THE VIEW

Economic Research

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GLOBAL INSURANCE MARKET
AT A CROSSROADS

Allianz

EULER HERMES

EXECUTIVE SUMMARY

- Global insurance premiums increased +3.3% to EUR3655 billion in 2018.
- For the third year in a row, global premium growth lagged behind the expansion of economic activity, pointing to a widening protection gap.
- China's premium growth flagged; the U.S. and Japan drove global premium income in 2018.
- Long-term prospects look brighter: Global premium growth will reach around 5% in the next decade, with around 60% of additional premiums to be generated in Asia (ex. Japan)
- The big unknown is the digitalization of insurance, with an ambiguous effect on premium growth

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EUR3655 BILLION

GLOBAL INSURANCE PREMIUMS ROSE +3.3% IN 2018

CURRENT STATE OF AFFAIRS

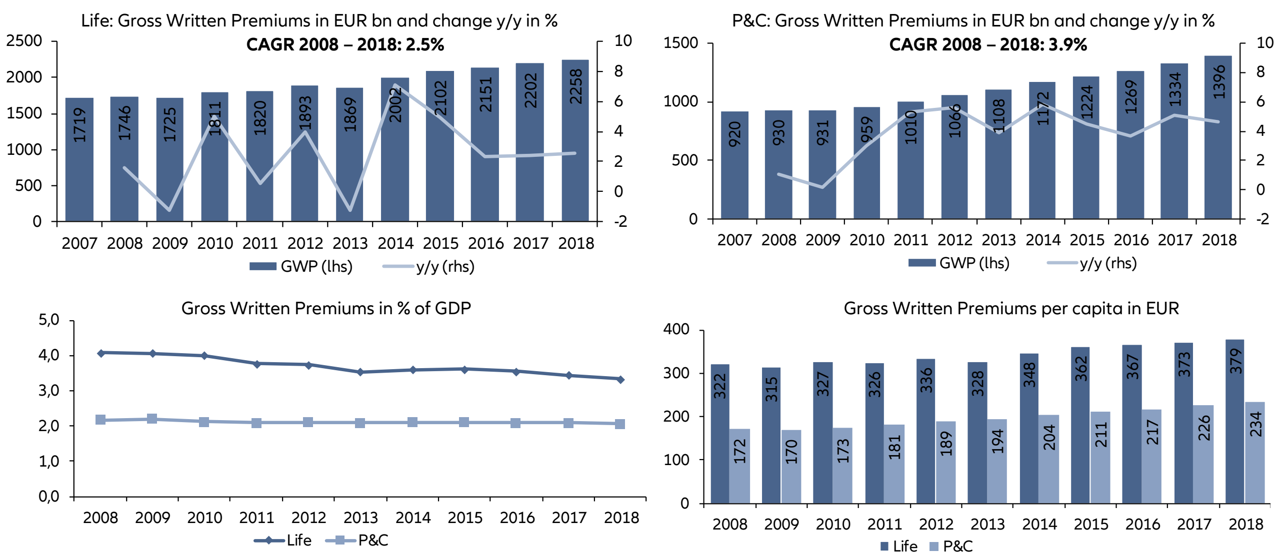
The global market

In 2018, global insurance income (volume of gross premiums written by insurers) for property-casualty (p&c) and life (without health) reached EUR3655 billion or 5.4% of global output. In a year-on-year comparison, the nominal increase in premium income – adjusting for foreign currency effects – was +3.3%. Compared to the previous year's growth (+3.4%), there are signs of stabilization at around that figure. The overall growth for the past decade (2008 – 2018) was +3.0 %.

Both lines of business contributed to the modest growth in 2018, though the life lines – clocking growth of +2.5% – clearly lagged behind p&c products in terms of growth for the third year in a row. In 2016, the weakness of the European market was to blame, while in 2017 it was that of the US market. However, last year's dismal performance is due to the -3.4% contraction of the Chinese life insurance market, which has a global market share of 12%. So despite the fact that life still dominates the insurance market as a whole (62% of world market share), the star performer of the 2018 show was again p&c with an estimated growth of +4.7%. Generally, there is a more stable demand for p&c products than life insurance products globally. This could be attributed to the low-yield environment, which not only deters savers from making long-term saving decisions but also leads to fierce competition between investment products.

