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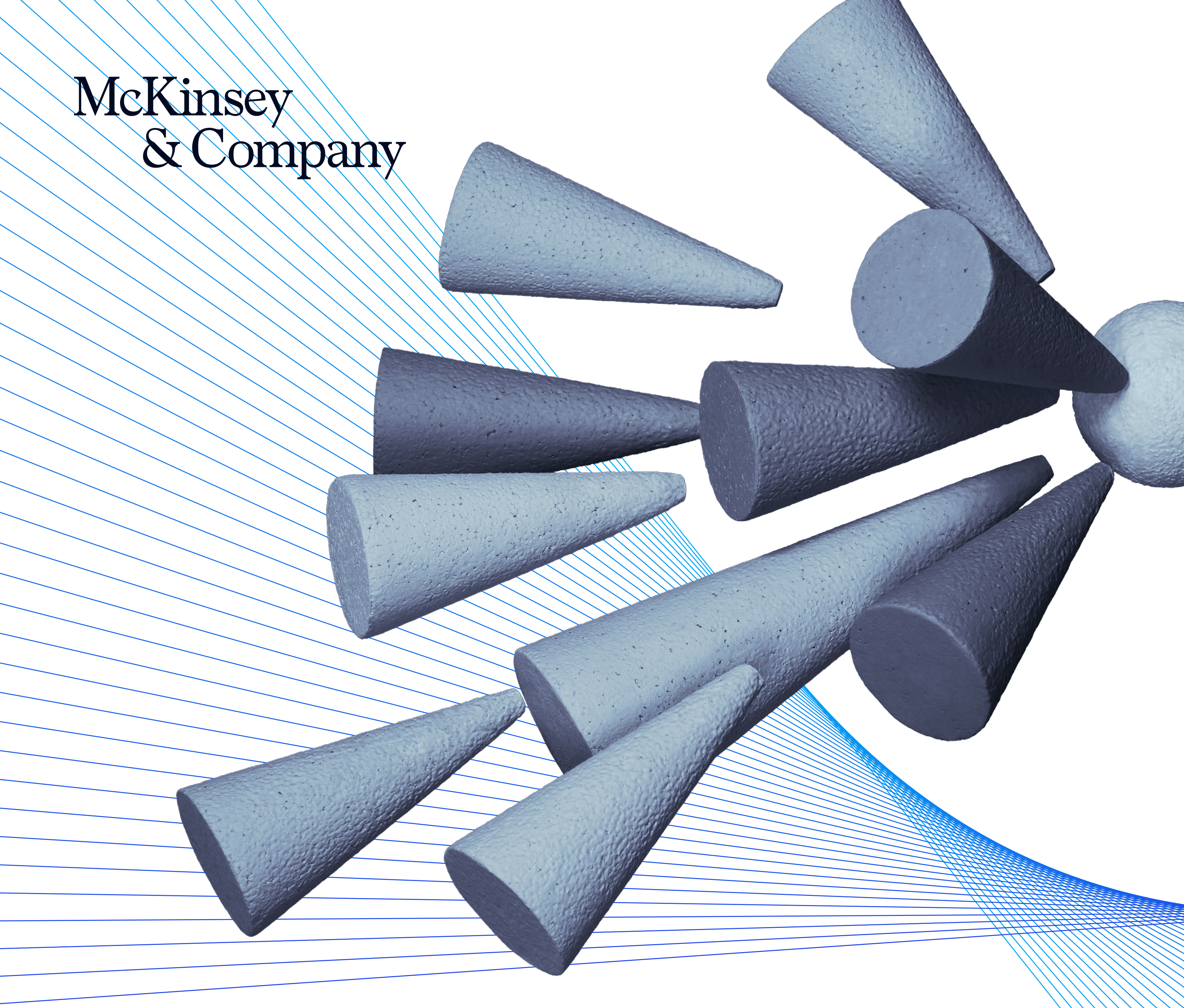


Insurance Practice

2020 Global Insurance Pools statistics and trends: Life insurance

The latest market research on the life insurance sector offers new data on performance by region and product line.

