



Munich Re Economic Research
May 2014

Insurance Market Outlook

Premium growth is again slowly gathering momentum

After a rather restrained 2013 (according to partly preliminary data), we expect growth in global primary insurance premiums to be somewhat stronger again, at 2.8% this year and 3.2% in 2015 (in real terms in each case, i.e. inflation-adjusted; this is equivalent to nominal growth of 3.9% in 2014 and 4.6% in 2015). The slowdown in the economies of emerging countries means that these will make a smaller contribution to the growth in global primary insurance premiums. In the long term, however, up until 2020 the highest growth rates should continue to come from the emerging countries. In reinsurance, we are expecting moderate growth averaging 2% (in real terms) up until 2020.

1 General economic situation

Industrialised countries' economic recovery continuing...

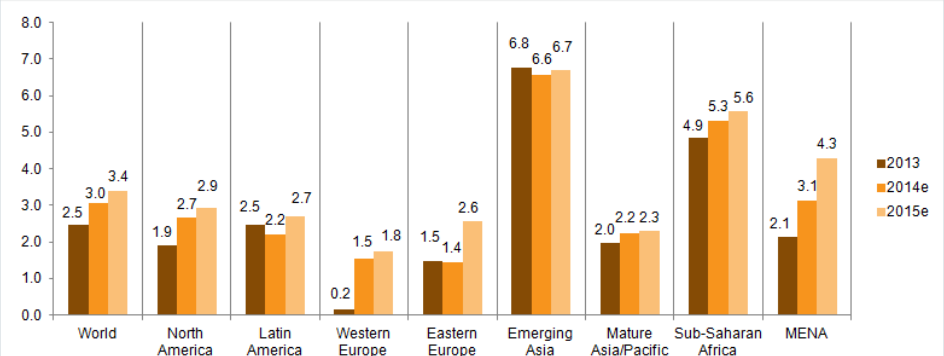
The economic recovery of many industrialised countries will probably continue in 2014 and 2015. Robust growth is forecast for the USA. In the eurozone, after years of crisis, almost all the member states are expected to see a return to (if still quite subdued) growth again from 2014, while the economic outlook for the UK is surprisingly good. The industrialised countries in the Asia-Pacific area should also continue to see solid growth this year and next. As part of the economic recovery, in the medium to long term we also expect interest rates in the industrialised countries to normalise at a low level, starting in the USA.

...but many emerging countries seeing a slowdown in growth

In contrast, many emerging countries are currently showing weak growth. This is partly due to the turmoil on the financial markets which began in early summer 2013 on the back of expectations of rising interest rates in the USA. This resulted in significant outflows of capital from many countries and substantial currency devaluations. Among the large emerging countries affected (often referred to as the "fragile five") were Indonesia, Turkey and the BRICS countries Brazil, India and South Africa. China's prospects for growth are also somewhat subdued: forecasts for the coming years show a slight slowdown, albeit to a still very high level of around 7%. The forecasts for economic growth in Russia have been revised downwards on account of the Ukraine crisis.

Overall, global economic growth will therefore in all likelihood again stand at 3% in 2014 and over 3% in 2015.