In 2018, in per capita expenditure terms, the global population spent EUR614 on average on insurance premiums per year (life: EUR379; p&c: EUR 234). As would be expected, the expenditures per capita varied widely according to the maturity of the market, ranging from EUR5 in Nigeria to EUR7,180 in Hong Kong (See Figure 1).

Figure 1: Gobal insurance market



Source: Allianz Research

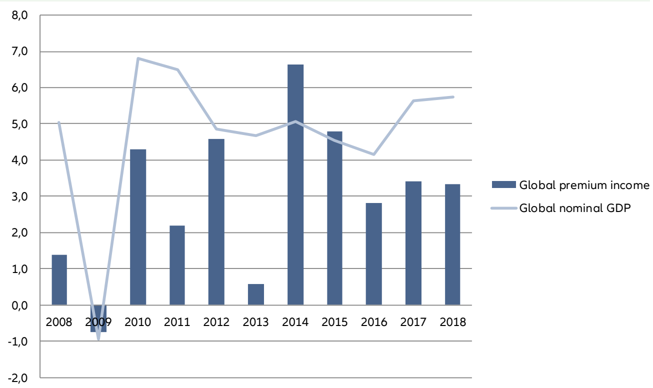
Looking back at the last decade, two developments of the global insurance market are quite remarkable: the persistent growth gap between premium and economic growth, and the regional shift of market shares.

Over the last decade, insurance premiums outgrew global GDP growth on only two occasions (2014 and 2015), while in 2009, the year of the global recession, they contracted slightly less. In 2018, the estimated growth of the global economy, in nominal terms, was +5.7%, leaving the insurance industry to lag behind by 2.4pp (see Figure 2). As a consequence, global insurance penetration (gross written premiums as a percentage of GDP) has followed a downward trajectory in the past decade, from 6.3 in 2008 to an estimated 5.4 in 2018. This development points to a rather paradoxical situation: On the one hand, global risks are constantly increasing – just think of climate change, demography, cyberattacks or geopolitical shifts. But on the other hand, people and companies worldwide are spending an ever smaller proportion of their incomes on insurance. The result is an ever-widening protection gap, be it with respect to natural catastrophes, cyber risks, healthcare or pension savings[1].

Mirroring the economic rise of emerging markets and China in particular, the insurance world map has also changed considerably in the last few years (see Figure 3). China's growing weight in insurance is simply amazing. In just one decade, it almost tripled its world market share. In contrast, the share of mature markets (North America, Western Europe and Japan) declined by around 14pp.

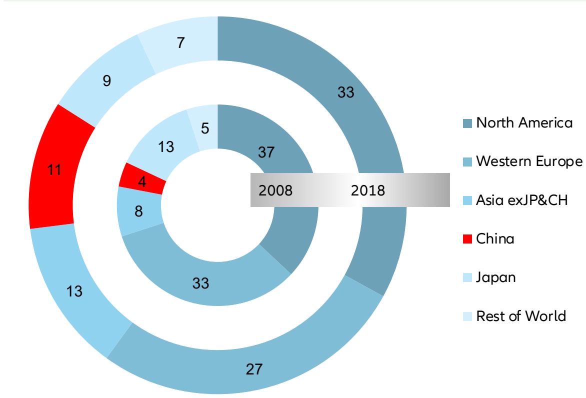
The following chapters look in more detail at the three biggest regions – Western Europe, North America and Asia (ex Japan) – which together account for 85% of global premiums.

