THE MARKET EMERGENCE – THE TREND OF THE MODERN WORLD

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Abstract: *The referendum by which Great Britain has decided to leave the European Union has had an immense impact upon the capital markets, especially upon the London Stock Exchange. The Brexit had a great impact upon the Stock Exchanges of all Europe but also on global level, where the evolution of the economic environment stands will continue under the supremacy of the insurance market. Both the development of the economic environment and of the insurance market is subject to considerable uncertainties. Drepressions may have a highly negative impact upon the development of the insurance rates, especially in property-casualty insurances and may trigger even a contraction – as it was the case of Latin America in 2016*.

Key words*: emerging markets; economy; life insurance; tendencies; gross premium*

INTRODUCTION

The German reinsurer MUNICH Re estimates in the latest study, that at least for the following two years the value of the subscribed gross premiums will follow the tendency, imposed by the economy, determinating an increase in real terms of 2.9 % in 2017, respectively 3 % in 2018, as compared to 2.9 % – valid for 2016.[14]

The dynamics will exceed the medium growth rates of almost 2 % of the last ten years, appreciate the representatives of MUNICH Re. Thus, calculated in absolute values, the volume of the premiums on global level will advance form almost 4.18 trillion Euro in 2016 to more than 4.56 trillion Euro in 2016. These predictions ground upon the economic recovery for a series of great emerging markets – being the driving force especially for the insurance lines property-casualty. [7], [14]

A similar situation is to be expected in the life department: high growth rates for the emerging markets, while for the developed und highly industrialized markets - the predicted dynamics are rather moderate.[2]

MATERIALS AND METHODS

For this study I applied as a working method: data collection, processing, centralizing data, analysis and drawing conclusions.

RESEARCH RESULTS

Economic prediction: Great Britain, first effects post-BREXIT?

As regarding the tendency of the gross domestic product, the German reinsurer predicts a real increase on global level of 2.9 % for 2017, respectively a dynamic of 3.1 % for 2018, both predictions exceeding the 'performances'of 2016: +2.6 %. [11]

The main sources of increase for these tendencies are secured by the expected development of the economy of the United States of America, respectively by the end of recession in Russia and Brazil, or the recovery of the economies, which are mainly exporting goods, on the background of the increasing rates, but also of developing trade, specify the representatives of MUNICH Re.[12]

For the Euro zone and Japan, MUNICH Re predicts the continuation of solid growth, but regarding the United Kingdom of Great Britain its economy will experience the first effects of the BREXIT. As to the Chinese economy, the growth rate will probably continue to slow down. On a general level, the economic setting will remain under high risks, especially on the background of political uncertainty.[13]

Property-casualty: increase under the economy average.

For the insurance sector property-casualty, MUNICH Re estimates, on global level, the growth rates will be 2.3 %, respectively 2.5% for the period 2017 - 2018. In the following chart is presented the evolution of the subscribed gross premiums on regions between 2016 and 2018, but also on global level (percentage).[8]

Tabel 1.

Directly subscribed gross premiums –Real growth rates

Conse-cutive No.	Region	2016 (%)		
		Aggregate growth	Property-casualty	Life
1.	North America	2.2	2.5	1.7
2.	Western Europe	-0.1	1.7	-1.3
3.	Asia/Pacific-mature markets	-1.8	-0.1	-2.5
4.	Eastern Europe	3.4	3.0	4.6
5.	Asia- emerging markets	20.7	8.3	22.1
6.	Latin America	1.6	-2.1	7.1
7.	Sub-Saharan Africa	0.1	0.0	0.1
8.	Northern Africa and the Middle East	4.4	3.7	5.5
Regiunea		2017 (%)		
		Aggregate growth	Property-casualty	Life
1.	North America	1.4	1.1	1.7
2.	Western Europe	1.3	1.5	1.1
3.	Asia/ Pacific- mature markets	1.6	1.9	1.5
4.	Eastern Europe	4.0	3.7	4.9
5.	Asia- emerging markets	11.0	7.6	12.0
6.	Latin America	3.9	2.4	6.6
7.	Sub-Saharan Africa	2.2	3.4	1.8
8.	Northern Africa and the Middle East	6.0	5.6	6.1
	Regiunea	2018 (%)		
		Aggregate growth	Property-casualty	Life
1.	North America	1.7	1.4	2.0
2.	Western Europe	1.3	1.4	1.1
3.	Asia/ Pacific- mature markets	1.8	2.0	1.6
4.	Eastern Europe	4.2	3.9	5.0
5.	Asia- emerging markets	10.2	7.6	10.8
6.	Latin America	4.7	3.7	6.7
7.	Sub-Saharan Africa	2.9	4.2	2.4
8.	Northern Africa and the Middle East	6.1	5.8	6.6

Source : Processing afterMUNICHRe, Insurance Market Outlook for 2017-2018

Tabel 2.

