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Global insurance markets – Current status and outlook

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1. EXECUTIVE SUMMARY: A NOT-QUITE-PERFECT TURNAROUND

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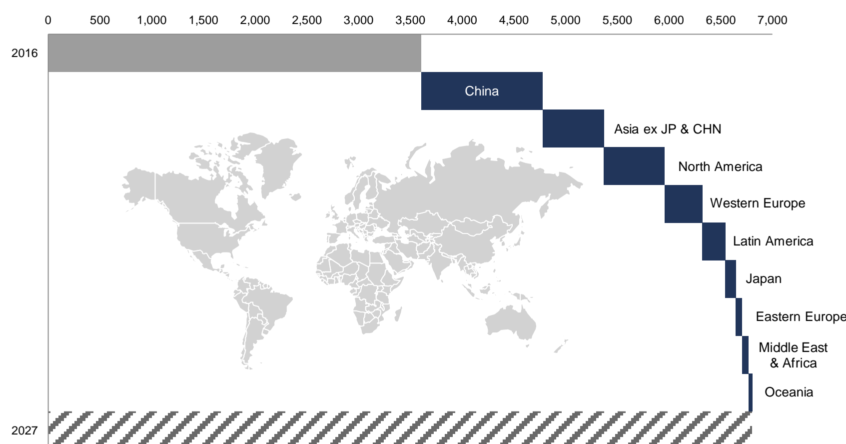
- After the lean years of the financial and economic crisis, insurers can now look ahead with a renewed sense of confidence: whereas in the years since 2008, global life and P&C insurance premiums have only been growing at a rate of 3.1 percent a year (in both nominal terms and after adjustments for exchange rate effects), growth is tipped to pick up to 5.9 percent over the next decade. This upswing will be due primarily to the global economy's return to normal growth and inflation rates.
- The recovery will be driven mainly by the world's developed countries, with a particularly pronounced upturn on the cards for Western Europe: after zero growth in the period between 2008 and 2016, premium growth is expected to bounce back to just under 3 percent a year on average in the years leading up to 2027. In North America, we expect market growth to double from 1.9 percent to 3.7 percent. In many emerging markets, on the other hand, we predict slightly slower growth, albeit still at a much higher level than in the developed world. The Latin American region and a large number of Asian emerging markets, for example, are likely to continue reporting double-digit growth rates over the next ten years, with the Chinese insurance market leading the pack. This means that one in three euros of additional premiums will be earned in China during this period.

Biggest increase in premiums in China

Global premium volume and increase up to 2027 by regions, in EUR bn



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

- The next ten years will not only bring a return to stronger growth; the weightings will also shift again between the P&C and life insurance segments. The P&C insurance markets delivered more robust performance during the crisis and have been reporting global growth averaging 3.8 percent a year since 2008 - in the life insurance segment, growth came to only 2.8 percent during the same period. This discrepancy between the segments was particularly pronounced in the developed countries and in Eastern Europe. In the developed countries, economic reasons have been the main factor behind this trend: in addition to stagnating incomes and high unemployment, the extremely low interest rates put a particular damper on the demand for life insurance; in this sort of environment, conventional savings products were no longer attractive. In Eastern Europe, on the other hand, the slump in life insurance can be traced back first and foremost to regulatory and political intervention in the provi-

sion markets. In the majority of the other emerging markets, on the other hand, the life insurance markets showed exceptionally strong development even after the financial crisis: in both Latin America and Asia (with the exception of Malaysia), the markets continued to report growth rates of 10 percent and more during this period.

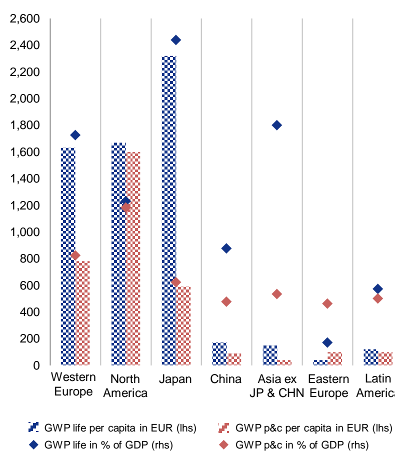
- In the future, the demand for life insurance products is likely to bounce back – after all, the need for individuals to take responsibility for their own retirement provision as opposed to relying solely on the state pension systems remains. In addition, pension providers have also reacted to the period of low interest rates by launching new provision concepts and, last but not least, the interest rate outlook itself has started to look a bit brighter again. This means that, all in all, gross written premiums in the life insurance segment are likely to increase by 6.5 percent p.a. in the period leading up to 2027, as against average growth of 4.9 percent in the P&C business. The Asian life insurance markets have the biggest lead over their P&C counterparts, whereas in the developed countries, the two segments are likely to return to growing more or less in tandem with each other in the future.
- This also means that it is in the life insurance segment that the differences between the individual regions are the most pronounced. In the developed countries, the predicted recovery on the life insurance markets is expected to result in growth of around 3½ percent a year all in all. In the Asian emerging markets, on the other hand, we expect to see average growth rates of 15 percent due to a combination of the considerable catch-up work that still has to be done and targeted state incentives. Latin America and Eastern Europe are also likely to grow at a much faster rate than the established markets, with growth of 11 percent and a more than respectable almost 8 percent a year respectively.
- While the life insurance sector continues to paint a familiar picture - with the Asian emerging markets, led by China, taking the title of the unrivalled growth champions, the situation on the P&C insurance markets is not quite as clear, with the developing markets of Latin America and Asia expected to expand at more or less the same rate, namely around 10 percent a year. Eastern Europe is next in line (at a good 7 percent p.a.), albeit with a considerable gap separating it from the leaders of the growth pack, whereas in the developed countries, growth is ultimately expected to settle at around 3½ percent a year – as in the life insurance segment.
- Future growth is expected to reverse the negative trend seen in recent years from another angle, too: the relative significance of the insurance business, expressed as the ratio of insurance premiums to GDP, or the "insurance penetration rate", is expected to increase again, climbing from 5.6 percent worldwide (2016) to 5.8 percent over the next ten years.
- This growth can, however, be traced back almost exclusively to the emerging markets. In the developed countries, on the other hand, the downward trend witnessed in recent years looks set to continue, albeit at a much slower rate. Now, however, it is primarily structural reasons, as opposed to economic trends, that will be responsible for the continuation of this subdued development: first, there is the demographic trend, with the baby boomer generation gradually starting to transition to retirement over the coming years. Second, achieving further increases in premium income will prove to be more and more of a challenge for the old “bread-and-butter” business of the P&C segment, auto insurance. Various changes could cast a shadow over this branch of insurance in the future: in addition to hotter competition from digital distribution channels, new technologies (autonomous driving) could help to reduce the number of accidents and claims in the future, while rates based on driver behavior (telematics) could push average prices down and general changes in behavior could limit the number of users who have their own cars (carsharing and Uber). Although these paradigm shifts in individual mobility will most certainly take more than ten

