Global insurance trends analysis 2016
An industry braving uncertain times
May 2017
Contents

I. Executive summary and key indicators | 2

- Key takeaways
- Key numbers at a glance
- Life insurance highlights
- Non-life insurance highlights
- Global growth outlook
- Long-term determinants

II. Key global insurance trends from 2016 | 9

III. Top 10 insurance markets | 20

IV. Highlights from emerging markets | 24
Global insurers continued to face an uncertain world in 2016 as macroeconomic growth remained sluggish and unexpected political developments unfolded, leading to increased volatility in financial markets.

| Factors affecting the insurance industry | Impact | | | | Highlights |
|------------------------------------------|--------|---------------------|---------------------|-------------------------------------------------|
|                                          | 2014   | 2015               | 2016               | 2017E                                          |
| Macroeconomic conditions                 |        |                    |                    | Global economic growth slowed in 2016 as both advanced and emerging markets saw diminished growth. While both equity markets and interest rates progressed favorably toward the end of 2016, improvement can at best be gradual with the political landscape being in a flux. |
| Competitive pressures                    |        |                    |                    | Competitive pressure remained high for commercial lines, though the average price decline moderated. Personal lines, however, saw flat to moderate hardening in several key markets. |
| Natural catastrophe insured losses       |        |                    |                    | After three years of relatively benign losses, insured losses from natural catastrophes touched a four-year high and were slightly higher than the long-term average. This is estimated to have led to an RoE erosion for several P&C insurers. |
| Reinsurance pricing and capacity         |        |                    |                    | Global reinsurance capital touched its highest level ever. While the market remains competitive, even as cession rates began ticking up (driven by relatively stable terms), the expectation is that soft market conditions may be nearing bottom. |
| Technology                               |        |                    |                    | In the near term, global insurance technology spend is expected to grow at a rate faster (6%) than the sector’s real rate of growth (3%-4%). Automation and personalization will be key for a future where insurance will evolve to become an integral element of a much larger FinTech-enabled digital landscape. |
| Regulatory reforms                       |        |                    |                    | Creating globally consistent accounting standards, adopting a comprehensive risk-based capital framework, treating customers fairly and ensuring the development of a robust technology infrastructure were the key themes that regulators and the sector focused on during 2016. |
| Mergers and acquisitions                 |        |                    |                    | After a record 2015, M&A activity declined significantly in 2016 as political uncertainty increased (because of Brexit and the US presidential elections) and continued slowdown in major growth markets. However, 2017 may witness a revival with initial signs emerging during the last quarter of 2016. |

Hollow arrows indicate expected movements in 2017
Key numbers at a glance: the industry’s premium volume has grown at a sluggish rate in the recent past; the near-term outlook appears brighter.

**Total global insurance GWP** in 2015 in US$ (2010: US$4.3t)

**Global insurance penetration** (GWP as a % of GDP) in 2015 (2010: 6.9%)

**Estimated average real global insurance industry growth over 2016–18** (CAGR 2010–15: +1%)


**Highest ever global reinsurance capital achieved in Sep 2016** (CAGR 2010–15: 3.8%)

**Volume of natural catastrophe insured losses globally during 2016** (highest in the four years)

**Share of Emerging Markets GWP within global insurance market** (2010: 15.0%)

**Total estimated IT spending by global insurance sector in 2016** (2011: US$132b)

**Ranks gained by China (mainland) within top 10 insurance markets during 2006–15**

---

Note: 1) Gross Written Premium

Life insurance industry: led by emerging markets, growth rate in 2016 is estimated to have been marginally higher than that in 2015.

In 2016, both equity markets and interest rates observed a slight recovery and the sector grew at a relatively faster pace. However, a weak economic scenario and low interest rate situation persisted, implying that there was no step change in the demand for life insurance. Insurers took multiple steps to re-orientate their offerings as they lowered/simplified guarantees, shifted both interest rate risk and market risk to policyholders, and reduced profit sharing.

Europe – product mix shift continues

- Overall growth among the advanced markets diminished in 2016 (approx. +1.6%) vs. 2015 (+3.6%) as all key markets aimed to rebalance their product portfolios in favor of long-term savings and protection products.
- Capital-intensive products (such as annuities) and guaranteed products continued to see a reduced focus across markets (primarily in the UK) as the preference shifted to unit-linked products.
- Due to persistent low interest-rates, insurers continued to find legacy policies with high assured rate of return as a key area of concern.

Advanced Asia (Japan, Korea, Taiwan) – unique challenges and opportunities

- Very low interest rates in 2016 implied that annuity sales took a hit. The lines that observed growth were protection and health.
- Region’s unique demographic profile (low population growth and very high proportion of population aged over 65) is leading to demand for products to address this market’s specific needs (e.g., dementia care, infertility treatment and long-term care).
- The push toward foreign currency–denominated products by both incumbents and regulators is expected to make this category a growth driver for the future.
- In a low growth scenario, most domestic players continued to eye overseas expansion as a key growth strategy.

North America – cautiously optimistic

- Led by protection-based products, the North American market maintained its growth momentum, albeit at a rate lower than 2015 (the US market expanded ~2% in 2016 vs. 4.2% in 2015). However, profits eroded due to persistent low interest rates.
- After the US presidential elections, several signs appear favorable for insurers: rising rates, increased potential for fiscal stimulus (lower taxes) and reduced regulatory hurdles.
- The factors that will continue to have an impact on this region include anticipated global economic volatility, changing regulatory oversight (e.g., DOL fiduciary norms in the US), evolving capital requirements (e.g., new capital regime in Canada) and increased investment risk.

Emerging markets – the flagbearer of growth

- While Emerging Asia grew much faster in 2016 (approx. +20%) than in 2015 (+13%), other emerging markets saw a diminished rate of growth, primarily due to uneven economic growth and political flux in several markets.
- Ordinary life and health products led life insurance premiums to surge by around one-third in China (mainland). Strong growth was also witnessed in other key markets (India, Indonesia, Malaysia and Vietnam).
- However, growth can be expected to moderate in the near term on account of a gradual shift toward protection-based products (which typically have a lower ticket size), reduced demand for investment-linked products and regulatory actions in several markets (including China (mainland)) to improve sales quality.

