

Economic Insights:

Economic and insurance market growth: win-win

Key takeaways

- We expect insurance premiums in the advanced markets to increase in line with economic growth rates.
- Emerging market premiums are set to outperform.
- Just as a strong economy underpins insurance industry growth, a well-functioning insurance sector promotes economic resilience.
- Insurers' long-term investment activities support sustainable economic growth.
- Closing still large protection gaps will further boost economic resilience, and also be a driver of insurance sector growth in the coming years.
- The development of innovative covers such as for intangible risks, offer large growth opportunities for insurers.

About Economic Insights

Analysis of key economic developments and their implications for the global re/insurance industry.

Managing Editor

Jérôme Haegeli
Swiss Re Group Chief Economist

Author

Daniel Staib
Senior Economist

We welcome your feedback. For any comments or questions, please contact: institute@swissre.com

In a nutshell

Current economic momentum will underpin premium growth, and we expect insurance outperformance in the emerging markets. Untapped risk pools remain. Insurers are innovating to realise this potential which, alongside their long-term investment activities, will build further resilience and sustainable economic growth.

We expect insurance premiums in the advanced markets to move in parallel with our forecasts for moderate aggregate economic growth in those markets this year and next. Emerging market premiums will continue to outperform on the back of increasing penetration levels and solid growth, particularly in China. Our analysis affirms the importance of economic conditions for insurance market growth. For instance, we expect non-life growth in the advanced markets to improve based on the current stronger economic environment relative to previous years. And the anticipated outperformance of insurance in the emerging markets is largely based on our forecasts of ongoing strong economic growth in China and increases in penetration (see [sigma 3/2018](#)).

Economic growth has long been identified as the main determinant of insurance market development. Historical data demonstrates the positive correlation between insurance market and economic growth (see Figure 1, showing global real premium and GDP growth smoothed by a 7-year moving average to cut out short-term volatility). For example, up to 1990, global non-life premium growth ran parallel to economic growth, but at a higher level (elasticity greater than 1). The outperformance was due to insurance markets in the advanced countries not yet being saturated. Since 1990, non-life market expansion has largely been at the pace of economic growth, ignoring spikes and troughs driven by the pricing cycle.

In the medium term, rising insurance prices, which will help redress some of the current profitability gap in the non-life sector for example, could provide some support for premiums (see [sigma 4/2018](#)). In addition, the existence of still-large protection gaps in the advanced and emerging markets, such as a large mortality protection gap, is the source of unrealised growth potential. To tap this opportunity, insurers need to innovate to make previously uninsurable risks insurable. A large share of losses from natural catastrophes are also uninsured, offering scope for insurers to develop innovative means (eg, parametric solutions) to provide cover for households and businesses. Other areas of growth potential are the development of new solutions for the growing number intangible risks that corporations face, such as reputational losses, non-damage business interruption losses or loss of data.¹

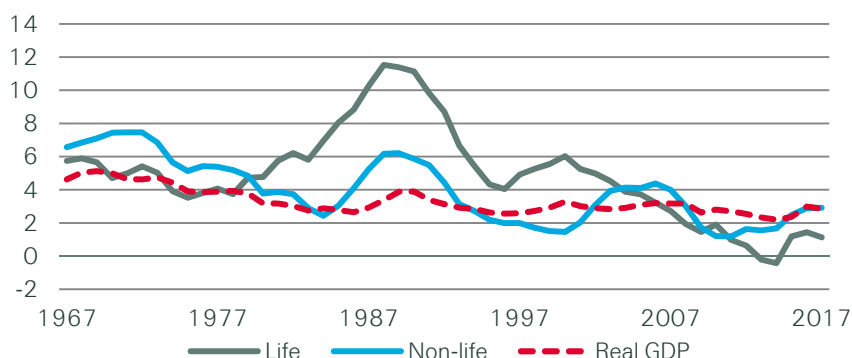
¹ "[The business of insuring intangible risks is still in its infancy](#)", *The Economist*, 23 August 2018.

Economic Insights:

Economic and insurance market growth: win-win

Figure 1

Global life and non-life premium growth (%) vs real GDP in real terms (7-year moving averages)



Source: Swiss Re Institute

Country-specific factors like changes in the risk landscape, price cycles, regulation (eg, compulsory lines), and product and distribution innovation can propel or put a break on sector growth. These tend to play a bigger role in life than non-life, which helps explain the much weaker correlation between GDP and global life premium growth in life than in non-life seen from the 1980s to the 2000s. In this period, the life insurance savings business in the US, Europe and Japan expanded much faster than economic growth due to innovations such as unit-linked products, tax incentives and attractive interest rate guarantees in a high-yield environment.

In life, the downturn since the financial crisis of 2008-09 could continue for some time as the savings business, hit by low interest rates, tapers out further still. In non-life, a return to the elevated rate trends of the 1960s and 1970s in the advanced markets is unlikely because new product solutions will likely provide smaller volumes than the booming and dominant motor insurance market of that time.

Failure to match the elevated growth rates of earlier periods does not, however, diminish the contribution of insurers to building resilience. In life, an opportunity is the global mortality protection gap that we estimate at more than USD 110 trillion in terms of sums assured, or USD 180 billion in premium equivalents (2016). Innovative biometric risk covers and marketing strategies will play a central role in closing this gap. Insurers also support society on the asset side, as long-term investors. They account for roughly 40% of the global long-term investor asset base which, according to latest numbers, stands at about USD 80 trillion, as much as global GDP. With supportive regulatory and public policy, long-term investors can more effectively absorb financial market risks and provide capital for projects that generate sustainable economic growth, such as infrastructure. Just as economic momentum is an underlying determinant insurance industry growth rates, a well-functioning insurance sector further promotes economic and societal resilience.

The content of this report is subject to copyright with all rights reserved. The information may be used for private or internal purposes, provided that any copyright or other proprietary notices are not removed. Electronic reuse of the content of this report is prohibited. Reproduction in whole or in part or use for any public purpose is only permitted with the prior written approval of Swiss Re, and if the source reference is indicated. Courtesy copies are appreciated. Swiss Re gives no advice and makes no investment recommendation to buy, sell or otherwise deal in securities or investments whatsoever. This document does not constitute an invitation to effect any transaction in securities or make investments. Although all the information used in this report was taken from reliable sources, Swiss Re does not accept any responsibility for the accuracy or comprehensiveness of the information given or forward looking statements made. The information provided and forward-looking statements made are for informational purposes only and in no way constitute or should be taken to reflect Swiss Re's position, in particular in relation to any ongoing or future dispute. In no event shall Swiss Re be liable for any loss or damage arising in connection with the use of this information and readers are cautioned not to place undue reliance on forward-looking statements. Swiss Re undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.