March 2021

Our latest analysis of McKinsey's Global Insurance Pools database offers detailed statistics and trends on the insurance industry. Overall, the global industry grew by 5 percent in 2019 over 2018, a slightly higher level than its CAGR from 2010 to 2018 of 4.4 percent, and total premiums reached €5 trillion.

This report, one in a three-part series, provides analyses and insights on life insurance, with an in-depth look by region and product line. Overall, life insurance accounted for 45 percent of global premiums in 2019, with 4 percent growth from 2018 to 2019, consistent with previous recent years.

Growth by region

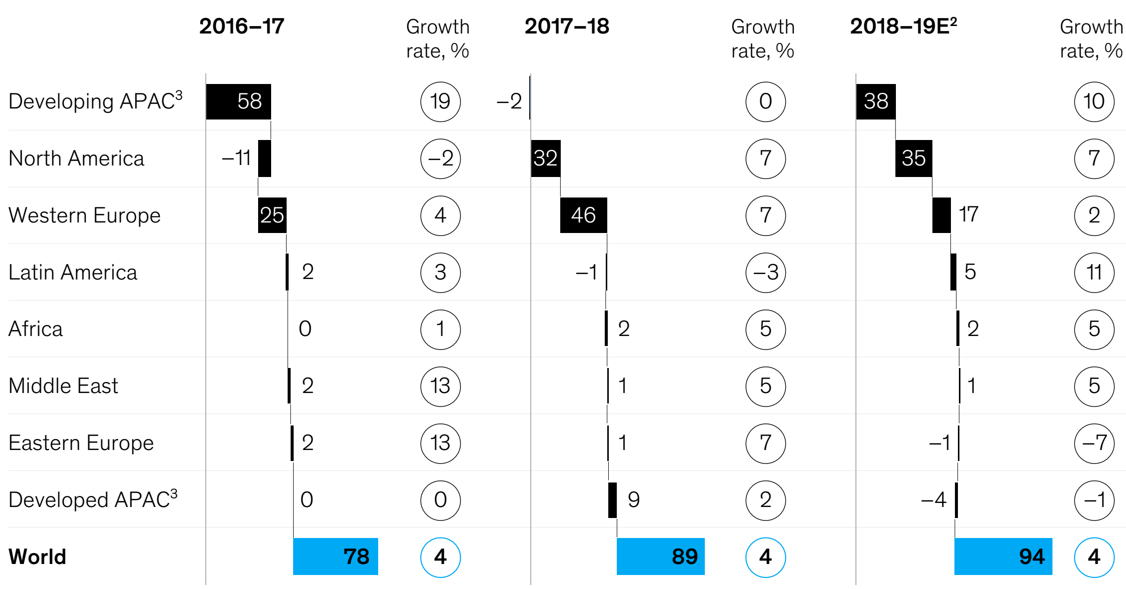
Global life insurance gross premiums increased at a stable 4 percent in 2019, keeping in line with the trend in 2017 and 2018. However, the regions leading that growth have shifted in recent years (Exhibit 1).

Developing economies in APAC saw the fastest premium growth in the world, at 10 percent in 2019. These countries had recorded 19 percent growth in 2017 but fell stagnant in 2018 largely due to trends in China, including a regulatory push toward core protection products, a slowdown in the expansion of

Exhibit 1

After stagnant growth, led by China, developing Asia–Pacific countries grew by 10 percent in 2019.

Life GDDWP[1] absolute growth, € billion



Note: 2018 fixed exchange rate used throughout the years.
[1]Gross direct domestic written premiums.
[2]2019 figures estimated based on full year/H1/Q3 reporting.
[3]Asia–Pacific.

the tied-agent distribution channel, and a relatively challenging year for the economy overall.