years to come to fruition in full, insurers are likely to start feeling the brunt of the change.

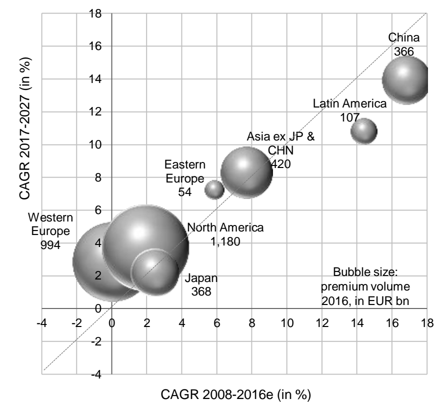
- This rather modest increase in significance will not, however, be enough to claw back the ground lost during the crisis years: the global insurance penetration rate in the pre-crisis years was still sitting at 6.4 percent on average. In euro terms, this means that if people across the globe had spent the same proportion of their income on insurance cover as they did prior to the crisis, then global premium income would have been almost EUR 350 billion higher in 2016. More than 90 percent of this "insurance gap" is attributable to the regions of Western Europe and North America where, in turn, the life insurance segment is responsible for more than 70 percent of the missing premium income (for a definition of the "insurance gap", see the box below).
- So the insurance markets' return to solid growth is certainly far from perfect. At least in the developed countries, a return to the *status quo ante* is not the most likely scenario. Nevertheless, it is not all doom and gloom, as a much more optimistic scenario for the insurance industry in the brave new world of digitalization, big data and artificial intelligence cannot be ruled out either. After all, new technology does not just provide ways of cutting costs, making processes more efficient and stepping up the competitive pressure. The industry can also use it to allow more people to access and experience insurance cover by launching new products and providing better service, i.e. to create more demand and make insurance products more attractive. While the challenge facing the insurance sector is colossal, so too are the potential profits: if people across the world were to return to spending as much of their income on insurance cover as they were spending prior to the crisis – i.e. if the "insurance gap" could be closed again with the help of new technologies – then this would translate into additional premium income of EUR 750 billion compared with the base scenario for 2027 alone.

Regional markets: status quo and growth potential

Status quo 2016



Long-term average market growth



Sources: AXCO, national supervisory authorities, national insurance associations, national banks and statistical offices, Allianz Research.

The conversion into EUR is based on fixed exchange rates.

Box: Why the term "insurance gap"?

The term "insurance gap" describes a situation of inadequate insurance cover. Insurance is "inadequate" in the sense that it does not cover the damage incurred either at all or in full (for example in the event of natural catastrophes), or in the sense that the benefits provided fall short of what is necessary or desired (for example in terms of health cover or retirement provision). Whether or not cover is deemed "adequate" obviously depends on a number of variables, including not only economic factors (income, inflation, interest rates, etc.) but also, and in particular, structural factors (the structure of state and private support systems) and individual preferences. As a result, adequate insurance cover cannot be reduced to a simple formula. This is also evident if we look at one parameter that is commonly taken as a guide: economic strength: Hong Kong, Germany and the UK have similar levels of per capita GDP, but British people spend an average of twice as much on insurance cover as their German counterparts do, and the Hong Kong Chinese in turn spend double what the British do. It just depends, and comparing individual markets makes little sense.

Assuming, however, that structural factors and individual preferences in the individual markets do not change overnight, intertemporal comparisons can at least provide some indication of the level of insurance cover that is adequate for the market in question. We have taken the pre-crisis years, a period of relative stability in which many people were able to bring their spending on insurance cover into line with their actual requirements, as a benchmark. Specifically, we have assumed that the insurance penetration rate (premiums as a percentage of GDP) was more or less aligned with the overall structural conditions and individual preferences during this period (average for the years between 2003 and 2007). This means that any downward deviation from this level - i.e. a lower insurance penetration rate - flags up an "insurance gap": people return to spending less on insurance cover than they actually deem necessary - based on their earlier decisions. This assumption is certainly plausible for the advanced economies; for the emerging markets, which have considerable catch-up work to do (i.e. rising insurance penetration rates in general), taking historical parameters as a guide is more problematic in comparison (and as a logical consequence, we can, in fact, barely detect any insurance gap in these countries).

