



Munich Re Economic Research  
May 2013

## Insurance Market Outlook Summary

### Global economic recovery provides stimulus to the insurance industry – long-term perspective positive as well

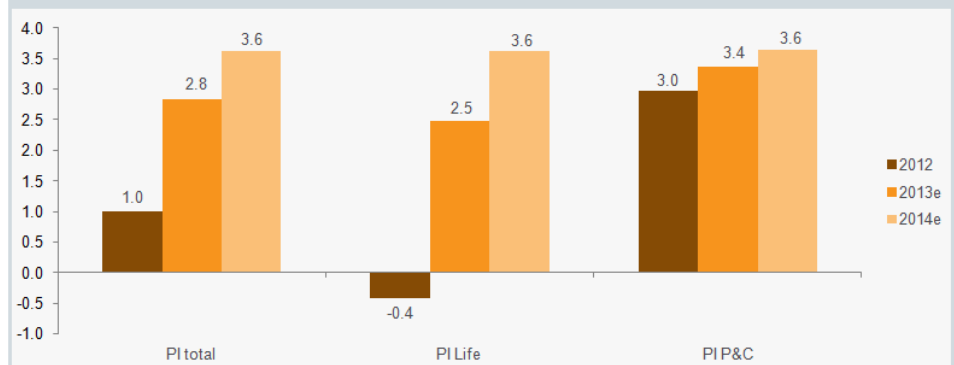
#### 1 Short-term outlook for 2013/2014

**Increasing momentum expected in primary insurance – reinsurance to grow significantly less, following a strong increase in 2012**

Primary insurance recovering already in 2013 despite a still hesitant revival in global economic growth

The expected growth pick-up in major industrialised nations – an increase in growth rates is forecast for the second half of 2013 and 2014 – will quite likely also gradually provide noticeable stimulus to insurance demand. This holds especially true for life insurance business, which on a global scale has contracted in real, i.e. inflation-adjusted terms over the last two years. Growth in P&C business had already been stronger in 2012 due to positive market cycle effects. Overall, we expect worldwide growth in primary insurance premiums of 2.8% in real terms in 2013 and 3.6% in real terms in 2014.

Real growth in global primary insurance premiums from 2012 to 2014, in %



Source: Munich Re Economic Research

Emerging markets continue to show great catch-up potential in primary insurance, particularly Life

**Regional differences remain – emerging markets are growing strongly, North America is on the path to recovery, but progress in Europe is very slow**

The highest levels of growth in primary insurance business continue to come from emerging markets. There is still plenty of catch-up potential, although in some countries growth rates have now reached their peak or are falling slightly. In P&C business, we expect to see real premium growth in Eastern Europe and in Latin America of about 6% in 2013/14. In many parts of Asia, such as China and India, real growth rates could be as high as 10% or more.

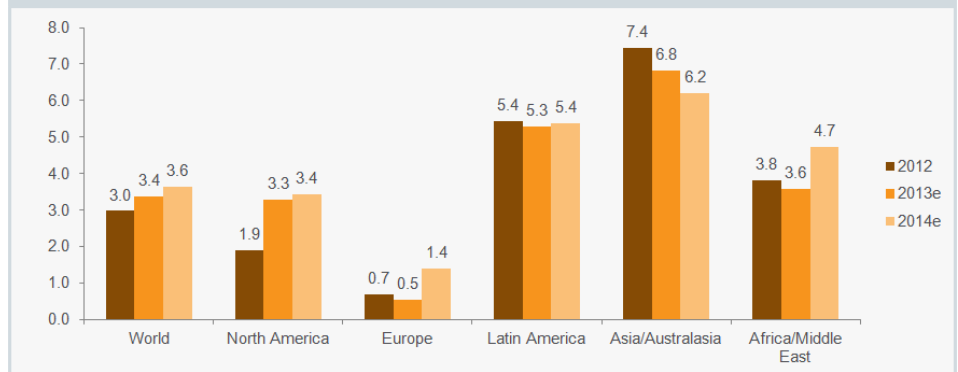
In life insurance, we expect 2013/14 to bring even higher levels of real premium growth in emerging markets – in many Asian and Latin American countries considerably more than 10%, and over 15% in some cases. In Latin America, the growth of 18% seen in 2012 is now forecast to return to the more normal level of 11% in 2013. Above-average increases in insurance premiums are also forecast for Africa and the Middle East, although these markets continue to represent only a very low proportion of global premium income (around 2.5%).

The situation in Europe is very different – here we expect only very moderate growth in life insurance in the short term as a result of the sovereign debt crisis. It is very likely that

premiums, adjusted for inflation, will continue to fall in several markets, such as in the peripheral euro zone countries, in 2013. We then expect most European countries to see a slow return to growth again in 2014, in line with economic recovery.