Real economic growth by region, in %

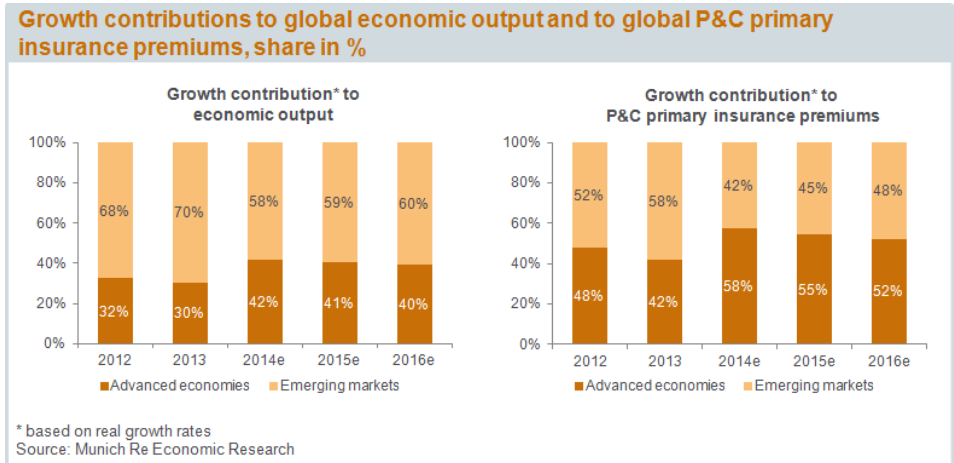


Source: Munich Re Economic Research

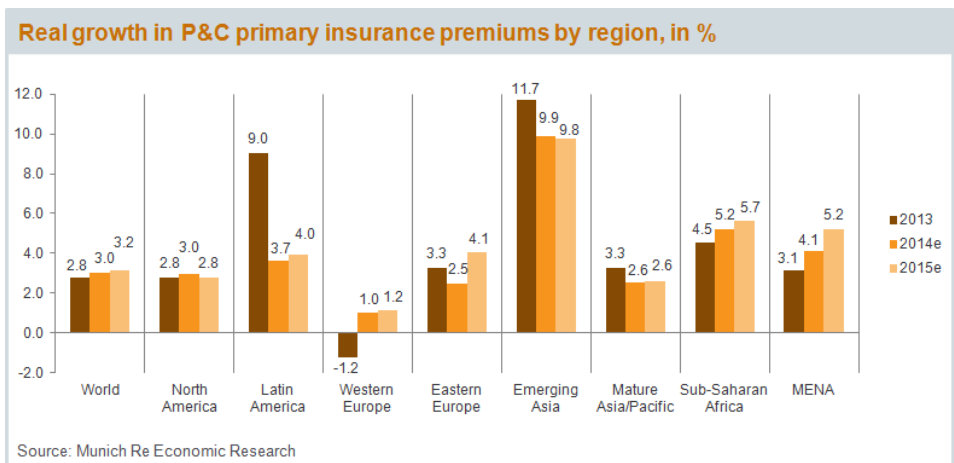
2 P&C primary insurance

The economic recovery in the industrialised countries should lead to moderate premium growth in property and casualty insurance. On top of this, there is also positive impetus from rate increases in a number of high-volume markets. In many emerging countries, the weak economy is expected to have a dampening effect on premium growth in 2014 and 2015. The change in growth momentum can be seen from their contributions to growth: from 2014, we see a significantly higher level in both the relative contribution of industrialised countries to growth in global economic output and their contribution to the growth in P&C premiums.

Industrialised countries' contributions to growth in global economy and global P&C premiums up in 2014



Even though the contributions to growth are currently shifting, on average the momentum of premium growth in emerging countries is clearly higher than it is in the industrialised ones.



North America: In the USA, sustained rate increases led to sound premium growth in 2013. A positive cyclical effect should still be seen in 2014, but will then ease off. Nevertheless, because of the good economic outlook, premium growth should still be relatively strong in 2015 as well. In Canada, growth in P&C premiums in 2014 and 2015 is expected to be slightly below the level of economic growth.

Latin America: In Latin America, despite economic problems in a number of countries, respectable premium growth in P&C of around 9% in real terms (estimate) was achieved once again in 2013. In the biggest market, Brazil, property business in particular (especially homeowners' insurance) contributed to real growth of almost 10%. Given the muted economic outlook, however, there should be noticeably less momentum in 2014 and 2015. In Argentina too, growth rates are expected to be significantly lower – the real growth of over 23% in 2013 was mainly attributable to the official inflation rate, which was artificially reported too low. As both markets combined account for a share of roughly 50% of the Latin American premium volume, this has significant consequences for the forecast of regional premium growth, which is now only around 4% for 2014 and 2015.

For Mexico, on the other hand, relatively stable premium growth of slightly over 5% in real terms is forecast for these years.

Western Europe: In 2013, P&C insurance was still noticeably impacted by the consequences of the euro crisis (e.g. significantly reduced premiums again in Italy and Spain) and by a big cyclical decline in premiums in the biggest market, the UK (numbers still preliminary), while growth in Germany and France was robust, as it had been the year before. The expected economic recovery in many eurozone countries should have a positive impact on premium growth in 2014 and 2015. In some countries though – Spain, for example – it is likely to be some time before premiums rise again. In Germany, the outlook is also being supported by positive cyclical effects which should, however, slowly ease off from 2015 onwards.

