



**Introducing the European
Insurance Report 2015**
Next Generation Insurance



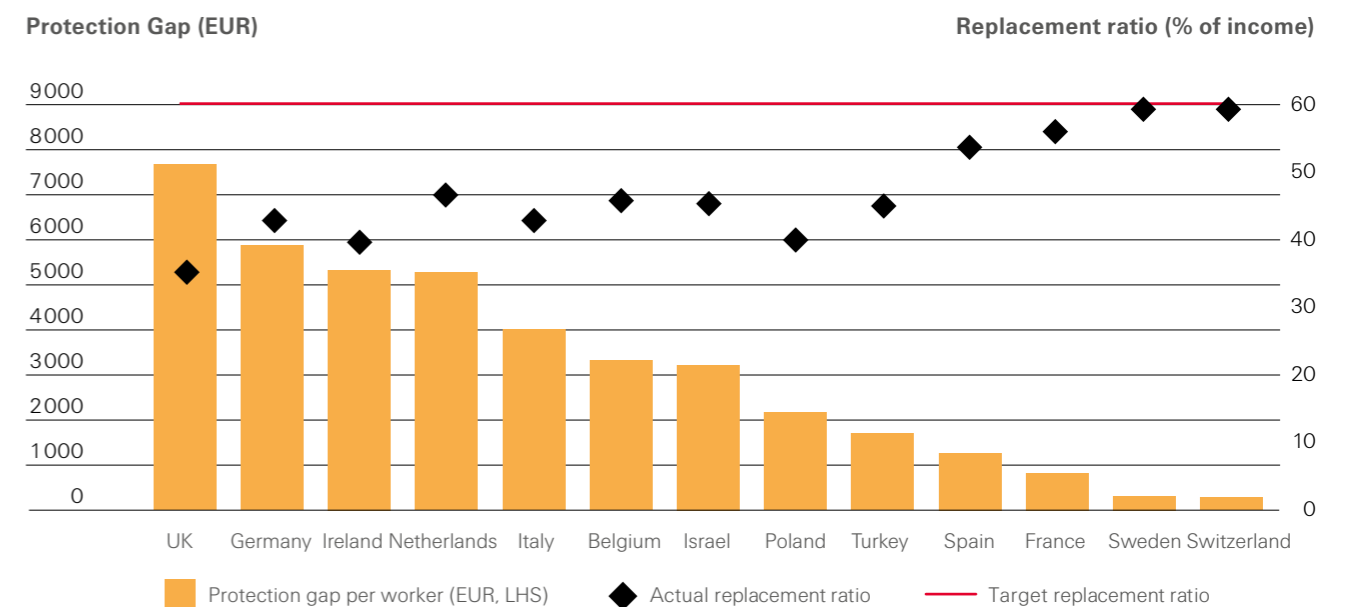
Uncertainty is the new normal

Continued geopolitical upheavals, clashes of religious ideologies, foreign exchange shocks, lingering global economic weakness, commodity price swings and the recent Ebola epidemic remind us of the vast uncertainty we face at on a global scale. At a micro level, individuals' futures are extremely unpredictable too. This is, of course, where insurance adds value: allowing someone to protect themselves and their loved ones from the financial consequences of unlikely, yet potentially devastating, events. A theme at the 2015 World Economic Forum held in Davos, Switzerland, was that uncertainty is the new normal. Indeed it is.

It is against this backdrop that Swiss Re undertook the research, interviewing more than 13 000 consumers across 13 countries in Europe and the Middle East, and the publication of the European Insurance Report 2015: Next Generation Insurance. There are also four additional reports looking at France, Germany, Poland and the UK in more detail.

To discuss any of the Report's findings and learn more about how this research can be applied in your market and to your products, contact your local Swiss Re market executive.

Disability Income Gap estimated to be EUR 750 billion



Source: European Insurance Report 2015, Swiss Re

Over **13 000** people interviewed
in **13** countries

"If we assume that each person should have 60% of their income as a replacement, current cover fulfils just over 40%. With state benefits excluded the replacement reduces to just 15% of current income."

