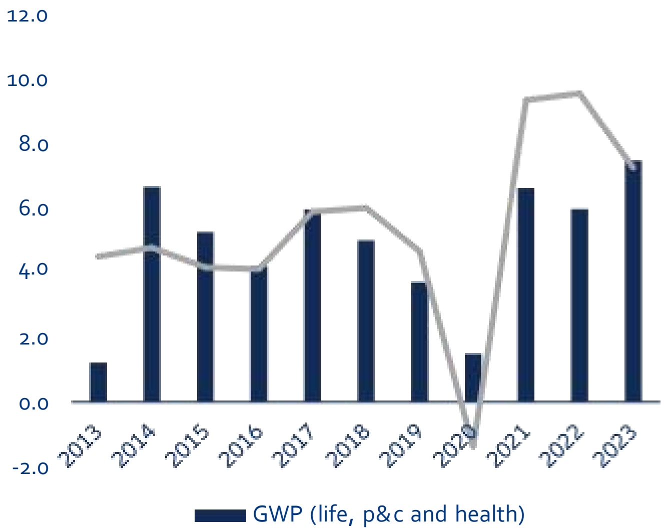
Looking back:
Life is back

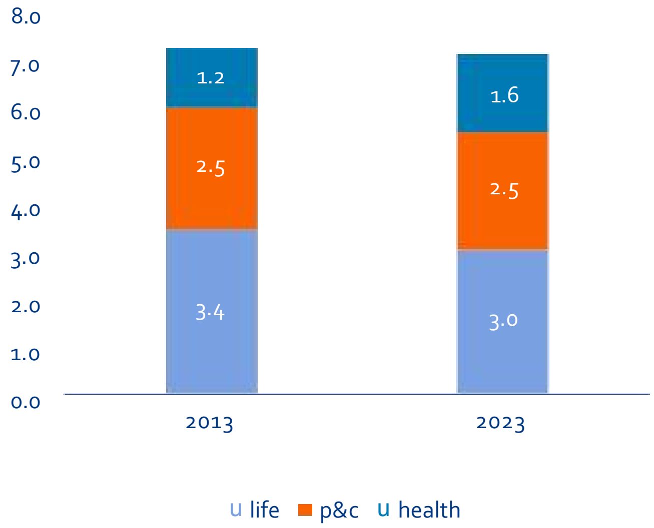
The global insurance industry grew by an estimated +7.5% in 2023, clocking the fastest growth since 2006, the year before the Global Financial Crisis (GFC). The average growth rate of the past decade was +4.9% (CAGR[1] 2013-2023). In all, insurers worldwide collected more than EUR6trn in life, p&c and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

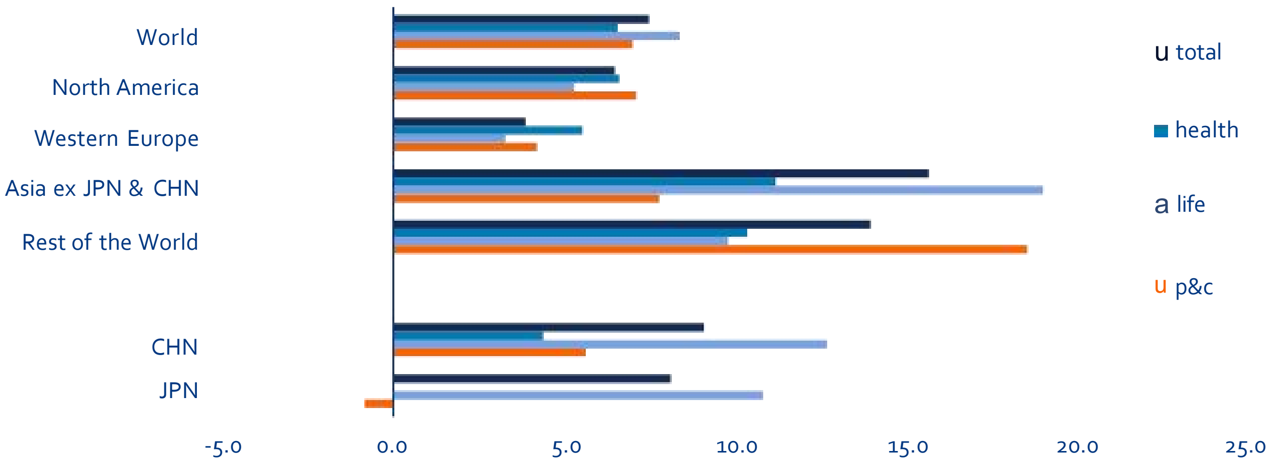




*The conversion into EUR is based on 2023 exchange rates.
Sources: National financial supervisory authorities, insurance associations and statistical offices, Axco, LSEG Datastream, Allianz Research.