Naturally, there might also be other reasons explaining lower demand for insurance. People might, for example, have less of a need for insurance cover - because the world has become safer overall. This is a nice idea, but hardly tallies up with reality in an environment characterized by global crises and increasingly frequent natural catastrophes. The idea that people might now have less of a need for retirement provision and risk protection than they did prior to the crisis is also unrealistic given the record-high levels of government debt and populations that continue to get older and older; rather, the very opposite is true. Another alternative explanation would be that the same insurance cover is now available at a much lower price. This is a scenario that is at least within the realms of possibility. But first of all, the insurance industry is not exactly renowned for its ability to make huge productivity gains and second, the digital revolution is just about to begin, meaning that it will be some time before any resulting efficiency gains come to the fore. And as far as retirement provision - a major area - is concerned, it is once again the case that the prevailing low interest rates are making old-age provision more expensive as opposed to cheaper.

So only one theory is left as the most likely explanation for the drop in the demand for insurance in the recent crisis-ridden years: the majority of people have reduced their demand out of necessity and not because they consider a lower level of protection and provision to be sufficient. This is why we have interpreted the discrepancy between earlier and current spending levels as an "insurance gap".

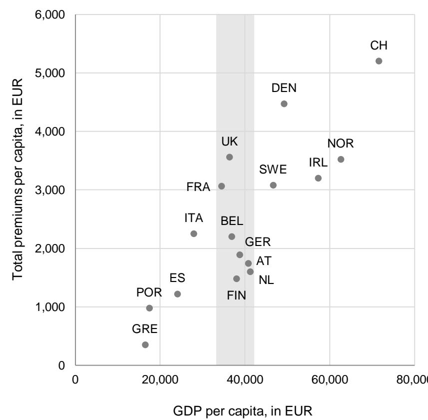
2. MARKET DEVELOPMENT IN THE INDIVIDUAL REGIONS

Western Europe: A return to solid growth

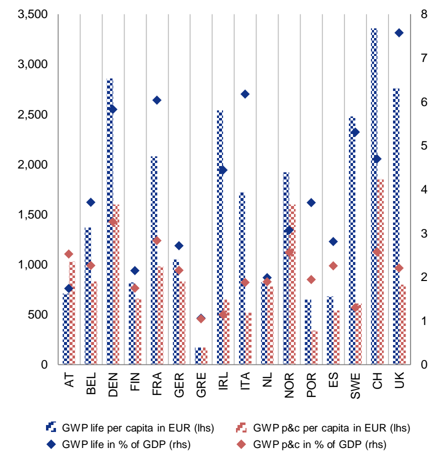
In a global context, the Western European insurance market has lost considerable ground over the past decade: whereas the region's gross written premiums still accounted for a good 36% of the global premium volume before the outbreak of the global economic crisis, this figure had slid to "only" just under 28% by 2016. In 2016 alone, Western Europe's share of the global insurance market contracted by one percentage point. Based on our projections, total regional premium income came to around EUR 994 billion at the end of last year, with almost 60% being underwritten in three major markets alone: the UK led the field with estimated gross written premiums of more than EUR 230 billion, followed by France (EUR 198 billion) and Germany (EUR 152 billion).

Insurance markets in Western Euorope: status quo 2016

Premium volume vs GDP per capita



Insurance density and penetration



Sources: AXCO, national supervisory authorities, national insurance associations, national banks and statistical offices, Allianz Research.

If we look at how regional insurance premiums have developed overall since 2008, the scars left by the financial and euro crisis are obvious ones, with total premium income in Western Europe stagnating on average. The Scandinavian countries delivered the best performance during this period, with Norway witnessing particularly strong average growth of 4.3% a year. Norway is, of course, a relatively small market in terms of volume, with gross written premiums coming to EUR 18.6 billion at the end of 2016. If, on the other hand, we measure absolute, as opposed to relative, growth during this period, then a number of surprises are in store. From this angle, it is not, for example, Germany, but Italy that takes the title of growth champion: in the period from 2008 to 2016, total premium income increased by more than EUR 37 billion - on the back of an upsurge in the life insurance market - to a good EUR 134 billion in total (+3.7% p.a.); Germany only comes in second - with a considerable gap separating it from the top spot - with premium growth of just under EUR 21 billion (+1.6% p.a.). In addition to Italy, Spain - another country battered by the euro crisis - also delivered a positive surprise, with the market reporting growth of just under EUR 6 billion in total during the same period (+1.2% p.a.). In the UK, Greece, Ireland and Portugal, on the other hand, the premium volume dropped by around 3% a year on average. The trend in the Netherlands was even weaker, with the

insurance market contracting by an average of around 4% a year.

In line with the global trend, the insurance penetration rate, i.e. the ratio of total premium income to GDP, was on a negative trajectory in Western Europe as well: at the end of 2016, the ratio of total premium income to nominal economic output came to an estimated 6.9% - more than one percentage point lower than the all-time high of 8.0% reported back in 2007. This brings the "insurance gap" to a good EUR 180 billion, with the lion's share (almost 80%) attributable to life insurance[1]: the economic crisis, high levels of unemployment and, last but not least, the move by the ECB to "abolish" interest rates have prompted many people in Western Europe to reduce the amount of money they are setting aside for provision.