For this Report Swiss Re has, for the first time, produced a disability income gap – the gap between the annual income required by people in the event of poor health or injury and the amount currently available through private, employer and/or state provision. For the 13 countries in our research, this gap calculates to EUR 750 billion. If we assume that each person should have 60% of their income as a replacement, current cover fulfils just over 40% of that income.

Growth opportunity for the industry

On the face of it, this sounds fairly positive until we allow for product features such as short-term benefit periods (many policies offer payment for 10 years, 5 years or even less) and in particular reducing state benefits (to put it in context, with state benefits excluded the replacement reduces to just 15% of current income). There is both a real danger to consumers from under provision and a real opportunity for the industry to grow and benefit society.

Discussing the reality of how large the protection gap is could, perhaps counter-intuitively, reinforce this norm. After all, there is less pressure to fill the gap of an individual when that individual knows that his or her neighbour is equally exposed, regardless of how irrational such reasoning may be.

For the insurance industry, this means that we must consider how and where we use such measures. Aggregated figures are helpful for industry awareness, but we need to personalise them to be relevant as part of the consumer proposition.

Understanding the now, anticipating the future

The increasing percentage of older ages in our populations heightens the concerns that the morbidity protection gap already demonstrates.

Furthermore, a number of European countries are struggling with fertility rates. Combined with medical advancements and generally excellent health coverage currently provided across Europe, people will not only live longer than their parents and grandparents, but will become a much greater proportion of the population.

Who should bear the responsibility?

A recurring theme in our series of Insurance Reports is what perceptions people have and their evolving opinions about who should bear the responsibility for various aspects of caring for an individual needing help.

In 2012, when individuals were asked who currently has the greatest responsibility for certain types of provision (individual, state, employer),

and who will have the greatest responsibility in ten years' time, we saw a clear acknowledgement that responsibility would shift dramatically away from the state to the employer and/or the individual. In 2015 we see an almost identical sentiment, despite being a few years down the line since the previous survey – the belief of who should bear the responsibility currently seems to simply roll forward.

A perfect storm is brewing

Fertility rates are falling

Cost of care is rising faster than current funding structures are able to support

The current extent of **state social provision is unsustainable** in the long-term

When it comes to society's health protection gap, we can see three key components which, when combined and if left unaddressed, have the potential to create turmoil at both an individual and societal level:

- **Firstly, fertility rates are falling** while lifespans are extending further and further into old age, when greater levels of care are needed, and are needed for longer periods of time.
- **Secondly, the cost of care and medical treatment continues to rise** faster than current funding structures are able to support.
- **And thirdly, the current extent of state social provision has created an expectation from society** that is, due to various economic and demographic pressures, unsustainable in the long-term.

A need to act quickly

The need to solve this problem through increased private provision is critical, and becomes more so with each passing year. The report investigates these needs in more detail, and discusses solutions that could reduce the mounting pressures of the future.

"Only 1 in 10 people feel confident they/their family would be financially protected."

Whether or not protection gaps exist for an individual, an important factor in the decision to obtain cover is the extent to which people feel exposed and financially susceptible.

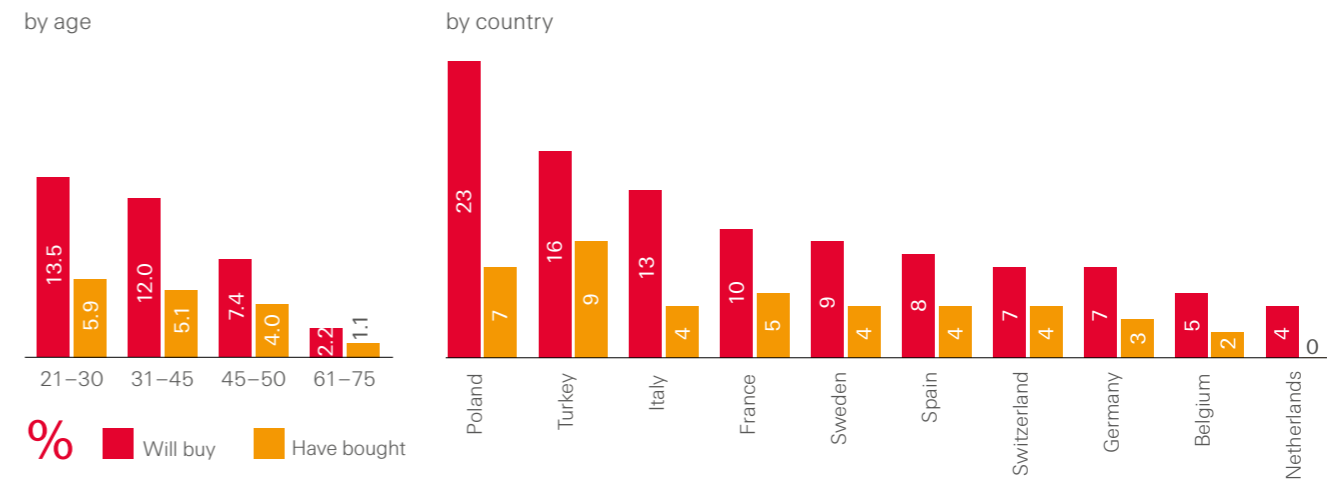
We asked people to consider their current financial position, and tell us how their household would be affected if they were to suffer a long-term illness, disability or if they were to die.