Note: 1) Department of Labor
Source: Swiss Re Economic Research & Consulting: “Global insurance review 2016 and outlook for 2017/18"
Non-life insurance industry: further slowdown in developed markets led to the slowest growth in the last five years in 2016.

Continued pricing pressures and persistent macro-economic challenges have implied that the global non-life insurance sector’s growth continued to slowdown. While emerging markets are expected to gradually drive the recovery, multiple headwinds remain. The biggest of them being an uncertain and evolving global political landscape that promises to revive growth but at the same time is becoming increasingly protectionist.

Europe – technology driving distribution and pricing changes

- Online, direct and aggregators continue to gain importance in the distribution landscape. For example, in the UK nearly half of new home insurance sales and more than two-thirds of motor insurance sales are through aggregators/platforms.
- High telematics adoption is dictating motor insurance pricing trends in key markets. For example, in Italy a key reason for soft motor prices is high telematics penetration, which has led to a downward revision of average insurance rates.
- The P&C business in several markets remained unprofitable mainly because of rising claims inflation (mainly in the motor line) and the availability of excess capacity across insurers.

North America – stable outlook despite high losses

- Growth in the region in 2016 is estimated to be marginally lower than the growth seen in recent years primarily because of a sustained weakness in commercial lines in the US.
- However, price development in the personal lines in the US and the commercial lines in Canada remained favorable.
- North America was hit by the highest number of loss events since 1980. The biggest loss events were Hurricane Matthew, Fort McMurray wildfires and major floods in southern US states.
- Going forward, a potential expansionary fiscal policy in the US under the new administration may provide impetus to the P&C sector. However, persistent commercial price weakness may keep the region’s near term growth rate in low single digits.

Advanced Asia (Japan, Korea, Taiwan) – growing faster than economy

- Despite sluggish economic growth, the non-life sector in advanced Asian markets maintained mid-single digit growth momentum, primarily led by growth in the auto insurance segment.
- Despite a relatively low share of insured losses, the region saw one of its highest ever NatCat losses in 2016, which adversely affected the profitability of major insurers, though without having major capital implications.
- Overseas expansion remains a big part of the strategy of insurers in this region as the growth in domestic markets is expected to be limited.

Emerging markets – slowdown in growth halted

- Emerging Markets witnessed diminishing growth over the last three years. However, with easing soft pricing conditions, growth in 2016 is estimated to have picked up modestly.
- Profitability remained a key issue in several markets owing to pricing restrictions, competitive pricing pressures and rising claims (particularly in auto and health1).
- With greater rigor from policymakers, new lines of business such as crop insurance and cyber insurance are expected to drive growth in several key markets.
- Cost and efficiency considerations are shifting the distribution mix toward direct and online channels, which are increasingly replacing traditional channels such as agency.

Note: 1) Health insurance is classified under life in some markets and non-life in others

Source: Swiss Re Economic Research & Consulting: “Global insurance review 2016 and outlook for 2017/18"
Global growth outlook: the sector’s growth is expected to be stable at low single digits over the near term, driven by emerging markets.

The global insurance industry is expected to grow at a rate of c.4% over during 2016-18, primarily driven by a double digit growth in the life business in emerging markets.

Real growth in advanced markets is likely to remain subdued over the next two years owing to limited improvement in macroeconomic conditions, continued political flux and persistently low interest rates.

Emerging markets will remain the growth driver for premiums, with forecasts in non-life business expected to improve to ~6% and an anticipated low double digit growth in the life business.

Political changes are likely to be the biggest determinant of future growth in most regions, particularly in North America and Europe, where most major markets have or may witness significant political shifts.

The path to Brexit, potential breakup of the EU and policies of the new US administration may lead to structural changes in insurance markets globally.

Life insurers will continue to fine-tune their business models by adjusting product mix to strengthen balance sheets, defend profitability by lowering/modifying guaranteed products and increasing focus on market-linked and protection products.

Pricing outlook in non-life insurance remains subdued, particularly on the commercial side, due to abundant capital and benign claims development, although the momentum of rate softening has slowed down recently after an increased NatCat loss scenario in 2016.

Source: Swiss Re Economic Research & Consulting: "Global insurance review 2016 and outlook for 2017/18"
Long-term determinants: factors that will guide the insurance sector’s future course will include demographic changes, policy decisions, macro-economic variables and technological innovations.

**Growth enablers**

- **Technology enablement** (including RPA): technology would lead to more agile and efficient business models offering greater responsiveness toward emerging customer needs.
- **Integrated ecosystems**: IoT and the rise of InsurTech would create opportunities for new platforms where insurers can play a key role.
- **Blockchain enabled smart contracts**: these would drastically cut down cycle times and improve the reliability of processes and transactions.
- **Big data**: is fundamentally changing the way insurers price and interact with customers, opening up opportunity for more tailored approaches.

**Potential impediments**

- **Continued market volatility**: the current macro-economic uncertainty will continue to impact the sector’s growth and profitability.
- **Political risks**: unsupportive regime changes in key markets may prove to be the biggest inhibitors of insurance growth.
- **Talent requirements are changing** – both in terms of number and skillset – due to the rise of technology, and insurers risk falling behind if they do not act now.
- **Rising customer expectations** due to other simpler and more user friendly experiences are putting insurers on the back foot.

<table>
<thead>
<tr>
<th>Overall sector (life + non-life)</th>
<th>Life insurance</th>
<th>Non-life insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Technology enablement</td>
<td>✓ Emerging customers: rapidly growing middle class in emerging markets would open up opportunities for protection, savings and health.</td>
<td>✓ Potential revival of macro-economic growth: improved global growth outlook would revive demand for non-life insurance products, specially for lines with direct linkage to the economy.</td>
</tr>
<tr>
<td>✓ Integrated ecosystems: IoT and the rise of InsurTech would create opportunities for new platforms where insurers can play a key role.</td>
<td>✓ Ageing population: rising life expectancy in developed world would spur demand for retirement, long-term care and other longevity products.</td>
<td>✓ Cyber insurance: with technology enablement at the center of decision making, cyber insurance would remain a rapidly expanding line.</td>
</tr>
<tr>
<td>✓ Blockchain enabled smart contracts: these would drastically cut down cycle times and improve the reliability of processes and transactions.</td>
<td>✓ Reduced role of the state: due to fiscal pressure, governments will reduce social security obligations creating demand for private insurance and wealth solutions.</td>
<td>✓ Climate change will be a key determinant of the future risks covered.</td>
</tr>
<tr>
<td>✓ Big data is fundamentally changing the way insurers price and interact with customers, opening up opportunity for more tailored approaches.</td>
<td>✓ Start of secular bear bonds market: there are signals of this shift happening, which would open up opportunities for insurers.</td>
<td>✓ Sharing economy will create opportunities for new products and new insurance moments.</td>
</tr>
</tbody>
</table>

- **Continued regulatory oversight** will drive management focus away from growth and hinder innovation in some regions.
- **Competition from alternative products** such as wealth management and bank savings products might limit the life insurance market.
- **Structural growth** is mostly restricted to emerging markets, but accessing it is expensive.

