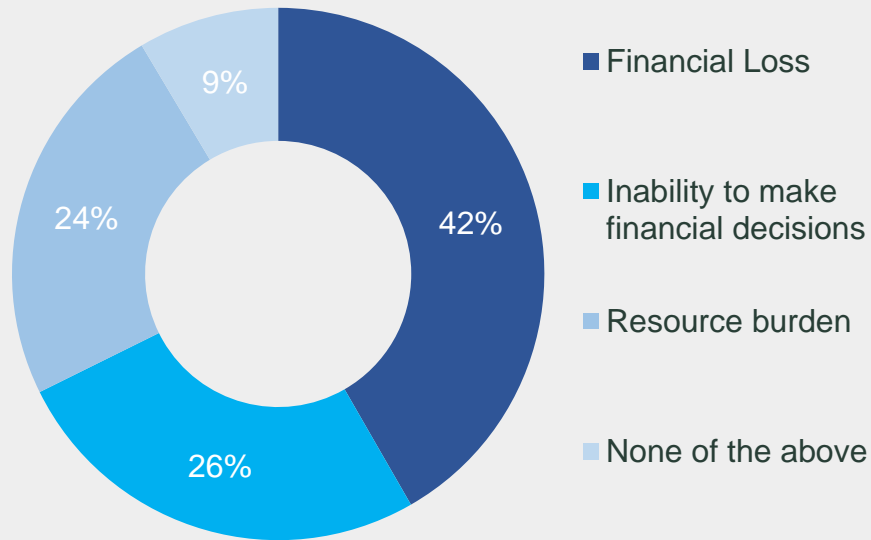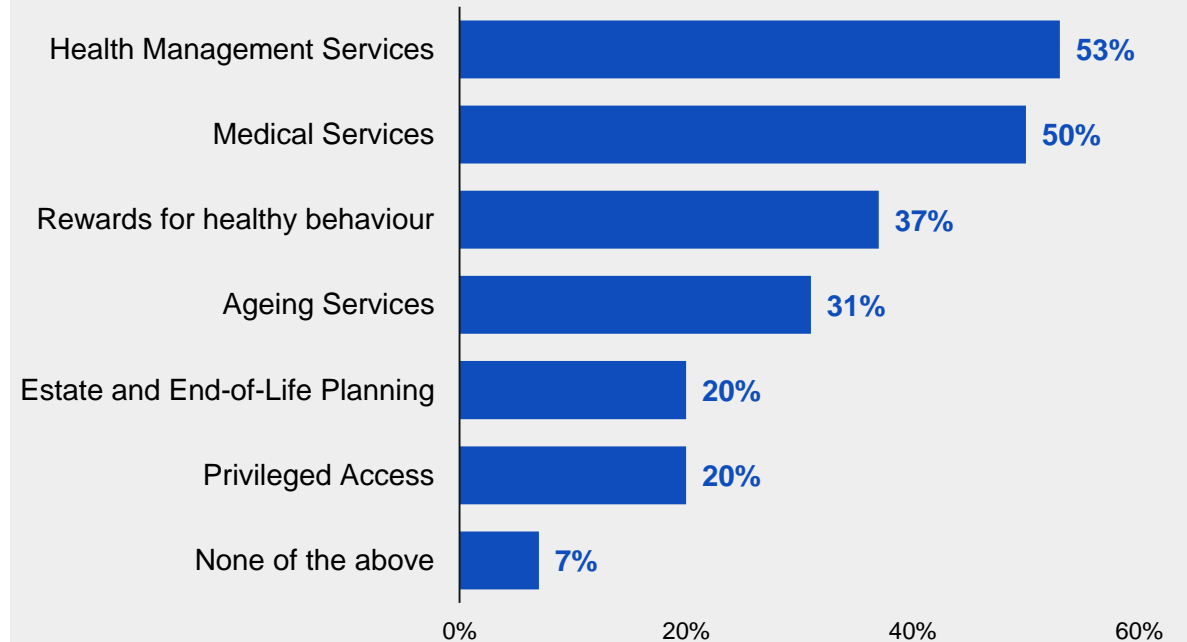|		
36% respondents prefer bundling with Accident, especially below 40 and medium-to-high income	Medical reimbursement **is** another popular bundle option, especially among **high income (42%)**	**Pure life** is **least preferred**

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Value added services can help differentiate products

Top concern resulting from death of breadwinner

- **Financial Loss** — 42%
- **Inability to make financial decisions** — 26%
- **Resource burden** — 24%
- **None of the above** — 9%

Financial loss is the top concern for Indian consumers. Services, especially financial advisory, will help to differentiate products.