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 %



*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.

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, even without Japan. At the end of last year, the region's life insurance market stood at an estimated EUR1,023bn, corresponding to a global market share of 39.0% (without Japan: EUR786bn or 30.0%). At +14.9%, regional premium growth was way above the long-term average (CAGR 2013-2023: +5.2%).[2] However, no uniform pattern was discernible at the country level as some markets like Singapore or Taiwan continued to shrink. But China, by far the biggest market in the region, accounting for almost every second euro written in life (w/o Japan), returned to form, growing by +12.8%. At least in life insurance, the country has left behind the pandemic-related crisis years. Japan continued its run in life with growth of +10.9%, driven by so-called "third sector" products, which are health policies sold by life insurers and benefited from the elevated demand for health protection in the aftermath of Covid-19.

The second biggest life market is Western Europe, with a combined premium pool of EUR775bn in 2023 (global market share: 29.6%). After 2022, when the market shrank by -2.3%, the region returned to positive growth: at +3.3%, it was clearly above the long-term average (CAGR 2013-2023: +2.0%). But not all markets did well in 2023: Heavyweights like Germany (-3.9%) and Italy (-3.9% in the first nine months) continued to shrink, albeit less dramatically than in 2022; the high shares of single premium or unit-linked products still hurt. On the other hand, growth returned to many markets like France, the Netherlands or Sweden. The most astonishing development, however, could be seen in Spain, where the life market powered ahead at +36.3%; it is now the fifth largest market in the region, after the UK, France, Italy and Germany.

North America is the third biggest life market (EUR710bn or 27.1%). In 2023, growth moderated considerably, from +9.3% (2022) to an estimated +5.3% – which is still well above the long-term average (CAGR 2013-2023: +2.9%). All other insurance markets (rest of the world, global market share of 4.3%) saw a noticeable acceleration of growth (+9.9% in 2023), mainly driven by Latin America (nearly +20%).

The strong growth of the p&c segment (+7.1%) last year was driven by all regions around the globe. North America remained by far the largest market. In 2023, the p&c market stood at an estimated EUR1,168bn (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%). It goes without saying that the North American market is dominated by the US (regional market share: 95.1%).

According to our projections, insurers in Western Europe wrote 4.5% more p&c business in the region than in the previous year. In contrast to the global development, the pace of premium growth accelerated compared to the previous year (+3.5% in 2022) and was also well above the average annual growth during the past decade (CAGR 2013-2023: +2.7%). Premium growth in the continent's largest market, Germany (+6.8%), was clearly above the regional average, mainly driven by price increases. With the exception of the UK, all other markets clocked solid growth in 2023. Western Europe accounted for 19.4% of global premium volume at the end of 2023 (EUR418bn).

Asia's p&c insurance market is less dynamic and much smaller than its life market. Its global market share in 2023 was "only" 18.5%, corresponding to EUR399bn premium income (without Japan: EUR335bn or 15.5%). Growth decreased significantly from +7.7% in 2022 to +5.3% last year, falling below the long-term average (CAGR 2013-2023: +6.5%). Even without Japan – one of the few p&c markets worldwide that shrank in 2023 – growth was rather lackluster (for Asian standards) at +6.6%. The main reason is the Chinese market (regional market share w/o Japan: 55.6%), which grew by +5.7% in 2023; before the pandemic, double-digit growth was the norm.

All other insurance markets (rest of the world, global market share of 7.9%) recorded growth of almost +19% in the p&c segment (CAGR 2013-2023: +7.9%), driven by strong (largely inflation-related) increases in Eastern Europe (nearly +26%) and Latin America (around 20%).

In the health segment[3], the US dominance is even more pronounced. Not only were the bulk of new premiums in 2023 written in the US but overall, too, the US market accounts for around two-thirds of all premium income worldwide. In many other markets, private health insurance is still a niche segment, albeit a quite dynamic one: global premium grew by 8% on average p.a. over the last decade. Last year's rather robust growth (+6.6%) can be seen as a normalization after record years in which Covid-19 fueled demand for additional health protection.