- **Low interest rates** remain a key challenge for the sector, despite signs that this situation might be finally changing.
- **Autonomous cars** would substantially diminish motor premium volumes, transforming motor insurance from personal to commercial line.
- **Cyber insurance modeling** currently acts as a bottleneck to delivering more comprehensive cyber offerings.
- **Rise of protectionism** among newly elected right wing governments may impact global trade and premiums in certain lines.
- **Climate change**: without correct risk assessment tools, major climatic events may impact the industry’s long-term viability.
Contents

I  Executive summary and key indicators | 2

II  Key global insurance trends from 2016 | 9
►  Political developments
►  Financial market performance
►  Major losses and pricing changes
►  Reinsurance market highlights
►  M&A landscape
►  Top technology trends from 2016
►  Key regulatory updates

III  Top 10 insurance markets | 20

IV  Highlights from emerging markets | 24
Emerging political pressures may slow down the industry's recovery. However, relaxed government policies may help mitigate the impact of these changes.

2017 political calendar

- US President Trump takes office
- Dutch Parliamentary elections
- French Presidential election
- UK triggers Article 50
- UK general election 2017
- Autumn 2017: China (mainland) National Congress
- Aug-Oct: German Federal election

- 2017 is a year that will observe 6 of the world's top 11 markets undergoing major political developments.
- While 2016 saw the UK's decision to exit EU and a surprise Trump victory in the US, the real impact of these developments along with political changes in several markets in the EU (Germany, France, the Netherlands, the UK, Italy and Greece) and China (mainland) are being realized during this year.
- Initial views by UK and EU leaders indicate that the UK's position as an insurance hub is expected to be eroded owing to limits on passporting rights. Considering that the UK is the world's fourth largest insurance market, an adverse Brexit may have significant ramifications for the world insurance market.
- In several key markets, the rise of right wing politics has challenged the status quo. While the immediate threat of some markets exiting the EU appear to have moderated (besides UK), any such developments in the coming years are likely to have a detrimental effect on the regional and global macro-economic scenario.

Possible implications for the insurance sector from the evolving political landscape

- Contractionary monetary policy may prop up interest rates, improving investment returns.
- Expansionary fiscal policies, such as increased government spending and lower tax rates, in key markets (e.g., the US), may drive sales.
- Moderated and/or augmented regulatory policy may enhance growth profiles, as competitive barriers are reduced.
- Rise in protectionism will hit global trade, affecting the free flow of capital and resources, and will impact several business lines.
- Divisionary policies (e.g., any EU exits) will enhance economic uncertainty, impacting the investment scene and regional growth.
- Leniency in regulations may heighten competition and impact the quality of business, thus affecting the sector's long-term prospects.
After two consecutive years of underperformance, revised expectations after the US Fed rate hike have improved the prospects for life insurers.

Global insurance stock price performance (2012–16, daily closing prices)

Recent rebound a reflection of possible change in US policy.

In a year when the S&P 500 index rallied more than 20%, both life and non-life insurers showed strong stock price appreciations.

Life stocks outperformed non-life stocks after two consecutive years of underperformance, driven by expectations that the US Fed rate hikes will gradually ease margin pressures and boost sales of interest-sensitive products.

Non-life stocks underperformed in 2016 due to higher CAT losses and persistent soft pricing conditions, particularly in the commercial lines.

The impact of potential Fed rate hikes is expected to be low on P&C portfolio yields because low yields of recent years are “baked in” future returns and they are unlikely to rise quickly.

Outlook: the general sentiment in the insurance equity market is likely to remain positive due to rising interest rates and positive business climate, though it may be offset by protectionist tendencies.

Government bond yields

<table>
<thead>
<tr>
<th>Bond yields</th>
<th>Jun'14</th>
<th>Jun'16</th>
<th>Feb'17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration (Yr)</td>
<td>1 5 10 20 30</td>
<td>1 5 10 20 30</td>
<td>1 5 10 20 30</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>Eurozone</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>Germany</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>Japan</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>France</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>UK</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>US</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>China (mainland)</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
</tr>
</tbody>
</table>

In December 2016, the US Fed resumed its monetary tightening cycle, hiking the federal fund rate (FFR) by 25bps. It also stated that it might increase interest rates thrice in 2017 as opposed to the earlier forecast of two cuts.

This led to a sharp recovery in bond yields in 4Q16, reaching within touching distance of its 10-year historical average. The move is also likely to strengthen the US$ further against most major currencies.

Improving economic fundamentals along with Fed action has also led to an increase in bond yields of other countries such as the UK, with the economic impact of Brexit remaining “muted” so far.

Outlook: life insurers are likely to be direct beneficiaries of the Fed’s “upward rate trajectory,” potentially boosting their investment income and profit margins.
Earthquakes and storms made 2016 the costliest NatCat\(^1\) loss year in the last four years; commercial pricing scenario remained soft.