Figure 2: Global insurance premiums and GDP



Source: Allianz Research

Figure 3: Global insurance market shares



Source: Allianz Research

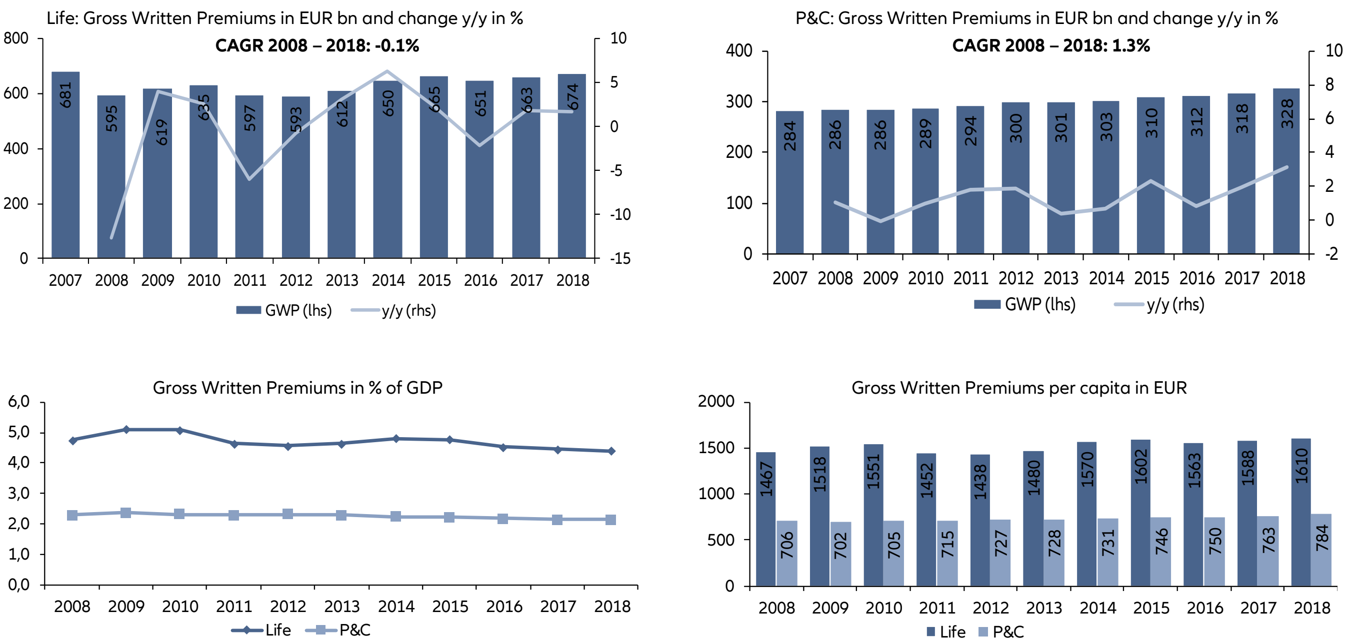
Western Europe

As of 2018, Western Europe was one of the three largest markets in the world (EUR1002 bn), after North America (EUR1201bn) but (still) ahead of Asia (ex Japan) (EUR 871bn), in total premium terms. Western Europe, however, boasts the highest penetration rate (6.5% in 2018).

In 2018, premium income in Western Europe grew by +2.1% on a year-on-year basis, a slight increase from the +1.9% growth of the previous year. Our projections for 2018 suggest that p&c growth in Western Europe picked up from +1.9% in 2017 to +3.1% in 2018, the fastest increase since 2003. The life insurance market, on the other hand, slowed to +1.7% (from +1.9% in 2017), mainly due to the contractions of premium incomes in markets like Austria (-3.2%), France (-0.2%), the Netherlands (-4.6%) and Spain (-1.6%).

[1] For a comprehensive overview of protection gaps see Geneva Association (2018), Understanding and addressing global insurance protection gaps.