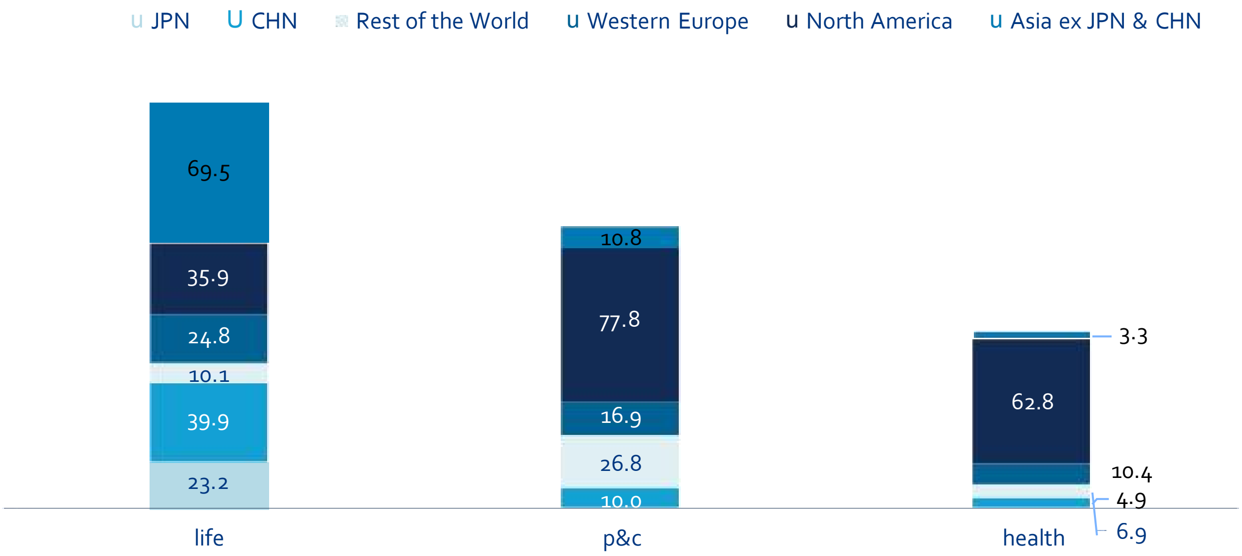
Overall, insurers wrote EUR433bn more in premiums in 2023 than in the previous year (life: +EUR203bn; p&c: +EUR142bn, health: +EUR88bn) (Figure 3).

[2] South Korea's life market posted a whopping increase of almost +70% due to accounting changes; without them, the market was set to shrink slightly in 2023.

[3] In general, data visibility of health insurance premiums is still rather low. Often, health premiums are included in other segments as health coverage is seen as part of other products and not separately reported; in Japan, for instance, health is treated as "third sector products" within life.

Figure 3: Life is back

Absolute premium growth*, 2023 by region in EURbn

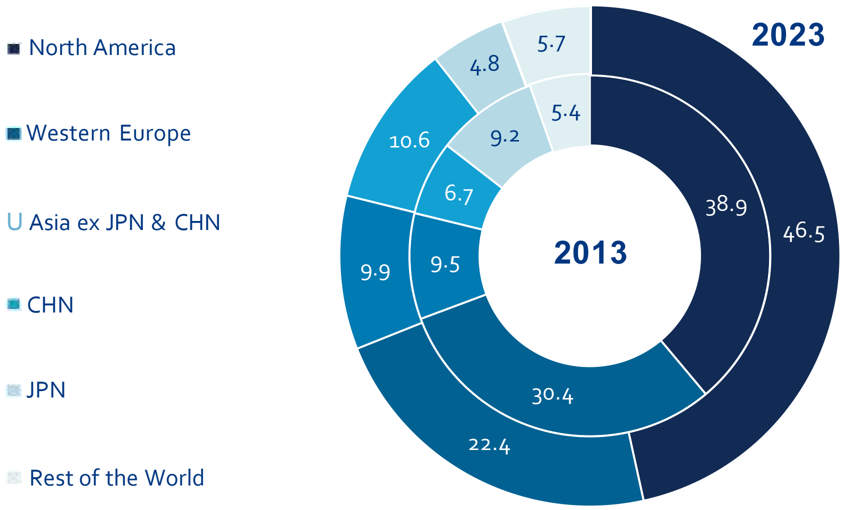


*The conversion into EUR is based on 2023 exchange rates. Japan: Health is part of life (third sector products).
Sources: National financial supervisory authorities, insurance associations and statistical offices, Axco, LSEG Datastream, Allianz Research.