### Global natural catastrophe insured loss estimates (US$b)

<table>
<thead>
<tr>
<th>Year</th>
<th>Losses (US$b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>119</td>
</tr>
<tr>
<td>2012</td>
<td>65</td>
</tr>
<tr>
<td>2013</td>
<td>39</td>
</tr>
<tr>
<td>2014</td>
<td>31</td>
</tr>
<tr>
<td>2015</td>
<td>27</td>
</tr>
<tr>
<td>2016</td>
<td>50</td>
</tr>
<tr>
<td>Last 10 yrs avg</td>
<td>45</td>
</tr>
</tbody>
</table>

*Note: Natural Catastrophe Source: Munich Reinsurance ‘Natural Catastrophes in 2016’*

- After three years of relatively low NatCat losses, total losses (US$175b, insured losses: US$50b) rose to levels similar to 2012.
- At 71%, share of uninsured losses remained high. It was particularly adverse in Asia (89%) which recorded year’s costliest events.
- Both the costliest events - Earthquakes in south Japan (overall losses US$31bn) and floods in mainland China (overall losses US$20bn) - had very low proportion of insured losses (20% and 2%, respectively).
- Climate change impact was evident as high number of flood events (particularly in Germany, France and south US) were markedly high and accounted for 34% of overall losses (Last 10 year average 21%).

### P&C pricing trends in key markets

- **Personal**
  - US
  - Eurozone
  - UK
  - Nordics
  - South Korea
  - China (mainland)
  - Japan
  - Australia

- **Commercial**
  - US
  - Eurozone
  - UK
  - Nordics
  - South Korea
  - China (mainland)
  - Japan
  - Australia

*Note: 1) Natural Catastrophe
Source: Munich Reinsurance ‘Natural Catastrophes in 2016’*

- The pricing environment for the non-life sector in the commercial lines remained soft in key markets. Personal lines (e.g., motor insurance in the UK and property insurance in Canada), however, saw a revival.
- European personal pricing trends are flat to modestly positive in most markets, with the strongest price increases coming in the Dutch, Spanish and UK personal motor markets.
- US commercial pricing remained negative as the soft cycle turned more than a year old (16 months by Dec 2016). Considering a typical soft/hard cycle lasts at least three years, the pricing scenario may not recover during 2017.

**Outlook:** with regulators/policymakers in key disaster prone markets showing keenness on pursuing NatCat insurance, the proportion of insured losses is expected to go up in future, particularly in Asia.

**Outlook:** weakness in commercial lines may continue in the near term as underwriting profitability will remain under stress amid tough operating and macro-economic conditions.
Global reinsurance capital touched its highest level ever; soft cycle expected to continue over the near term.

Global reinsurance market capital (US$b)

Capital growth resumed in 2016

► After a drop in total reinsurance capacity in 2015, global reinsurer capital increased by 5.3% to a new high of US$595b, reflecting unrealized gains on bond portfolios (from interest rate decline) and strong reinsurer earnings.

► While alternative capital grew at a faster rate (9.6%) than traditional capital, the rate of growth was the lowest in the last five years as certain maturing catastrophe bonds did not renew during 2016.

► While the reinsurance market remains competitive, even as cession rates have begun to tick up, driven by the relatively stable terms, the expectation is that soft market conditions may be nearing bottom.

New capacity

► Regulatory change and capital availability are resulting in the formation of new reinsurance companies in rapidly developing markets such as China (mainland) and India. New carriers in the final stages of launching include Qianhai Re, Nine Merchants Re and ITI Re.

Impact of Brexit

► The overall underwriting capacity of the Lloyd’s market exceeded £30b for the first time in 2017. A 10% increase compared to 2016 was mainly due to the impact of sterling devaluation since Brexit vote.

Outlook and imperatives for the reinsurance sector

► As the global reinsurance sector remains overcapitalized, the possibility of a rise in reinsurance prices can at best be gradual. Also, with competition remaining high, earnings will remain under pressure in the near term.

► Reinsurers must look at this phase as an opportunity to reassess their business models and look at consolidation or acquisition as a strategic bet.

► Major reinsurers must look to form larger, global, well-diversified operations with broad underwriting capabilities to assess risk and to serve as transformers of risk to the capital markets.

► Successful players will be those that have been prudent in underwriting and reserving, have been able to develop a book of business that allows for quick shifts in and out of lines of business, or have created expertise in managing third-party capital to their own advantage.

Note: 1) Alternative capital includes CAT bonds, collateralized reinsurance, side-cars and loss warranties
Source: Aon Benfield: "Reinsurance Market Outlook" January 2017
M&A activity fell much behind the record levels seen during 2015 as insurers faced tough capital allocation decisions.

Global insurance M&A deal volume and deal value (US$b)

Sharp drop in the number of large value deals
- Although there was a significant drop in the value of deals across all regions compared to 2015, the number of deals fell more modestly, indicating a reasonably active underlying deal environment in the mid-market.
- The bulk of M&A activity was recorded in the fourth quarter of the year, where a return of large transactions were witnessed.
  - US$27.7b worth of deals were announced in the last three months of 2016 alone.
  - These represented over 60% of total value of deals for the year and six out of the top eight deals of 2016.
- 2016 also saw a notable fall in US$1b+ deals, with only 12 such transactions recorded in 2016 compared with 24 in 2015.
  - This was the result of buyers remaining cautious to execute “megadeals” in an environment characterized by high levels of uncertainty both at the macro and sector levels.

Outlook
While M&A activity for the sector slowed in 2016, the activity is expected to pick up in the near to medium term as a combination of objectives will drive management decisions toward consolidations and acquisitions. Some of these objectives are as follows:
- Maximizing capital optimization to address diminishing margins
- Reducing operating expenses through merger synergies
- The continuing need for growth, scale and new capabilities

Source: EY: Global insurance M&A themes 2017: dealing with uncertainty
Technology: driven by Robotic Process Automation (RPA)/ Artificial Intelligence (AI), Blockchain and IoT, automation and personalization will be key for the future digital insurance landscape.

