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Transformative years ahead for the insurance sector

Allianz Research

Executive Summary

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- The global insurance industry grew by an estimated +7.5% in 2023, clocking the fastest growth since 2006, the year before the Global Financial Crisis. In all, insurers worldwide collected EUR6.2trn in life (EUR2,620bn), p&c (EUR2,154bn) and health (EUR1,427bn) insurance premiums.
- Over the last three years, global premium income increased by a whopping EUR1.1trn or +21.5%. However, the robust development must be seen against the backdrop of high inflation. In real terms, therefore, the picture is becoming less impressive. Real premiums almost stagnated, advancing only by +0.7% since 2020.
- In contrast to 2022, when the global premium increase was primarily driven by the p&c segment, growth in 2023 was more balanced – with the life segment in the lead, accounting for 46.9% of the total increase (p&c: 32.7% and health: 20.4%). However, looking at the individual growth rates, all three segments recorded rather similar increases, with life at +8.4%, p&c at +7.1% and health at +6.6%.
- The recovery of the life segment – which grew at only +3.1% in 2022 – was mainly driven by Asia, the biggest life market in the world, with a global market share of 39.0%. At +14.9%, regional premium growth was way above the long-term average (CAGR 2013-2023: +5.2%). China, by far the biggest market in the region, accounting for almost every second euro written in life (w/o Japan), also returned to form, growing by +12.8%.
- The strong growth of the p&c segment (+7.0%) last year was driven by all regions around the globe. North America remained by far the largest market (global market share: 54.2%). With a projected plus of +7.1%, the increase in premium income was only a tad slower than in the previous record year (+7.5%).
- In contrast to many other industries where traditional markets are losing relevance vis-à-vis new, emerging markets, the global insurance industry is still dominated by the US. In fact, over the last decade, the US insurance market could even raise its global market share, from ab already impressive 41.2% to a whopping 44.2%. However, other "old" markets like Western Europe (-6.7pps) and Japan (-2.7pps) behaved more or less as expected, losing market share, first and foremost to China, which could almost double its global share to 10.6%.
- In 2021, when inflation started to skyrocket, a wide gap opened between insurance and general inflation. During the acute phase of the cost-of-living crisis, buying insurance cover was one of the few things that remained affordable. However,

since the beginning of 2023, prices for insurance products have risen noticeably. In

September 2023, insurance inflation surpassed general inflation and has continued to do so as insurers try to restore their profitability. (Note that insurance inflation is a lagging indicator.)

• Global economic growth is expected to remain more or less the same, reaching

+2.7% in 2024-25 after +2.8% in 2023. But the weights are shifting: The divergence in growth performance between the US and Europe is expected to narrow.

Moreover, the unwinding of supply-chain disruptions, lower energy prices and less tight labor market should push inflation back or close to targets.

- Although headline figures signal a normalization, the world is changing rapidly. The competition between political systems in the US and China, coupled with the ambitions of assertive emerging economies seeking to enhance their global influence, is shaping a more fragmented and fragile global order. Moreover, significant transformations of old economic models will lead to growing divergence and fundamental uncertainty.
- As risks are rising worldwide, the limits of insurability are increasingly coming into focus. Preventive measures, new technologies and smart partnerships can shift the limits of insurability but they cannot remove risks entirely. Uninsurability should be respected as the pretense of insurability – by artificially low and not risk-adequate prices – leads to excessive risk exposure and ever higher loss amounts. The trade-offs between affordability and insurability – or more generally between our current and sustainable lifestyles – can still be solved, but the necessary compromises won't be pain-free or cost-free.
- Over the next decade, the global insurance market is expected to grow by an annual rate of +5.5%, i.e. more or less the same as in the previous decade. However, the weights of the three segments will shift. The p&c segment will grow by +4.7% per year, after +5.0% p.a. in the previous ten years, as the inflation-related price increases will peter out. The health segment, too, is expected to grow a little slower, but at +7.3% p.a., the increase remains elevated. In contrast, the life segment might grow by +5.1% p.a. (up from +3.5% p.a.), benefiting from higher interest rates. In all, the global premium pool is set to increase by almost EUR5trn.
- Most of this growth will be in the life segment (EUR1.887bn), with Asia (w/o Japan) remaining the growth engine for global life business (+7.3% p.a.). The region should account for half of absolute premium growth (EUR928bn), more than North America (EUR377bn) and Europe (EUR323bn) combined. While China (+7.7% p.a.) will still dominate the region in absolute terms, the true growth champion over the next decade is likely to be India (+13.6% p.a.).
- In the p&c segment, additional premiums will amount to EUR1.427bn by 2034. Despite decisively higher growth in Asia (w/o Japan: +7.1% p.a.) than in North America (+3.8% p.a.), in absolute terms, the latter region will clearly dominate: EUR584bn additional premiums in North America vs EUR376bn in Asia (w/o Japan) and EUR184bn in Western Europe.
- The biggest challenge for the industry is defending its relevance against an ever more intrusive state. Triggered by the Covid-19 pandemic and the Russia's invasion of Ukraine, the clout of the state is on the rise as it is pressured to ensure external and internal security during the great transformation (geopolitics, climate, demography, technology). Nonetheless, increasing polarization and inequality threaten to undermine the social fabric. How to navigate these challenges, maintaining its social relevance as a force for equality and inclusivity, is the central task of the insurance industry in the coming years.

