ECONOMIC RESEARCH

Trend Watch

3

April 26, 2016

MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

Kathrin Brandmeir, Dr. Michaela Grimm, Dr. Arne Holzhausen

Global insurance markets – Current status and outlook up to 2026

Allianz

TrendWatch

No. 3

Global insurance markets – Current status and outlook up to 2026

AUTHORS:

Kathrin Brandmeir
Tel. +49.89.3800-19012
kathrin.brandmeir@allianz.com

Dr. Michaela Grimm
Tel. +49.89.3800-18320
michaela.grimm@allianz.com

Dr. Arne Holzhausen
Tel. +49.89.3800-17947
arne.holzhausen@allianz.com

1. 2015 – A GOOD YEAR FOR THE INSURANCE SECTOR

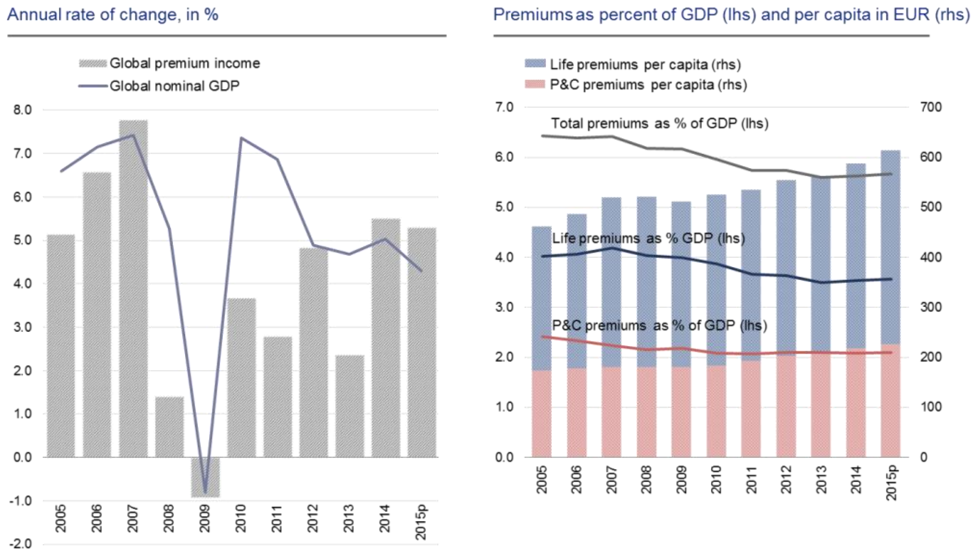
3,500,000,000,000, EUR 3.5 trillion or 5.7 percent of global economic output. Preliminary estimates suggest that this is the volume of the gross written premiums[1] generated by insurers across the globe last year. In a year-on-year comparison, the nominal increase in premium income – after adjustments to reflect foreign currency translation effects – comes to an estimated 5.3%. This means that the pace of growth remained stable compared with the previous year (5.5%) and was once again up considerably on the average annual growth rate for the past decade (2005 - 2015: 4.0%).

Both lines of business contributed to the very robust development in 2015, although the pace of growth on the P&C insurance market (4.5%) is likely to have lagged ever so slightly behind the rate of expansion on the life insurance market (+5.8%). With a relatively stable premium share of 63%, life insurance also dominates the insurance market as a whole. In per capita terms, the population spent a global average of around EUR 615 on insurance products in 2015 (life: EUR 390; P&C: EUR 225). Per capita insurance spending varied in line with the maturity of the market in question, ranging from EUR 7 in Laos to EUR 5,850 in Hong Kong.

This means that the insurance sector grew at a faster rate than general economic output in 2015 for what is now the second year running. In a long-term comparison, the opposite has generally held true: since 2005, average annual growth in global gross domestic product has been 1.3 percentage points ahead of the corresponding rate of growth in total premium income. So after being on a downward trajectory since 2005, the insurance penetration rate, i.e. gross written premiums expressed as a percentage of economic output, has returned to a more stable footing over the past two years.