RPA continues to gain traction

<table>
<thead>
<tr>
<th>RPA continues to emerge as a major tool to meet the industry's unique digital challenges. In recent years, increased RPA implementations were seen across insurance value chain, whether it be for streamlining underwriting, managing front office operations, claims settlement or for governance. Example: a major Japanese mutual life insurer introduced an AI system for claims management which helped reduce 30% workload for existing claims operations and replace 34 employees.</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
</tr>
<tr>
<td>Team’s capacity released at a major insurer via a 7-week RPA project by EY</td>
</tr>
<tr>
<td>50-70%</td>
</tr>
<tr>
<td>Potential cost reduction for high-frequency tasks through RPA</td>
</tr>
</tbody>
</table>

Blockchain: incumbents collaborating to explore possibilities

<table>
<thead>
<tr>
<th>As global insurers actively pursue development of blockchain as insurance infrastructure’s future, increased industry-wide collaboration is being witnessed. The biggest example of this is the B3i initiative (launched by five insurers in October 2016), which has now expanded to 15 members. A blockchain-based smart contract system is expected to bring all parties in the insurance value chain together on one platform, resulting in seamless processes due to reduced documentation, reduced dependence on manual checks and faster settlement for vendors/customers.</th>
</tr>
</thead>
<tbody>
<tr>
<td>90-95%</td>
</tr>
<tr>
<td>Savings from a blockchain based network vs. a traditional data centre model</td>
</tr>
<tr>
<td>2016</td>
</tr>
<tr>
<td>First blockchain based insurance product launched (by Vrumi)</td>
</tr>
</tbody>
</table>

IoT: after telematics, wearables heading toward mainstream

<table>
<thead>
<tr>
<th>While ‘PHYD’1 is already a part of the new business reality for multiple insurers globally (e.g., telematics-based car policies in the UK exceeded 750,000 in 2016, and telematics penetration in Italy crossed 16% in 2015), “Pay As You Live” (PAYL) too is also rising beyond the pilot phase, with insurers adopting wearables as a means to correctly assess risk and improve pricing. Example: New York Life offers its customers access to Fitbit trackers, custom e-com storefronts, wellness challenges, and reporting services to custom charge premiums as per their health status.</th>
</tr>
</thead>
<tbody>
<tr>
<td>73%</td>
</tr>
<tr>
<td>Share of all deaths globally from ‘lifestyle diseases’ - wearable market ripe for growth</td>
</tr>
<tr>
<td>US$30b</td>
</tr>
<tr>
<td>Estimated wearable market by 2018 - to have huge effect on PAYL insurance</td>
</tr>
</tbody>
</table>

Note: 1) Pay How You Drive
From being a stand-alone sector, insurance will evolve to become an integral element of a much larger InsurTech-enabled digital landscape, with InsurTech firms turning into integrators and possible competitors.

<table>
<thead>
<tr>
<th>Existing environment</th>
<th>Next stage: innovators begin disruption</th>
<th>Expected future state</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental technology gains</td>
<td>Ecosystem amalgamation</td>
<td>Evolution of new models</td>
</tr>
<tr>
<td>- Incumbents leveraging digital to enhance processes and offerings</td>
<td>- New coverage needs for emerging ecosystems</td>
<td>- Insurance to be an integral element of multiple ecosystems</td>
</tr>
<tr>
<td>- Marginal gains in usage of resources</td>
<td>- Pricing and design of products to involve new IoT enabled data sources and analytics</td>
<td>- Insurers/ InsurTech firms to have an integrated view of customer information and behaviour across ecosystems</td>
</tr>
<tr>
<td>- Continued use of existing data sources</td>
<td>- Customer acquisition to be integrated within each ecosystem</td>
<td>- Insurance to be bundled within a broader set of solutions rather being a standalone product</td>
</tr>
</tbody>
</table>

**Incremental advantages, but no major disruption:**
Traditional players are already utilizing digital solutions to improve process efficiency, restrict costs and lower manpower requirements. Key examples:
- Distribution channels increasingly geared to serve tech savvy customers (online, mobile)
- Manual intervention free claims handing (driven by RPA, new platforms)

**Led by InsurTech firms, insurance will find itself integrated with digital ecosystems:**
Emerging InsurTech companies will serve as an intermediary between an ecosystem and insurers by providing analytics based platforms.
- These newcomers will integrate and process customer data from the ecosystem and process niche insurance products specific to each ecosystem.

Example: Zhong An Insurance and Alibaba jointly developed a shipping return insurance product that eliminated product return concerns both for customers and merchants, thus enabling hassle free e-commerce shipments and also became US$170m market by 2015. Thus, an innovative insurance product benefitted both the insurer and the ecosystem it served.

**With insurance getting integrated across ecosystems, traditional insurers will face direct competition from both evolving InsurTech firms and wider technology companies.** These firms will start offering insurance as a part of wider bouquet of services.
- New technology firms operating across multiple technology ecosystems will have significantly better access to data and analytical abilities to effectively customize and price insurance products.
- Other products/services with which insurance may be bundled in future can include wealth management solutions, health services, consumer credit and e-commerce.
For the emerging tech enabled landscape, forward-looking insurers are investing across the value chain for achieving improved pricing, enhanced operational efficiency and for developing a strong appetite for innovation.

### Core technology investments

1. **Digital and omnichannel**
   - While consumers want more frequent, meaningful and personalized communications, distributors expect better data and tools for enhanced customer acquisition and service experience.

2. **Big data and analytics**
   - Mobiles, drones, social media and connected devices have drastically increased the data insurers can leverage. Effectively leveraging data will facilitate penetration in profitable niches.

3. **Core and legacy system transformation**
   - Many insurers have purchased modern, “rules and tools” core systems in recent years and are embracing outsourcing, automation and SaaS solutions to reduce costs.

4. **Cybersecurity**
   - Always-on technology and data-driven operations mean cybersecurity must be proactive and strategic, not reactive and defensive.

5. **InsurTech and blockchain**
   - InsurTech and blockchain mean significant new threats and more intense competition but also promising new opportunities for collaboration between the new and old market players.

### Desired outcomes

- **Improved pricing through robust underwriting**
  - 80% Customers willing to use digital and remote channel options

- **Enhanced operational efficacy and agility**
  - 71% Leaders using sensor data to engage with customers
  - 76% Average reduction in runtime achieved from Robotic Process Automation

- **Strong appetite for innovation**
  - 86% Organizations find their cybersecurity function not meeting organization’s needs
  - 7.7% Digitally active consumers currently using InsurTech products

---

Key regulatory updates (1/2): the key themes of 2016 were creating a globally consistent accounting standard, treating customers fairly and ensuring the development of a robust technology infrastructure.

**IFRS 9 & 17: dawn of a new world for insurance reporting**

- IASB has been working on improving current accounting standards for financial instruments (IFRS 9) and insurance contracts (IFRS 17) as weaknesses emerged, mainly due to lack of consistency and transparency of the current rules.
- The improvements will aim to enhance the comparability and transparency of accounting practices, especially through enhanced disclosure of valuation, performance and risk information.
- Implementation of these changes (IFRS 17 to be implemented by 1 January 2021) will require significant efforts by insurers, in particular to design new valuation and reporting systems, to meet significant disclosure requirements and to educate stakeholders on the impact of changes.