After a decline in 2017, North America rebounded with consistent, robust premium growth of 7 percent in both 2018 and 2019. In fact, the United States had the largest absolute growth in gross premiums of all countries in 2019 and the second largest in 2018 (after the United Kingdom). In 2018, US growth was fueled by an increase in premiums of variable annuities, from $181 billion in 2017 to $208 billion in 2018. These 2018 gains were largely caused by stabilization after the initial disruption due to the overturned US Department of Labor fiduciary rule[1] and the impact of large 2017 reinsurance transactions impacting 2018. In 2019, US growth was driven by increasing demand for individual life insurance products, especially single premium products, partly due to increasing whole life dividends. Certain life insurance products, such as universal life, also saw strong sales in 2019 as their popularity rose thanks to flexibility in premiums and tax advantages.

In 2018, premium growth in three of the largest markets in Western Europe—the United Kingdom, France, and Italy—contributed to region-wide growth of 7 percent, up from 4 percent in 2017. In United Kingdom, this spike was largely attributable to a new automatic enrollment scheme for workplace pensions, which led to a dramatic increase in new business renewals. Due to the increase of the minimum contribution required in 2018, single premiums declined in 2019, causing the new business premiums to fall by half.

Latin America saw gross premium growth of around 11 percent in 2019, a significant gain from its approximate 3 percent decrease in 2018. This positive trajectory can be attributed to the reversal of trends in Mexico, where gross direct domestic written premiums for life insurance products increased by approximately 10 percent in 2019 despite the cancellation of the federal workers' group policy.

Though the life insurance markets in Africa and the Middle East are still relatively nascent, they benefited from stable gains in recent years. In South Africa, Africa's largest market, the life insurance industry saw growth of around 8 percent in 2018, followed by 4 percent growth in 2019. The growth has been relatively consistent (barring 2017) since new regulations were implemented in 2015 to increase savings rates, making these products more attractive. The growth in Morocco, the continent's second-largest market, is naturally in line with the GDP growth.

Developed APAC, which has seen modest growth in the past few years, saw a slight decline of –1 percent growth in 2019. This was fueled by declining growth rates in major markets such as South Korea and Australia in recent years (–6 percent and –9 percent, respectively, in 2019). These declines can be attributed to challenging

[1] The Department of Labor ruling raised investment-advice standards in retirement accounts such as 401(k)s and individual retirement accounts (IRAs). Low crediting rates decreased sales of deferred annuities and immediate annuities.

Certain life insurance products, such as universal life, saw strong sales in 2019 as their popularity rose thanks to flexibility in premiums and tax advantages.

regulatory environments and changes in customers' perception of the value brought by life insurance. For South Korea, one of the largest markets globally and in developed Asia, the main reason for the decline is the unwillingness of insurers to sell savings products due to the IFRS17 regulation, which was to be adopted by 2021 (now postponed to 2023). Readiness for the regulatory change requires additional capital injection for savings products. The volatile stock market situation has also led to a decrease in unit-linked products.

The biggest change in 2019 was the –7 percent premium growth in Eastern Europe, reversing the region's recent trend of growth. The decline was led by Russia, where premiums dropped by around 10 percent in 2019 due to the introduction of new regulatory standards in the sale of life insurance policies, mainly unit-linked ones, along with a slowdown of the retail lending market.