Insurance penetration is stabilizing

Premium income growth is again outstripping economic output



Sources: AXCO, national supervisory authorities, national insurance associations, national banks and statistical offices, Allianz Economic Research. The conversion into EUR is based on fixed exchange rates.

[1] Excl. health insurance.

Western Europe

On a regional level, western Europe defended its position as the region with the highest insurance penetration rate (7.1%) in 2015, although this rate has, again, been on the decline over the past decade. Our projections suggest that growth in gross written premiums was relatively subdued last year at 2.0%. While growth on the P&C market picked up from 0.7% in 2014 to 1.6% last year - in tandem with the moderate economic recovery - the rate of growth in the life insurance segment dropped back considerably from 6.0% to 2.2%. To a certain extent, the drop in growth is a sign that things are returning to normal after the very strong growth seen in 2014, which was driven by special effects. Since the life insurance business makes up almost 70% of total premium income in the region, this line of business plays a dominant role in shaping the development of the market as a whole. All in all, the gross written premiums generated by insurers in western Europe came to just under EUR 1,025 billion at the end of 2015 - still 0.6% short of the level seen in the record year of 2007.

In Italy, for example, premium growth for life insurance products returned to "normal" (i.e. to an estimated +4.0%) after total market growth of 52% in 2013 and 2014. Life insurance growth also slid from 8.4% to 4.8% in France - although, as in Italy, it remained at an above-average level. After three years of dwindling premiums, Spain's life insurance market found its way back to the growth path in 2015 (+1.7%). In Germany, on the other hand, the provisional figures reported by the Association of German Insurers (GDV) hint at a 2.8% drop in gross written premiums, compared with growth of 3.3% in 2014. This trend was marked by the 9.2% year-on-year slump in single premiums. In Europe's other German-speaking countries, the figures at least point towards stagnation. After fears of a Greek government default reared their heads again, the Greek life insurance market contracted by 5.4%, meaning that the 10.5% recovery seen in the previous year was only a short-lived affair. The 17% slump in Portugal, on the other hand, is likely to be an "adjustment effect" following growth of 33.6% in 2013 and a further 12.9% in 2014.

With the exception of Greece and Italy, the region's P&C insurance markets reported consistently positive growth rates, albeit at a low or moderate level. In Germany, the largest market in western Europe, the development was above-average (+2.6%). The trends witnessed in Portugal (+3.4%) and Spain (+2.2%) are particularly encouraging, with both markets climbing well back into the black after eight and six years of declining, or at best stagnating, premium income respectively.

Eastern Europe

Unlike in western Europe, only just under 30% of total gross written premiums in eastern Europe were written in the life insurance segment in 2015. Just over half of these premiums are attributable to Poland and the Czech Republic alone. This means that market developments in these two countries play a significant role in determining the growth rate on the eastern European life insurance market as a whole, which was clearly in the red last year. All in all, premiums in the life insurance sector contracted by an estimated 0.7% in 2015. Premium income on the P&C segment, on the other hand, increased by a far from insignificant 3.2%. Looking at the insurance sector as a whole, total premium income in the region rose by 2.0% - a sobering figure for a part of the world that was once considered a high-growth region and in which double-digit growth rates used to be the norm.

The knock-on effects of the economic and debt crisis hit eastern Europe's life insurance markets particularly hard. The situation was exacerbated by political resistance, not only in the form of more stringent regulation, but also in the guise of major market intervention, for example the move to nationalize private retirement provision funds in Hungary. After having been on the increase for a while, total premium income has now been on the decline for three consecutive years, closing 2015 almost 1% down on the pre-crisis high reported in 2008. In the larger and - in regional terms - more mature eastern European markets, gross written premiums fell across the board last year: Poland (-5.8%), Czech Republic (-12.3%), Hungary (-3.2%) and Slovakia (-0.6%). By contrast, the smaller markets in terms of volume, where insurance penetration rates are still lingering well below the 1% mark, reported double-digit growth: Bulgaria (+15.2%), Croatia (+10.6%) and Romania (+10.8%). We also expect the Turkish market, which accounts for around 8% of the region's gross written premiums, to have achieved growth of approximately 14% based on quarterly data. Looking at the region as a whole, it would appear that the rate of premium decline, at least, has slowed, dropping back from -2.4%/-2.6% in 2013/2014 to -0.7% in 2015.

