

News release

Sustained insurance sector growth in 2017 largely based on demand from emerging markets

-) Moderate global economic growth is expected to support insurance sector growth over the next two years
-) Growth in global non-life insurance premiums are projected to be driven by the emerging markets
-) Pricing in commercial lines continues to deteriorate, but at a slower pace; demand for cyber risk solutions is increasing
-) Global life insurance premiums are forecast to grow by 4.8% in 2017 and 4.2% in 2018 in real terms
-) Emerging market life premiums will grow strongly, driven by demand for savings vehicles, particularly in emerging Asia

London, 22 November 2016 – The global economy is expected to grow moderately over the next two years, supporting continued growth in insurance premium volumes, Swiss Re's publication *Global insurance review and outlook for 2017/18* shows. Growth in global non-life premiums is forecast to fall slightly from 2.4% in 2016 in real terms to 2.2% in 2017, and accelerate to 3.0% in 2018. In the life sector, global premiums are expected to grow by 4.8% in 2017 and 4.2% in 2018. The emerging markets, in particular emerging Asia, will be the main driver of premium growth in both the non-life and life sectors.

Of the major economies, the US is expected to grow by slightly more than 2% in inflation-adjusted (real) terms annually over the next two years. The election of Donald Trump as president-elect was not explicitly incorporated into the US forecast, but this development is unlikely to have a major impact on insurance markets over the next two years. The Euro area and the UK are forecast to grow by about 1.0% and 1.5%, respectively, while Japan should grow by less than 1.0%. China is expected to grow by around 6.5%. Monetary policy will remain accommodative for the next two years, even as the US is expected to gradually raise rates. Other central banks are expected to keep their policy rates and quantitative easing policies intact. With the Fed raising rates, US 10-year government bond yields will likely rise, pulling yields in Europe slightly higher.

"The insurance industry faces headwinds, with moderate economic growth, and still ample capacity in the markets creating a challenging pricing environment," says Kurt Karl, Swiss Re's Chief Economist. "Nevertheless, premium volumes continue to grow, in both the advanced and emerging markets along with economic activity and an increase in the insurance penetration rate, particularly in emerging markets."

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Emerging markets to drive non-life sector growth

Non-life insurance sector premium volumes are expected to increase by 2.2% in real terms in 2017, after 2.4% in 2016, and by 3.0% in 2018. The emerging markets are expected to drive the improvement. Premium growth in the emerging markets is forecast to increase steadily from an estimated 5.3% in 2016 to 5.7% in 2017 and 6.7% in 2018. An improvement in commodity prices and strengthening economic activity will stimulate increased demand for insurance from the emerging regions. Emerging Asia will likely have the strongest growth in non-life premiums, forecast to be nearly 8% in 2017 and 9% in 2018. A contributing factor will be the investment opportunities presented by China's One Belt One Road program, which is expected to generate an increase in demand for commercial insurance.

The pricing environment in the global non-life sector remains challenging. Pricing in commercial lines continues to deteriorate across all regions, but at a slower pace. In contrast to many other commercial lines, however, rates in cyber insurance continue to harden but at a slowing pace and could level out soon. Increased awareness of the risks associated with cyberattacks and data breaches is boosting demand for related insurance solutions, and represents a significant growth opportunity for the non-life sector. To date, profitability in non-life has been sustained by low natural catastrophe losses and reserve releases. Assuming average natural catastrophe losses and shrinking reserve releases, return on equity (RoE) is forecast to decline from 8% in 2015 to around 6% in 2016-18.

Table 1: Real growth of direct premiums written in non-life insurance

Country/region	2014	2015	2016E	2017F	2018F
US	3.0%	3.6%	2.3%	1.3%	1.5%
Canada	1.9%	4.1%	0.8%	1.7%	2.6%
Japan	1.2%	1.3%	-1.0%	1.2%	2.2%
Australia	1.3%	0.5%	-0.4%	0.6%	1.4%
UK	-1.7%	1.3%	1.5%	0.3%	1.4%
Germany	1.8%	3.3%	2.5%	0.9%	1.1%
France	0.3%	1.0%	0.8%	0.4%	2.8%
Italy	-3.0%	-2.9%	-1.8%	0.3%	2.3%
Spain	0.2%	3.0%	4.6%	4.1%	4.3%
Advanced markets*	1.8%	2.5%	1.7%	1.3%	1.9%
Emerging markets	6.4%	4.9%	5.3%	5.7%	6.7%
World	2.7%	3.0%	2.4%	2.2%	3.0%

* Advanced markets include North America, Western Europe, Israel, Oceania, Japan, Korea, Hong Kong, Singapore, and Taiwan.

Source: Swiss Re, Economic Research & Consulting.

In non-life reinsurance, global premium growth is expected to be 2.7% in 2017 and 2.9% in 2018, based on increasing cessions from emerging markets.

Demand for savings products in emerging markets to drive life premiums

In the life sector, premium growth is expected to be significantly stronger than in non-life. Global life premium volumes are forecast to grow by 5.4%, 4.8% and 4.2% in 2016, 2017 and 2018, respectively. Advanced market premiums are expected to grow by 2.1% in 2017 and 2018, but the major driver will again be the emerging markets, where stabilising economic growth, growing populations, urbanisation and a rising middle class underpin a positive outlook. Emerging market life premiums are forecast to grow by 14.9% in 2017 and by 10.9% in 2018, sustained by robust growth of savings products, particularly in emerging Asia. China will make a strong contribution with the government targeting an increase in insurance penetration to 5% by 2020, from 3% in 2014.

Table 2: In-force real premium income growth for life insurance

Country	2014	2015	2016E	2017F	2018F
US	-1.7%	4.3%	1.6%	1.7%	1.7%
Canada	7.6%	3.5%	3.0%	3.6%	3.7%
UK	-11.9%	17.6%	2.2%	1.5%	2.0%
Japan	6.8%	1.5%	2.6%	2.0%	1.3%
Australia	26.5%	-7.4%	-5.7%	4.1%	4.1%
France	8.4%	1.3%	1.4%	1.4%	2.6%
Germany	2.4%	-2.7%	-2.3%	0.9%	1.3%
Italy	29.5%	4.0%	-2.1%	0.2%	1.1%
Spain	-2.5%	3.4%	23.9%	1.5%	0.9%
Netherlands	-4.6%	-16.9%	2.9%	1.6%	1.6%
Advanced markets	4.0%	3.4%	2.0%	2.1%	2.1%
Emerging markets	7.8%	13.2%	20.1%	14.9%	10.9%
World	4.7%	5.0%	5.4%	4.8%	4.2%

Note: this table provides growth rates for Life business alone (ie, excluding medex)

Source: Swiss Re Economic Research & Consulting.

The ongoing low interest rate environment continues to pose problems for life insurers. In terms of profitability, the RoE for the sector has declined from 13% in early 2015 to 10% over the past year as investment returns have weakened and pricing pressures have increased. Life insurers are adjusting product and asset portfolios in a bid to boost profitability, but it will take time for this to have a material effect on insurers' overall risk profile and profits. In life reinsurance, global premium growth is expected to be about 1.5% in 2016 and 1% in the years 2017 and 2018, primarily due to very low growth in the advanced economies where the bulk of cessions originate. Reinsurance premium growth in the emerging markets is forecast to be 8% or higher.

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-) the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on the Group's investment assets;
-) changes in the Group's investment result as a result of changes in its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
-) uncertainties in valuing credit default swaps and other credit-related instruments;

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-) the cyclical nature of the reinsurance industry;
-) uncertainties in estimating reserves;
-) uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;
-) the frequency, severity and development of insured claim events;
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