Eastern Europe: Due to the economic situation, in 2013 only moderate premium growth was seen, largely because the Eastern European EU countries (more than 40% premium share of the region as a whole) were still affected by the euro crisis on account of their close trading relationships. The high premium growth in Turkey (15% premium share) of almost 14% in real terms as a result of significant rate increases in the motor sector, and also due to a change in legislation with regard to natural hazard covers, were only able to partly offset these developments. In 2014 we expect the level of premium growth there to normalise at just under 5% (in real terms). This effect, combined with sustained low growth in Russia, is expected to reduce the level of premium growth in the region in 2014. We should see a return to higher growth rates in 2015, favoured by the greater economic dynamism that is to be expected in most countries.

Emerging Asia: China holds a dominant position within the region, with a premium share of 77%. In 2013, high real premium growth of just under 14% was achieved there once again. From 2014, however, premium growth – while still at a high level – will probably fall appreciably, due to the structurally smaller growth in GDP and increasing saturation in major classes of P&C business. In India, on the other hand, the weak economy influenced market developments in 2013, with the overall growth in P&C premium reaching only 3% in real terms according to preliminary data. We expect a recovery there in 2014, while in 2015 the high growth level of earlier years is expected to be reached again, especially if the necessary rate increases in motor liability business materialise.

Mature Asia-Pacific: In 2013, premium growth was positively influenced by rate increases in Australia and Japan. The situation in South Korea, however, had a slightly dampening effect. There, a change in the taxation of savings products which came into force in 2013 resulted in a one-time slump in growth in long-term savings products falling under P&C insurance according to still preliminary numbers. With the end of positive market cycle effects, and despite very robust economic activity overall in the region, we expect to see slightly less premium growth in 2014 and 2015.

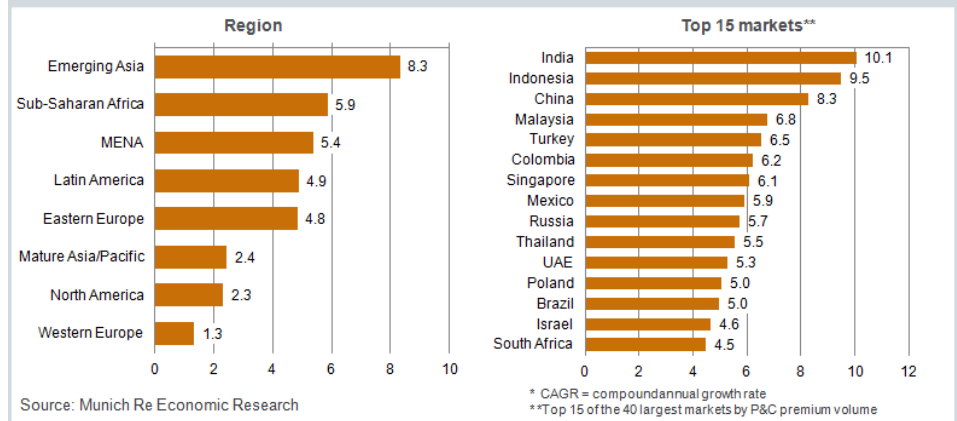
Sub-Saharan Africa: South Africa dominates developments, with a premium share of just under 60%. Due in part to the difficult general economic conditions, premium growth there in 2013 – which stood at 3% in real terms (preliminary estimate) – remained below the long-term average. Property and casualty insurance in South Africa should also benefit from a gradual economic recovery. From 2014, premiums in the region ought to grow again by over 5% in real terms.

MENA: The Middle East – particularly the United Arab Emirates – was badly affected by the financial crisis. An appreciable economic recovery has been noticeable for the last three years. Construction activities and infrastructure projects are expected to provide impetus, with the result that premium growth of over 5% can be predicted for the entire region in 2015.

Long-term outlook

Even though the forecasts for the economic growth of many emerging countries are currently less optimistic than they were just a year ago, these markets nevertheless continue to be the growth drivers for P&C insurance in the medium to long term. Despite the first observable saturation effects, the increased need of a growing middle class to protect its assets, increasingly more complex industrial risks and an often high catch-up potential for natural hazards insurance offer opportunities for future growth.