Eastern Europe's P&C insurance market fared much better during the crisis. Although the double-digit growth rates that the region was famed for in the past have now been consigned to the history books, the annual growth rates have - with the exception of 2009 - been consistently positive, sometimes even reaching the high single digits. 2015 surpassed the record level seen in 2008 by around 38%. Average per capita spending on insurance products in the region came to a good EUR 135 (life: EUR 40; P&C: EUR 95), with a penetration rate of 1.7%.

North America

There is no region that spends more per capita on insurance than North America: at the end of 2015, average premiums came to an estimated EUR 3,220, with the US (EUR 3,220) streets ahead of Canada (EUR 2,280). The US market alone was responsible for 93% of the region's total premium income, making it the largest market in the world with a total volume of EUR 1,070 billion and giving it a more than generous lead over the world's number two, Japan (EUR 354.4 billion). As in western Europe, however, the insurance penetration rate in North America has also been on the decline in a long-term comparison: sliding from 7.0% in 2005 to 6.6% last year. Premium development over the past decade has been something of a roller-coaster ride: while the average growth rate (2005 - 2015) comes in at 2.4% a year, the North American market was hit by a slump of more than 6% in the crisis-ridden year of 2009 before making a strong recovery in 2011 and 2012, with growth rates of 7.0% and 6.0% respectively and then, only one year later, seeing total premium income contract again by 0.2%. As far as last year is concerned, we expect the market to have reported robust growth totaling 4.8% (life: 5.9%, P&C: 3.5%).

Asia

The fastest-growing markets, on the other hand, i.e. the countries in which insurance products are still, in some cases, very much a rarity, can be found in the world's up-and-coming regions of Asia and Latin America. In the years leading up to the financial crisis, Asia's financial markets reported one record year after another. The outbreak of the crisis took some of the wind out of the market's sails and signaled the start of a period of zig-zagging annual (positive) growth. It was not until last year that the Asian market managed to break the pattern: with growth of 9.1%, 2015 represented the first year since 2008 in which premium growth had picked up speed for two years in a row.

Almost 73% of total premium income in Asia comes from life insurance products. Leaving Laos and Sri Lanka out of the equation, the life insurance segment dominates the insurance market in all of the Asian countries included in our analysis. This is due to less generous state pension systems, which make private retirement provision an absolute must in the region's rapidly ageing societies. P&C insurance, however, is also becoming increasingly popular. 2015 signaled the first time in seven years that growth on the life insurance market (9.7%) outstripped the P&C segment (+7.7%).

When it comes to market maturity, however, the differences between the individual countries are considerable. The region's industrialized countries - Hong Kong, Japan, Singapore, South Korea and Taiwan, have an insurance penetration rate of between 7.8% and 16.4%, putting them well ahead of the western European and North American average in some cases. In up-and-coming economies like China, India, Indonesia, Pakistan and the Philippines, which are home to almost 90% of the Asian population, the insurance penetration rate is as low as between 0.9% and 3.2%. The differences in per capita premiums are similarly pronounced: in Asia's developed countries, people spend much more on average on insurance than their western European counterparts do - EUR 3,000 in Korea and EUR 3,690 in Singapore, for example - while in India, Indonesia and the Philippines, spending is still lingering below the EUR 50 mark.

