1. What views about the future did we have in the past?
2. Megatrends within the society
3. Implications for the insurance sector in the short and long run
4. Wrap-up and points to take home
1. What views about the future did we have in the past?

“The global demand for cars will never be above 1 million – simply because there are not enough chauffeurs”

(Gottlieb Daimler, 1900)
1. What views about the future did we have in the past?

“Aeroplane flights are nothing else but first class suicide attempts …

… we will never ever give insurance coverage for it”

(Board member of a major European insurance company, 1927)
1. What views about the future did we have in the past?

“There is no reason that anybody would ever want to have a computer at home”

(Ken Olson, CEO and founder of Digital Equipment, 1977)
1. What views about the future did we have in the past?

“640k should be all that any application will ever need”

(Bill Gates, 1981)
2. Megatrends within the society

- **Digital natives**
  - Starting now from age 3
  - Identity

MP 3-Files, DVD
Internet
Digital-TV and - Radio
Gameboy / Playstation

**Generation X**
Age today: 30 - 50

2. Megatrends within the society

- Brands like Apple create identity

- .... not much to add here
2. Megatrends within the society

**App Generation**

More than 10 Billion apps will be sold this year

It is presumed that, in 2 years, more than 50 Billion apps will be sold

Significant reduction of frictions (5 to 10 times compared to a search via homepages)
2. Megatrends within the society

- Identification via peer groups

2. Megatrends within the society

• **Globalization and economy “for free”**
2. Megatrends within the society

- Exchange me: Foot massage vs. fixing the sewer

- Interesting perspective for insurance: Individuals put insurance demand online and offer money (or something else)
3. Implications for the insurance sector in the short and long run

- Main strategic challenges for the insurance industry

1) Demographic change (example: Germany)
3. Implications for the insurance sector in the short and long run

- 2050: 50% of the population will be older than 48 years

- Loss of trust in public old-age provision systems; pressure on pay-as-you-go schemes

  2005: 100 employees pay for 44 retirees
  2050: 100 employees pay for 78 retirees

- Important challenges for the industry:

  Demand for insurance will change
  A broader range of solutions for customers is needed

  More flexible life insurance products will prevail in the market
3. Implications for the insurance sector in the short and long run

2) Global market structure

- Gradual adjustments in the major insurance markets (products, sales channels, regulatory environment, legal system)

- National markets differ with regard to the insurance density (also within Europe)

- Mature markets in Europe with little growth potential

- Attractive new markets (Middle and Far East)

- Large insurance companies should have advantages in emerging insurance markets
3. Implications for the insurance sector in the short and long run

Insurance density
(premiums per capita in USD)

Insurance penetration
(premiums in % of GDP)

Swiss Re, Sigma
3. Implications for the insurance sector in the short and long run

- Changes in risk management, monitoring, safety measures and rate making through new techniques (e.g., GPS)

- Strong retail brands will use their distribution networks more extensively to sell insurance (low transaction costs) and insurance providers are likely to cooperate with retailers to unlock new sales channels.
3) Regulation and concentration in the insurance sector

- Re-regulation in the insurance sector: IFRS 4, Solvency II, Insurance Guarantee Funds, Swiss Solvency Test, etc.

- Safety level gains more importance as a competitive factor (cf. the transparency rules within the 3rd pillar of Solvency II)

- Ambitions to re-regulate increase transaction costs of insurers and the price of insurance products; the cost-benefit-ratio of regulation is virtually unknown to date

- Appropriate impulses for risk management through solvency regulation (?); increasing importance of reinsurance

- Different regulatory concepts can lead to different signals and hamper the proper management of an insurance company
3. Implications for the insurance sector in the short and long run

More concentration in the market through re-regulation?

The 5 largest players will eventually reach a market share of 60 to 80%
3. Implications for the insurance sector in the short and long run

4) Systematic risk and insurance

- Differences in the business model of banks and insurance companies: An "insurance run" is rather unlikely to happen

- Interrelationships between insurance companies are not comparable to the banking industry

- Introducing the same regulatory standards in large insurance markets reduces "regulatory competition" and leads to similar behaviour within the insurance industry

- The Insurance business model could lead to a competitive advantage in the long run

- Profits will need to come from the underwriting sector
3. Implications for the insurance sector in the short and long run

5) Price efficiency in the insurance retail markets

- An example from the luxury wristwatch sector
3. Implications for the insurance sector in the short and long run

Very different prices for a homogenous product

+ 50 %
4. Wrap-up and points to take home

• Hypotheses

- Trends and current developments do not work against insurance .... on the contrary!

- The insurance business model is fit for the future, but the way insurance will be sold is likely to change considerably

- Profits for insurance companies will need to come from the underwriting sector; pure investments in the capital markets will not provide risk-adequate returns

- Substantial growth potential in emerging markets and in the pension sector; stable conditions for insurance in the developed countries
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