

JULY 2015

# Global Insurance Insights: A detailed analysis of trends that shape the industry

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The below article is an extract of the annual white paper of the McKinsey Global Insurance Pools team. The report describes global trends in the insurance industry, leveraging the McKinsey Global Insurance Pools database.

## **Recent developments in the global insurance industry**

In 2014, the insurance industry staged an impressive recovery, with anticipated global growth of 6.3 percent—far exceeding the 2.8 percent reported in 2013—and total premiums reaching EUR 3.8 trillion. Growth in 2014 was also notable because it was higher than nominal GDP growth for the first time in five years.

What factors help explain the industry's strong performance? Preliminary reports suggest that Health showed the highest growth, while Life demonstrated a strong recovery in growth of gross written premiums (GWP) from 2013 to 2014. Growth in P&C insurance remained relatively stable, at a decent 5 percent. Early reports also show that emerging markets grew significantly more than mature markets (12 percent vs. 5 percent), mainly because of their lower penetration levels and higher nominal GDP growth. The only two regions experiencing double-digit growth were Emerging Asia and Latin America.

As in previous years, the penetration rate for mature markets (8 percent) far exceeds that of emerging markets (3 percent). This pattern will continue, since the growth seen in emerging markets is not yet strong enough to largely surpass nominal GDP growth and thus to increase penetration.

At the product level, preliminary reports revealed some important trends:

- **Life.** Most regions saw positive Life growth in 2014, but the amount of the increase, as well as the factors responsible, varied by region. In a marked departure from 2013, the US, Japan and Mature Asia demonstrated the strongest gains. Of all Life products, endowments experienced the most

growth, primarily because of a resurgence in sales at Italian banks, but unit-linked products also performed well. Life Return on Equity (RoE) rose from 11.5 percent in 2012 to 12.7 percent in 2013 as equity markets were strong.

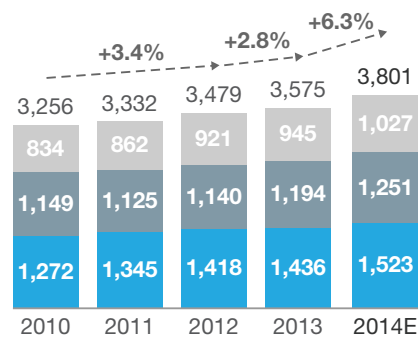
- **P&C.** Growth in the P&C market held steady in 2014, coming in at 5 percent. The main growth drivers were Motor in emerging markets and Fire and Property in mature markets. At the regional level, growth was stable, except for a significant slowdown in Eastern Europe. As in 2013, Emerging Asia and Latin America are driving most of the P&C growth. For profitability, P&C RoE increased in almost all regions in 2013, reaching 11.5 percent globally.

**Exhibit 1** Global insurance premiums beat GDP growth in 2014 for first time in 5 years, with Health and Life as the primary drivers.

Premiums in € billion,<sup>1</sup> CAGR in percent

**Total insurance**

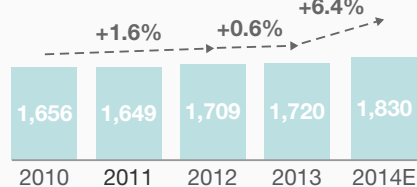
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- Americas