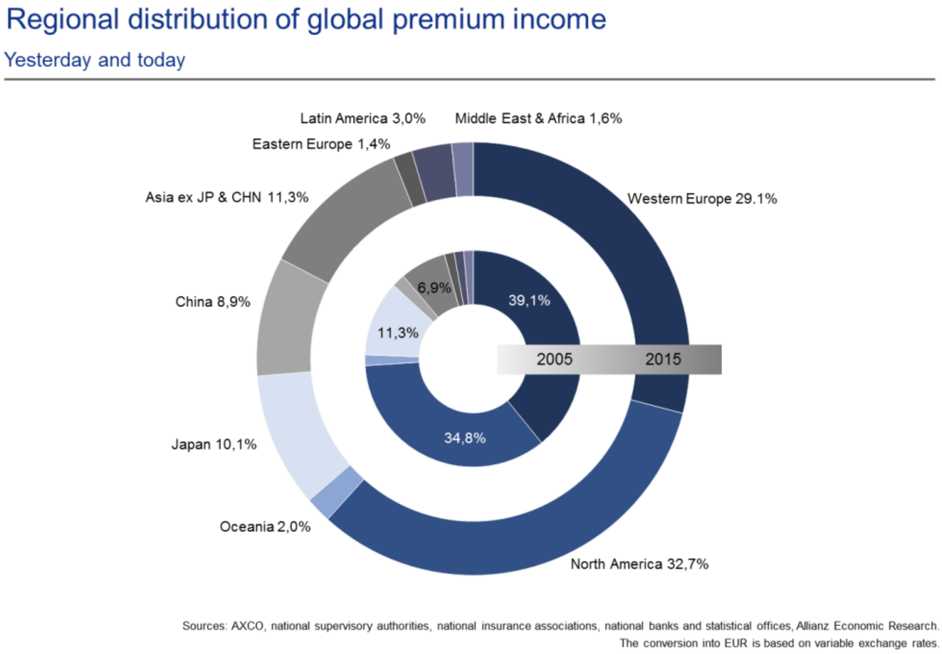
Latin America

In South America, general economic output has been growing at a slower pace than in the past in recent years. Brazil, the region's heavyweight, is actually locked in a deep recession, with economic output contracting by 3.8% in real terms in 2015. The region's insurance market, however, would appear unperturbed by this development, with the rate of growth climbing from 10.7% in 2014 to 14.8% in 2015. Even in Brazil, insurance premiums were up by a good 9% last year. The market started to pick up again in Chile (from +6.4% to +17.9%), Mexico (from +2.2% to 12.6%) and Columbia (from -16% to +13.8%) in particular last year. Argentina's total premium income swelled by 35% in 2015 - albeit largely as a result of inflation. In all of the countries analyzed, the insurance market outpaced the rate of GDP growth, pushing the penetration rate in the region up further to 2.7%. In terms of this ratio, Chile was the most mature market, with an insurance penetration rate of 4.3%. Argentina, Brazil and Colombia reported rates of around 3%, while the penetration rate in Mexico and Peru came to just under 2%. All in all, total premium income on the Latin American insurance market has increased more than fourfold since 2005, growing at an average rate of 14.3% a year. Annual per capita premium income has risen from an average of EUR 60 to EUR 220 during this period.

In absolute terms, insurers naturally continue to write the lion's share of their business in the world's large industrialized regions. North America, western Europe, Oceania[2] and Japan accounted for almost three-quarters of total gross written premiums in 2015. If we add the developed countries located in other regions, i.e. Hong Kong, Korea, Singapore, Taiwan, the Czech Republic and Slovakia, then this share is increased to as much as more than four-fifths. Nevertheless, the global weightings are continuing to shift over time. The developed countries already have ten percentage points less of the global cake than they did back in 2005.

---

[2] Australia and New Zealand.



China, in particular, has increased its share of the global insurance market dramatically during this period: its share of the global market premium volume has increased 4.5-fold to almost 9%. While back in 2005, the Middle Kingdom still ranked 9th among the world's largest insurance markets, the world's most populous nation - which boasts a market volume of EUR 314 billion - had risen to 3rd place by 2015 behind the US and Japan, making the Chinese market bigger than the German and Italian markets combined. We expect China to overtake Japan to become the second-largest insurance market in the world over the next few years. Average per capita spending on insurance, however, came to only EUR 230 in 2015 - a telling indication of the country's development status. Premium income equated to 3.2% of China's general economic output.

