

Insurance: The World to Come



International Union of Marine Insurance

Prof. Dr. Hato Schmeiser
hato.schmeiser@unisg.ch

Zurich, September 13th, 2010

Agenda

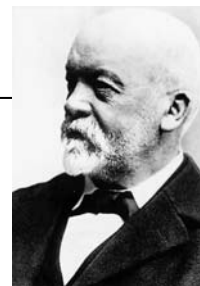
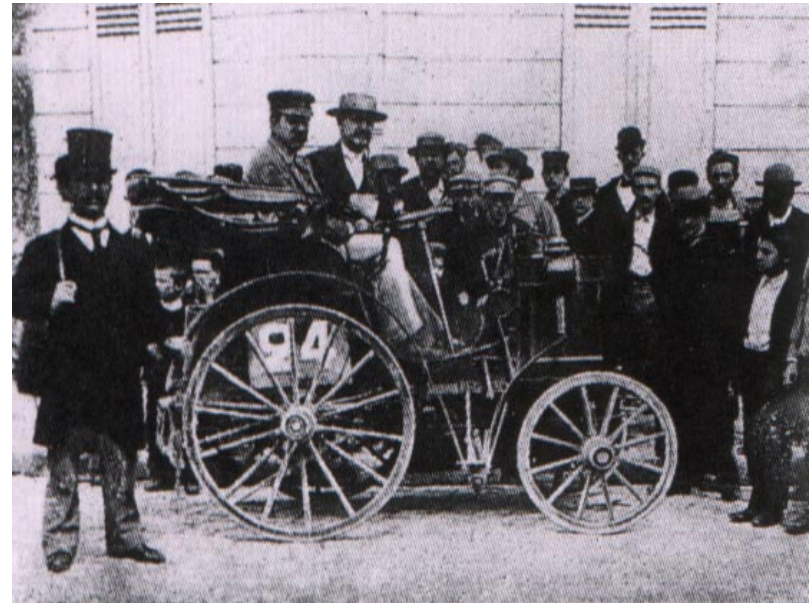
1. What views about the future did we have in the past?
2. Megatrends within the society
3. Implications for the insurance sector in the short and long run
4. Wrap-up and points to take home



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?

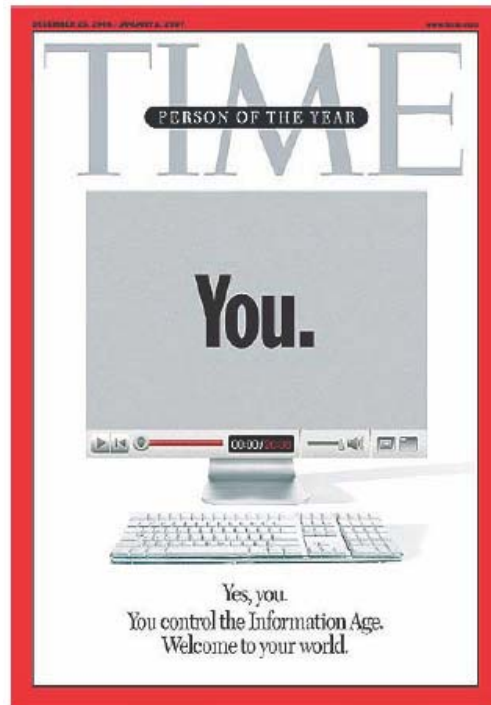
“640k should be all that any application will ever need”