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 an already impressive 41.2% to 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%. However, the gap from the US market is still huge. It does not look like the US dominance in global insurance is about to end soon (Figure 4).

Figure 4: US dominance

Total gross written premiums*, 2013 and 2023 by region in %

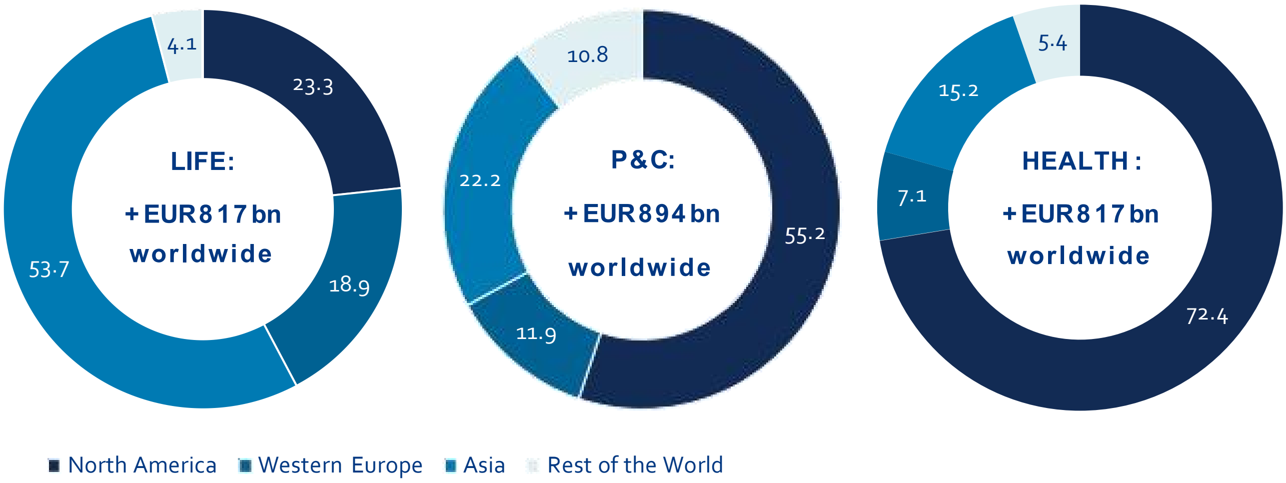


*The conversion into EUR is based on 2023 exchange rates.
Sources: National financial supervisory authorities, insurance associations and statistical offices, Axco, LSEG Datastream, Allianz Research.

Looking at the three segments p&c, life and health the picture gets more nuanced. The US dominance is clear in p&c and particularly in health: in both segments, the US market accounted for roughly half and more than two-thirds, respectively, of the increase in global premium income over the last decade. In life, however, the share is less than one quarter. Here, it is not the US market but Asia that commands by far the biggest slice of the cake. Western Europe, on the other hand, is losing significance in all three segments; it not only trails behind the US but also Asia (Figure 5).

