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Insurance Growth Strategies

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Overview – The Demand Challenge

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Life and Non Life Premium Growth vs Real GDP – 7 year moving average

The Demand Challenge

- **Global (Re)Insurance Industry has an over capitalisation problem**
- **New sources of capital with different return requirements now coming into the market**
- **History of capital shortage driving pricing and consequent growth is over**
- **Recent substantial capital return to shareholders is a direct result of managers inability to see opportunity for profitable growth**
- **New paradigm for the global (Re) insurance industry is emerging based on recognition of the wider societal role of insurance and new ways of working more efficiently**

The opportunity is before us to rebalance the supply – demand equilibrium and future proof the wider societal role of insurance

The Underinsurance Conundrum

- **The concept of the Economic Gap being the Gap between economic losses and insured losses now understood and actively measured at various levels – Sovereign and Sub Sovereign**
- **Casual (incorrect) assumption that Economic gap is primarily a developing market issue and is not relevant in mature insurance markets**
- **Mature markets also have very significant economic gaps**
- **Addressing underinsurance requires a multi faceted approach working with new types of partners to deliver highly segmented solutions tailored to client type and value**
- **Broadly market can be divided into 3 segments**
    - **Personal lines**
    - **Commercial Lines**
    - **Privatisation of Sovereign and Sub Sovereign Risk**

Personal Lines Stimulating Demand

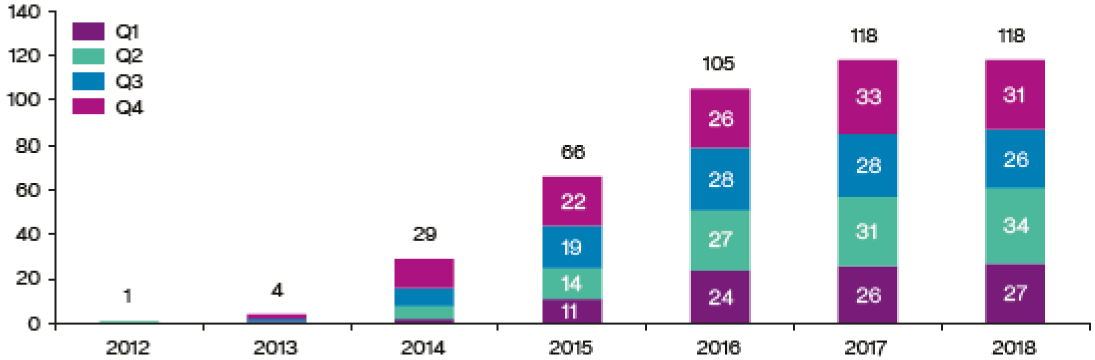
- **Current insurance model largely based on selling to personal lines customer on basis of price not value often with sub optimal customer experience**
- **Trust and customer experience a major issue for a product with unclear immediate tangible "instant gratification" unlike other financial products**
- **Industry has grown up selling the products it wants to deliver not concentrating enough on what customers want, need and can afford**
- **Cost of manufacturing and delivery far too high averaging in many markets 40% of premium cost**
- **Packaging of insurance products with other financial services often obscures the true value of the insurance product and can lead to misaligned expectations**
- **Insurance penetration woefully low especially in low income developing markets where individuals ability to absorb financial shocks of any kind are minimal/non existent**
- **For more sophisticated customers current coverage lags their real needs as economic models and attendant risk evolve**

The Mid and Upper Income Personal Lines Opportunity

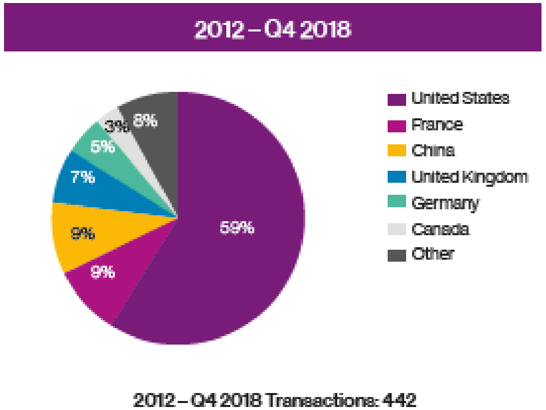
- **Area of greatest competition in current market – customers understand value of insurance and want/need to buy**
- **Number of successful models have developed e.g. Takaful, Bancassurance, Affinity Groups, Mutuals etc.**
- **Entirely new models of distribution are emerging based on partnership with strong often digital brands – balance of value extraction needs to be controlled to ensure sustainability**
- **Digitisation is offering rich opportunities to segment and customise client offering while delivering at much lower cost with superior customer experience**
- **Insurance often sold as prerequisite for another financial transaction e.g. mortgage and more efforts needed to maintain coverage once initial financial imperative terminates**
- **Greater ability to demonstrate value through advanced technology e.g. telematics and digital home which help promote risk mitigation**

