A “Tour d’horizon” on the Continental European Life Insurance Market^{*}

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This paper contains some of the authors’ remarks made at the 33rd Geneva Assembly in Munich in May 2006. In a “tour d’horizon”, the author summarises seven trends and challenges the insurance companies are facing today in the continental European life insurance market.

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Introduction

From the news flow relating to the continental European life insurance market, we can identify a broad area of activity and change, similar to transformations which other industries have gone through long before our own: consolidation is again picking up speed. Some companies are pursuing external growth strategies to reach new efficiency levels. Other, more specialised players are emerging in attractive segments and markets, or with new products. Demographic developments, advances in technology and capital market developments are additional forces for change, as well as the evolving client requirements.

The picture within the European life insurance industry raises questions about the underlying trends. What exactly is driving the changes in Europe’s life insurance market? Swiss Life sees seven key trends impacting the markets in the years ahead (see Figure 1).

Trend 1: shifting importance of client segments

All across Europe, the number of retirees and people approaching retirement is rising steeply, and so is their wealth. But their financial and income protection needs are not yet being fully addressed, either by banks or by insurers. The potential is enormous and a number of market segments (e.g., housing, assisted health care) are already beginning to respond.

As a consequence, all financial services providers are focusing increasingly on pensioners and people about to retire. The strong long-term growth in the number and

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Figure 1. Trends in life insurance in Continental Europe.

percentage of retirees will not only usher in new services (e.g., care-giving, retirement communities) but also trigger the development of tailor-made distribution concepts while drawing new players into the market.

Trend 2: growing pension markets

The ageing population, declining birth rates and increasing life expectancy everywhere will inevitably lead to higher dependency ratios. The pressure on existing “pay-as-you-go” state pension systems will prompt a shift to private and occupational provisions for the future. Both “new”, high-growth insurance markets (especially in Eastern Europe, South & East Asia and Latin America) and some “older” markets (e.g., France) are experiencing long-term double-digit expansion rates.

Against this background, pension assets in Western Europe are expected to grow at an annual rate of 7.5 per cent, and should more than double by 2015. The full “pensions gap” to be funded in Europe is expected to reach EUR 8 trillion by 2024. Not only life insurers but also non-insurers – such as banks, asset managers, pension funds, brokers and specialised pension providers – will be vying for a share of this market. The result will be a highly competitive environment.

The rapidly growing life insurance markets in Eastern Europe will add momentum to the internationalisation of the life and pensions industry. Some European insurers have already anticipated this trend and have started to establish a presence in these markets.

Trend 3: increasing impact of regulation

More than most other industries, the life and pensions market is highly regulated. The foreseeable shift from state-funded to occupational and private pensions is expected to have two implications: the industry will remain strongly regulated in the future as well, and the pace of regulatory change will accelerate. But nobody can say exactly

where all this regulation is leading. Regulation will continue to impose important costs for the providers and distributors of life and pensions products, as well as significant constraints.

It follows that pension insurers are compelled not only to reduce the potential risks arising from regulatory changes (e.g., solvency rules, IFRS amendments, lower tax concessions for life insurance) but also to stay closely involved in the regulatory process and to systematically anticipate and exploit growth opportunities created by regulation. A good example of the latter is the occupational pensions business in Switzerland, which emerged from a single law dating back to 1985. The recent acceleration in the growth of life insurance in France, since 2004, is another case in point.

Trend 4: changing distribution patterns

The importance of distribution channels in European pension markets varies strongly from country to country. In general, the pressure on high-margin channels (i.e., own sales networks) will rise; brokers and banks are expected to further expand their market shares as distribution channels, and this will threaten the life insurers' "ownership" of their client base.

In light of the above, customers are not going to tie themselves to only one channel; multi-channelling, channel management and branding will become even more important than they are now. Access to clients will also increasingly involve partnerships requiring specific skills. In short, client ownership will be an issue: it will be harder to keep the clients' loyalty to a particular brand or provider than today.

Trend 5: internationalisation of life insurance products and services

Cross-border business is already flourishing, although still at a relatively low level. Multi-location product platforms have been established by leading insurers. They help satisfy the clients' needs for more transparent, more accessible and in some cases unbundled products, and enable the client to strike a balance between risk and return. New EU regulations (EU pension directives, among others) are aimed at fostering the portability (vesting) and internationalisation of occupational pension schemes.

As a result, the pensions industry will continue to internationalise, despite significant regulatory hurdles. Both international and national customers will become more demanding and be more critical of the products and services offered. And they will increasingly get the products they want.

Trend 6: industrialisation of the value chain

Given the limited growth in Western Europe, cost effectiveness will be imperative for life and pensions providers. At the same time, the complexity of the life insurance business remains very high. Some of the standard business processes are not yet efficient enough. Too many products, systems and activities are being maintained independently and side-by-side, sometimes without any clear creation of value for the

customer or the provider. The competitive environment and internationalisation will enforce both process efficiency and the streamlining of organisations.

International insurance companies are accordingly working on the integration and standardisation of their core processes to achieve lower unit costs. Other processes will be outsourced to specialists. Where the old legacies of established providers cannot be transformed, new “Greenfield” business models will be emerging. Technological advances provide support for these changes, but outsourcing or off-shoring may involve a number of not-yet-quantified risks.

Trend 7: international industry consolidation

The national consolidation of the life insurance industry is nothing new. Interestingly, the international consolidation throughout Europe has been proceeding at a fast pace. Since 1997, the top 10 European life insurers have been continuously expanding their market share by over 1 percentage point a year, and now hold more than 40 per cent of the total market.

The implication is that national and international life insurers need to look at their targeted position in a consolidating market. For smaller players, it will become even more expensive to comply with regulations emanating from, for example, the new risk-based solvency framework, or to keep up with the technological changes efficiently. However, size alone is not the whole story. Client access and branding remain key success factors for the smaller and larger life insurance companies alike.

As we have seen, there are a number of opportunities and challenges ahead. Those companies that are able to adapt to these trends will be successful.

Appendix

The Swiss Life Group is one of Europe's leading providers of pension and life insurance products. The Swiss Life Group offers individuals and companies comprehensive advice across a broad range of products via agents, brokers and banks in its domestic market, Switzerland, where it is market leader, and selected European markets. Multinational companies are serviced with tailor-made solutions by a network of partners in over 60 countries and regions. With Banca del Gottardo, the Swiss Life Group is also a provider of private banking services. The bank, with its head office in Lugano, has an extended national and international network and around CHF 34 billion in customer assets under management.

About the Author

Dr. Rolf Dörig is the CEO of Swiss Life Group, one of Europe's leading providers of pension and life insurance products. He studied law at the University of Zurich. He took his doctorate in 1985 and qualified to practice as an attorney in the same year. He also attended the AMP/ISMP Program at the Harvard Business School in 1995. In 1986, he joined Credit Suisse. In the course of his duties at the bank, he attended a one-year course at the International Bankers School in New York and worked in retail, private and corporate banking in various regions. From 1997, he was Chief of Staff and Chief Communications Officer of Credit Suisse Group. As a Member of the

Executive Board of Credit Suisse Financial Services, he was given responsibility for Swiss corporate and retail banking from 2000 onwards. In spring 2002, he was also appointed Chairman Switzerland for Credit Suisse Group. He was appointed as Chief Executive Officer of Swiss Life Group on 6th November, 2002. He is committee member of the board of the Swiss Insurance Association as well as committee member of the board of economiesuisse, the largest umbrella organisation representing the Swiss economy. Born in 1957, he is married and has three sons.