Insurance markets: A not-quite-perfect Turnaround

• Insurance markets shift up a gear: Global growth will climb to almost 6 percent over the next ten years
• Recovery is most pronounced in mature markets, Western Europe is set to grow by 3 percent – after nine years of stagnation
• Fly in the ointment for European insurers: The stronger euro might reduce global growth by more than percentage point
• The fallout from the financial and euro crisis: A current global insurance protection gap of about EUR 350bn
• The new technologies offer huge upside potential: The premium plus could be as high as EUR 750bn in 2027

In their latest study, Allianz SE analyzes the growth prospects of global life and p&c insurance markets. After the meager years of the financial and economic crisis, insurers can look ahead with more confidence: While insurance premiums grew worldwide by only 3.1 percent between 2008 and 2016, growth should accelerate to 5.9 percent over the next decade. This recovery mirrors the return of the global economy to normal growth and inflation rates. The turnaround is most pronounced in mature markets, namely Western Europe: After Lehman, insurance markets in the region stagnated but in the next ten years, they are set to grow by just shy of 3 percent a year; in Germany, the development should be – with growth of 2.8 percent per year – more or less the same.

"The long lean spell of the crisis years is finally behind us", said Michael Heise, chief economist of Allianz SE. “In particular in Western Europe, many markets look back at a lost decade, in terms of premium income they are today smaller than before the crisis. However, we are not set for fireworks in the future either. In mature markets, insurance premium growth may trail behind economic activity for the time being. And there is a (sizeable) fly in the ointment for European insurers who do their accounts in euro: With a stronger euro, insurance premiums in other currencies lose value – this effect could shave a full percentage point off global growth per year."

In the next ten years, not only overall growth will be stronger but also the balance between the segments life and p&c will shift again. Whereas the p&c segment was quite robust during the lean years, growing globally by 3.8 percent per year on average since 2008, the life
segment clocked in a rate of only 2.8 percent. Again, the divergence was particularly
pronounced in Western Europe: In fact, life premium income shrank (by 0.5 percent per year
on average) over the period but p&c premiums grew by 1.2 percent. In Germany, life
premiums continued to grow (by 1.5 percent per year) but p&c premium growth was
considerably faster (1.8 percent per year). The reasons are fairly obvious: Besides
stagnating incomes and high unemployment, first and foremost extremely low interest rates
are to blame for subdued demand as classical savings products lost their appeal.

In future, however, demand for life products should revive. Because the need for private
savings for retirement is as pressing as ever. Insurers, too, have reacted to the low yield
environment and have brought new concepts and solutions to the market. And finally, the
outlook for interest rates is also a little bit rosier (albeit still not rosy). All told, life insurance
premiums should grow worldwide by 6.5 percent per year until 2027, against average growth
of 4.9 percent in the p&c segment. Although the recovery will also span the mature markets –
in Western Europe and Germany, for example, life markets should expand by almost 3
percent per year – the driving force behind this development, however, will be emerging
markets, including China, where life markets are set to record double-digit growth over the
entire decade; this rapid expansion reflects the huge pent-up demand as well as political
support for private provisions.

Future growth will also reverse another trend of the crisis years, the declining weight of
insurance in today’s economies. Over the next ten years, insurance penetration, i.e. total
premiums as percentage of GDP, should rise again, from 5.6 percent in 2016 to 5.8 percent
in 2027. However, this increase is almost entirely due to emerging markets; mature markets
are likely to see the trend continue – if at a substantially slower pace; in Germany insurance
penetration will remain more or less stable. This sober outlook for the future has less to do
with economic reasons but more with structural changes: For one, there is the demographic
development, with the generation of baby-boomers starting to retire; and it may become
increasingly difficult to increase premiums in the bread-and-butter business of the p&c
segment, motor insurance, as new developments might have a dampening effect: Besides a
more competitive environment, triggered by digital offers, new technologies (cue autonomous
driving) could reduce accidents and claims; behavior-dependent pricing (cue telematics)
could reduce average prices and behavioral changes (cue car sharing and Uber) could limit
the number of car owners.

As a result, this modest increase in insurance penetration is not enough to compensate for
the fall during the crisis: In the pre-crisis years, global insurance penetration averaged 6.4
percent. Converted into euro, this means: If people had spent the same share of income on
insurance in 2016 as they did before the crisis, premium income would have been almost
EUR 350bn higher than it actually is. For this “insurance protection gap”, two regions are
mainly responsible: Western Europe and North America which account for 90 percent of the
gap; moreover, in both regions more than two thirds of the gap is due to a premium shortfall
in the life segment. “These numbers underline again the collateral damage of the zero
interest rate policy of big central banks”, commented Michael Heise. “Because it’s simply not
ture that people could live today with less old age provision and risk protection – looking at
record-high government debt and the ongoing aging of societies the opposite might be
appropriate. And old age provisions are also not cheaper today than in the past – on the
contrary, extremely low interest rates have made them more expensive. So, there is only one
conclusion: Low yields did lasting damage to the idea of private old age provisions. The
reverberations will be felt by the next generation of retirees.”
So the return to solid growth in insurance markets by all means has a number of flaws; in mature markets at least, a return to the *status quo ante* is not the most likely outcome. However, there is no reason for doom and gloom. The new technologies offer huge chances. Digitalization, big data and artificial intelligence are not merely instruments to reduce costs, make processes more efficient and increase competition; first and foremost, they can make insurance for more people more accessible, bringing insurance to life by new offers and better services and making insurance products more attractive. In one word: new technologies generate more demand for insurance. “The insurance industry will change fundamentally over the next decade”, said Arne Holzhausen, economist at Allianz SE and co-author of the study. “The challenges are immense – as are the possible gains: If the industry can inspire its customers and people were to spend the same share of income on insurance as before the crisis, premium income would be EUR 750bn higher in 2027 than in our base case.”
Global insurance premiums in life and p&c…

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*based on 2016 FX rates.

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You can find the paper on our homepage: https://www.allianz.com/economic-research/en/ in the Publications section.

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