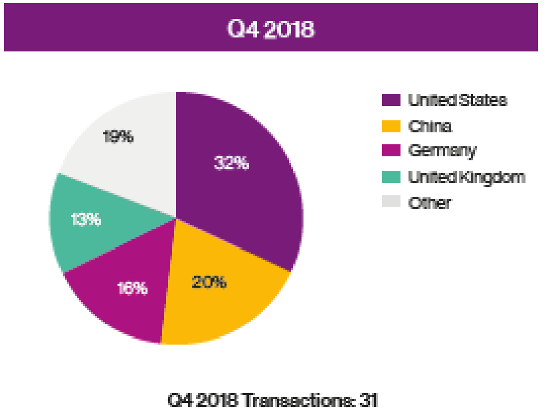
Existing (Re)insurers are major investors in Insuretech

Private technology investments by (re)insurers



Private technology investments by (re)insurers by target country





Source Willis Re Q4 2018 Insuretech Briefing

The Low Income Personal Lines Opportunity

- The key challenge as market potentially huge and impact of wider society greatest at this level
- Entirely new approaches need to be developed as the segment's buying needs and distribution processes fundamentally different
- New distribution models based on digitally enabled partnerships and customised simple policy coverages needed
- Many commercial insurers have neglected this section of market as financial rewards only likely over long term which does not fit many private investor models
- Wider partnership models have to develop where insurers and distribution partners can work together with a shared value approach and no one party seeking to extract excessive returns
- High mobile phone penetration in all countries offers most promising distribution route placing great emphasis on partnerships with Telcoms providers
- Role of Governments, Developments Banks and NGO's very important – Industry must get better at engaging with these non commercial partners to develop shared sustainable goals

Commercial Insurance Opportunity

- **Current insurance product is not keeping pace with the risk facing modern commercial enterprises**
- **Huge growth in Intangible Asset values – current insurance products almost exclusively seek to cover physical assets**

Largest 10 Companies in the World

1999	2018
General Motors	Apple
Ford Motor	Amazon
Exxon Mobil	Alphabet
IBM	Microsoft
General Motors	Facebook
Altria	Alibaba
Chrysler	Berkshire Hathaway
Dupont	Tencent Holdings
Texaco	JK Morgan Chase
Chevron	ExxonMobil

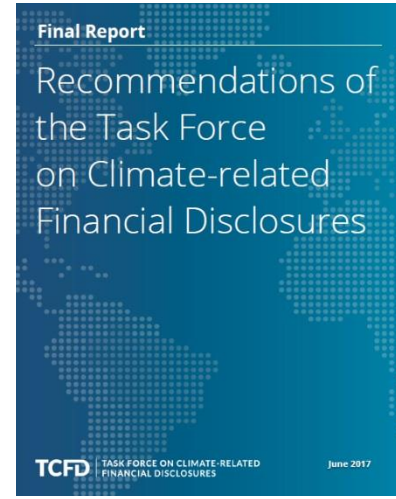
- **Insurance Industry must grasp these emerging risk and develop appropriate coverage so relevance and value can be maintained – scope of insurability must expand driven by a much deeper understanding of clients risk landscape informed by advanced analytics**
- **Non Material Damage Business Interruption cover is the product that must be developed**

Energy and Motor were once Emerging Risks!

Changing the Perception of the Value of Insurance

Task Force on Climate-related Financial Disclosures

> "Increasing transparency makes markets more efficient, and economies more stable and resilient."
> —Michael R. Bloomberg, Chair



- December 2015 Financial Stability (FSB) announced formation of TCFD
- June 2017 Final TCFD Report issued
- Sept 2018 513 TCFD supporters includes 287 financial and 170 non-financial companies, with a combined market capitalization of $7.9 trillion. Supporting financial firms responsible for assets of nearly $100 trillion.
- Growing momentum across all global business sectors

Implications for Insurance

- Enhanced disclosure of transition risk and physical risk will drive demand for adaptation, risk mitigation and risk transfer solutions
- Re(insurance) industry optimally placed to help quantify, manage and transfer particularly physical risk and some elements of transition risk
- Regulators starting to support TCFD principles (e.g. SUSEP in Brazil)
- Corporate Rating Agency models starting to incorporate sustainability and physical risk exposures

Huge opportunity for the Global Insurance industry to drive growth in the commercial insurance arena

The Government Risk Opportunity

- **Increased Societal Risk - need to build greater resilience and protection for people, communities, businesses, and public institutions that are vulnerable to disasters and their associated economic shocks**

- **Adoption of global agreements (Sendai Framework for Disaster Risk Reduction 2015-2030; Sustainable Development Goals 2030; and the COP21 Paris Agreement) which form the UN Agenda 2030.**

- **70% of economic losses from natural hazards uninsured and in middle/low-income countries uninsured proportion of economic losses often exceeds 90%.**

- **Most Governments facing growing fiscal pressures are no longer prepared or able to act as “insurers of last resort” and are looking for other solutions**

- **Research indicates a 1% increase in insurance penetration can reduce the disaster recovery burden on taxpayers by 22%.**

- **UN, World Bank, Asia Development Bank, G20 InsuResilince Partnership, Insurance Development Forum and others engaging to help close the Insurance Gap**