**Technology shaping global regulatory agenda**

With increasing digitization and technology enablement in all areas of insurance business, regulators showed high interest in creating comprehensive frameworks to nurture and govern a technology-enabled infrastructure.

- Cyber security and data privacy: 2016 saw finalization/announcement of cybersecurity norms in multiple key markets, including EU (General Data Protection Regulation approved; implementation: 2018), US (New Cybersecurity regulations effective on 1 March 2017 for 3,000+ financial institutions in NY) and India (draft cyber security policy in).
- Fintech incubation: regulators in several markets showed high keenness to promote and govern Fintech/InsurTech developments. The focus was particularly high in leading Asian markets (mainland China, Korea, Taiwan, Thailand and Indonesia).

**Multiple steps taken for ‘Treating Customers Fairly’**

Regulators/policymakers globally continued to work for improving the industry’s customer centricity via both corrective as well as punitive measures. Some of the prime examples during the year included:

- Europe’s new regime on insurance distribution (IDD): the European Parliament set a new framework (to be implemented by February 2018) for improving transparency and business conduct in insurance distribution.
- US: the proposed new fiduciary responsibilities by the Department of Labor (DOL) require all financial product solicitors to disclose all potential conflicts of interest to customers (including commissions/fees earned).
- China (mainland): the regulator (CIRC) proposed mandatory recording of sales process and imposed multiple restrictions on the sale of short-term savings type products to check unfair practices.

**Long-term focus driving changes to product design/mix**

In order to improve the sector’s long-term sustainability, to address unmet customer needs and to improve insurance penetration, regulators globally continued to alter the product landscape by putting restrictions on less desirable products and promote relevant products and designs.

- Special emphasis was seen on promoting crop insurance in some leading agriculture-based markets (e.g., India and mainland China).
- With increasing life expectancy, particularly in the developed markets, long-term care insurance attracted significant focus in 2016. While NAIC (US) published a detailed research in this area, Taiwan saw the passage of Long-term Care Services Act (expected to launched in 2018).
- Changes in rules of tariff determination in key P&C lines were made in certain markets (e.g., Malaysia and mainland China).
Key regulatory updates (2/2: prudential norms): with Solvency II implemented last year, efforts were seen toward implementations in other markets.

- Further refinements of risk-sensitive capital frameworks (such as Solvency II in Europe) to address issues emerging from recent implementations continued globally, even as several markets aimed to develop their own capital adequacy norms.
- Besides local prudential regulations, insurers globally have been actively engaged with consultation and field testing exercises of the international insurance regulatory framework, developed by the International Association of Insurance Supervisors (IAIS).
- Robust prudential regulations will go a long way in improving product development, enhancing the sector’s transparency and driving sustainable growth.

Canada: final version of life capital adequacy test guideline released in 2016 (Effective 1 Jan 2018)

US: state regulators continued working on common view (e.g., on IAIS ICS). Principle-based reserving for life insurance became national standard from 1 Jan 2017.

Mexico: multiple refinements made during 2016 in new Solvency II-type insurance regulation (LISF) on aspects like disclosure and governance

Brazil: insurers preparing to align ERM frameworks with Solvency II and operational losses database by Dec 2017


China (mainland): solvency regulation C-ROSS implemented in 2016. Overseas M&As to be easier and greater operational transparency expected.

South Korea: further field testing of new RBC regime expected in 2017, for a targeted implementation by 2020 (before IFRS 17 is implemented).

Singapore: 3rd public consultation and 2nd full Quantitative Impact Study (QIS 2) on MAS’s review of RBC framework conducted in 2016.

Over the last 10 years, global insurance penetration has shrunk primarily due to a weak investment scenario in major developed markets.

Insurance penetration has declined across key developed markets. The decline has been particularly sharp in case of the UK, which observed shrinking insurance premium levels for much of the last decade (due to falling prices in motor and property lines and a shift toward fee-based business). Taiwan and Italy emerged as strong exceptions as both saw a significant rise in penetration (mainly in life insurance). Taiwan’s surge was primarily due to a strong demand for individual whole life insurance products (in turn due to very low bank deposit rates). Italy’s penetration improvement was due to continued insurance premium growth (in turn due to pension reforms and reduced role of state) despite an overall drop in GDP over the period.

### Top 10 insurance markets by premium

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Life Premium</th>
<th>Non-life Premium</th>
<th>Total GWP (US$b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>US</td>
<td>1,957</td>
<td>667</td>
<td>2,624</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>787</td>
<td>277</td>
<td>1,064</td>
</tr>
<tr>
<td>3</td>
<td>UK</td>
<td>639</td>
<td>426</td>
<td>1,065</td>
</tr>
<tr>
<td>4</td>
<td>France</td>
<td>558</td>
<td>256</td>
<td>814</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>390</td>
<td>230</td>
<td>620</td>
</tr>
<tr>
<td>6</td>
<td>Italy</td>
<td>302</td>
<td>250</td>
<td>552</td>
</tr>
<tr>
<td>7</td>
<td>South Korea</td>
<td>290</td>
<td>67</td>
<td>357</td>
</tr>
<tr>
<td>8</td>
<td>Canada</td>
<td>183</td>
<td>122</td>
<td>305</td>
</tr>
<tr>
<td>9</td>
<td>Taiwan</td>
<td>150</td>
<td>88</td>
<td>238</td>
</tr>
</tbody>
</table>