(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**



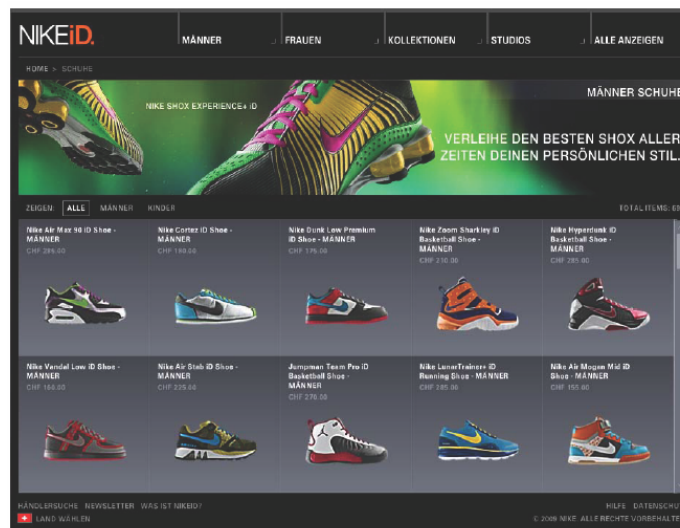
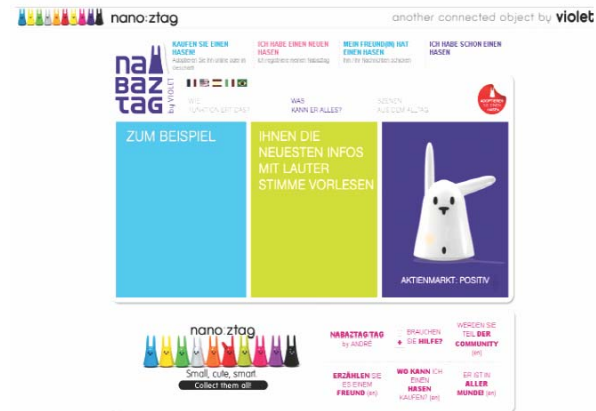
More than 10 Billion apps will be sold this year

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)

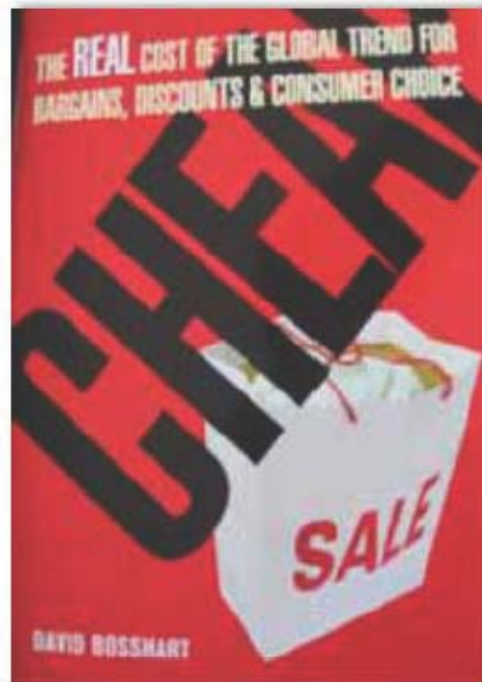
2. Megatrends within the society

- Identification via peer groups

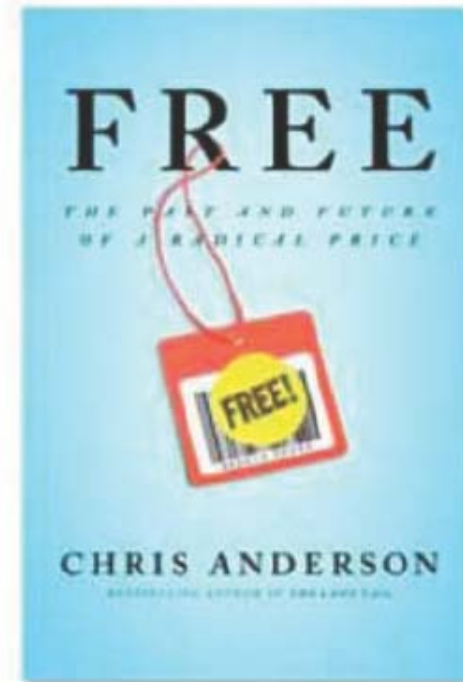


2. Megatrends within the society

- Globalization and economy “for free”