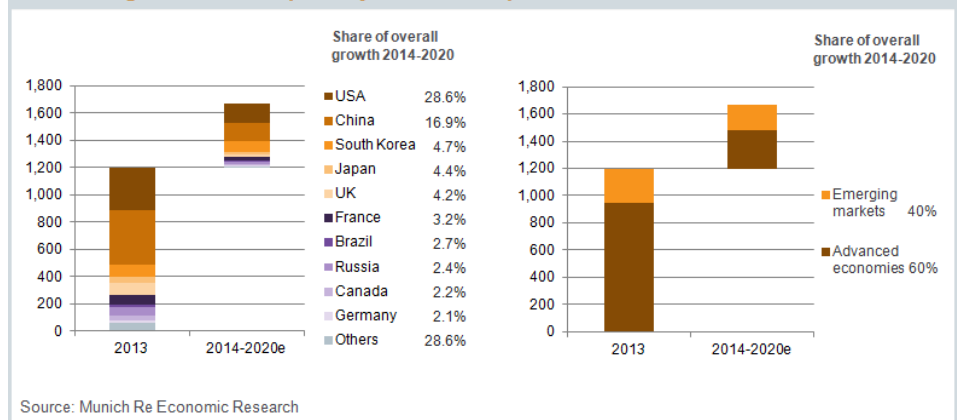
Growth in P&C premium: real CAGR* 2014-2020, in %



Despite some current economic weakness, emerging countries continue to be engine of growth for P&C insurance in the long term

The emerging Asian countries, above all India, Indonesia and China, are clearly in the lead when their growth dynamics are compared on a worldwide scale. The other growth regions of (sub-Saharan) Africa, MENA, Eastern Europe and Latin America all follow with similarly high growth rates of around 5% to 6%. The saturated markets of the industrialised countries bring up the rear in the regional growth rankings, and it is expected that in Western Europe the eurozone countries will still be feeling the consequences of the crisis in the years ahead.

Premium growth in P&C primary insurance up to 2020, in €bn



Industrialised countries' share of global P&C premium volume expected to fall from currently around 80% to roughly 75% by 2020

The highest absolute levels of premium growth generally come, on the one hand, from the high-volume markets and, on the other, from the countries with high growth rates. It therefore comes as no surprise that almost half of additional P&C premiums up to 2020 (46%) are expected to be generated in the USA and China.

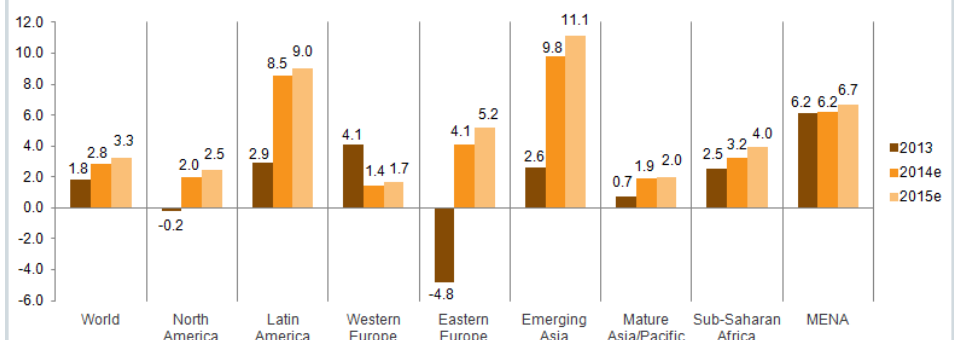
The share of total P&C premium volume accounted for by emerging countries will increase by the year 2020. Whereas in 2013 these markets accounted for roughly 20% of the volume, their share of additional premiums – i.e. the new premiums generated between 2014 and 2020 – is expected to be 40%. In 2020, industrialised countries would thus account for only around 75% of the P&C premium volume.