On average, Western Europeans spent EUR 1,630 per capita on life insurance and EUR 780 for P&C insurance products. In Switzerland, the richest country in the region (EUR 71,600) in terms of per capita GDP, per capita premiums were the highest at EUR 5,200 on average. At the lower end of the scale is crisis-ridden Greece: there is no other Western European country in which economic output and insurance premiums were as low in per capita terms as they are there (EUR 16,480 and EUR 350 respectively). Greece took the bottom spot in the region in terms of the insurance penetration rate as well, both in the life insurance segment (1.1%) and in the P&C insurance segment (1.0%). The places at the top end of the scale go to the UK, which reported the highest life insurance penetration rate, at 7.6%, and Denmark, where the penetration rate for P&C insurance came to 3.3%. This also shows that low incomes do not always translate into low spending on insurance. Finland, Belgium and the UK, for example, have similar income levels (GDP of between EUR 36,000 and EUR 38,000 per capita), but vary considerably in terms of insurance premiums: British people spend more than twice as much on insurance cover than their Finnish counterparts (and still spend 60% more than the Belgians). Spending on life insurance, i.e. the structure of the social security system, is a decisive factor: ultimately, it is the extent to which independent protection is needed, as opposed to how much people earn, that determines how much they spend on insurance premiums.

After adjustments to reflect foreign currency translation effects, we expect to see total premium income in Western Europe increase at an average rate of 2.9% a year between now and 2027 - assuming nominal economic growth averaging 3.3% a year. This signals a return to solid growth after years of stagnation. We do not expect premiums to dip in any of the markets included in our analysis; and whereas in the crisis years, the growth differentials between the individual markets became more pronounced, we expect to see them come closer into line with each other again in the coming years. The rates of growth are likely to fluctuate in a narrow range of between 2% and 4%, with particular potential for a few positive surprises (i.e. average growth rates well in excess of 3%) even in crisis countries like Ireland or Greece - which have seen their premium income plummet in the past.

In the P&C segment, we expect to see a long-term average growth rate of 2.7%, with the life insurance growth rate predicted to average 2.9% a year. In absolute terms, growth is expected to come to around EUR 250 billion (life) and just under EUR 110 billion (P&C). Despite this growth, however, Western Europe's share of total global premium income is expected to have slid to just under 20% by then.

As a result, our model estimates also imply a further drop in the insurance penetration rate to only 6.5% in 2027. In other words: in our base scenario, we do not expect the "insurance gap" to be closed again over the next few years. This is because the expected economic upswing is expected to be rather subdued on the whole, with interest rates also unlikely to bounce back to the sort of levels that were commonplace in the past: this

[1] The average values for the period from 2003 to 2007 have been used to calculate the insurance gap; see Box: Why the term "insurance gap"?, p. 6.

makes a renaissance in conventional savings products in the life insurance business virtually impossible. Then, there are the structural challenges already referred to above: the gradual transition to retirement among the baby boomer generation and the changing face of the P&C insurance landscape, particularly in the auto insurance segment. An exceptionally optimistic scenario, on the other hand, which assumes that the insurance industry will manage to use new technology to close the insurance gap over the next decade, would result in additional premium income of EUR 240 billion in 2027 compared with our base scenario.

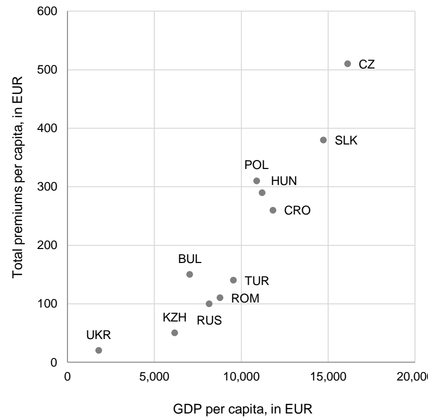
Whereas it is largely up to the insurers themselves to use new technology to their advantage, there is another factor that they cannot control: we expect the value of the euro to increase over the next ten years. This will shave 0.2 percentage points off the estimated Western European insurance market growth rate for those eurozone insurers whose accounts are in euros. This primarily reflects the relative loss of significance of the biggest insurance market, the UK, which is suffering from the weak pound.

Eastern Europe: Considerable catch-up work to do

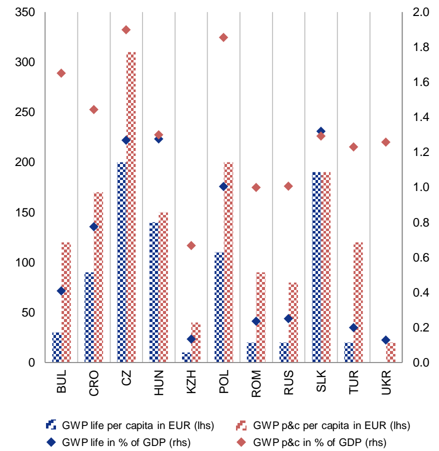
All in all, the Eastern European insurance markets reported relatively robust growth averaging 5.8% a year between 2008 and 2016. Despite this, only 1.5% of global premium income, or an estimated EUR 54 billion or so, was written in this region last year, an amount that corresponds to only one-third of the German insurance market. Half of this amount, in turn, was attributable to the two biggest markets, Russia and Poland, alone.

Insurance markets in Eastern Euorope: status quo 2016

Premium volume vs GDP per capita



Insurance density and penetration



Sources: AXCO, national supervisory authorities, national insurance associations, national banks and statistical offices, Allianz Research.