2004



2009

2. Megatrends within the society

- **Exchange me: Foot massage vs. fixing the sewer**



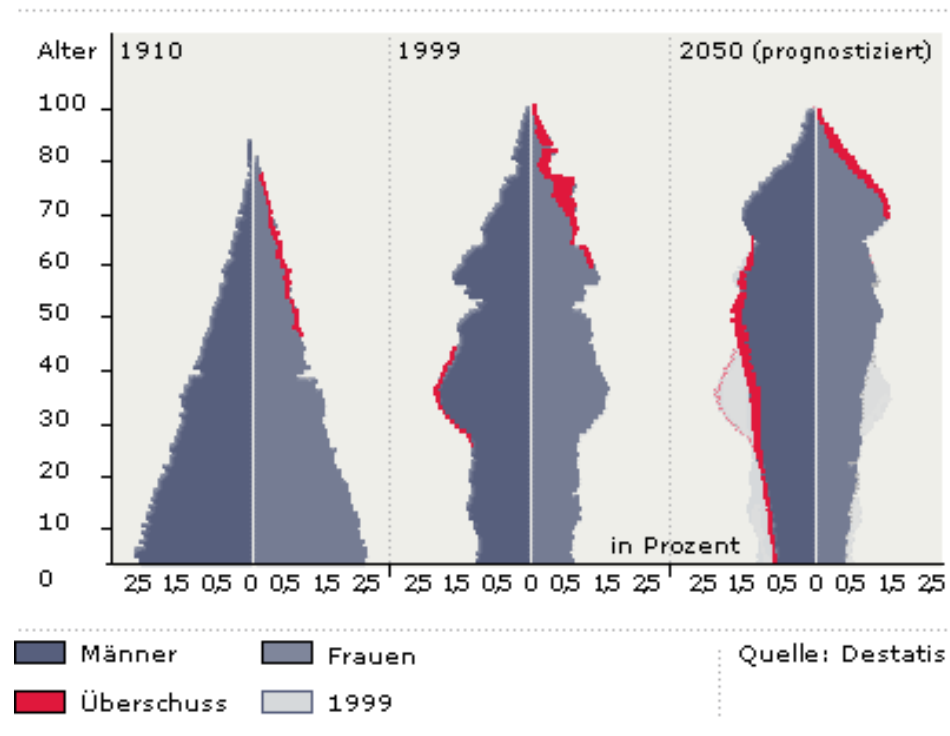
- Interesting perspective for insurance: Individuals put insurance demand online and offer money (or something else)

3. Implications for the insurance sector in the short and long run

- **Main strategic challenges for the insurance industry**

1) Demographic change (example: Germany)

Altersaufbau der Bevölkerung in Deutschland



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

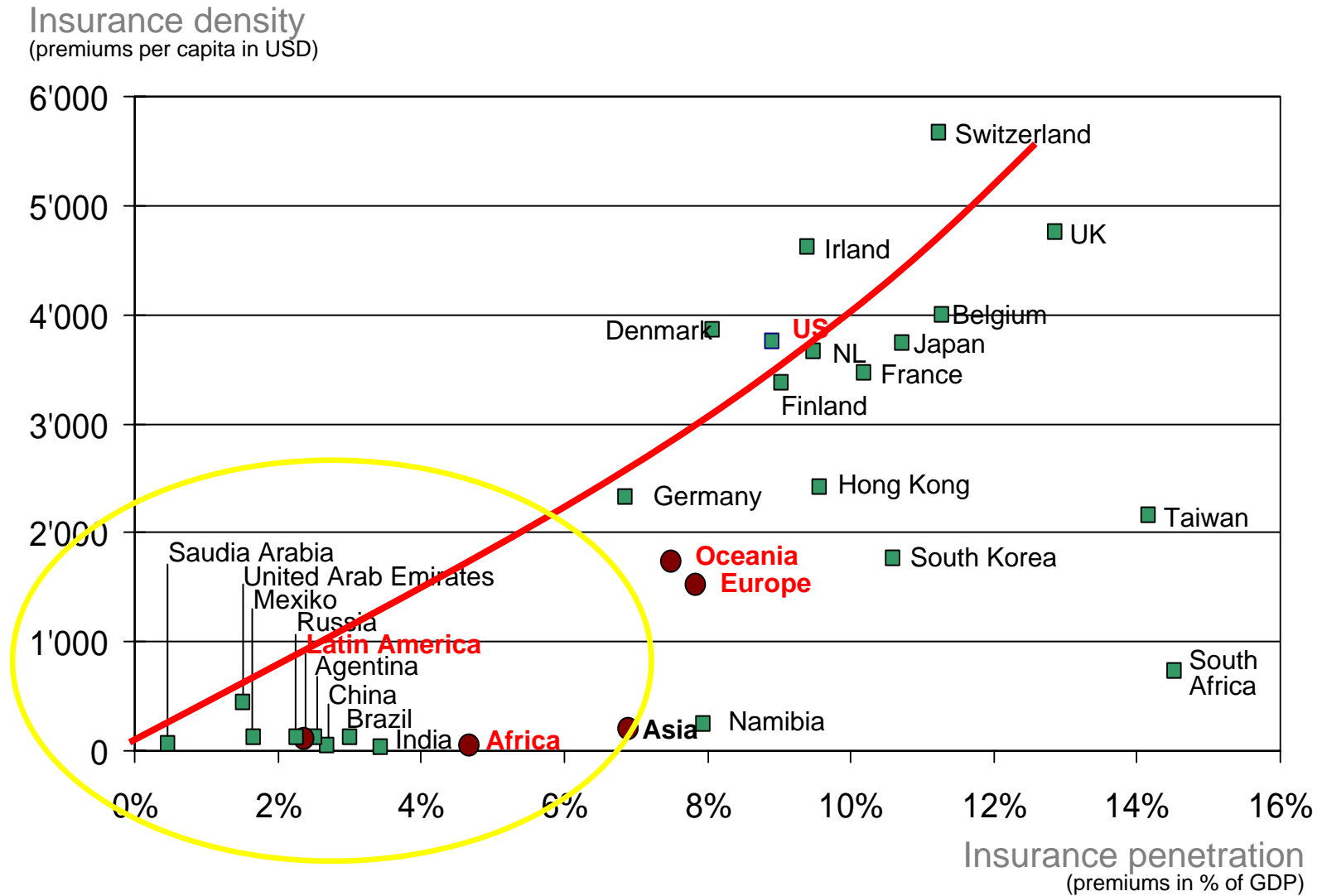
More flexible life insurance products will prevail in the market