3 Life primary insurance

Overall developments in recent years have shown premium growth in life insurance to be highly volatile. One-off effects due to changes in tax legislation or regulation and also distortions due to single-premium business occur in many countries and across all regions. These special effects are generally almost impossible to predict and cannot therefore be adequately reflected in the market forecasts. Account is, however, taken of other relevant factors like the importance of life insurance for saving, the catch-up potential in emerging countries, or the effects of the low-interest-rate environment in industrialised countries. For emerging countries, we generally assume a trend of high growth. In the industrialised countries, on the other hand, we expect a tendency for growth rates to be low in the short term. In the medium to long term, however, we see the normalisation of the interest-rate environment there as an opportunity for life insurance.

Trend growth in emerging countries still high

Real growth in life primary insurance premiums by region, in %



Source: Munich Re Economic Research

North America: In the USA, according to preliminary estimates premiums slightly declined in real terms in 2013, primarily due to a decline in annuities group business (following a sharp rise in 2012). With mutedly positive effects as a result of slightly increased interest rates, growth slightly below that of economic output is expected for 2014/2015.

Latin America: In Brazil (with a share of 55% of the Latin American premium volume), 2012 saw extreme growth in pension insurance due to a change in tax law. Because so many new contracts were taken out in 2012, demand fell sharply in 2013 – with an impact on the growth rate of the entire region. In the absence of this special effect, growth should return to its previous trend from 2014.

Western Europe: Overall, surprisingly strong growth was recorded in 2013. In the high-volume markets of France and Italy, premiums increased noticeably after two years of significant falls. In Germany too, premium growth was higher than the long-term trend, as a result of single-premium business, but growth in this segment is expected to be lower again in 2014 and 2015. New business from traditional products is generally quite sluggish. From 2014 onwards, it may be assumed that Western Europe as a whole will again return to rather restrained trend growth.

Eastern Europe: In 2013, regional growth numbers were influenced by a significant decrease in premiums in Poland (close to 35% premium share). There, single-premium business transacted via banks fell sharply. In the Czech Republic and Romania too, premiums declined in real terms. Normalisation is forecast for 2014, though with slightly lower forecasts for Russia because of the expected fall in economic growth.

Emerging Asia: In China and India (combined premium share in excess of 80%), market developments continued to be sluggish in 2013, with the result that premium growth in the region turned out to be comparatively weak. In China the main reasons for this lay in regulatory restrictions in the area of bancassurance and in the more attractive yields of other financial instruments. In India, given the unstable economic situation, the flight of savings into tangible assets at the expense of financial products (including life insurance) led to weak growth in new business. According to preliminary estimates, premiums declined in real terms by almost 5%. With an expected slight improvement in market condi-

tions in India, stabilisation in China and sustained strong growth in most other markets, levels of premium growth should again be significantly higher from 2014.

Mature Asia-Pacific: In 2013, growth in the region was adversely affected by the developments in South Korea, while the other markets grew very robustly. In South Korea, life insurance products – just like the long-term savings products falling under P&C insurance – were affected by the changes in tax law, with premiums declining by an estimated 10% in real terms. From 2014, growth in the region as a whole is expected to be slightly below the rate of economic growth.

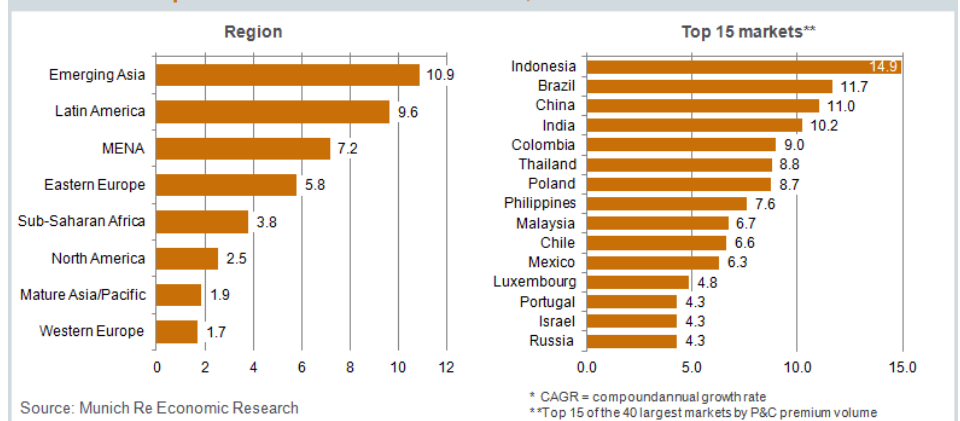
Sub-Saharan Africa: With its market share of over 90%, South Africa has shaped developments. Due to economic problems and the fact that market penetration was already high, only average growth rates of less than 3% have been achieved since the financial crisis. A slow recovery in line with the economy is expected to start in the next few years.