The overall result highlights the burden of worry which most people carry: only 1 in 10 people can confidently answer that irrespective of an unexpected shock

to their health or life, their family would remain well – positioned financially.

However, this is not seemingly translating to purchasing insurance coverage. In 2012, we measured the proportion of people who did not hold disability insurance, but who expressed an intention to buy cover within the following year. Then in 2015, we measured the proportion of people who said they were insured and had first bought that policy in the previous year, against the number of people who were uninsured at the start of the year.

How the intention to buy turns into (in)action to buy: disability insurance



Source: European Insurance Report 2015, Swiss Re

"Is inaction the Life & Health insurance industry's most fearsome opponent?"

Understanding consumer behaviour

Learning what lies behind consumer behaviour and how we can get into the minds of our customers is becoming crucial to closing protection gaps. Traditionally, the view has always been that in the Life & Health insurance market, we have a big – some say unsurmountable – challenge.

Our product has an immediate cost, but benefits that are in the distant future (and often uncertain). But, what if our real competitor is not, as we often assume, the purchase of a smartphone or satellite television (or even as is often used for comparison, a cup of coffee) but a much more fearsome opponent – inaction?

Finding solutions

The future factors at play, particularly the reducing involvement of the state and increased life expectancy, have led us to concentrate on health, disability and care protection needs.

Increased cover for health will not only help manage relentlessly rising healthcare costs, but allow the ageing population to experience healthy ageing for longer or have better choices to manage the consequences of poor health.

The magnitude of the Disability Protection Gap is alarming

The authors make that statement in the context of the current demographic profile and reasonably high levels of state support in continental Europe, Israel, the UK and Ireland. We see clear evidence that both of these will change over the next decades and will, combined with the expected increase in care and medical costs, significantly exacerbate both the morbidity and mortality coverage gaps.

Could compulsion at a minimum level help to solve the problem?

Some countries have compulsory health cover, and besides the ever-present pressure of medical inflation, it certainly can translate into a workable solution – for example in Switzerland.

Critical illness insurance might previously have been thought to be unnecessary in a country or for an individual with good disability cover and comprehensive medical insurance. However, in addition to covering out-of-pocket expenses and out-of-basket medication, further care costs, lifestyle adjustments, possible replacement for elderly parent care, child care, additional travel and accommodation costs associated with the illness etc. can all be funded from critical illness cover.

Change the way we advertise

Whilst it is critical that we make the product we are selling relevant, it is equally important that we sell the product in a relevant way. Advertising life cover at the checkout counter in a supermarket when people are paying for their groceries might not engage many consumers, but a subtle shift to advertising life cover in an aisle where the baby supplies are stocked might make a meaningful connection.