### Penetration (GWP as a % of GDP) and Density (GWP per capita in US$)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>7.5%</td>
<td>6.2%</td>
<td>565</td>
<td>621</td>
</tr>
<tr>
<td>US</td>
<td>8.8%</td>
<td>7.3%</td>
<td>3,924</td>
<td>4,096</td>
</tr>
<tr>
<td>Japan</td>
<td>10.5%</td>
<td>10.8%</td>
<td>3,590</td>
<td>3,554</td>
</tr>
<tr>
<td>China (mainland)</td>
<td>2.7%</td>
<td>3.6%</td>
<td>54</td>
<td>281</td>
</tr>
<tr>
<td>UK</td>
<td>16.5%</td>
<td>10.0%</td>
<td>6,467</td>
<td>4,359</td>
</tr>
<tr>
<td>France</td>
<td>11.0%</td>
<td>9.3%</td>
<td>4,075</td>
<td>3,392</td>
</tr>
<tr>
<td>Germany</td>
<td>6.7%</td>
<td>6.2%</td>
<td>2,437</td>
<td>2,563</td>
</tr>
<tr>
<td>Italy</td>
<td>7.2%</td>
<td>8.7%</td>
<td>2,302</td>
<td>2,581</td>
</tr>
<tr>
<td>South Korea</td>
<td>11.1%</td>
<td>11.4%</td>
<td>2,071</td>
<td>3,034</td>
</tr>
<tr>
<td>Canada</td>
<td>7.0%</td>
<td>7.4%</td>
<td>2,708</td>
<td>3,209</td>
</tr>
<tr>
<td>Taiwan</td>
<td>14.5%</td>
<td>19.0%</td>
<td>2,250</td>
<td>4,094</td>
</tr>
</tbody>
</table>

Source: “Swiss Re, sigma No 03/2016” and “Swiss Re, sigma No 04/2007”
Life insurance: most emerging markets observed sharp premium growth, though penetration remained low.

Premium growth vs. penetration - top 10 insurance markets

- **Middle East^**: Growth primarily from mandatory health insurance sales in key markets.
- **China (mainland)**: Rapid growth in short-term savings type products led to recent surge in premiums.
- **US**: Global average penetration 2015: 3.5%
- **S. Korea**: Extremely high penetration due to relatively low bank deposit rates, and high insurance awareness and demand.
- **Taiwan**: Global average premiums growth CAGR (2010-15): 0.1%
- **Global average penetration 2015**: 3.5%
- **US**: Growth primarily from mandatory health insurance sales in key markets.
- **Canada**: Sharp currency depreciation across markets led to decline in US$ terms.
- **Germany**: Sharp drop mainly due to the yen’s weakening against the dollar (constant currency growth +1.2%).
- **France**: Drop despite recent recovery as weak investment environment in 2011-12 impacted premium growth.
- **Japan**: Drop despite recent recovery as weak investment environment in 2011-12 impacted premium growth.
- **LaAm^**: Rapid growth in short-term savings type products led to recent surge in premiums.
- **Emerging Asia#**: Fastest growth in short-term savings type products led to recent surge in premiums.
- **Africa**: Rapid growth in short-term savings type products led to recent surge in premiums.
- **Germany**: Sharp drop mainly due to the yen’s weakening against the dollar (constant currency growth +1.2%).
- **Italy**: S. Korea
- **UK**: Sharp drop mainly due to the yen’s weakening against the dollar (constant currency growth +1.2%).
- **Taiwan**: Extremely high penetration due to relatively low bank deposit rates, and high insurance awareness and demand.

Note: 1) Size of the bubbles represents 2015 premiums for the respective market
2) Actual premium and penetration figures for 2016 are not yet available
Source: "Swiss Re, sigma No 04/2010-03/2016"
Non-life insurance: mature markets continued to observe low premium growth amid an uncertain macroeconomic backdrop.

Despite high growth in local currency terms, currency depreciation (w.r.t. dollar) led to relatively low growth. Sustained macro-economic slowdown in recent years, coupled with weakness in motor sales, led to weak insurance demand. Also, high telematics penetration has led to reduced motor premium rates in recent years.

Growth on account of mandatory motor insurance sales and rapid economic growth.

Growth primarily from mandatory motor insurance sales in key markets.

Low growth rates mainly on account of currency depreciation (constant currency growth: Japan +4.8%; Germany +2.9%; France +1.6%)

Note: 1) Size of the bubbles represents 2015 premiums for the respective market
2) Actual premium and penetration figures for 2016 are not yet available
Source: “Swiss Re, sigma No 04/2010-03/2016”
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Executive summary and key indicators</td>
<td>2</td>
</tr>
<tr>
<td>II</td>
<td>Key global insurance trends from 2016</td>
<td>9</td>
</tr>
<tr>
<td>III</td>
<td>Top 10 insurance markets</td>
<td>20</td>
</tr>
<tr>
<td>IV</td>
<td>Highlights from emerging markets</td>
<td>24</td>
</tr>
</tbody>
</table>

- Emerging Asia
- Latin America
- Africa
- Middle East
Emerging Asia¹: a high growth region that needs to embrace change to maintain its momentum.

<table>
<thead>
<tr>
<th>Insurance GWP (US$b)</th>
<th>Top insurance markets (US$b) - GWP (Life + Non-life)</th>
<th>Insurance penetration</th>
<th>Insurance density (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>Non-life</td>
<td>Life</td>
<td>Non-life</td>
</tr>
<tr>
<td>2010</td>
<td>92</td>
<td>2.6%</td>
<td>42</td>
</tr>
<tr>
<td>2015</td>
<td>102</td>
<td>2.1%</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>29.3</td>
<td></td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>14.9</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>21.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>71.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Regional strengths and weaknesses

- Penetration lower than world average in both life and non-life
- Rapid rate of economic growth and rising per capita income
- Absence of strong social security frameworks to drive insurance demand
- Rising awareness toward utility of insurance

- Low financial literacy
- Inefficient business models and operations
- Weak sales practices leading to low focus on need-based selling
- Insufficient data for underwriting risks in some lines of businesses

Liberalization continues

To access foreign capital and know-how, governments/regulators continued to open up respective markets.

- Indian regulator IRDAI granted approvals to 23 reinsurers (vs. only 1 national reinsurer earlier).
- Malaysia implemented a phased price liberalization of motor and fire tariffs.
- Thailand raised voting shares of foreign shareholders, relaxed foreign shareholding limits in P&C insurers, and made plans to deregulate premiums and commissions.

Distribution undergoing a transformation

Buoyed by margin and regulatory pressures (around TCF), traditional insurance channels (primarily agency) are seeing rapid change, with inefficient distributors being eliminated and insurers retaining distributors that offer high efficiency and sales quality.

- For example, during 2009–16, life insurance agent count in India dropped from ~3m to ~2m.
- Greater share of business from digital routes is also adding to traditional distributors’ concerns.