2. OUTLOOK FOR THE COMING DECADE

The insurance sector looks set to undergo fundamental change over the next ten years, with trends such as digitalization, big data and low interest rates only some of the factors that are expected to leave their mark. The market will be characterized by new products, new business models and new competitors. Competition for customers and their data will become even more intense. In summary: the challenges facing the sector's established players are immense and the pressure to change could hardly be any greater. But it is not all bad news: the demand for insurance products, for models to protect assets and incomes, remains as high as ever. As disruptive as the transformation process may be, it will not wipe major insurers, risk carriers with strong capital resources behind them, off the map. Their situation can hardly be compared to the plight of photographic film and CD manufacturers, or taxi drivers.

We believe that the growth trends seen in recent years will more or less continue over the coming decade: the demand for insurance will remain high in the emerging markets, and particularly in Asia, as income and wealth levels continue to rise. This means that many countries are likely to see insurance premium growth continue to outstrip growth in general economic output (nominal GDP). In the developed countries, on the other hand, it will be impossible to ignore the symptoms of market saturation, particularly in the auto insurance segment; so the mounting price pressure exerted by straightforward, digital product offerings will have more of an impact on general premium growth in this region. This means that premium growth will likely lag behind economic growth as a whole.

All in all, and taking into account our exchange rate expectations, we expect the global insurance market to report average annual growth of 3.8% in the period leading up to 2026, while general economic output will chart a moderate increase of 3.9%. The pace of growth in the life and P&C insurance segments will come in at 3.9% and 3.6% respectively. This means that in the future, global premium growth will only just be able to keep pace with economic developments. Based on this assumption, the insurance penetration rate will remain stable at best.

These average global figures do, of course, mask massive regional differences. The industrialized heavyweights of western Europe, North America and Japan, which accounted for a combined total of more than 70% of the world's total premium income in 2015, are likely to see their penetration rate continue to head south. We estimate that the average annual rate of growth on the insurance markets in the period leading up to 2026 will come in at 2.9% (life: 2.9%, P&C: 2.8%) in western Europe, 2.4% (life: 2.5%; P&C: 2.4%) in North America and 0.8% (life: 0.8%; P&C: 0.7%) in Japan.

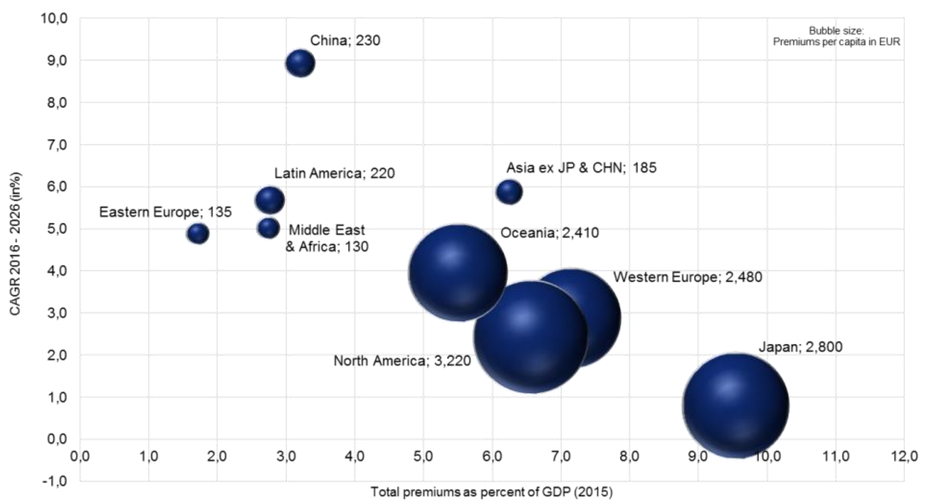
The story told by the high-growth markets in the up-and-coming economies, particularly in Asia, will be a very different one. Almost all of the Asian emerging markets included in our analysis, for example China, India, Indonesia, the Philippines or Vietnam, are tipped to report double-digit growth rates in local currency terms. Our calculations suggest that China will become the second-largest insurance market in the world after the US in 2026. The estimated total premium income of more than EUR 800 billion will then be virtually the same as that generated by western Europe's three largest markets, the UK, France and Germany, combined. All in all, we expect the Asian region (excl. Japan) to report average annual growth, in euro terms, of 7.3% in the period leading up to 2026 (life: 7.5%; P&C: 7.0%).