Figure 4: Insurance markets in Western Europe



Source: Allianz Research

As a consequence, life insurance penetration in the region has dramatically declined, from 5.6% back in 2007, just before the Great Financial Crisis, to 4.4% in 2018. (Penetration in p&c remained more or less the same: 2.1% vs 2.3% before the crisis). Against the backdrop of the unrelenting demographic change, which leaves no doubt about the necessity of private provision, this sharp decline is disturbing. Long-term savings efforts are obviously decreasing. The severe economic crisis in many European countries is certainly one reason for this. The European Central Bank's low-interest policy also plays an inglorious role here. But waiting for the ECB to change course and interest rates to rise again is no longer an option. The younger generation will be much more dependent on private reserves in their old age than the current generation of pensioners. They have to save – now. The key is to adapt savings behaviors – accepting more risks – as well as savings products – offering less guarantees – to the new realities. Life insurance has to release itself from its over-dependence on interest rates.

Life insurance, however, still makes up 67% of the total premium income in Western Europe , amounting to EUR674bn. The business line plays an important role in social security systems in many but not all European countries. Therefore, insurance penetration differs significantly: from a high 7.1% in the UK or 6.2% in Denmark to 1.5% in Austria or a mere 1% in Greece. Furthermore, as revenues of life insurance are often driven by bancassurance strategies and legislative changes, volatility is high. A case in point are the rollercoaster-like developments in Italy – where growth rates changed between +49% and -18% over the last decade – or Sweden (between +18% and -12%).

The greatest total premium growth in the region in 2018 was observed in Portugal at +9.9% year-on-year. Life insurance in Portugal grew by +14.5%, mainly due to the income from retirement products, which have increased their weight in the life market to up to 45% of life insurance products, according to ASF[2]. The four biggest insurance markets in the region – the UK, France, Germany and Italy – showed more modest growth, with the German market achieving the highest rate: +2.2%. This was mainly driven by a healthy +3.4% increase in the p&c segment; the life business grew only by +1.3%, recovering slightly from three years of negative growth. The British market clocked growth of +2.1% and the Italian one of +1.9%; growth in France was even more subdued (+1.1%).

Regarding insurance density (premiums per capita) and penetration, however, Germany lags behind the others. In 2018, insurance density stood at EUR1925 in Germany (against a regional average of EUR2395) and penetration at 4.7% (against 6.5%). In neighboring France, for example, people and companies spend EUR3102 per year on insurance and penetration is almost twice as high as in Germany (8.6%). The regional economic giant is an insurance midget.

[2] Portuguese insurance authority : Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF)