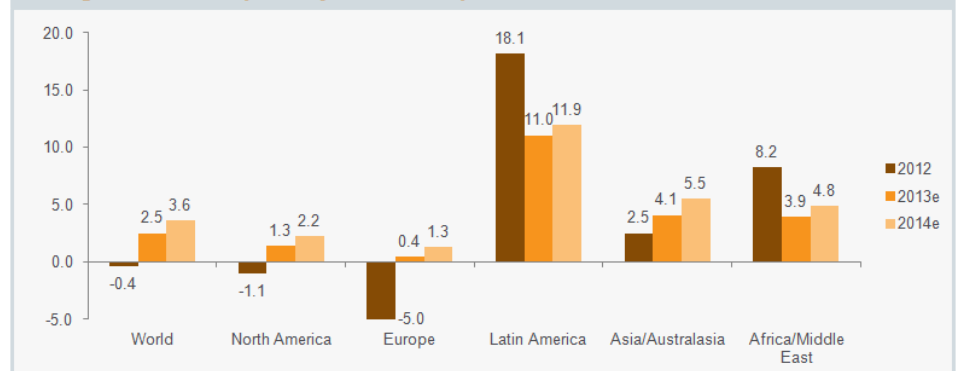
In North America the expected improvement in the economy should help P&C business, as will the rate increases which have been observed. However, in life insurance we only expect to see modest growth because of the high level of saturation and changes in the regulatory environment.

**Real growth in P&C primary insurance premiums from 2012 to 2014, in %**



Source: Munich Re Economic Research

**Real growth in Life primary insurance premiums from 2012 to 2014, in %**



Source: Munich Re Economic Research

Growth in reinsurance expected to be weaker than in primary insurance

There is a strong correlation between the forecast growth in reinsurance and expectations for the primary insurance markets – namely higher growth in emerging markets and market saturation in industrialised countries. Rate increases in P&C business due to cyclical factors are an exception to this, which in 2012 were especially observed in the countries severely hit by natural disasters in 2011 (Australia and Japan), and have had an appreciable influence on global premium growth over the last year.

In life reinsurance, growth in North America and Europe is expected to be limited, primarily because of the modest prospects for growth in primary insurance. The fact that worldwide growth of Life reinsurance premiums in 2013 (about 1½% in real terms) and 2014 (about 2½% in real terms) is nonetheless forecast to be slightly higher than in P&C business (real growth: 1% in 2013, slightly above 2% in 2014) is entirely due to high expected premium growth in emerging markets.

Thus reinsurance business overall, which in 2012 grew at an appreciable rate of 3.3% in real terms, is forecast to grow significantly less than primary insurance, particularly in the current year, but also in 2014. We expect total reinsurance premiums to increase by slightly more than 1% in real terms in 2013, followed by real growth of about 2¼% in 2014.

## 2 Long-term forecast up to 2020








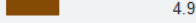
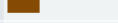
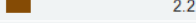
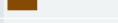
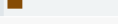
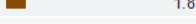
### Worldwide growth in primary insurance remaining higher than GDP growth, with reinsurance growing more slowly

The long-term prospects for the insurance markets – between now and 2020 – are of course subject to much more uncertainty than the short-term forecasts. Important drivers of expected insurance market development – in both life and non-life business – are economic factors such as economic growth, an increase in incomes, and inflation. These factors are expected to provide a stimulus to the insurance industry, primarily in emerging markets.

Mature markets' share of global premium volumes falls further, but still remains above 70% up to 2020

Growth in the life insurance and P&C segments will continue to be significantly more dynamic in emerging markets than in industrialised countries up to 2020. Emerging countries in Asia could even see annual real growth rates of over 10%, both in P&C and Life.

### Global ranking of regions according to real growth in primary insurance premiums until 2020, in %

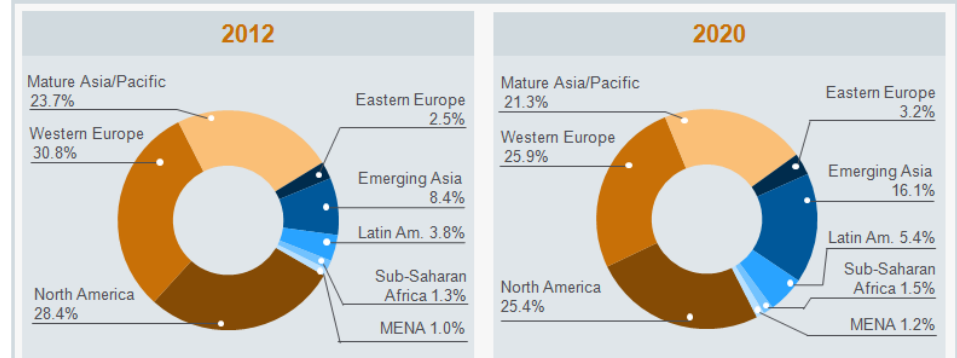
P&C real CAGR* from 2013 to 2020				Life real CAGR* from 2013 to 2020			
1	Emerging Asia		10.2	1	Emerging Asia		13.9
2	Eastern Europe		6.3	2	Latin America		11.9
3	Sub-Saharan Africa		5.8	3	Eastern Europe		8.6
4	Latin America		5.7	4	MENA		7.5
5	MENA		4.7	5	Sub-Saharan Africa		4.9
6	Mature Asia/Pacific		2.8	6	Mature Asia/Pacific		2.2
7	North America		2.6	7	North America		2.0
8	Western Europe		1.3	8	Western Europe		1.8