We also expect to see high single-digit growth rates (in national currency terms) in Latin America; in euro terms, we predict an average growth rate of 5.7% for the region as a whole (life: 6.1%; P&C: 5.3%), meaning that total premium income in South America will virtually double. With an estimated volume of EUR 84 billion, Brazil will remain the region's biggest market by far (although it will only be half as big as the Italian market). The insurance penetration rate will continue to rise in both Latin America and Asia.

In eastern Europe, on the other hand, we only expect to see stabilization in the insurance penetration rate, which has, however, dropped from 2.1% to 1.7% over the past decade. As far as market growth is concerned, we expect to see a regional growth rate, in euro terms, averaging 4.9% a year in the period leading up to 2026 (life: 4.7%; P&C: 5.0%). This will see total premium income in eastern Europe rise to around EUR 86 billion, i.e. to around the same level as in Brazil, in 2026.

Market maturity and growth potential by region

Insurance penetration 2015 vs. premium growth 2016-2026

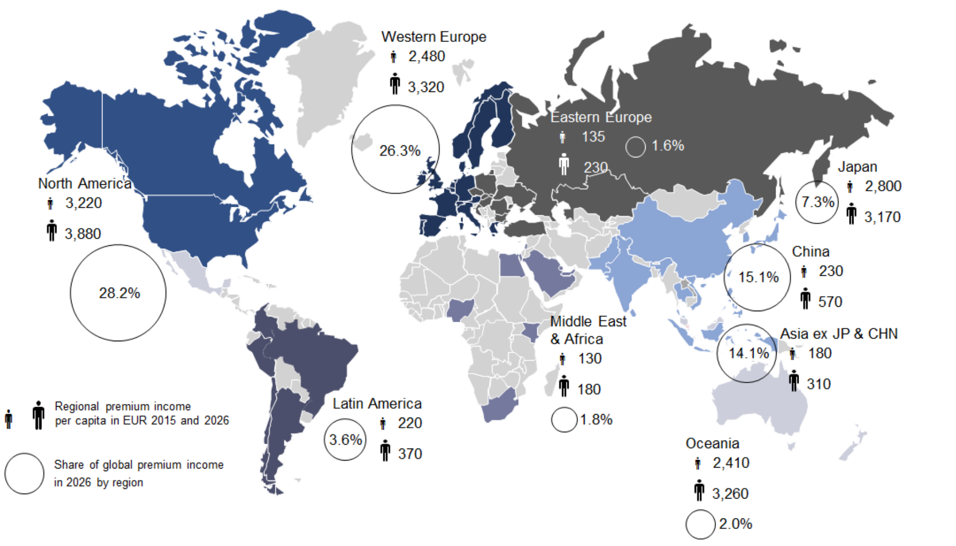


Sources: AXCO, national supervisory authorities, national insurance associations, national banks and statistical offices, Allianz Economic Research. The conversion into EUR is based on variable exchange rates.

A "look into the crystal ball" does not unveil any big secrets when it comes to the global insurance map of 2026. The weightings will continue to shift away from the industrialized and towards the up-and-coming economies. Asia (excl. Japan) will benefit the most from this development, with its share of total global premium income set to rise from 20% or so to over 29%. Around six percentage points of this growth will be attributable to China alone. Latin America will also be able to up its share of total global premium income from 3.0% to 3.6%, with even eastern Europe's share predicted to increase from 1.4% to 1.6%. But despite the catch-up work played by the up-and-coming economies, the lion's share of insurance premiums will still be written in the developed countries by the end of the coming decade.

