



CEO Brief

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CEO Brief is a report highlighting key current issues the insurance industry faces.

Next Insurance (II) : The Qualitative Change of Demographic Structure and the Insurance Industry

The “Next Insurance” CEO Brief series diagnose the prospects of the Korean insurance industry and suggest business and policy agendas.

ABSTRACT

The qualitative change of the demographic structure, such as the emergence of a new generation and the inequality of income and wealth between generations, is likely to bring intense competition between incumbent insurance companies and big tech entrants and the clear dichotomy of consumer groups in the insurance market. As a response, insurance companies should create synergies with new players and set up the differentiated products and distribution strategies for different consumer groups. In addition, the insurance industry needs to redefine the role of “insurance,” so that “insurance” can continue to be welcomed by consumers in the future, and play the traditional role in the process of changing social structure centered around the elderly.

The qualitative change such as the emergence of a new generation and the inequality of income and wealth between generations is under way in Korean demographic structure as well as the quantitative change due to fast population aging. This may have a significant impact on the future of insurance industry. The Millennials and Generation Z, i.e. MZ generation, which has been attracting attention recently, is said to hold a new value system different from the previous generations. As the MZ generation emerges as a main consumer group, the insurance industry needs to respond to new consumption patterns and social



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demands, different from the past ones. 20 years later, MZ generation will account for the majority of the younger generation aged below 65, and this will reveal qualitative distinction among age groups. In addition, the worsening inequality of income and wealth between the older and younger generations exacerbates intergenerational heterogeneity, causing instability in the public security system, and casts new questions about the role of “insurance.”

The rise of the MZ generation will also accelerate big tech’s entry into the insurance market, and big tech can increase market share as it has day-to-day connection with consumers and provides insurance products as part of comprehensive financial services. The entrance of big tech into the insurance market will bring intense competition with incumbent insurance companies and the clear dichotomy between consumer groups in the insurance market. The elderly consumers, taking large share of the market yet saturated, are not familiar with new digital environment while the younger consumers are in the digital familiar generation or digital natives. The inequality of income and wealth between generations will also deepen the dichotomy. In this situation it would be difficult for existing business models to work. The entry of new players is likely to intensify the MZ generation marketing.

It is necessary for the insurance industry to adapt to the changing competitive landscape, devise plans for creating synergies with new players, and set up the differentiated product and distribution strategies for the elderly and the younger markets. The insurance industry needs to strengthen the connection with consumers to be able to provide various customer experience and services for consumers, and to advance digitalization through collaboration with fintech or technology internalization. For insurance companies, linking their business models to new technologies to emerging market needs is essential strategy not only for improving growth potential but also for adapting to the new competitive landscape. In the elderly market, preventive service areas, such as health care services and long-term care services, need to be strengthened and face to face channel familiar to the elderly can be advantageous for distribution. On the other hand, in the process of inheritance of the wealth from the elderly, insurance companies need to



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strengthen the relevant business such as inheritance consulting and asset management. For the younger markets, it would be effective to employ simplified product strategy, which makes it easier to intuitively understand traditional insurance products in line with new lifestyles and needs, and non-face to face channel strategy.

In addition, the insurance industry's role as a social safety net can expand, as the qualitative change of the demographic structure weakens the public social security system. If adjustments of public pension benefits and premiums are delayed due to generational conflicts, the role of public pensions would decrease and the insurance industry's role to complement the area of public safety can be highlighted.

The insurance industry also needs to make an efforts to make MZ generation feel positive to the concept of "insurance." and recognize buying insurance as an indispensable part of life. Insurance needs to be redefined more comprehensively and consumer-friendly including the limited concept of loss recoveries.

Finally, insurance industry needs to play the traditional role as our society is adjusting to population aging. According to the population projection by Statistics Korea, social structure will change to be centered around the elderly; the proportion of the population aged 65 and older will be 46.1%. The overall social system could change for elderly, and so could the insurance industry as the main provider of social safety net. The insurance industry needs to play a leading role in reducing intergenerational burden through expanding coverage and services for mental health such as long-term and dementia care, and creating a social environment focused on the elderly.

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