Value added services consumers wish to have

Service	Percentage
Health Management Services	53%
Medical Services	50%
Rewards for healthy behaviour	37%
Ageing Services	31%
Estate and End-of-Life Planning	20%
Privileged Access	20%
None of the above	7%

Health management services such as disease management support, health monitoring device (wearable), etc. were the most preferred value-added services Indian consumers would like to have
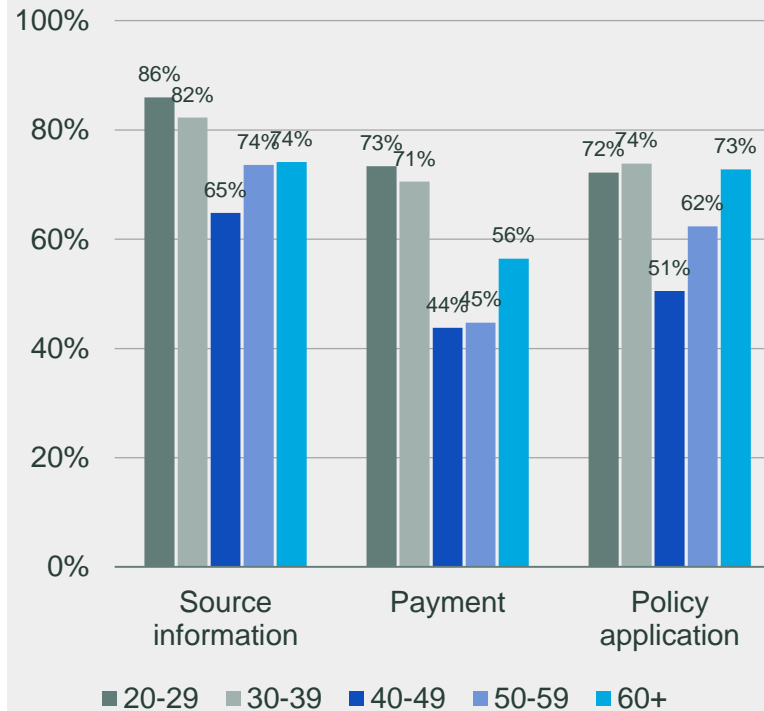
Distribution must be targeted and channel-specific

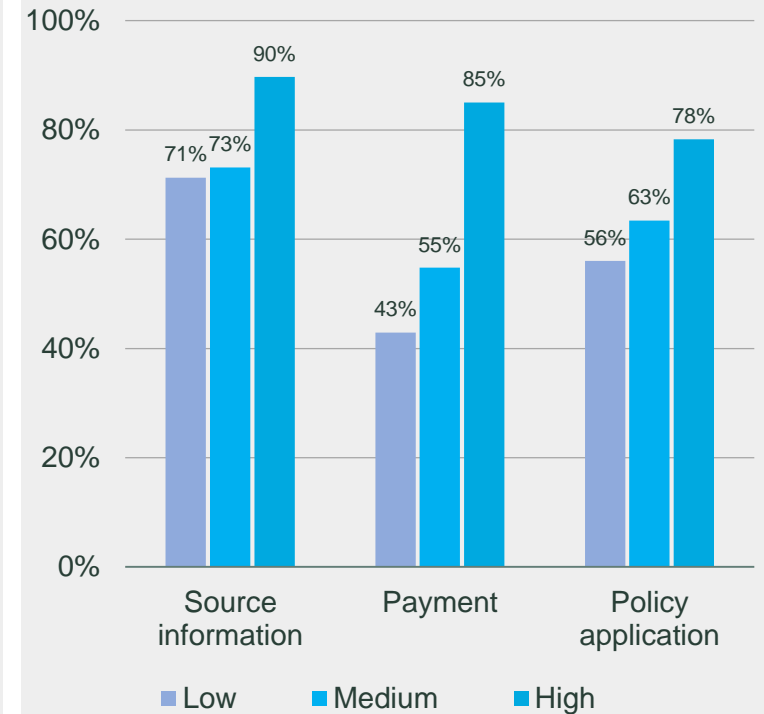# Evidence supports using an omnichannel strategy with digital elements

Current channel of purchasing life insurance

1	Agent or broker	53%
2	Company branch	15%
3	Website / app	14%
	Bank	8%
	3rd party website/app	4%
	Others	1%

Openness to digital channels (by age)