Market developments have varied considerably over the last decade, both between the individual countries and between the life insurance and P&C insurance segments. In the period analyzed, for example, total premium income for P&C insurance products grew at a rate that was more than twice as fast as the rate of growth for life insurance products (around 7% a year on average as against 3%). First, demand dropped as a result of the economic and debt crisis. Second, 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. This resulted in a loss of confidence regarding how safe private savings are, something that is reflected not least in gross written premiums for life insurance products: in both countries, total premiums in this area dropped by an average of around 2% a year from 2008 onwards.

On the other hand, the insurance markets in Russia and Turkey showed dynamic development, with gross written premiums actually reporting double-digit average growth during the period analyzed - albeit starting at a very low level: at the end of 2007, per capita spending on insurance products in both countries was still sitting at around EUR 40; today, this figure has risen by a far from insignificant margin to around EUR 100 in Russia and just under EUR 140 in Turkey, with the Turkish figure coming in exactly on a par with the Eastern European average. Although Russia is the region's heavyweight with a market size of almost EUR 15 billion, the market maturity table is topped by the richest countries in Eastern Europe in terms of per capita GDP: the Czech Republic (per capita GDP of EUR 16,120) and Slovakia (per capita GDP of EUR 14,730). At the end of 2016, per capita premiums came to EUR 510 and EUR 380 respectively, although this still puts these two countries well below the Western European average of EUR 2,400.

The catch-up work that the region has to do also becomes evident if we look at general economic output: whereas Eastern Europe accounted for 5% of global GDP in 2016, the region was only responsible for 1.5% of global premium income; the situation in Western Europe is the very opposite: this region's share of total premium income came to just under 28%, which is actually higher than its share of economic output (just under 23%). The insurance penetration rate came to 1.7% in the east of the continent and 6.9% in the west. In the life insurance segment, Slovakia, Hungary and the Czech Republic reported the highest rate at 1.3%. In the majority of Eastern European countries, the insurance penetration rate was actually below the one-percent mark (in some cases, significantly so); if we look at Asia, this only applies to three out of the 15 Asian markets included in our analysis. In the P&C segment, the Czech Republic shares the pole position with Poland, with both countries reporting a penetration rate of 1.9%; with the exception of Kazakhstan, all of the other countries at least managed to break through the 1% threshold.

Given the forecast of nominal economic growth averaging 7.2% a year in the period leading up to 2027, we expect to see the average annual rate of growth in the Eastern European insurance market to pick up speed to 7.3%. We predict that the total premium income for life insurance products will grow at a slightly faster rate (7.7% p.a. on average) than the rate of growth for P&C insurance products (7.1% p.a. on average). Based on these assumptions, this would at least put a stop to the downward spiral in the insurance penetration rate in recent years - with a drop of no less than 0.4 percentage points since the end of 2007. The scenario would not, however, be enough to close the associated "insurance gap" of almost EUR 10 billion.

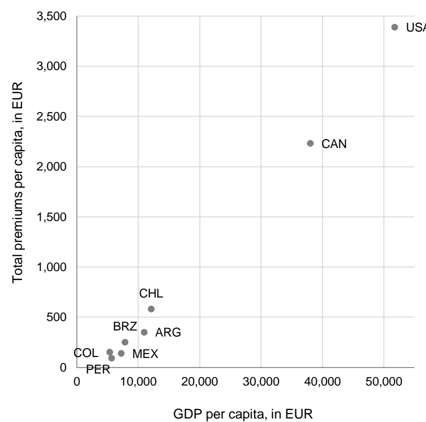
From the perspective of those insurers whose accounting is in euros, this produces a potential growth rate for the market as a whole of only 5.8% p.a. on average, based on our exchange rate forecasts. This is largely due to the fact that the Russian and Turkish markets - the two markets that are expected to show above-average growth over the next ten years - can expect to have less clout given the prospect of a further depreciation in both the ruble and the lira against the euro.

North and South America: The hare and the tortoise

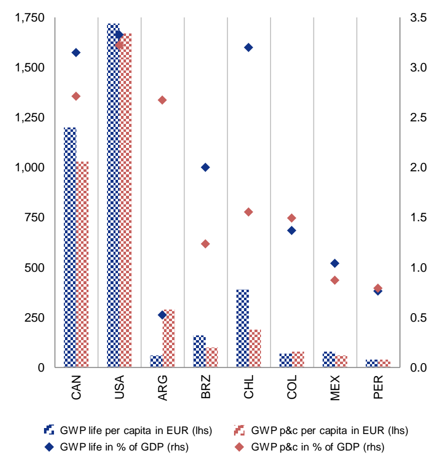
In 2016, almost one-third of total global premium income was written by insurers in North America. At almost EUR 1.1 trillion, around 93% of this amount was attributable to the US alone, which remains the biggest insurance market in the world. Japan and China follow in second and third place, albeit with a considerable gap separating them from the US, and are virtually neck-and-neck with a total volume of just under EUR 368 billion and around EUR 366 billion respectively. In the period between 2008 and 2018, gross written premiums in North America showed an average annual growth rate of 1.9%. With a growth rate averaging 2.6% a year, the P&C insurance segment grew more than twice as fast as the life insurance segment (1.2%), which sustained heavy losses in the US in the crisis-ridden year of 2009 in particular. The US life insurance market has, however, bounced back much more quickly from the losses resulting from the crisis than its Western European counterpart has: whereas in Western Europe, gross written premiums were still down by around 4% on the pre-crisis high even last year, insurers in the US had outstripped the premium income achieved in the record year of 2008 by as early as 2012.