- Artificial Intelligence (AI) stands to disrupt industries on fundamental levels – from business models to value chain. However, few industries rely on AI's foundation – data – as profoundly as the insurance industry, making AI mastery a key competitive differentiator in the future. In the past, the insurance industry was not exactly at the forefront of productivity growth. The adoption of GenAI has the potential to leapfrog stages of cost savings and efficiency gains.

Looking back:

Life is back

The global insurance industry grew by an estimated +7.5% in 2023, clocking the fastest growth since 2006, the year before the Global Financial Crisis (GFC). The average growth rate of the past decade was +4.9% (CAGR[1] 2013-2023). In all, insurers worldwide collected more than EUR6trn in life, p&c and health insurance premiums. The life segment remained the largest (EUR2,620bn), followed by p&c (EUR2,154bn) and health (EUR1,427bn).

Over the last three years, global premium income increased by a whopping EUR1.1trn or +21.5%. However, the robust development must be seen against the backdrop of high inflation. In real terms, therefore, the picture is becoming less impressive. Real premiums almost stagnated, advancing only by +0.7% since 2020. Therefore, insurance penetration (premiums as a percentage of GDP) did not move much but remained at 7.1% – which is pretty much the same level as ten years before. The continuation, however, conceals huge differences between the segments: While health insurance increased in relevance over the last decade (albeit from a low level) and p&c managed to defend its turf (not surprisingly as many p&c insurance products are mandatory), life insurance dropped quite significantly: the life industry still has to recover from the era of ultra-low interest rates (Figure 1). Looking further back, the dramatic loss in relevance becomes even clearer: Just before the GFC, in 2006, global penetration in the life segment peaked at 4.3% – 1.3pp above the 2023 level.

[1] Compound Annual Growth Rate.

Figure 1: Growing in lockstep

Global gross written premiums* and nominal GDP growth* (y/y, in %) and global gross written premiums* as % of GDP by segments

*The conversion into EUR is based on 2023 exchange rates.

Sources: National financial supervisory authorities, insurance associations and statistical offices, Axco, LSEG Datastream, Allianz Research.

Figure 2 depicts the growth dynamic in 2023 by regions and lines of business. In contrast to 2022, when the global premium increase was primarily driven by the p&c segment, growth in 2023 was more balanced – with the life segment in the lead, accounting for 46.9% of the total increase (p&c: 32.7% and health: 20.4%). However, looking at the individual growth rates, all three segments recorded rather similar increases, with life at +8.4%, p&c at +7.1% and health at +6.6%.

Figure 2: Balanced growth

Gross written premium growth*, 2023 by region in %

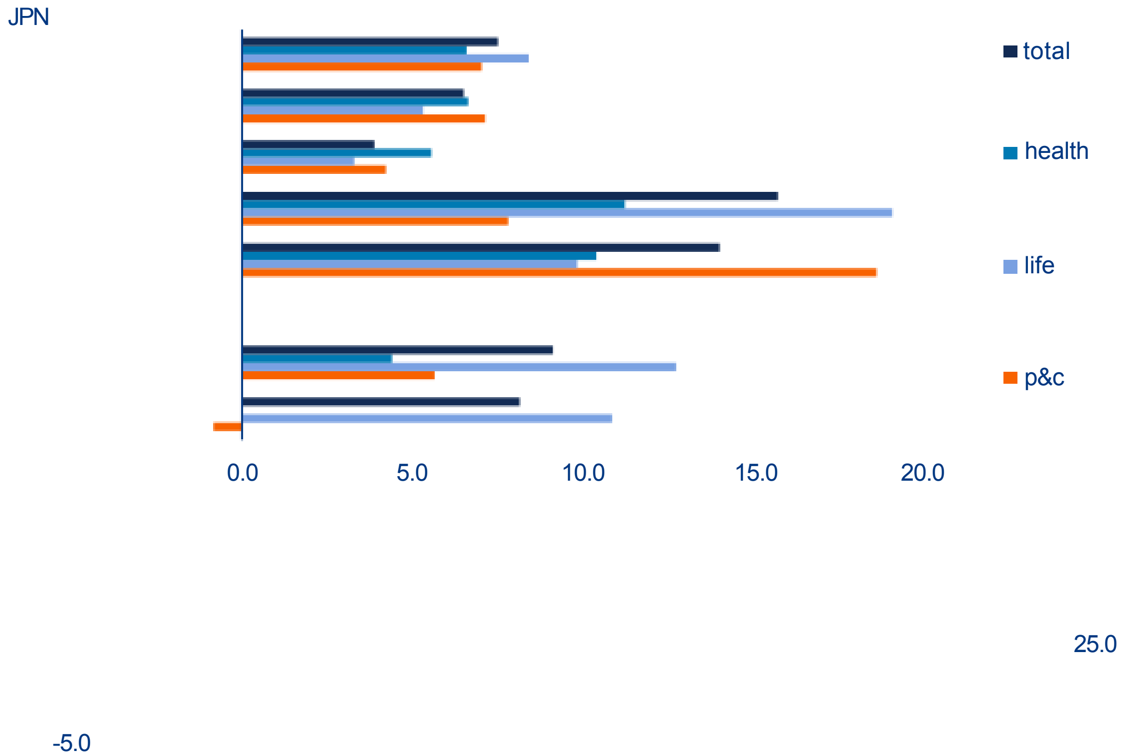
World Asia ex JPN & CHN

North America

Western Europe

Rest of the World

CHN



*The conversion into EUR is based on 2023 exchange rates. Japan: Health is part of life (third sector products).

Sources: National financial supervisory authorities, insurance associations and statistical offices, Axco, LSEG Datastream, Allianz Research.