\* Real CAGR = real (inflation-adjusted) compound average annual growth rate  
Source: Munich Re Economic Research

Despite the high rates of growth in emerging markets, the share of premiums held by mature markets in North America, Western Europe and industrialised countries in the Asia-Pacific region will still be a decisive factor in the coming years. The proportion of total primary insurance premiums coming from these markets will fall from 83% in 2012 to roughly 73% in 2020. 'Emerging Asia' countries, on the other hand, will double their market share from 8% to 16%.

In primary life insurance, the share held by mature markets will fall more rapidly (from 85% in 2012 to 72% in 2020) than in P&C primary insurance (from 80% to 73%). Similar changes are expected in reinsurance, although the proportion of reinsurance business attributable to industrialised countries is already lower than in primary insurance, because of the tendency for emerging markets to have a stronger need for reinsurance cover.

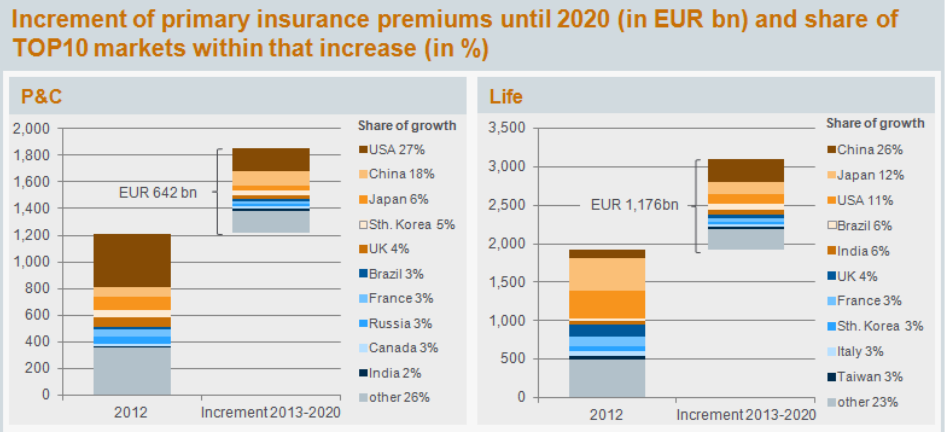
### Regional distribution of total primary insurance premiums, in %



Source: Munich Re Economic Research

Premium growth in absolute terms in the coming years will be determined by the current size of the market, as well as by the level of growth rates. This means that the USA, given high premium volumes, will see the highest absolute premium growth despite low growth rates in P&C primary insurance, followed by China with currently a significantly lower volume but high growth rates. Both for P&C and life primary insurance, around half of all new premiums earned between 2013 and 2020 will come from the USA, China and Japan.

Half of the additional premiums generated until 2020 will come from the USA, China and Japan

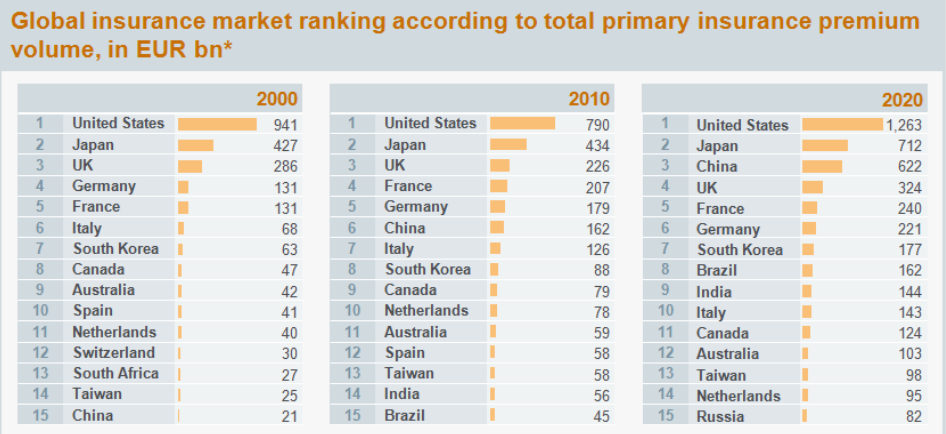


Source: Munich Re Economic Research

### Global rankings in 2020 – USA and Japan remain the largest insurance markets

Accordingly, the global rankings of the largest primary insurance markets will change over time. While China was only in 15th place in 2000 in terms of total premium income, for example, in 2010 it had already reached 6th place – and in 2020 is likely to be at number three. Brazil and India will also be in the top ten in 2020. However, we do not expect the dominant position of the US market, followed by Japan, to have changed by the end of the decade.

USA still the largest insurance market in 2020



\* Historical figures influenced by exchange rate effects  
Source: Munich Re Economic Research