Insurance markets in the Americas: status quo 2016

Premium volume vs GDP per capita



Insurance density and penetration



Sources: AXCO, national supervisory authorities, national insurance associations, national banks and statistical offices, Allianz Research.

There is, however, one thing that the US and the Old Continent have in common: even in North America, insurance market growth has not been able to keep up with the development in general economic output. The insurance penetration rate has also slid in the US, down by half a percentage point as against 2008 to 6.5%. If, on the other hand, the ratio of insurance premiums to GDP had remained stable, total premium income would be almost EUR 137 billion higher than it is today. Just like in Western Europe, the "insurance gap" is due primarily to "missing" premiums from the life insurance sector. Nevertheless, there is no region that spends more per capita on insurance than North America: at the end of 2016, average premiums came to an estimated EUR 3,270, with the US (EUR 3,390) streets ahead of Canada (EUR 2,230).

Up until 2027, we expect to see the North American insurance market grow by an average of 3.7% a year, with nominal economic growth predicted to average 4.2% p.a. We expect growth to pick up in both segments compared with the last ten years, namely to 3.7% p.a. in the life insurance segment and 3.8% p.a. in the P&C segment. As we expect the euro to gain value compared with the US dollar, these growth rates will be reduced by a good one

percentage point in euro terms. Our expectations regarding premium and economic growth imply a further drop in the insurance penetration rate to 6.2% by 2027. By then, the US insurance market is likely to remain the biggest in the world, although the gap separating it from the Chinese market is expected to have narrowed to less than 10%. But the scenario that applies to Western Europe also holds true for North America: there is huge upside potential in an exceptionally optimistic scenario, which assumes that the insurance industry manages to use new technology to close the insurance gap over the next decade: gross written premiums would then be up to EUR 300 billion higher than in the base scenario and the market would be one-sixth bigger.

In the south of the American continent or, to be more precise, in Argentina, Brazil, Chile, Colombia, Mexico and Peru, total premium income came to EUR 107 billion last year. In the period between 2008 and 2016, the Latin American insurance market has more than trebled in size, with average growth to the tune of 14.4% p.a. Income from life insurance products grew at a slightly faster rate (15.4% p.a. on average) than income from P&C insurance products (13.4% p.a. on average). This means that, since the Lehman crisis, the region as a whole has performed just as well as the Asian emerging markets led by China - despite the most recent recession in the region's largest market, Brazil. Part of this success is, however, also due to inflation rates, which remain high.

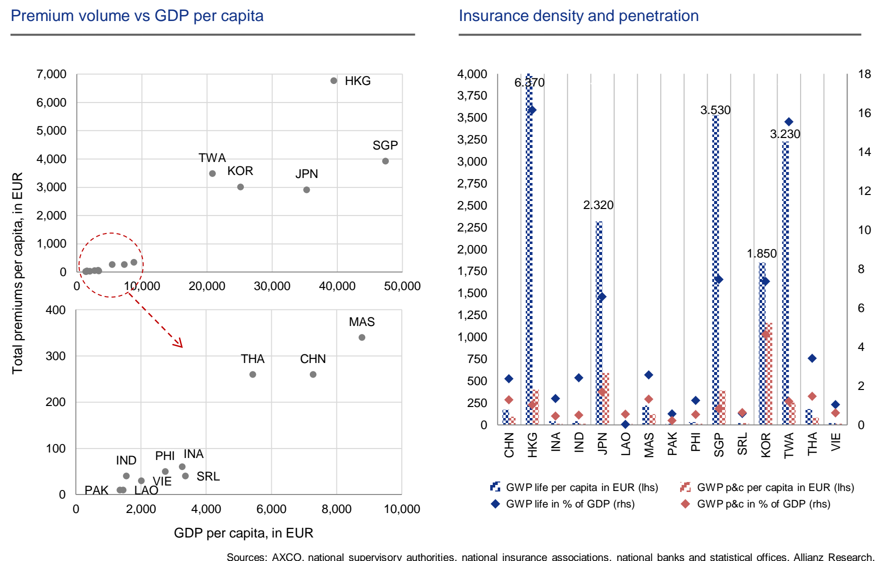
In all of the countries included in our analysis, premium growth was ahead of the growth in economic output, meaning that the region's penetration rate rose by almost one percentage point to 2.9%. In terms of this ratio, Chile was the most mature market by far, with an insurance penetration rate of 4.7%. Argentina, Brazil and Colombia reported rates of around 3%, while the penetration rate in Mexico and Peru came to under 2%. Annual per capita premium income has risen from an average of EUR 70 to EUR 220 during this period. In 2016, per capita spending on insurance products ranged from EUR 90 in Peru to EUR 580 in Chile.

If we look at the market size of the region as a whole in relation to the German insurance market, however, gross written premiums in Latin America still correspond to only 70% of the business underwritten in Germany. So this region, which is home to a population that is around six times the size of Germany's, still offers huge potential. As a result, we expect this insurance market to continue to report double-digit growth rates (averaging 10.8% p.a.) over the coming decade, meaning that it will remain ahead of economic developments (growth of 8.0% on average). As far as the life insurance segment is concerned, we expect growth to be slightly higher (11.2%) than in the P&C segment (10.4%). Based on these assumptions, the insurance penetration rate is likely to continue to have increased to 3.9% by 2027. In euro terms, the average growth rate for the region as a whole is reduced by almost three percentage points, as the high inflation rates in the region are expected to translate into correspondingly weak currency development.