Product innovation key to maintain momentum

Marked by under penetration, rising incomes and a growing middle class, Emerging Asia remains a rapidly expanding market. To maintain momentum, relevant products need to be designed for the evolving customers.

- The product category that will be beneficial for insurers in a diminishing interest rate scenario and will also cater to unmet customer needs includes long-term protection products (health, whole life, old-age care and disability).
- Also, greater demand can be expected in areas of cyber security and climate change.

Note: 1) Excludes mainland China, Japan and advanced Asian economies such as Singapore, Hong Kong, Taiwan and South Korea
Source: “Swiss Re, sigma No 03/2016”
LatAm: eyeing consolidation as regulations drive prudence; innovation across value chain key to manage slowdown.

Insurance GWP (US$b)

<table>
<thead>
<tr>
<th>Year</th>
<th>Life</th>
<th>Non-life</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>55</td>
<td>73</td>
</tr>
<tr>
<td>2015</td>
<td>66</td>
<td>92</td>
</tr>
</tbody>
</table>

5-year CAGR: 4%

Regional strengths and weaknesses

- IMF's forecast of a return to growth in 2017, with GDP up 1.6%
- Expected rise in disposable income, encouraging consumers to insure more cars and homes and invest in life and health products
- New infrastructure and energy projects expected in some countries, bolstering demand for commercial products

- Dramatic economic downturn in Latin America in the past three years
- Any trade and fiscal policy shifts under the Trump administration could have negative consequences for personal and commercial insurance
- Underserved market in both the personal and commercial space

Consolidation opportunities emerging

- Several insurers, particularly subscale ones, continue to operate on a cash flow basis.
- Increased regulatory push toward risk-based capital frameworks and increased transparency are being seen in most LatAm markets.
- International insurers can take advantage of an environment that offers favorable partnership or M&A opportunities.
- Through such opportunities, global insurers can leverage not only their capital positions, but also expertise in diverse areas such as capital management and digital strategy.

Innovation is a key imperative

- To increase penetration, insurers need to target underserved demographics and raise insurance awareness among masses.
- Conscious effort is required from incumbents to diversify distribution models toward more cost effective channels.
- Digital and IT modernization will be crucial to improve process efficiency and enhance the overall customer experience.
- Innovation and digital must be adapted for each market, specially for relatively mature ones (e.g. Brazil and Mexico).

Evolving regulatory stance towards prudence

- Risk-based capital rules are still evolving, as are regulations around cybersecurity and InsurTech.
- Different countries are at different stages of maturity, with Mexico and Brazil most advanced and Chile following closely.
- Legislative actions also emerged to improve cybersecurity, either in the form of wide-sweeping rules on data privacy rights or as specific laws and codes of corporate conduct.
- To cope with a growing maze of regulations, insurers must embed risk management into their DNA and develop well-honed systems for monitoring and assessing regulatory changes.

Source: “Swiss Re, sigma No 03/2016”
Africa: a promising region that needs nurturing through enabling policies and focused investments by incumbents.

Regional strengths and weaknesses

- Rapidly growing economies and insurance markets
- Low insurance penetration
- Growing use of mobile networks as a distribution channel
- Regulatory and governance reforms
- Dominance of cross-border M&A activities
- Economic and political uncertainty
- Low consumer confidence and product awareness
- Lack of technical talent and skill set

High growth, high risk market

- Significant population increases, rapidly rising incomes and low insurance penetration imply a huge growth potential for insurance.
- However, economic and political instability is still a high risk factor in sustaining this growth, as many African markets are dependent on commodity exports and natural resources, which have been volatile in recent years.
- Growth is also affected by negative customer perception, due to low product awareness, high levels of fraud and unhealthy competition
- Nonetheless, new generation of digitally savvy rural consumers is helping fuel growth.

Regulatory and governance reforms

- As insurance markets grow rapidly, the need for a robust regulatory regime is being recognized across African markets. Most are looking to improve their governance and risk management regulations, with some opting for norms resembling a simplified Solvency II.
- Apart from South Africa, which has already started implementing risk-based capital (RBC) framework, Kenya has made great strides in introducing RBC norms. Nigeria too has also recently introduced these norms.
- A consistent approach across markets can lead to strong regional collaboration and growth.

Growing interest from foreign investors

- Africa’s insurance markets continue to attract rising interest from foreign investors, including insurers and private equity firms who are seeking high growth/return opportunities.
- There is also a growing interest in the sector from large regional insurers from more mature markets (South Africa, Kenya, Nigeria and Morocco), which are looking to expand their footprint in nascent African markets.
- The growing presence of international insurers is positive for the region as it tends to bring in relevant expertise, thus driving healthy growth and competition in the market.

Source: “Swiss Re, sigma No 03/2016”
Regional strengths and weaknesses

- Mandatory health insurance driving growth in some markets
- Enabling regulatory landscape to drive greater adoption and financial prudence within the sector
- Very low penetration across the region
- Tough political environment threat to overall economic well-being
- Overly competitive market with too many players in some key markets
- Indirect impact of sustained low oil prices
- Low financial awareness and incompatible cultural beliefs

Volume growth remained resilient

- The sector has seen strong premium growth in recent years. However, a major section of the growth has come from compulsory lines of business, primarily motor and health.
- Of all lines, health insurance in particular, has been the biggest growth driver.
- Several policymakers have made attempts to establish a greater public-private participation in health care provision in order to limit government expenditure on health in light of low oil prices.

Takaful insurance continues to gain prominence

- Across both life and non-life product segments, Takaful products have gained prominence in selected markets, particularly in those where the respective regulators/policymakers have created an enabling environment for this category.
- Being Sharia compliant makes this category relevant to the cultural norms of the region and thus gains greater customer acceptability.

High competition; low product differentiation

- Apart from motor, health and to some extent property, most other segments (including life) remain relatively small and do not account for a significant volume of premiums.
- Also, the level of product differentiation is generally low and leads to high price-based competition rather than product design or service-based competition.
- Such competition has eroded margins in several markets and has put a question mark on the viability of several players, paving the way for a potential consolidation in the near future.

Note: 1) Excludes Israel and Turkey
Source: “Swiss Re, sigma No 03/2016”