Global insurance market map in the year 2026

Total premium income per capita and share of global premium income 2026 by region

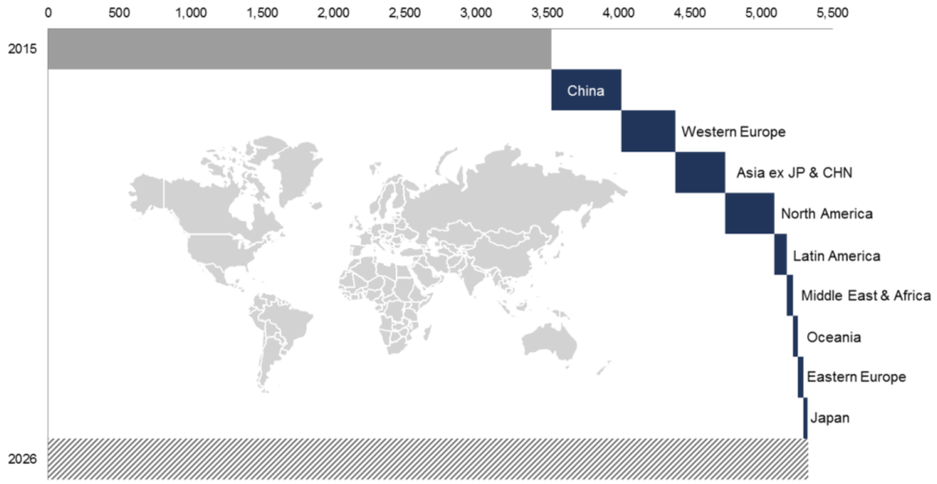


Sources: AXCO, national supervisory authorities, national insurance associations, national banks and statistical offices, Allianz Economic Research. The conversion into EUR is based on variable exchange rates.

As a result, a look at premium growth in absolute terms is more interesting: total global premium income will have risen by an estimated EUR 1.8 trillion to a good EUR 5.3 trillion by 2026. Our calculations suggest that around 27%, or EUR 490 billion, of this amount will be attributable to China alone. In the rest of Asia (excl. Japan), additional premium income of EUR 350 billion is likely to be generated. Insurers in North America will generate additional premium income in around the same amount, with premium income in western Europe expected to rise by EUR 377 billion. EUR 234 billion will be distributed among the other regions, with Latin America expected to account for the biggest chunk, namely EUR 88 billion. At EUR 35 billion, the increase in eastern Europe is expected to be only slightly ahead of that in Japan (EUR 33 billion). By then, the Turkish market is expected to have overtaken the Polish market, making it the second-largest market in the region after Russia. This means that one country and three regions will largely determine the fate of premium growth over the next ten years: China, Asia (excl. Japan), western Europe and North America. There is no doubt that China will be the biggest and most dynamic individual market. It is, however, important to remember that other regions of the world – some of them on our very doorstep – also offer considerable potential for additional premiums.

Highest premium increase comes from China

Global premium volume and increase up to 2026 (in EUR bn) by region



Sources: AXCO, national supervisory authorities, national insurance associations, national banks and statistical offices, Allianz Economic Research. The conversion into EUR is based on variable exchange rates.

These assessments are, as always, subject to the disclaimer provided below.

ABOUT ALLIANZ

Together with its customers and sales partners, Allianz is one of the strongest financial communities. About 85 million private and corporate customers insured by Allianz rely on its knowledge, global reach, capital strength and solidity to help them make the most of financial opportunities and to avoid and safeguard themselves against risks. In 2015, around 142,000 employees in over 70 countries achieved total revenues of 125.2 billion euros and an operating profit of 10.7 billion euros. Benefits for our customers reached 107.4 billion euros.
This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an aging society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.
Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.