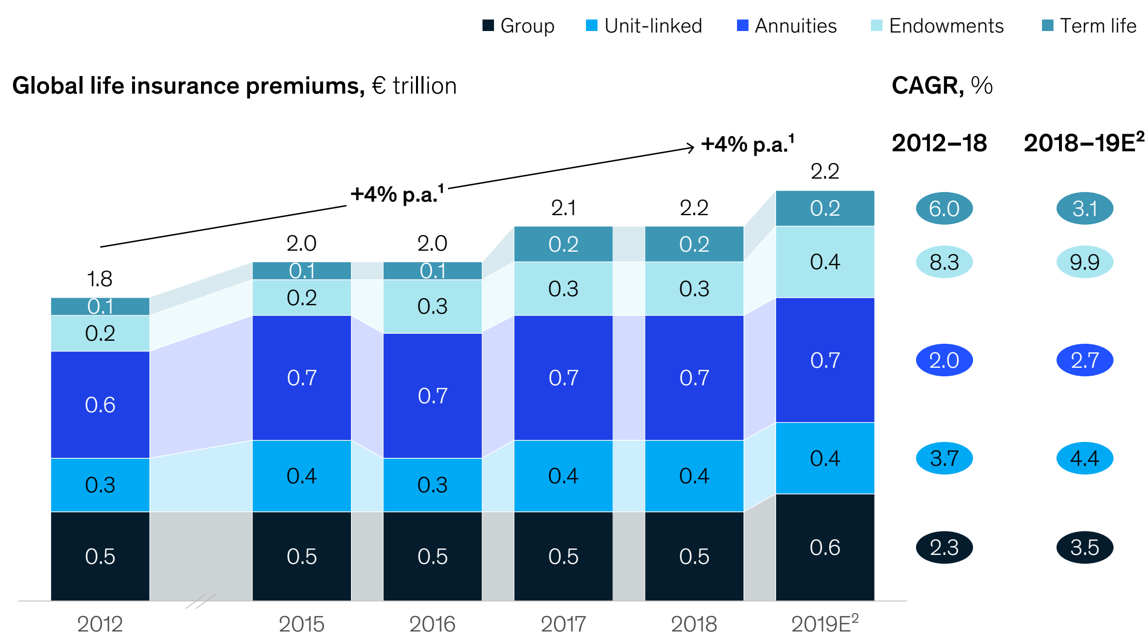
Overall, emerging regions have established a track record for growth (Exhibit 2). In developing APAC, China and India lead the way, while Latin America's prospects continue to be shaped by Brazil in absolute premium volume. Products with historically low growth rates, such as individual endowments in developed Asia and group life in Eastern Europe, remain on the same trajectory.

Growth by product line

A look at the global product mix reveals that annuity products, which have consistently accounted for around 30 percent of life insurance products, continue to capture the plurality of the product mix, and premiums grew by 2.7 percent in 2019 compared with 2018 (Exhibit 3). Notably, the growth in Latin America for annuity products is offsetting the trajectory in regions such as developed Asia and North America, which have stagnated or declined in recent years. Annuities are followed by group

Exhibit 2

Annuities dominated the life product mix, while endowments had the most growth in recent years.