MENA: Israel (55% premium share) is also expected to grow relatively constantly from 2014, with rates of around 4%. Greater volatility is being seen in the other markets, but our forecast continues to assume high trend growth.

Long-term outlook

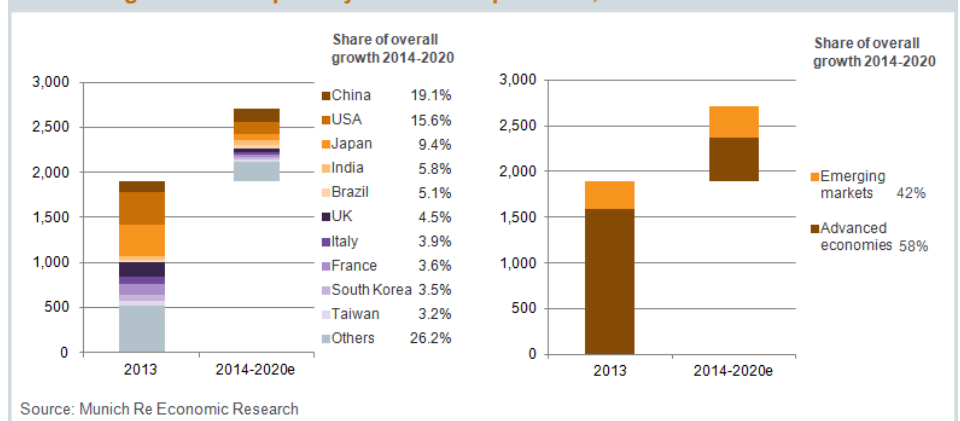
As in property and casualty insurance, the emerging Asian countries show the greatest catch-up potential in the life segment too, followed by Latin America.

Growth in life premium: real CAGR* 2014-2020, in %



Of the additional premiums that we are reckoning with up to 2020, over 40% are expected to be generated in the emerging countries. The USA and Japan will continue to be the most important life insurance markets in 2020 as well, each with a share of more than 15%. The share accounted for by emerging countries is expected to rise from 16% in 2013 to 24% in 2020.

Premium growth in life primary insurance up to 2020, in €bn

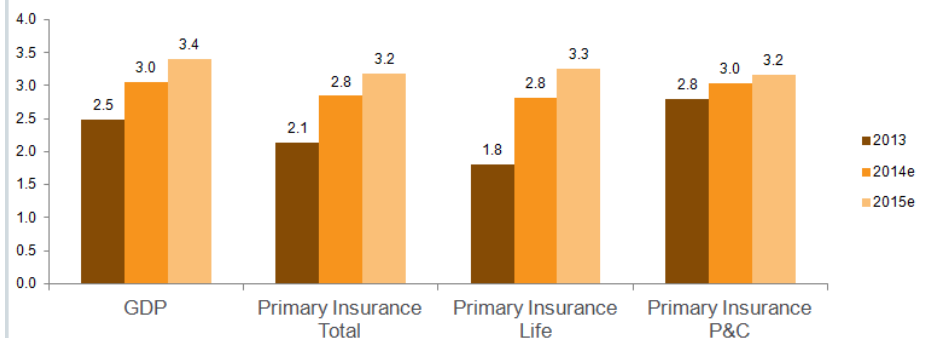


4 Primary insurance overall and implications for reinsurance

In 2013, with a growth rate of 2.1% in real terms, primary insurance had clearly less momentum than the global economy. The muted developments in 2013 were mainly driven by life insurance. There, as already mentioned, a number of special effects and the low trend growth in the industrialised countries led only to small increases in premium. In 2014 and 2015 too, at the global level we expect premium growth in both life and P&C insurance to be slightly below the growth rate of the global economy. This is not a new phenomenon – in the last ten years, the growth rate of global insurance premiums lay below that of the global economy seven times, and in the last 20 years a total of eleven times.