Northern America

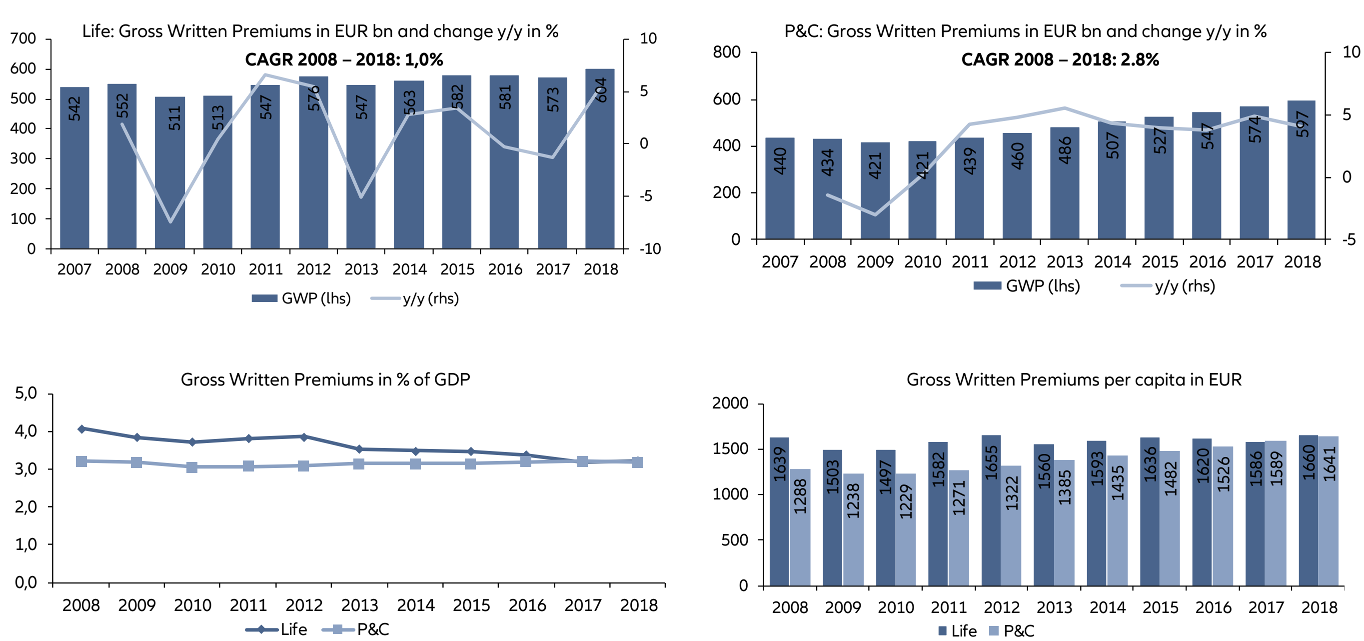
2018 was a good year for insurance in the U.S., where overall premium income rose by +4.6%, the strongest increase since 2012. While life premiums grew by +5.2% (also the strongest growth since 2012), premiums in p&c increased by a more modest +4.1%, slowing down from the previous year's +4.9%. All in all, total premiums rose by EUR54bn, contributing a whopping 42% to global premium growth in 2018. With that, the U.S. cemented its status as the leading insurance market in the world: At EUR1115bn, the U.S. is by far the largest single market; China, the runner-up, stands behind at EUR417 billion. 30.5% of the global premium pool is written in the U.S.. Its lead over all other markets is even more impressive in p&c: Here, the global market share of the U.S. is an impressive 40.3%. This reflects one of the peculiarities of the U.S. market: As far as the spending structure goes, the distribution of expenditures between p&c and life is quite balanced, fluctuating at around 50% each. In most other markets, life is clearly dominating.

However, not all is rosy on the other side of the pond. Density (total premiums per capita) increased only by less than +1% p.a. since 2007; in the life segment, it even stagnated: People spend more or less the same amount in nominal terms today as ten years ago. Consequently, penetration has been consistently going down for some time. The maximum reached by the U.S. was 8.5 in 2003. As of 2018, U.S. insurance expenditures represented 6.5% of its nominal GDP. And as in most other mature markets, this decline was mainly driven by falling penetration in the life segment. The financial crisis left its scars in the U.S., too.

In Canada, premiums grew by +5.7% in 2018, marking the strongest increase since 2014. Life clocked growth of +7.9% (also the strongest since 2014), while p&c increased by +3.1%, compared to +4.2% in 2017. All in all, Canada showed similar growth dynamics to its southern neighbor (life markedly up, p&c slightly down). Over the longer term, however, Canada performed much better than the U.S.: total premium growth over the last decade was +4.1% (vs only +1.7% in the U.S.), with p&c setting the tone, achieving +4.6% p.a. since the Great Financial Crisis (vs 2.7% in the U.S.); life premiums grew by +3.7% (vs a meagre +0.8% in the U.S.).

As expected, the Canadian insurance market is much smaller than the U.S. one, not only in terms of total premiums (EUR86bn) but also in premiums per capita (EUR2322) and premiums as a percentage of GDP (5.9%). But – bucking the trend seen in most other mature markets and particularly in the U.S.– penetration is increasing: back in 2007, it stood at 5.4%.