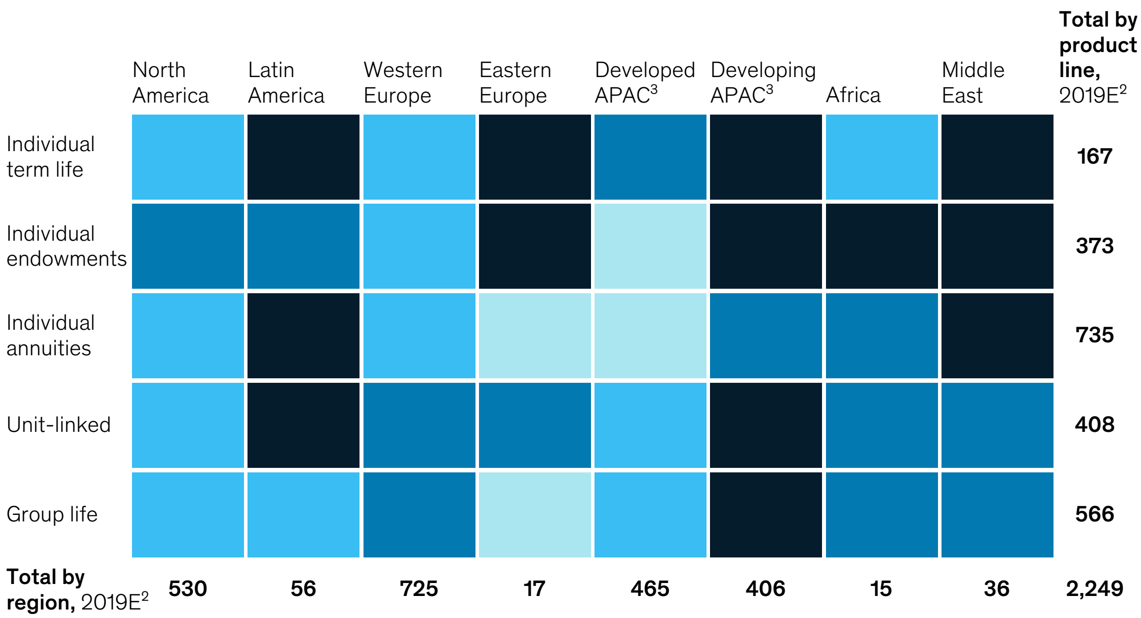


Note: 2018 fixed exchange rate used throughout the years. Figures may not sum, because of rounding.
[1]Per annum.
[2]2019 figures estimated based on full year/H1/Q3 reporting.

Exhibit 3

Individual term life and endowments saw the strongest growth between 2012 and 2019.

Life insurance heat map, GDDWP,[1] € billion **CAGR, 2012–19E[2]** <0% 0–4% 4–8% >8%



Note: 2018 fixed exchange rate used throughout the years.
[1] Gross direct domestic written premiums.
[2] 2019 figures estimated based on full year/H1/Q3 reporting.
[3] Asia–Pacific.

products, then endowment and unit-linked products, with term life rounding out the final 9 percent of the product mix. All product lines saw gains from 2018 to 2019.

The fastest-growing products are endowment products, which increased by almost 10 percent year-over-year from 2018 to 2019. Endowment and annuity products—both of which are considered savings products—have the largest share of premiums in several geographies, including developing Asia, developed Asia, and North America. In most geographies, we expect the premium share of these products to remain stable in the next one to two years. However, in developing Asia, particularly Thailand, we expect negative premium growth for these products due to increasing popularity of unit-linked products and a reversion of premiums for more traditional products. Many insurers are also discontinuing endowment products, which often promise guarantees that are higher than the market rate of return.

In Western Europe, though endowment and annuity products command the largest share of life insurance products, group life products in 2018 and 2019 saw the highest growth rates for the region. This was mainly due to the growth of pension annuities in United Kingdom[2] and the rise of group unit-linked products in Italy.

[2] For more on Western Europe's nonpublic retirement market, see Piero Gancia, Georg Henig, Jonathan Klein, and Alessandro Valduga, "How financial institutions can help fill European retirement needs," July 29, 2020, McKinsey.com.

In 2017, growth in unit-linked products was spurred by Western Europe when the implementation of Solvency II led insurers to shift focus to products that are less capital intensive. In 2018 and 2019, however, North America led unit-linked growth thanks to the steep increase in premiums for variable annuity products.

Profitability of life insurance

Overall, profitability (as measured by ROE) in most regions declined in recent years, driven by slight declines in many major markets. In the United Kingdom, for instance, insurers have recently been favoring products that are less capital intensive—but that are also less profitable. Profitability also took a hit due to increases in claims, particularly driven by pension claims.

In the United States, the largest market by measure of premiums in 2019, profitability decreased slightly as insurer margins were squeezed by low investment returns and poor performance of legacy products.[3] Similarly, recent declines in Italy can be attributed to a low interest rate environment: insurers are forced to invest in government bonds with low interest rates, leading to a dramatic drop in returns.