Source information: 20-29 86%, 30-39 82%, 40-49 65%, 50-59 74%, 60+ 74%
Payment: 20-29 73%, 30-39 71%, 40-49 44%, 50-59 45%, 60+ 56%
Policy application: 20-29 72%, 30-39 74%, 40-49 51%, 50-59 62%, 60+ 73%

■ 20-29 ■ 30-39 ■ 40-49 ■ 50-59 ■ 60+

Openness to digital channels (by household income)

Source information: Low 71%, Medium 73%, High 90%
Payment: Low 43%, Medium 55%, High 85%
Policy application: Low 56%, Medium 63%, High 78%
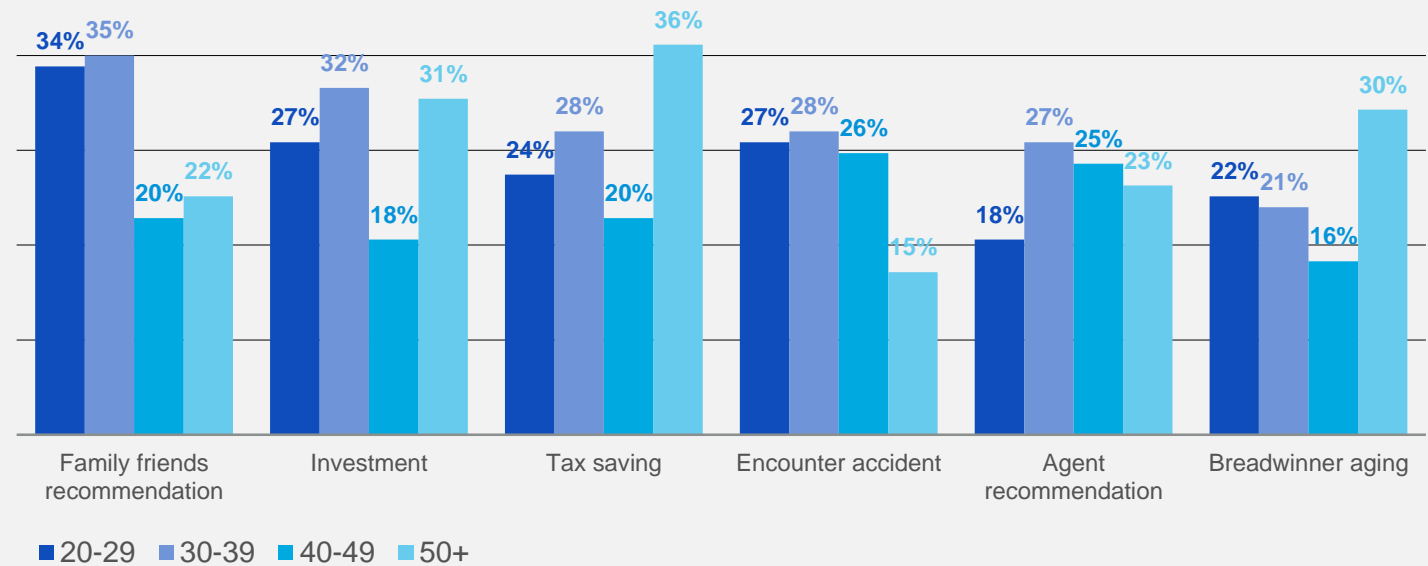
■ Low ■ Medium ■ High

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There is high potential to grow digital sales, but keep in mind the power of personal persuasion

Sales Channel

- **Personal influence** from family/friends is a key part of the decision process, particularly for younger generation

- **Aged 50+** segment is mostly influenced by agents/brokers.

Purchase trigger for life insurance (by age)

	Family friends recommendation	Investment	Tax saving	Encounter accident	Agent recommendation	Breadwinner aging
20-29	34%	27%	24%	27%	18%	22%
30-39	35%	32%	28%	28%	27%	21%
40-49	20%	18%	20%	26%	25%	16%
50+	22%	31%	36%	15%	23%	30%

■ 20-29　■ 30-39　■ 40-49　■ 50+

Evidence supports using an **omni-channel strategy** with digital elements.

Summary

➢ Size of MPG stood at USD 83 trillion in Asia in 2019

➢ China has the largest gap in absolute terms, but India is most vulnerable as 83% of its total protection need remains unmet.

➢ Lack of concern for mortality risk and misunderstanding of insurance are among the major factors driving this very high protection gap in India.

➢ Engaging consumers at the right time and with the right channels of influence is necessary

➢ Consumers have a clear preference for product bundling, and value-added services

➢ There is high potential to grow digital sales, but keep in mind the power of personal persuasion

Q&A

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