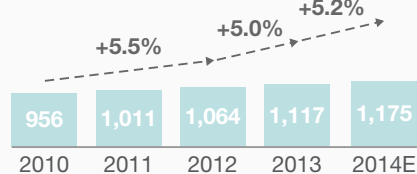
**Nominal GDP**  
Growth %



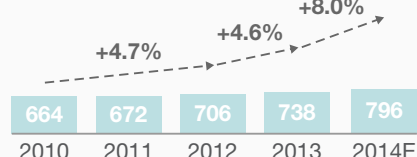
**Life**



**P&C**



**Health**



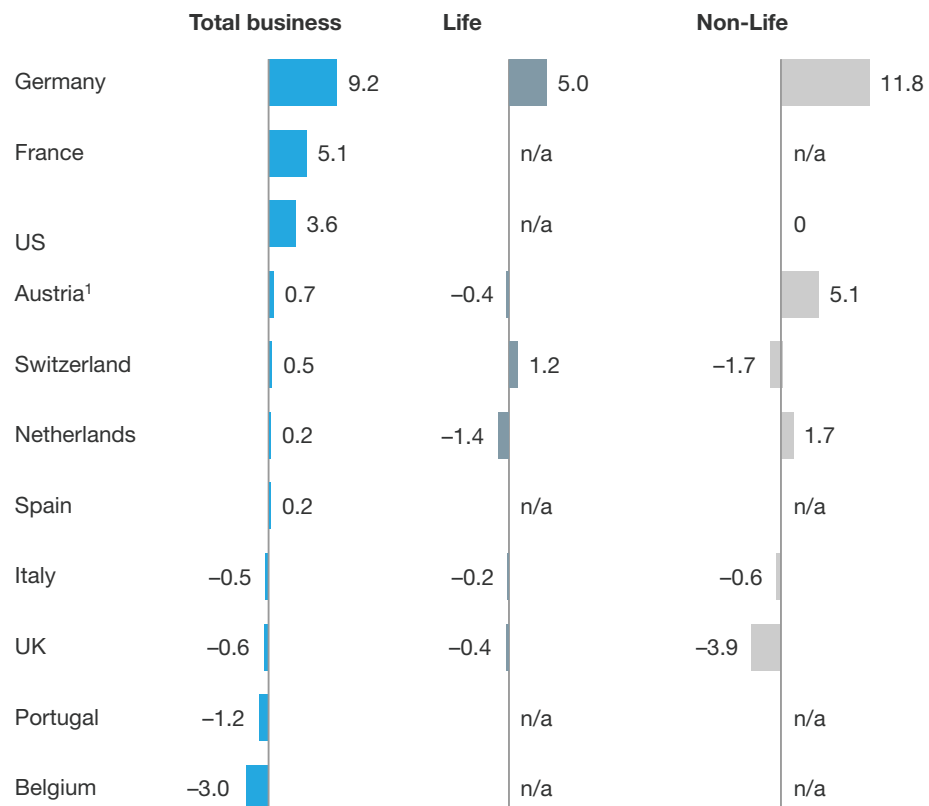
<sup>1</sup>2014 based on available H1 or Q3 reporting; at fixed exchange rates 2013.

- **Health.** The Health segment grew 8 percent in 2014, up from 5 percent annually in the two previous years. Emerging markets are rapidly gaining share and should account for about 8 percent of global premiums in 2014 (up from 5 percent in 2008). Emerging Asia and Latin America achieved the most growth, at 31 percent and 23 percent, respectively. The US is also expected to contribute strongly to growth as the Affordable Care Act is raising the number of insured. Globally, the net combined ratio for Health has been under 100 percent, on average, for the last decade, with emerging markets generally reporting higher numbers than mature markets.

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**Exhibit 2** A top 5 position can help outperform the market, but it is not a guarantee.

**RoE outperformance of top 5 players vs. the market, Average 2010–13, %**



<sup>1</sup>In Austria, RoE has been calculated based on pre-tax profits.

### Competitive dynamics

US and European insurers, which once ruled the global ranks, have been steadily losing ground to Asian companies as emerging markets grow and mature markets slow down. Although both US and European companies have expanded into emerging markets, they have faced many challenges and still depend on the slow-growing mature markets for most of their business. Their struggle will likely continue, since local insurers are becoming more competitive.

Most insurers have managed to improve their RoE in recent years, but the largest insurers are not necessarily capturing a disproportionate share of profits in Life and Non-Life in all countries, as analysis in our paper will show. Mergers and acquisitions (M&A) have been declining across all regions, mostly because companies lack available free capital. A reversal of the downward trend is not observed yet, as several challenges to consolidation still need to be addressed, however, there are some fundamental factors in place that could help increase M&A activity over the long term.

### About McKinsey's Global Insurance Pools (GIP)

GIP features a proprietary Markets Database containing over 150,000 data points covering the largest 64 countries worldwide and 99 percent of global insurance premiums. It includes key financial indicators for every market, from 2000 to the present, and projections to 2020.

The forecasts in our paper are based on a consensus macroeconomic scenario provided by Oxford Economics, and the informed judgment of McKinsey's experts. The Oxford forecast assumes average global nominal GDP growth of 6.3 percent for 2014 through 2020 (compared to 5.4 percent for the previous decade) and a gradual increase in interest rates (which some would consider an optimistic view). The scenario does not include potential macroeconomic and regulatory threats.

### New additions to GIP

GIP recently expanded to include information on individual insurers. It now provides integrated data on selected global and local insurers and information on performance benchmarking.

**Individual insurer databases.** These include:

- **Local Insurers Database**, including key financial indicators for the top 15 largest local insurers in 11 individual insurance markets, as well as premium data for the 10 largest insurers in more than 50 countries globally
- **Global Insurers Database**, including key financial statement information for over 100 major global insurers, including their split for Life and Non-Life.

**Performance benchmarking.** GIP's tailored performance benchmarking allow insurance companies to compare themselves to their peers. This in-depth analysis covers capital markets performance; financial performance for total business, Life, and Non-Life; and country-level performance.

#### How GIP supports our clients

McKinsey's Global Insurance Pools can help insurers along several dimensions. A "Granularity of Growth" analysis can identify a company's specific drivers of growth; our databases can also help to benchmark the company's growth and profitability against market performance and competitors and identify the impact of different macro-economic scenarios on growth and future market shares.

McKinsey offers a subscription to the database giving unlimited access to all data points. 

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