3. Implications for the insurance sector in the short and long run

2) Global market structure

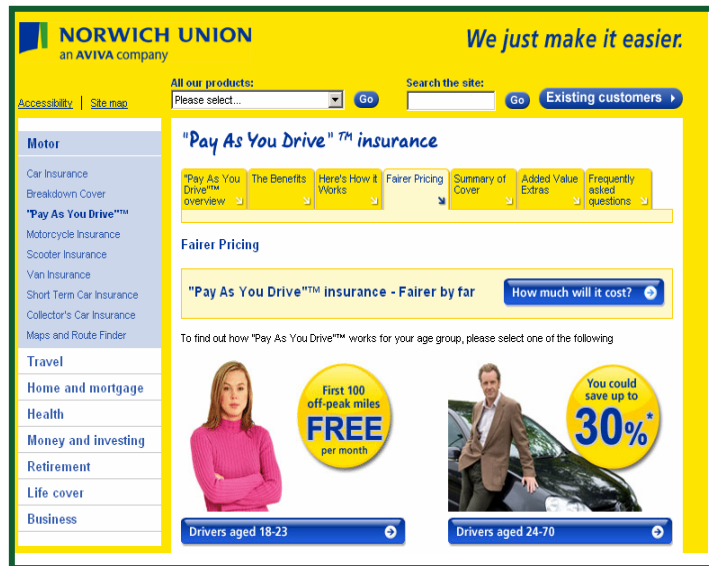
- Gradual adjustments in the major insurance markets (products, sales channels, regulatory environment, legal system)
- National markets differ with regard to the insurance density (also within Europe)
- Mature markets in Europe with little growth potential
- Attractive new markets (Middle and Far East)
- Large insurance companies should have advantages in emerging insurance markets

3. Implications for the insurance sector in the short and long run



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. Implications for the insurance sector in the short and long run