Growth in primary insurance slightly below rate of global economy in 2014 and 2015

Growth in economic output and global primary insurance premiums 2013-2015 (in real terms), in %

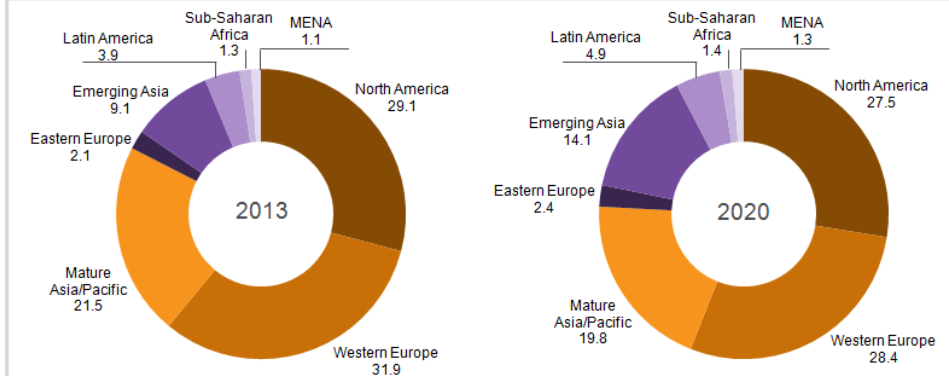


Source: Munich Re Economic Research

Emerging Asian countries should have strongest growth up to 2020. USA still largest insurance market

In 2014 and 2015, because of the currently lower macroeconomic dynamic, many emerging countries will contribute somewhat less to global premium growth than they have in recent years. The long-term outlook remains unchanged, however: the importance of emerging countries for the global insurance markets will continue to increase. The emerging Asian countries will see the highest increases, with their share of global premium volume being expected to rise by 5 percentage points, from 9% in 2013 to 14% in 2020. China in particular will contribute to this success story – with premium volume of over €210bn, the country is already the world's fourth largest insurance market and, with the third-highest average growth up to 2020, is also one of the most dynamic of the top forty markets.

Regional distribution of total primary insurance premiums in 2013 and 2020, in %



Source: Munich Re Economic Research

The USA and Japan will nevertheless continue to be the largest insurance markets, even in 2020, with the USA being expected to significantly increase its lead. The top 15 markets today will probably still be ahead in 2020 too, although there is expected to be a noticeable shift in favour of the emerging countries represented.

Global ranking of primary insurance markets by premium volume, in €bn*

2006			2013			2020e		
1	USA	866	1	USA	905	1	USA	1,210
2	UK	314	2	Japan	427	2	Japan	524
3	Japan	296	3	UK	235	3	China	460
4	France	198	4	China	211	4	UK	293
5	Germany	162	5	France	190	5	France	237
6	Italy	107	6	Germany	187	6	Germany	221
7	South Korea	80	7	South Korea	120	7	South Korea	171
8	Netherlands	73	8	Italy	119	8	Italy	157
9	Canada	69	9	Canada	93	9	Canada	121
10	China	56	10	Netherlands	76	10	Brazil	115
11	Spain	53	11	Australia	74	11	India	108
12	Australia	43	12	Taiwan	69	12	Taiwan	100
13	Taiwan	41	13	Brazil	57	13	Netherlands	92
14	India	32	14	Spain	56	14	Australia	92
15	Switzerland	31	15	India	49	15	Spain	66

*Historical data influenced by exchange-rate effects

Source: Munich Re Economic Research

Moderate growth in reinsurance

In the long term, reinsurance should also benefit from the growth momentum of the global economy and the primary insurance sector. In the P&C segment, however, cyclical pressure on rates and increasing retentions will have a dampening effect on global premium growth in the short term. Last but not least, cover against natural hazards in the emerging countries should have a noticeably positive effect on demand for reinsurance in the medium to long term. In life reinsurance, the use of reinsurance as a capital substitute is one of the options offering additional potential. In the long term we expect real growth in global reinsurance to average just over 2% up to the year 2020.