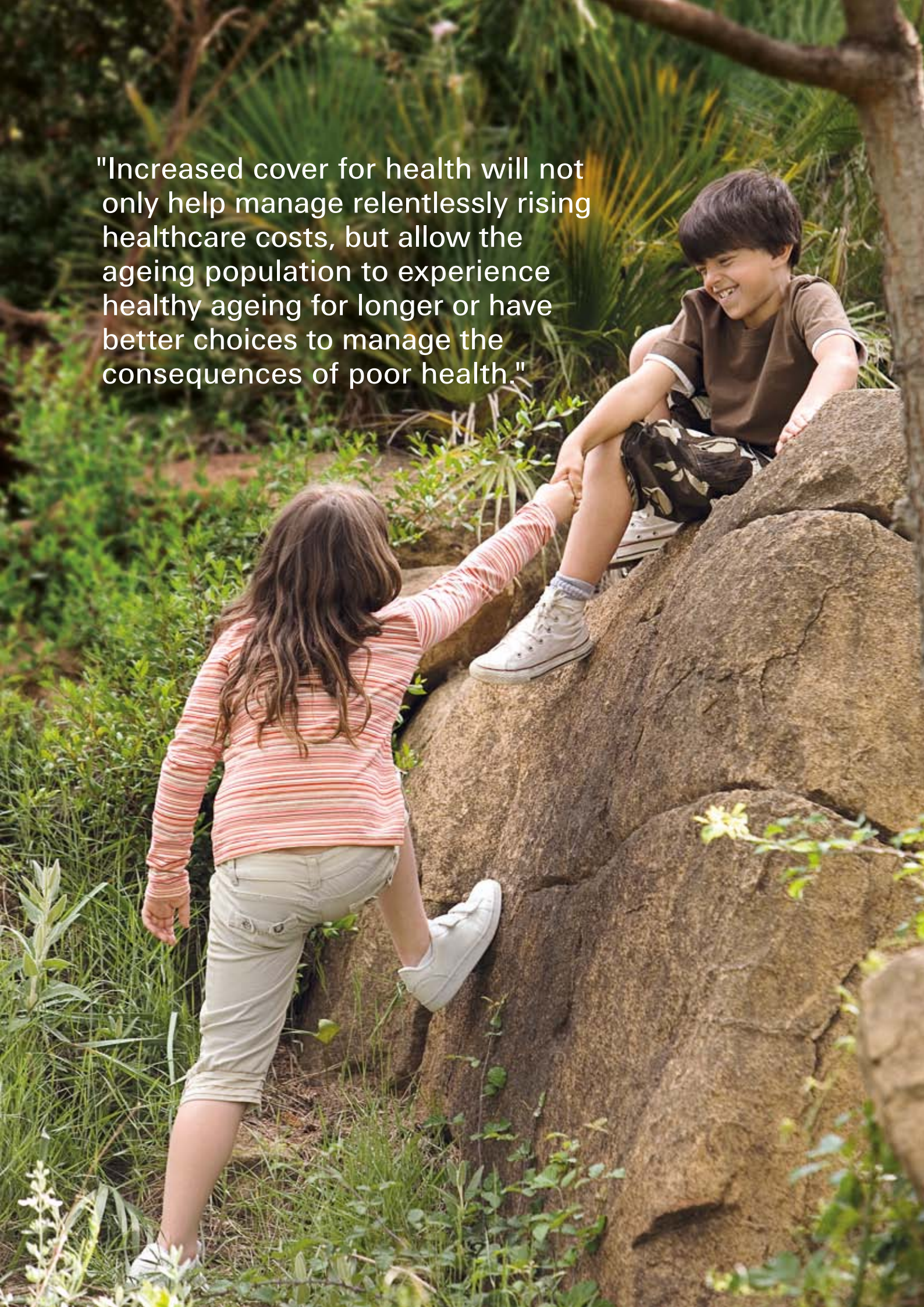
This is only part of understanding the mind of the consumer, and the Report focuses further on these behavioural insights.

Identifying & targeting the growth opportunities

We believe that in established protection markets such as those supporting the societies of continental Europe, the UK and Ireland, there is still significant opportunity to grow by reducing both the mortality and morbidity protection gaps.

Having completed this research, and having detailed information from over 13 000 respondents, the Report shows only a selection of the insights we have found. We will continue to explore this rich source of data to enhance the knowledge our clients have about selling different products, in different markets, using different distribution channels, with different brand strategies, to different and diverse consumer groups.

All of this, we believe, will ultimately bring increased protection and value to policyholders and society as a whole.



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