Asia: Three-speed insurance market

The Asian insurance market has been growing at an average rate of 7.5% a year since 2008. Total gross written premiums in the 15 countries included in our analysis [2] amounted to the equivalent of EUR 1,153.4 billion in 2016, with three-quarters of this amount still attributable to the life insurance business[3], although the P&C insurance business showed slightly more dynamic growth than the life insurance business in the period under review, expanding by an average of 8.5% a year as against average growth of 7.2% in the life insurance segment. This means that gross written premiums in Asia now account for 32% of total global premium income. Given, however, that this region is home to 3.7 billion people - almost two-thirds of the total population living in the insurance markets included in our analysis - average per capita spending on insurance cover comes to the equivalent of EUR 312, which is still down considerably on the average value for the rest of the world[4](EUR 1,170).

Insurance markets in Asia: status quo 2016



But the Asian insurance market is anything but a homogeneous mass. It is dominated by the two heavyweights of China and Japan which, taken together, account for around two-thirds of total premium income. In euro terms, Japan remained the biggest insurance market in Asia in 2016, with a razor-thin lead over China. The Middle Kingdom has increased its market share from 12.1% in 2005 to 31.7% last year, whereas Japan's market share has dwindled from 56.7% to 31.9%. After all, while the Chinese insurance market has been growing at an average rate of 16.8% a year in RMB terms since 2008, gross written premiums in Japan have only been increasing by an average of 2.4% a year. As the dynamic development in China is likely to continue, while Japan is expected to see growth rates in the lower single digits in the best-case scenario, China is likely to replace Japan as the biggest insurance market in the region in terms of total premium income in the course of this year.

[2] These countries include: China, Hong Kong, India, Indonesia, Japan, Laos, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, South Korea, Taiwan, Thailand and Vietnam.
[3] Excl. health insurance.
[4] World excl. Asia.

On the whole, the markets can be split into three groups in terms of their momentum since the financial crisis: Japan comes bottom of the league with average growth of 2.4%, as mentioned above. The countries in the middle of the rankings include Malaysia, Singapore, South Korea and Taiwan, as well as Hong Kong and the Philippines. The latter two countries, however, reported much faster growth than their mid-ranking counterparts, reporting an increase in total premium income of 9.6% each as against an average of 6.2%. By far the most dynamic group, with total premium income growth of 15.5% a year throughout the period in question, includes China, India, Indonesia, Laos, Pakistan, Sri Lanka, Thailand and Vietnam. If we leave Japan out of the equation, we arrive at total average growth in the rest of the countries in this region of 11.1% in euro terms during the period under review.

The growth rates are inversely proportionate to the maturity of the individual markets: the more mature a market in terms of the insurance penetration rate and density, the lower the growth rates tend to be. One exception is Hong Kong. People in Hong Kong not only spent the most on insurance cover in 2016, namely the equivalent of around EUR 6,770. The country also had the highest insurance density at 17.0% of GDP. And yet the city state continues to sit in the upper middle of the rankings as far as premium growth is concerned. The insurance penetration rate in Taiwan was only marginally lower at 16.8%, with each inhabitant spending an average of around EUR 3,500 on insurance cover. In Singapore, on the other hand, people spent a good EUR 3,900 on insurance but, due to the higher GDP, the penetration rate "only" came to 8.1%. South Koreans spent an average of EUR 3,010 or 12.0% of their GDP on insurance, while the Japanese spent EUR 2,910 or 8.2% of GDP. With the exception of Malaysia, with EUR 390 per capita, average insurance spending in all of the other countries was below the regional average of EUR 310. Laos came bottom of the league with EUR 8. In China, per capita spending came to a national average of EUR 265 - ahead of Thailand, where the average came to EUR 260 - and the penetration rate came to 3.6%. This puts China more or less on a par with Malaysia, where the penetration rate came to 3.9%. Insurance market development does, however, vary considerably from region to region in China. Whereas inhabitants in the Shenzhen Special Economic Zone, for example, spent an average of EUR 2,190 on insurance cover, per capita spending on Hainan came to the equivalent of EUR 30. This equates to 3.7% of Shenzhen's GDP and 3.1% of Hainan's; all in all, the insurance penetration rate ranges from 6.1% in Beijing to 1.7% in Tibet.

Life insurance is the dominant product in virtually all countries in the region with the exception of Laos, where total premium income from life insurance came to 1% and Sri Lanka, where more than half of insurance income came from P&C insurance products. In the region as a whole, life insurance accounted for 74.0% of total insurance premiums; Hong Kong, Taiwan and Singapore outstripped this average value by a considerable margin, with rates in excess of 90%, with India also exceeding the average with around 83%. In China, Korea and Vietnam, life insurance premiums accounted for around two-thirds of total premium income. This dominance is likely to be due, in particular, to the fact that most of these countries have social security systems for old age that are rudimentary at best, creating a need for predominantly funded pension systems given that these countries are also set to be faced with ageing populations in the future.

In addition, governments in many countries in the region have stepped up their efforts to expand the financial infrastructure and promote better financial literary. This means that the momentum in the region is likely to continue in combination with ongoing economic growth. This development is set to be driven not just by Vietnam, but in particular by the most populous markets: China, India and Indonesia. Based on today's euro exchange rates, we expect to see average growth of 9.1% for the region as a whole, with life insurance expected to show stronger growth than P&C insurance in the long term (9.7%

as against 7.3%). If we take the expected depreciation in the euro into account, growth drops back a bit to 7.0%; based on variable exchange rates, total premium income on the life insurance market will increase by 7.6%, with P&C premiums expected to grow by 5.1%. The fact that the region is split into three categories as far as the pace of growth is concerned is unlikely to change in the foreseeable future given the differences in how developed the individual countries are. Where total premium income in those countries with the most catch-up work to do is likely to continue to grow at rates stretching into the double digits - based on both fixed and variable exchange rates - we expect Japan to continue reporting growth in the low single digits in the future, too. So if we leave Japan out of the equation, the life insurance market in the other countries in the region is expected to grow at a rate of 11.3% based on today's exchange rates and 9.0% based on variable rates; the life insurance market is predicted to grow by 12.2%, or by 9.9% based on variable rates, with the P&C insurance market expected to report growth of 8.7%, or 6.4% based on variable rates.

