

# 2020 Germany Insurance Outlook

Trends and imperatives shaping  
the life and non-life markets



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The German insurance sector is divided into three types of insurance firms: public, mutual and state-owned insurers. Few large firms are stock-listed, though the market is characterized by a large number of insurance firms. As a result, consolidation is ongoing and expected to accelerate in the future.

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### Compound annual growth rate, gross written premium, Germany, 2013-2018

In EUR		In USD
<b>1.8%</b>	Total	<b>-0.5%</b>
<b>-1.1%</b>	Life	<b>-3.4%</b>
<b>4.2%</b>	Non-life	<b>1.7%</b>

Source: Swiss Re Sigma



German insurers sell relatively low levels of corporate insurance compared to their British peers, instead focusing on private insurance business. The market has been stable in the past as insurers showed high levels of capitalization, which, to date, prevented them from defaulting. The market was liberalized in 1994, resulting in broader product portfolios and higher degrees of competition.

Current challenges for German insurers include:

- ▶ The low-interest-rate environment is driving a deterioration of earnings and new business in the life insurance sector, and also affecting non-life insurers' interest income
- ▶ Ongoing digitalization, which has put pressure on insurance firms to invest in new technologies
- ▶ Intensifying regulatory standards, which have led to higher compliance costs and complexities
- ▶ Increasing cost pressure within the sector in order to enable necessary investments

## A number of trends and drivers are shaping the overall insurance market. The following are among the most important.

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### **Increasing digitization**

Digitization has significant consequences for both life and non-life insurance firms, as it will change all aspects of the insurance business, from product design to distribution to operations. In addition, new market entrants (InsurTechs in particular) increase the competitive pressure and lead to innovations that endanger the market position of traditional insurance firms.

Insurers therefore have to invest heavily in digitizing their business models. This transformation must be holistic, comprising operations (e.g., automating relevant processes), distribution (e.g., strengthening online channels) and products (e.g., introducing cyber insurance products).

### **Workforce transformation**

Both life and non-life insurers usually have relatively old workforces, with many workers lacking the skills to participate in or lead digital transformation programs and others approaching retirement. Moreover, insurance firms are generally not considered attractive employers for skilled, younger employees. Insurance firms have to face the challenge of transforming their workforce. In particular, they need to hire talented and motivated employees with the necessary skills to succeed in the evolving marketplace. They must also invest in retraining their existing workforces in order to increase their skills.

### **Cost optimization**

Cost optimization is more important than ever for both life and non-life insurers. Given the low-interest-rate environment, negative performances in underwriting results cannot be compensated by favorable investment income as easily as in the past. That's why most insurers are looking to dramatically cut their costs.

Increased regulatory costs and investments in digital transformation also contribute to the cost pressures and make it harder to prevent bottom line losses. Therefore, the whole value chain is being examined for cost-cutting opportunities.



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# Key trends

# Life

## Low-interest-rate environment

The current environment of low interest rates is hurting life insurers' earnings and new business. In particular, firms that offered products with high guarantees in the past now struggle to earn the promised guarantees for customers with traditional investments.

Life insurers have to consider the consequences for both their portfolios and their investments. Various insurance firms decided to put their life insurance portfolios into run off, which caused negative reactions in the media and a deterioration of customer trust. On the investment side, traditional fixed income assets do not earn a sufficient yield anymore, leading life insurers to invest in alternative asset classes, such as infrastructure and real estate.

## Adapting product portfolios

Life insurance firms have to react to the current economic conditions, particularly regarding low interest rates. Hence, traditional products that offer high guarantees are not attractive. Life insurers have been forced to adjust their product portfolios, especially with respect to biometric and investment-based products. Such products are independent of interest rate developments and provide attractive new business opportunities. However, these products require different skills, which is why changes to product portfolios necessitate changes to the workforce and operations.

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Number of life insurance contracts

2014

92.4 million

2018

87.2 million

Source: GDV, PKV-Verband

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## Key trends

# Non-life

### Diminishing customer touchpoints

Non-life insurers have sold their products predominantly via independent agents or direct distribution channels. In the era of digitalization, many insurance policies are sold through online platforms or as an embedded feature of another product (e.g., a household appliance or an automobile). Insurers risk losing contact with their customers, thus creating new challenges around retention. At the same time, due to increased transparency, customers now are more willing than ever to switch to competitors if they offer better products and/or prices. Thus, insurance firms must invest in stronger customer relationships. They might do so by providing advanced online services and adopting robust customer relationship management (CRM) systems and capabilities.

Number of property and casualty (P&C) insurance contracts

2014

301.2 million

2018

315.8 million

Source: GDV, PKV-Verband

### Overreliance on auto insurance

In Germany, as in most countries, automotive is the biggest line of business in the insurance industry. That's why most German non-life insurers are understandably focused on auto insurance. However, the market is facing significant changes and challenges as new mobility concepts, such as self-driving vehicles and micro-mobility, gain traction.

These changes could heavily affect auto insurance business. The more insurers rely on automotive lines, the greater the risk they face. Thus, non-life insurers need to carefully follow market trends in the automotive industry and evolve their product portfolios accordingly.

Non-life insurers should focus on new product types, such as cyber insurance, while growing existing product lines such as corporate insurance. They should also build out the necessary capabilities to connect to digital platforms, enhancing the reach of their distribution while simultaneously reducing costs.

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# Imperatives for insurers

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**Embrace the challenges of digitalization** as an opportunity to gain competitive advantage, reduce costs and provide a foundation for transformation initiatives.

2

**Evolue the product portfolio** to be competitive in the future, with life insurers focusing on biometric and investment products, and non-life insurers tracking developments in the automotive industry.

3

**Focus on cost reductions** to free funds for investments in digital transformation and to meet rising regulatory costs.

4

**Devise strategies to realize economies of scale,** foster organic growth and benefit from the upcoming consolidation across the industry.

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For insights into regional trends and imperatives, please review the 2020 Europe Insurance Outlook.

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