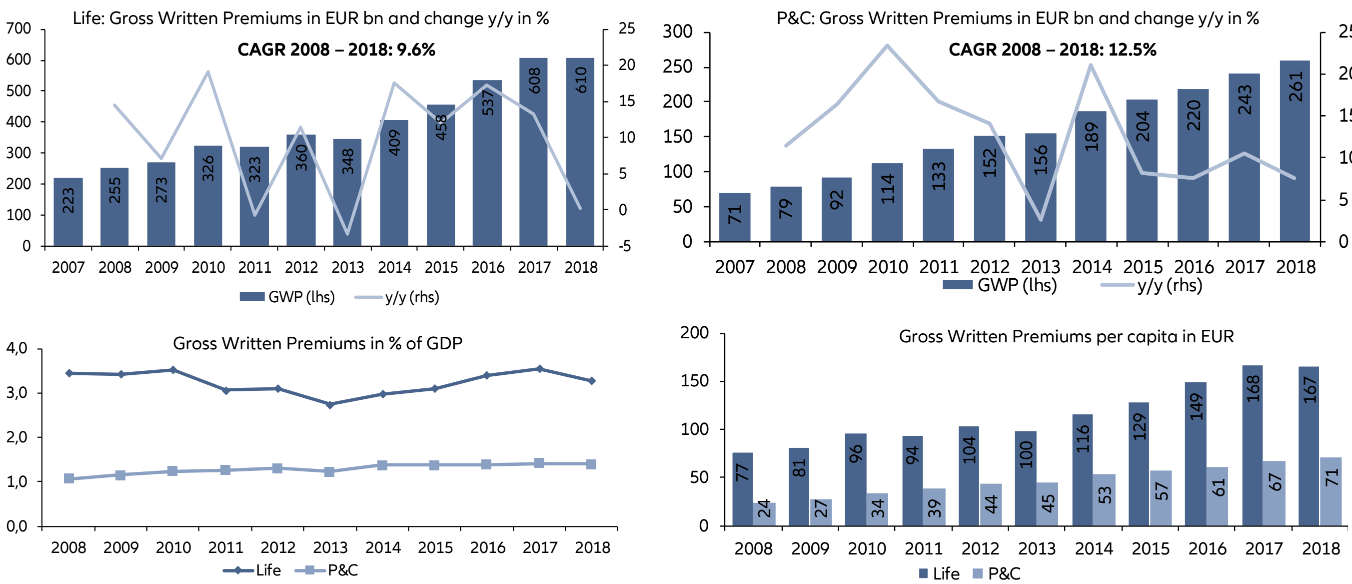
Figure 5: Insurance markets in North America



Sources: Bloomberg, Allianz Research

Asia

Figure 6: Insurance markets in Asia ex Japan



Sources: Bloomberg, Allianz Research

Total premiums in Asia (ex Japan) amounted to EUR871bn in 2018, of which 48% was written in China. Ten years ago, the size of the Chinese market was still roughly only a third of the Japanese one in terms of premiums. Today, it is by far the largest in the region, 40% bigger than that of Japan, which it surpassed in 2016. In comparison, India, the other potential heavyweight in the region, saw total premium income amount to EUR71bn in 2018, a sixth of the size of the Chinese market. This gap has increased over time: In 2008, the Indian market was one-fourth the size of the Chinese one.

There is clearly no homogeneity in the development of insurance markets in Asia. Countries like Laos, with deficient financial literacy, barely reach an insurance income of 0.5% of their GDP, while neighboring markets such as China and Hong Kong have an insurance penetration of 3.7% and 17.5%, respectively, according to our estimations. Equally wide is the dispersion in insurance density: Premiums per capita and year span from a paltry EUR12 in Laos and EUR52 in India to EUR4510 in Singapore and even more than EUR7000 in Hong Kong (though the latter figure might be distorted by Hong Kong's status as an off-shore market for mainland Chinese).