Figure 5: The old continent trails behind

Share of absolute premium growth* by region, 2013 - 2023 in %



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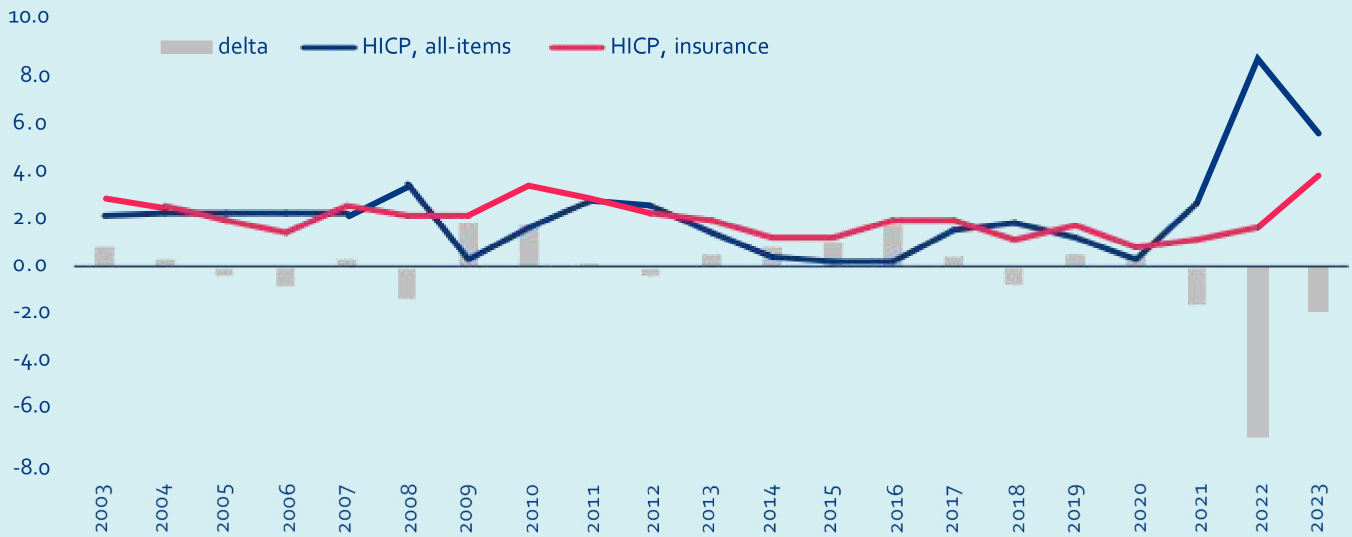
Lagging insurance inflation

Insurance underwriting is the art of predicting future price increases. Over the last two decades – when inflation was subdued – this was relatively easy, though not in all areas. Medical inflation, for example, created headaches for years as healthcare costs regularly rise faster than the general price level, thanks to medical progress. Another challenge was so-called "social inflation", which is usually used to describe the phenomenon that compensation payments of all kinds have been set much more generously in recent years (especially in the US); this affects a number of insurance lines, e.g. MTPL or D&O. Especially in the latter, this can lead to premiums having to be (sharply) increased and limits reduced. But besides these specific segments, the long-term trend shows that the price increases in insurance moved more or less in sync with general price increases – and both were low (Figure 6).

Figure 6: Insurance vs overall inflation in the Eurozone 2003-2023, annual rate of change, in %



Sources: Eurostat, Allianz Research.

After years of deflationary risks, however, the situation changed in the summer of 2021. The global economy recovered surprisingly quickly from the Covid-19 shock and inflation in the Eurozone rose back above the 2% mark (keyword: supply-chain bottlenecks). Then, the situation worsened dramatically with Russia's invasion of Ukraine, which caused prices to skyrocket. The insurance industry was not the only one caught on the wrong foot. The rapid rise in prices surprised almost everyone, as Augustín Carstens, Managing Director of BIS, has rightly pointed out: "(...) Economic forecasts are often wrong. But the forecast misses in 2021 were unusually large."[4] This means that premium planning will quickly become obsolete. The consequence is a widening gap between insurance and general inflation (Figure 7), and a significant deterioration in the combined ratio. In 2022, for example, EEA non-life insurers experienced a decline in underwriting profitability compared to 2021 as claims rose +11.3%, while premiums only saw an increase of +6.4%.[5] The combined ratio in the German auto insurance reached 111% in 2023.

However, this situation won't last as insurers must restore their profitability in subsequent years. Premium increases are inevitable because in the long run, only a profitable insurance business can also offer lasting and reliable risk protection. But from the customer's point of view, one advantage remains: because inflation came as such a surprise, the adjustments will be made late(r). During the acute phase of the cost-of-living crisis, buying insurance cover was one of the few things that remained affordable. However, these lagging price adjustments can already be seen in the data: since the beginning of 2023, prices for insurance products have risen noticeably. The resulting annual increase of +3.7% in 2023 was more than twice as high as in 2022. Although it was still well below the annual average of the overall inflation rate (+5.5%), insurance inflation surpassed general inflation in September 2023 and has continued to do so since then. This lead is likely to last until profitability is restored, i.e. the combined ratio drops below 100 again.

[4] "The return of inflation", speech by Agustín Carstens, Geneva, 5 April 2022.

[5] "Impact of Inflation on the Insurance Sector", EIOPA-BoS-23/360, 05 October 2023.