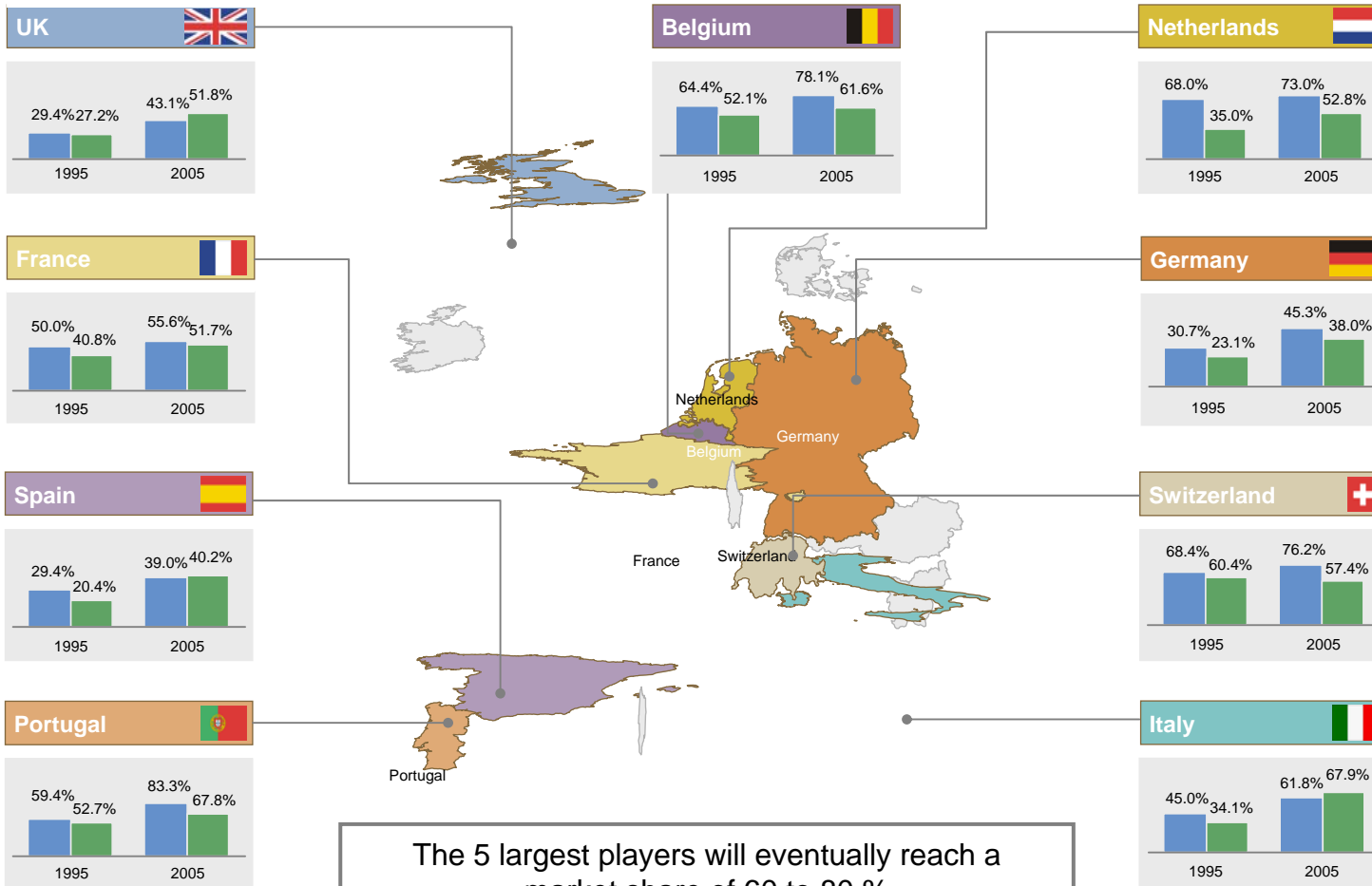
3) Regulation and concentration in the insurance sector

- 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?

Market share of top 5 insurers




The 5 largest players will eventually reach a market share of 60 to 80 %

Source: CEA
■ Life ■ Non-life

Institute of Insurance Economics

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

The screenshot shows an eBay search results page for 'Omega Speedmaster' watches. The search filters on the left include 'Ort', 'Artikel in Umkreis von', 'Nur anzeigen:', 'Zahlungsmethode PayPal', 'Kaufoptionen', 'Weitere Kaufoptionen', 'Artikel mit Schnellversand', 'Sofort & Neu-Artikel', 'Artikel mit Preis', and 'Artikel anzeigen'. The search results are sorted by 'Preis: niedrigster zuerst'.