Appendix*

Appendix Market data by country	Premium income 2016 Total in EURbn	CAGR 2008-2016, in %	per capita, in EUR Life	P&C	as percent of GDP Life	P&C	GDP 2016 per capita in EUR
Argentina	15.3	30.9	60	290	0.5	2.7	10,870
Australia	59.7	1.7	1,420	1,040	3.0	2.2	46,770
Austria	14.9	0.4	710	1,030	1.7	2.5	40,780
Bahrain	0.5	6.9	100	290	0.5	1.4	20,610
Belgium	25.0	-1.9	1,370	830	3.7	2.2	37,110
Brazil	53.4	15.0	160	100	2.0	1.2	7,850
Bulgaria	1.0	3.2	30	120	0.4	1.7	6,670
Canada	80.8	3.8	1,200	1,030	3.1	2.7	38,100
Chile	10.5	11.5	390	190	3.1	1.5	12,400
China	366.1	16.8	170	90	2.4	1.3	7,290
Colombia	7.4	12.2	70	80	1.4	1.5	5,360
Croatia	1.1	-0.6	90	170	0.9	1.6	10,760
Czech Republic	5.4	1.1	200	310	1.2	1.8	16,540
Denmark	25.4	3.7	2,860	1,600	5.9	3.3	48,730
Egypt	1.4	11.5	8	7	0.3	0.3	2,800
Finland	8.2	3.9	820	660	2.1	1.7	38,820
France	197.7	0.6	2,080	980	6.0	2.8	34,410
Germany	152.2	1.6	1,050	830	2.7	2.1	38,830
Greece	3.8	-3.1	170	170	1.1	1.1	16,110
Hong Kong	49.7	9.6	6,370	400	16.0	1.0	39,770
Hungary	2.8	-0.6	140	150	1.2	1.3	11,440
India	59.4	10.5	40	8	2.4	0.5	1,560
Indonesia	15.0	15.4	40	10	1.3	0.4	3,250
Ireland	15.1	-3.1	2,540	650	4.5	1.2	56,440
Italy	134.3	3.7	1,720	520	6.2	1.9	27,970
Japan	367.6	2.4	2,320	590	6.6	1.7	35,340
Kazakhstan	0.9	9.9	8.2	40	0.13	0.6	6,350
Kenya	1.4	13.6	10	20	1.0	1.2	1,330
Laos	0.1	15.8	0	8	0.01	0.4	1,800
Lebanon	1.0	7.5	70	100	1.0	1.3	7,550
Malaysia	10.4	5.9	220	120	2.6	1.3	8,700
Mexico	17.8	9.3	80	60	1.0	0.9	7,190
Netherlands	27.1	-4.1	820	780	2.0	1.9	41,040
New Zealand	4.9	12.8	330	750	0.9	2.1	35,980
Nigeria	1.1	6.3	2	4	0.1	0.2	1,990
Norway	18.6	4.3	1,920	1,600	3.0	2.5	63,520
Pakistan	2.0	14.8	7	3	0.5	0.2	1,340
Peru	2.8	13.1	40	40	0.8	0.8	5,570
Philippines	4.9	9.6	30	10	1.3	0.5	2,700
Poland	12.0	2.3	110	200	1.0	1.8	11,000
Portugal	10.1	-3.0	650	340	3.6	1.9	17,940
Romania	2.1	3.1	20	90	0.2	1.0	8,750
Russia	14.7	11.6	20	80	0.3	1.0	8,140
Saudi Arabia	4.4	14.2	9	130	0.05	0.7	17,940
Singapore	22.3	5.9	3,530	390	7.3	0.8	48,150
Slovakia	2.1	1.0	190	190	1.3	1.3	14,910
South Africa	37.3	8.1	550	130	11.3	2.7	4,830
South Korea	152.1	6.8	1,850	1,160	7.4	4.6	25,130
Spain	56.1	1.2	680	540	2.8	2.2	24,180
Sri Lanka	0.8	11.1	20	20	0.5	0.6	3,480
Sweden	30.4	3.3	2,480	610	5.3	1.3	46,950
Switzerland	43.6	0.9	3,360	1,850	4.7	2.6	71,320
Taiwan	82.0	5.5	3,230	250	15.6	1.2	20,760
Thailand	18.0	11.1	180	80	3.4	1.5	5,360
Turkey	10.8	15.8	20	120	0.2	1.2	9,570
Ukraine	1.1	6.3	2	20	0.1	1.2	1,840
United Arab Emirates	6.2	8.2	260	410	0.7	1.1	37,240
United Kingdom	231.6	-2.9	2,760	800	7.6	2.2	36,380
USA	1,098.7	1.8	1,720	1,670	3.3	3.2	51,760
Vietnam	3.1	18.2	20	10	1.0	0.6	2,010
World	3,606.3	3.1	390	230	3.5	2.1	11,050

*Version dated 31 March 2017

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

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