

Press

Despite the ups and downs on the financial markets – life insurance remains secure and profitable

- Life insurance plays a key role in helping to stabilize the financial markets
- Conservative investment policy spared customers hefty losses during the crisis
- Life insurance is the most important tool for offering protection against life's risks, such as poverty in old age

The current financial crisis and the associated low capital market interest rates are proving a real test of strength for life and pension insurance. But low interest rates are not the only challenge facing the product, which is celebrating its 250th birthday this year. New supervisory law regulations such as Solvency II and the introduction of unisex rates are also making life difficult for the product at the moment. Nevertheless, when it comes to setting funds aside for old age, protecting oneself against occupational incapacity and invalidity, as well as other risks that are directly associated with life in general, there is virtually no better alternative. In fact, demographic trends mean that the product is becoming more and more important to individuals: "As societies become older and older due to rising life expectancy levels on the one hand and lower birth rates on the other, the demand for funded company and private provision will continue to rise in the future", says Prof. Michael Heise, Allianz Chief Economist and Head of Corporate Development in the new issue of the Allianz Demographic Pulse, which takes a critical look at the issue of life insurance. "Life insurance companies are key players on the global capital market and, with their long-term investment policies, help to stabilize the capital markets. What is more, these companies' conservative investment policies spared many customers hefty losses during the crisis. Despite all of the criticism leveled against it, life insurance is important, secure and profitable for individuals", summarizes Heise.

A world without life insurance?

The question as to whether a return of almost 4 percent is too low or appropriate given the current environment can be hotly disputed. What is far more decisive, however, is the fact that life insurance policies are not just pure investment products, but also serve to cover what are known as biometric risks. The best way of demonstrating this is to imagine, for a moment, that this sort of product never existed. If we no longer had life insurance, there would be no financial protection for relatives if the policyholder died. Sufficient protection for a family, or partner, in the event that something happens to the main wage earner while

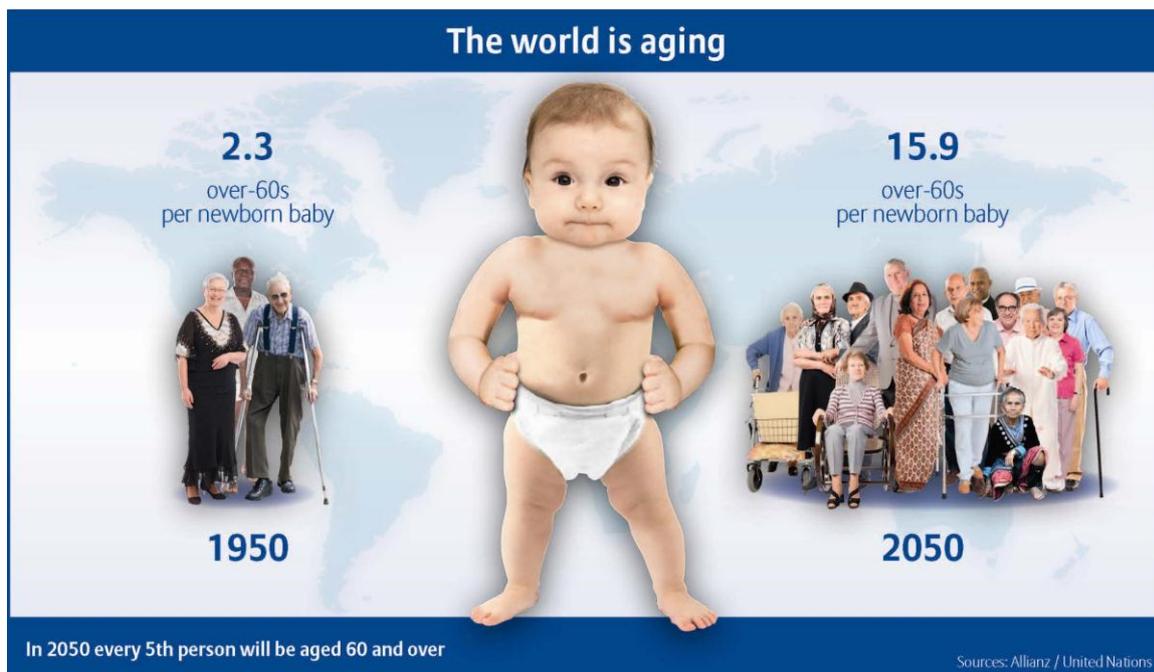
he/she is still young, for example, would be much more difficult to obtain. Life insurance policies are often also key to allowing individuals to turn their dream of owning their own home into reality. At the end of 2011, there were no fewer than 1.9 million policies designed to cover the risks associated with home loan savings contracts in Germany and around 2.9 million residual debt insurance policies, which are often a prerequisite for buying a property in the first place.

Life insurance helps to stabilize the capital markets

The important role played by life insurers on the capital market becomes obvious if we look at the volume of investments accumulated: at the end of 2011, life insurers in Germany managed funds to the tune of 743 billion euros. In the EU as a whole, the total amount came in at around 5,400 billion euros. This means that these providers are major institutional players on the capital market that help to stabilize the financial markets with their long-term investment policies, which are ultimately reflected in the maturities of their liabilities.

Important form of protection against poverty in old age

Another important social aspect is the fact that life and pension insurance offer protection against poverty in old age. Given that sovereign debt levels are already high and in light of the sheer number of "baby boomers" who are set to reach retirement age over the next few years, further state pension cuts are on the cards in most countries - either directly, in the form of moves to cut pension levels, or indirectly, in the guise of measures to lift the retirement age. What is more, without cover for their own longevity risk, many people will be forced to accept a lower standard of living in old age, despite having personal savings set aside for this purpose. This happens when private investment capital has been used up, leaving individuals with only their state pension to live on. The following figures clearly show that the world is growing older as a whole. Whereas in 1950, there were 2.3 people over 60 to every newborn baby, by 2050, we are set to see just under 16 over 60s to every newborn baby. This means that one in five of the earth's citizens will be aged over 60.



In 2011, each German citizen spent an average of EUR 1,042 on life insurance

Life and pension insurance is important for many areas of our society. This is also reflected in the considerable amounts that customers entrust to insurance companies across the globe. Last year, the life insurance premiums paid worldwide totaled the equivalent of more than 1.7 trillion euros; which roughly corresponds to the gross national product of the UK. In 2011, each German citizen spent an average of 1,042 euros on life insurance, with each US citizen spending the equivalent of 1,270 euros and each Japanese citizen spending as much as 2,183 euros.

Despite all of the criticism – life and pension insurance is profitable

There is no doubt that the current period of low interest rates is putting pressure on policyholder returns. This is compounded by the fact that the investment regulations for life insurance companies are appropriately stringent. By way of example, at the end of 2011, German companies held less than 4 percent of their total investments in equities. But in 2008, it was precisely this conservative investment policy that spared German life insurance customers the sort of hefty losses incurred, for example, by customers of British life insurers, which invest far more in equities. As far as the returns are concerned, it is important to bear in mind that all other investment products - which, unlike life insurance, do not offer protection against life's risks - are also affected and offering lower returns. "In uncertain times, people need a reliable product. This is why I believe that, despite all of the criticism, life and pension insurance will remain key components of private provision in the long term", concludes Heise.

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In 2011, around 142,000 employees in some 70 countries achieved total revenue of 103.6 billion euros and an operating profit of 7.9 billion euros. Benefits for our customers reached 86.5 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 ageing society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

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