Artikelbezeichnung	Preis*	Gebote	Land/Region	Versand nach 9010, CHE	Restzeit
Omega Speedmaster Chronograph Mother of Pearl	CHF 2.989,02	Sobri Kufen	Deutschland	CHF 40,41	24T 13Std. 09Min.
Omega Speedmaster Autom. Date Racing "M. Schumacher"	CHF 3.053,68	Sobri Kufen	Deutschland	CHF 40,41	24T 15Std. 36Min.
Omega Speedmaster Professional First Watch on the Moon	CHF 3.166,84	Sobri Kufen	Deutschland	CHF 80,83	4T 16Std. 42Min.
Omega Speedmaster Day Date Automatic Chronometer	CHF 3.393,16	Sobri Kufen	Deutschland	CHF 40,41	29T 11Std. 49Min.
Omega Speedmaster Day Date Automatic Chronometer	CHF 3.393,16	Sobri Kufen	Deutschland	CHF 40,41	18T 15Std. 00Min.
Omega Speedmaster Day Date Automatic, Edelstahl	CHF 3.393,16	Sobri Kufen	Deutschland	CHF 40,41	15T 10Std. 03Min.
Omega Speedmaster Professional Moonwatch, Edelstahl	CHF 3.393,16	Sobri Kufen	Deutschland	CHF 40,41	10T 18Std. 16Min.
Omega Speedmaster Day Date Automatic 3220.50 "NEUWARE"	CHF 3.587,15	Sobri Kufen	Deutschland	CHF 61,43	24T 14Std. 51Min.

3. Implications for the insurance sector in the short and long run

Example from motor insurance in Switzerland

zu myComparis	
AUDI A4 2.0 TDI	Deckung Haftpflicht, Teil- und Kollisionskasko
Alle Berechnungsgrundlagen prüfen oder ändern	

[Kündigungsbrief erstellen](#)

[comparis.ch weiterempfehlen](#)

Ansicht: Prämienübersicht ▶Go				
Versicherung Produkt	Comparis-Wertung	Jahresprämie ¹	Sparpotenzial	Offertanfrage
Prämienübersicht				
+ Versicherung 1 *	✓ 5.4	997.00	483.20	
+ Versicherung 2 *	✓ 5.4	1016.10	464.10	
+ Versicherung 3	✓ 5.2	1135.80	344.40	
+ Versicherung 4	✓ 5.3	1480.20	0.00	
Versicherung 5	✓ 5.3	Berechnung n. mögl.		
Versicherung 6	✓ 5.4	Berechnung n. mögl.		
Ansicht: Prämienübersicht ▶Go				



Ihr Vergleich vom 25.01

zu myComparis

PORSCHE Boxster 2.7
1. Inverkehrsetzung 09

Deckung Haftpflicht, Teil- und Kollisionskasko
Versicherungsbeginn per 01.09.2008

[Alle Berechnungsgrundlagen prüfen oder ändern](#)

[Kündigungsbrief erstellen](#)

[comparis.ch weiterempfehlen](#)

Ansicht: Prämienübersicht ▶Go				
Versicherung Produkt	Comparis-Wertung	Jahresprämie ¹	Sparpotenzial	Offertanfrage
Prämienübersicht				
+ Versicherung 1	✓ 5.0	5486.90	3107.30	Offerte anfordern
+ Versicherung 2	✓ 5.4	7245.80	1348.40	Offerte anfordern
+ Versicherung 3 *	✓ 5.3	7305.00	1289.20	Offerte anfordern
+ Versicherung 4 *	✓ 5.3	8594.20	0.00	Offerte anfordern
Versicherung 5	✓ 5.2	Berechnung n. mögl.		Offerte anfordern
Versicherung 6	✓ 5.1	Berechnung n. mögl.		Offerte anfordern
Versicherung 7	✓ 5.1	Berechnung n. mögl.		Offerte anfordern
Versicherung 8	✓ 5.2	Berechnung n. mögl.		Offerte anfordern
Ansicht: Prämienübersicht ▶Go				

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

Contact

Professor Dr. Hato Schmeiser
Chair for Risk Management and Insurance
Managing Director, Institute of Insurance Economics
University of St. Gallen
Phone: +41 (0)71 243 40 11
E-Mail: hato.schmeiser@unisg.ch