Insurance market growth in Asia was modest in 2018: Excluding Japan, premiums rose by a meagre +2.3%, only the second time since the turn of the millennium that it trailed behind global growth. Moreover, with an increase of +4.0%, even Japan grew faster. The upshot: In 2018, the region accounted for only 16% of global growth (after a whopping 81% in 2017); Japan alone contributed more than 10%. The culprits for this dismal performance are easy to pinpoint: Life markets both in China and Korea – which account together for 40% of the total regional premium pool (ex Japan) – shrank in 2018. In China, this was mainly due to a regulatory crackdown on insurance intermediaries selling wealth management products. But this stricter oversight in China is more than welcome, signaling the next phase of a more balanced and sustainable development. Coupled with the breathtaking technological progress in the market – it is the clear front-runner in the application of AI or innovative payment solutions – China is the market to watch. It's possibly the best place to learn about the future of the industry.

In 2018, however, the regulatory crackdown hurt: Life premium income in Asia (ex Japan) – accounting for 70% of the total regional premium pool – almost stagnated (+0.2%). P&c premiums, on the other hand, grew by a robust +7.5%.

It is no surprise that the largest growth comes from the less developed nations where there is still room for improvement. Overall, the best performers in 2018 were Vietnam and Laos, which had y-o-y growth of +26.3% and +24.6%, respectively. The Philippines, Sri Lanka and India also clocked double-digit growth in 2018. At the other end of the spectrum sit the developed markets of the region like South Korea (-1.9%), Taiwan (+2.6%) and Singapore (+3.1%) – as well as China (+1.2%), for the above-mentioned reasons.

DIGITALIZATION AND PREMIUM GROWTH NO LONGER BUSINESS AS USUAL

New technologies are causing a seismic shift in the insurance industry as AI (artificial intelligence) and its related technologies are embedded into the business. The choice is now clear: the new normal of the industry is to innovate or perish.

Insurance revenue, in the scope of our study, is measured by the written premiums from life and p&c products. The effect of new technologies on these premiums is potentially huge. Machine-learning and AI-related technologies provide better analytics for pricing premiums. At the same time, these technologies – embedded, for example, in new devices like wearables – allow insurers and customers to start focusing on risk prevention rather than risk management. The consequence: Frequencies of claims should come down, though losses per event might go up. A case in point is the mobility revolution with its promise of less accidents by (semi-) autonomous driving but potentially huge losses in the case of a system-wide breakdown. But that's not all: New technologies are being used to optimize costs along the entire value chain, not only for underwriting. Equally important are simplified distribution – say, one-click distribution platforms – and automated claims handling. Even investments are not spared: In the future, robo-advisers might steer the investment process. All these developments point to lower premiums.

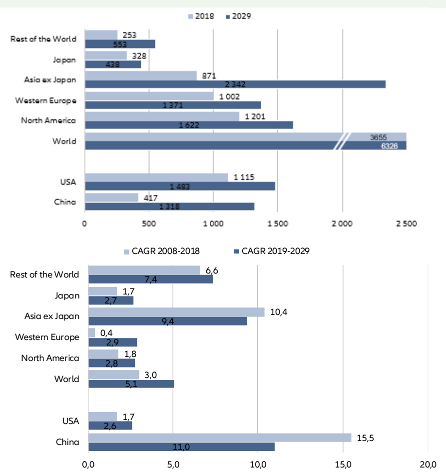
On the other hand, new technologies are also creating new products, from cyber security to so-called UBI products (usage-based insurance), generating new demand for insurance. Cyber insurance, for example, offers huge opportunities, from insurance against cyberattacks to the protection of customer's digital identities. And there is no denying that there will be a wider customer reach with digital platforms, both in the developed world and, in particular, in emerging markets. Given the still very low penetration in many emerging markets, the potential is also huge: A one percentage point higher penetration rate in emerging markets would have added EUR250bn in total premiums in 2018.

However, as the customer base increases, so does competition. New competitors will also come from outside the industry, from tech giants in China and the U.S. to insurtech-startups; incumbents will start looking for partnerships with these newcomers. Upon their establishment, they will provide insurance with customer experience at cheaper prices. Nonetheless, newcomers have yet to disrupt the market to a point where it makes traditional products obsolete. Currently, there is "only" an impressive disruption of the distribution process – not the business model itself - as most of the tech that is about to be deployed focuses on customer centricity. The golden rule is being quick and allowing easy transactions. As such, it is hardly innovative, but rather the new normal. In the future, the full process will be digital, from underwriting to claims management. The customer of the (near) future expects a single-click process with a personalized experience on a platform where you can not only buy insurance but also adjacent services.

