Sector Overview

**What is the Insurance sector?**

The phrase insurance sector can be used to describe the entire insurance provider arena or an individual product-based sector of the insurance market. The insurance market is where insurance providers and buyers come together.

**Porter’s Five Forces**

Porter’s five forces are: threat of entry to the market from other organizations, supplier power, buyer power, availability of substitute products and existing competitors. This model is an excellent one, used to analyze the particular environment of an industry.

Existing Competitors:

* Cut throat competition among rivals
* Insurance companies deal in identical policies, as services rendered are similar
* Some exit barriers exist

Supplier Power:

* The policy designer tends to have less leverage to bargain premium prices
* Insurance is exempt from tax, so suppliers’ bargaining power can increase
* Solvency of private players isn’t certain

Availability of Substitutes:

* Somewhat low, as customer deposits to banks or investment institutions cannot necessarily replace the concept of an insurance policy

Buyer Power:

* Market is highly segmented
* The industry is very return oriented and switches easily
* High switching costs creates buyer’s lock in
* Can exercise some amount of bargaining leverage over premiums

Threat of New Entrants:

* The acceptability of new insurance brands is low
* Economies of scale is difficult to achieve in the initial stages of entry to the market
* Special permission from government agencies is usually required to enter the insurance sector.

**Trends in the Industry**

In 2014, the insurance industry staged an impressive recovery, with anticipated global growth of 6.3 percent—far exceeding the 2.8 percent reported in 2013—and total premiums reaching EUR 3.8 trillion. Growth in 2014 was also notable because it was higher than nominal GDP growth for the first time in five years.

Preliminary reports suggest that Health showed the highest growth, while Life demonstrated a strong recovery in growth of gross written premiums (GWP) from 2013 to 2014. Growth in P&C insurance remained relatively stable, at a decent 5 percent. Early reports also show that emerging markets grew significantly more than mature markets (12 percent vs. 5 percent), mainly because of their lower penetration levels and higher nominal GDP growth. The only two regions experiencing double-digit growth were Emerging Asia and Latin America.

As in previous years, the penetration rate for mature markets (8 percent) far exceeds that of emerging markets (3 percent). This pattern will continue, since the growth seen in emerging markets is not yet strong enough to largely surpass nominal GDP growth and thus to increase penetration.

At the product level, preliminary reports revealed some important trends:

* Life.

Most regions saw positive Life growth in 2014, but the amount of the increase, as well as the factors responsible, varied by region. In a marked departure from 2013, the US, Japan and Mature Asia demonstrated the strongest gains. Of all Life products, endowments experienced the most growth, primarily because of a resurgence in sales at Italian banks, but unit-linked products also performed well. Life Return on Equity (RoE) rose from 11.5 percent in 2012 to 12.7 percent in 2013 as equity markets were strong.

* P&C.

Growth in the P&C market held steady in 2014, coming in at 5 percent. The main growth drivers were Motor in emerging markets and Fire and Property in mature markets. At the regional level, growth was stable, except for a significant slowdown in Eastern Europe. As in 2013, Emerging Asia and Latin America are driving most of the P&C growth. For profitability, P&C RoE increased in almost all regions in 2013, reaching 11.5 percent globally.

* Health.

The Health segment grew 8 percent in 2014, up from 5 percent annually in the two previous years. Emerging markets are rapidly gaining share and should account for about 8 percent of global premiums in 2014 (up from 5 percent in 2008). Emerging Asia and Latin America achieved the most growth, at 31 percent and 23 percent, respectively. The US is also expected to contribute strongly to growth as the Affordable Care Act is raising the number of insured. Globally, the net combined ratio for Health has been under 100 percent, on average, for the last decade, with emerging markets generally reporting higher numbers than mature markets. (Mckinsey Consulting).