The Government Risk Opportunity

- The Global Insurance industry starting to recognise the huge scale of the opportunity that the privatisation of Government Risk represents at both a Sovereign and Sub Sovereign level
- With abundant capital available the Insurance industry well placed to help Governments bridge the gap between their retained risk and the risk private capital can absorb
- Governments are unlike any other client – No traditional P&L accounts, complex procurement processes, difficulty to plan over longer terms, political interference
- Selling insurance product to Governments unlikely to succeed – insurers need to build deep understanding of the changes Governments face and their limitations
- Solutions must be customised to fit Governments different requirements
- Innovative covers based of parametric triggers and potentially bundling other financial risk are possible solutions – regulatory support may be needed
- Underlying need must be real and sustainable – examples of donor funded schemes languishing once donor funding ceases, compulsory schemes where take up rates lag
- Health a promising example especially in GCC where the alignment of Government and Private Insurers more easily defined and long term sustainability of market is underpinned by demographic driven demand

Private insurers need to learn a new language to succeed

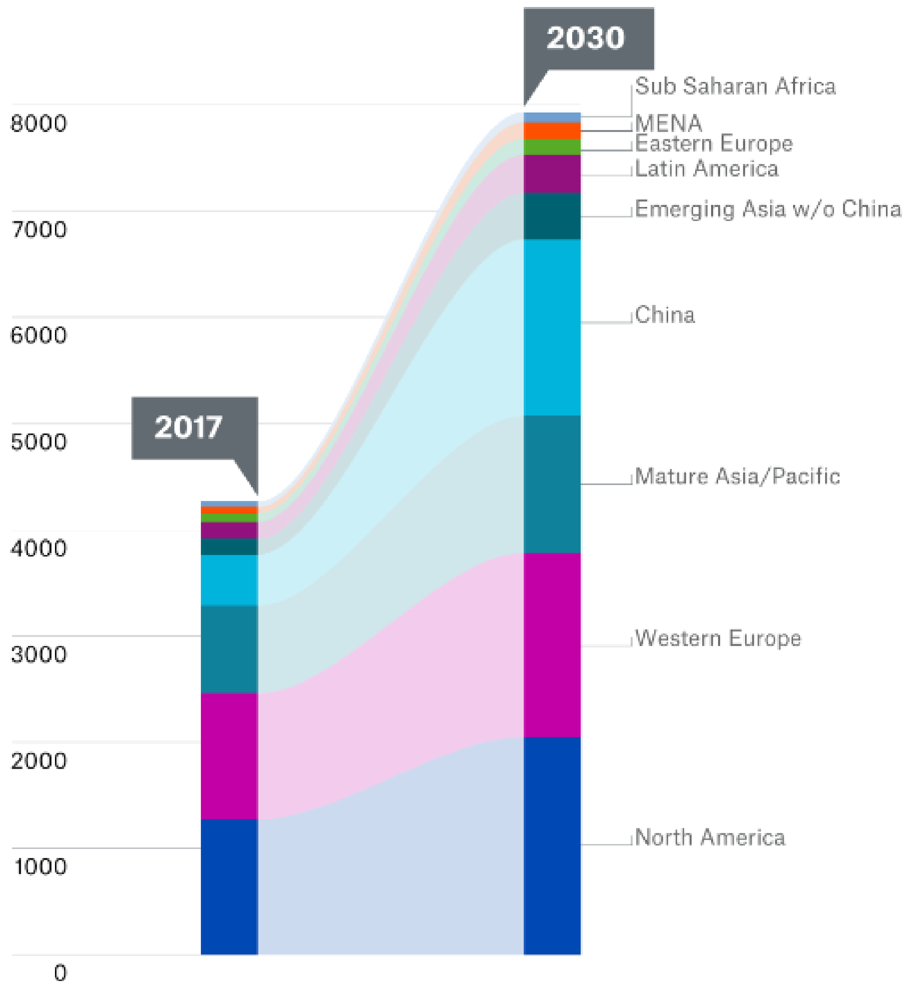
Future Proofing the Insurance Industry's Societal Role

- **The traditional supply demand cyclical model has broken down - excess capital coming into the industry must be put to work to drive acceptable returns**
- **To ensure sustainable long term growth rates the perception of Insurance in the eyes of customers needs to change – Insurance is not an “Instant Gratification Product”**
- **Perception of trust in insurance is low in nearly all countries and in many emerging markets remains an unknown product – far greater awareness/education of the value of insurance must to developed at all levels**
- **Products must evolve to meet customers real demand not just what the industry wants to sell**
- **Digitisation and new partnerships are bringing disruption to the industry which threatens existing participants as well as offering major opportunities to newcomers and traditional companies who can adapt**

The above comments apply globally but in high growth markets such as MENA they are even more relevant as the opportunity is far larger and the inertia of incumbency to change smaller

Life and Non Life Premium Growth – a happy outlook

Premium growth in primary insurance up to 2030 in €bn



Munich Re

Source: Munich Re Economic Research

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