The only certainty the insurance industry is facing is having its future reshaped. But the effect on premium growth is ambiguous: Lower frequencies of claims and declining operating and distribution costs suggest slower premium growth but the offsetting power of a wider customer reach and new products point into the opposite direction. It's almost impossible to predict which power will have the upper hand.

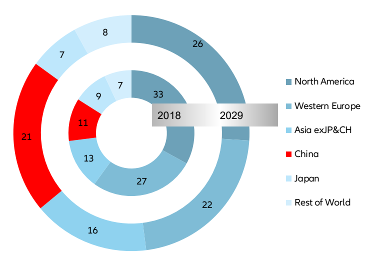
OUTLOOK FOR THE COMING DECADE

Figure 7: Outlook for global insurance markets



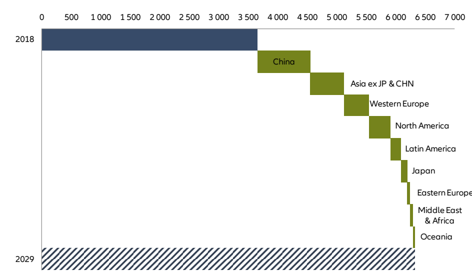
Source: Allianz Research

Figure 8: Outlook for global insurance markets shares



Source: Allianz Research

Figure 9: Outlook for future premium increase by regions



Source: Allianz Research

Long-term prospects look a little brighter than the current situation. Insurance markets should continue to recover over the long-run, with global premium growth to reach around +5% in the next decade. Over that period, however, global economic output is expected to grow by +5.6% (in nominal terms), so the penetration rate will not improve. The negative gap between premium and GDP growth is set to remain, albeit at a smaller scale. Given the accelerating demographic change, as well as underdeveloped social security systems in emerging markets, life insurance should again grow a tad faster than the p&c business (+5.5% vs. +4.4%), based on 2018 fixed exchange rates (see Figure 7).

Our forecasts for total premium growth mask not only regional differences but also the large difference between advanced and emerging markets. Overall, we expect emerging markets to grow by +10.5% (life and p&c) and advanced markets by +3.2%. Besides different underlying growth dynamics, part of this difference is also explained by higher inflation and diverging paths of penetration: Whereas penetration is expected to rise in emerging markets (by around 0.8pp), it is set to decline further in advanced markets (by 0.4pp).

Looking at regions, the highest increase in premiums – in absolute as well as in relative terms – will happen in Asia (ex Japan): The region should achieve growth of around +9.4% per annum over the next decade (life: +9.8%, P&C: +8.5%), driven not least by rapid growth in China. Due to the temporary setback in 2018, however, it will take a little longer for China to claim the title of the largest insurance market in the world. The U.S. might manage to keep its leading position until 2029 but by a thinner and thinner margin. While the U.S. is expected to have a per annum growth of around +2.6% until 2029, for China we expect an annual increase of +11% in total premiums. So, it's just a matter of time before China eventually surpasses the U.S. China will be the decisive force in global insurance for the years to come, with its global market share set to double over the next decade to more than 20% (see Figure 8).

Moreover, a whopping one third of all additional premiums will be written in the Middle Kingdom, compared to just 14% in the U.S. (see Figure 9). By regions, Asia (ex Japan) will be responsible for around 60% of future growth.

In fact, the future of the insurance market lies with only a few countries. Our calculations suggest that three quarters of future growth will come from the leading ten markets, with China, the U.S. and India being the top three. All in all, the total global volume of insurance premiums is expected to reach EUR6327 billion in 2029 (life: 65%; P&C: 35%); we currently stand at EUR 3655 billion worldwide.

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