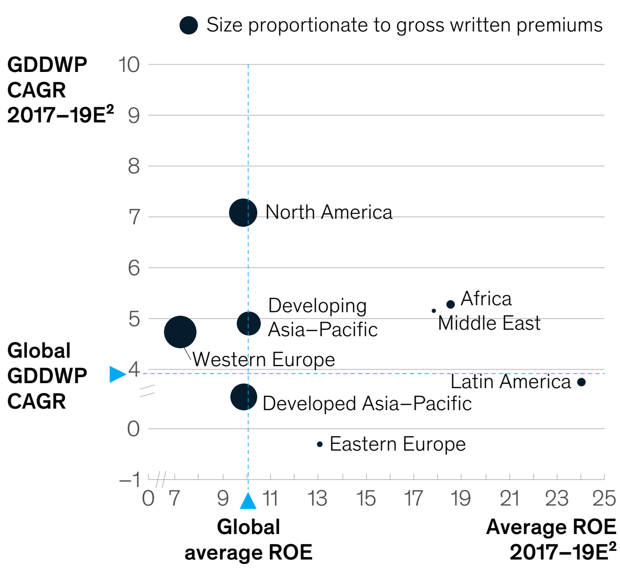
In recent years, Latin America has had the highest ROE among all regions—approximately 24 percent in 2018 and 2019 (Exhibit 4). During this time, Argentina and Brazil led the region with ROEs of 35 and 33 percent, respectively. Latin America's leadership in ROE can be attributed to two trends: first, the relative popularity of bancassurance, which commands lower commissions than brokers and thus increases profit margins;[4] and second, a low

[3] For more on how insurers can get more value out of their legacy business, see Ramnath Balasubramanian, Alexander D'Amico, Aditi Jain, Nick Milinkovich, and Karthi Purushothaman, "Maximizing the value of in-force insurance amid enduring low returns," April 20, 2020, McKinsey.com.
[4] For more on the future of bancassurance, see João Bueno, Bruno Dinis, Bernhard Kotanko, Dario Maggiora, and Rui Neves, "Bancassurance: It's time to go digital," March 15, 2020, McKinsey.com.

Exhibit 4

Profitability in Latin America was higher than the global average.

Life insurance market attractiveness, GDDWP[1] CAGR vs ROE



	GDDWP CAGR 2017–19E,[2] %	ROE absolute growth 2017–19E,[2] %
North America	7	–2
Latin America	4	0
Western Europe	5	–2
Eastern Europe	0	–2
Developed Asia–Pacific	1	–3
Developing Asia–Pacific	5	0
Africa	5	–2
Middle East	5	–4

Note: 2018 fixed exchange rate used throughout the years.
[1]Gross direct domestic written premiums.
[2]2019 figures estimated based on full year/H1/Q3 reporting.

loss ratio that means products such as term life are more likely to be profitable than in other regions.

Among developed markets, developed Asia and North America have high profitability at around 10 percent, despite the declines in profitability in the United States.

The impact of COVID-19 is expected to be most severe on life insurance compared with other lines of businesses. The industry is expected to recover back to 2019 levels by 2022 or 2023. Primary reasons for this more sluggish recovery compared with other lines of business include the following:

Savings-oriented product mix. The life insurance industry is dominated by savings and investment products; almost 80 percent of endowment and unit-linked products are individual life insurance products. These types of products are more adversely affected by low interest rates, poor returns from capital markets, distribution challenges, and lower personal disposable income than typical nonlife insurance products.

Varying impact on personal versus commercial. In life insurance, group life products constitute approximately 35 percent of total premiums and are expected to be heavily affected by the higher unemployment rates due to the COVID-19 outbreak. Lower personal disposable income and declining capital market returns also challenge the premium growth of individual unit-linked products.

Lockdown-induced underwriting and distribution challenges. Across geographies, life insurance products, especially savings and investments, are more reliant on in-person underwriting and agent distribution than nonlife products. Despite companies' strides to expand digital underwriting[5] and distribution,[6] ongoing lockdowns and physical distancing requirements will continue to challenge life insurance premium growth, particularly for products such as term insurance, which often require an in-person medical exam.

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[5] For more on the state of digital underwriting, see Ramnath Balasubramanian, Ari Chester, and Nick Milinkovich, "Rewriting the rules: Digital and AI-powered underwriting in life insurance," July 31, 2020, McKinsey.com.
[6] For more on the evolution of insurance distribution in the wake of COVID-19, see Simon Kaesler, Matt Leo, Shannon Varney, and Kaitlyn Young, "How insurance can prepare for the next distribution model," June 12, 2020, McKinsey.com.

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