Directly subscribed gross premiums – Real growth rates on global level

On global level	**2016 (%)**		
	Aggregate growth	**Property-casualty**	**Life**
	2.9	2.3	2.4
	2017 (%)		
	Aggregate growth	**Property-casualty**	**Life**
	2.9	2.3	3.1
	2018 (%)		
	Aggregate growth	**Property-casualty**	**Life**
	3.0	2.5	3.2

Source : Processing after MUNICHRe, Insurance Market Outlook for 2017-2018

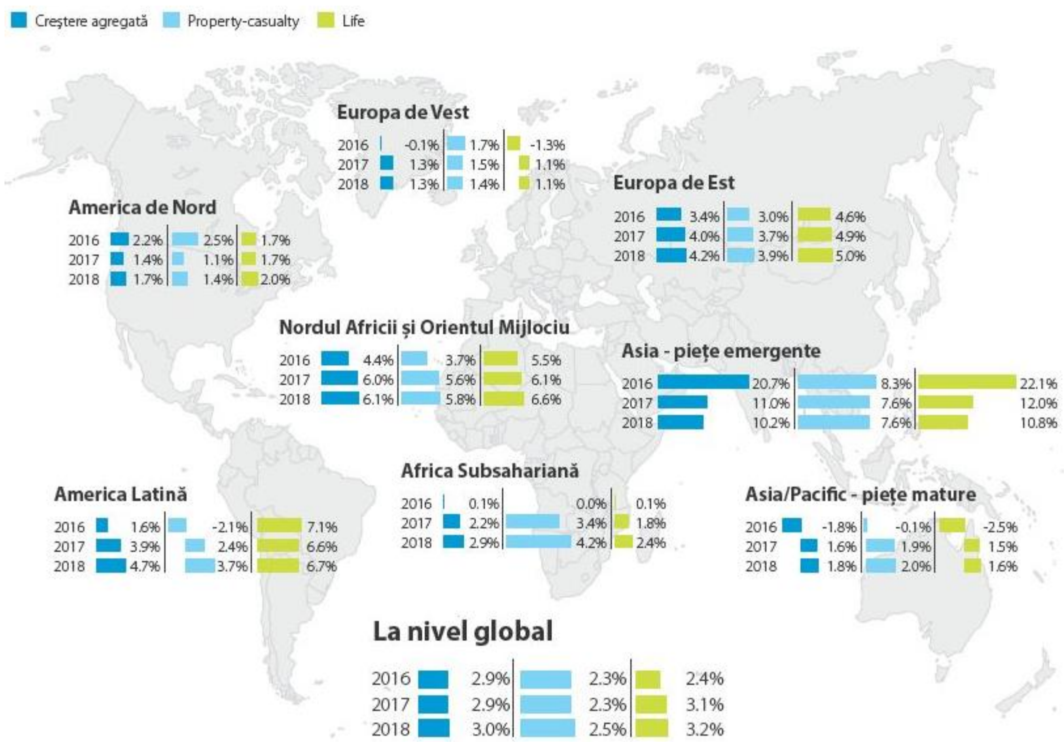

Figure 1. Directly subscribed gross premiums –Real growth rates on global level

Source : Processing after MUNICHRe, Insurance Market Outlook for 2017-2018[14]

The estimated values are percentage by half a point under the anticipated economic growth rate, on the background of the evolution of this insurance segment in different regions. The emerging markets form Asia und the MENA (Middle East and Northern Africa) region could register the highest growth rates, while the established markets of Europe will report lower expansion rates. [4], [6]

At the same time, the lower development rhythm of this segment is given by the fact that the insurance industry begins to respond to the pressure it is subdued in the industrial countries.[3]

The companies have constantly developed business models; new products, sales possibilities and concepts have been designed for the new risks, such as cyberattacks; data processing systems have been modernized. As a consequence, these markets will gradually open new business opportunities. [5]

As to Northern America, the estimated growth for the following two years (of 1.1% and 1.4%) “ground” on the prognosis regarding the growth of the inflation rate in the USA. On the other hand, there is expected a recovery of the established markets in the Asia – Pacific region, respectively of the emerging markets from Latin America and Sub-Saharan Africa. If the estimated growth for the first above mentioned region grounds on the recovery after a long period of stagnation, in the other two specified regions the insurance segment is expected to recover after the end of the recession in the large markets, such as Brazil, Argentina, Nigeria and South Africa, starting with the year 2017. [9], [15]

Solid growth for life insurances

As for life insurances, MUNICH Re estimates for 2017 and 2018 growth rates exceeding the dynamics of the gross domestic product: 3.1 % and 3.2%. Latin America and the Asian emerging markets will be, as they have been in 2016 the “Champion regions” in growth, even if the foreseen values will be inferior.

In case of the Asian markets it is expected, that after the very high growth of the last year, to slow down the following years, but on the whole the growth will be substantial, over 10 %, while in the case of the South-American continent, life insurances will probably grow over 10 %, probably about 6.5 % in real terms. [10]

Tabel 3.

Directly subscribed gross premiums – regional distribution 2016 vs. 2025

Conse-cutive No.	Region	2016 (%)	2025 (%)
1.	North America	31.3	27.8
2.	Western Europe	28.2	24.5
3.	Asia/ Pacific- mature markets	19.8	17.5
4.	Eastern Europe	1.6	1.8
5.	Asia- emerging markets	13.3	21.4
6.	Latin America	3.5	4.2
7.	Sub-Saharan Africa	1.1	1.1
8.	Northern Africa and the Middle East	1.3	1.8

Source : Processing after MUNICHRe, Insurance Market Outlook for 2017-2018

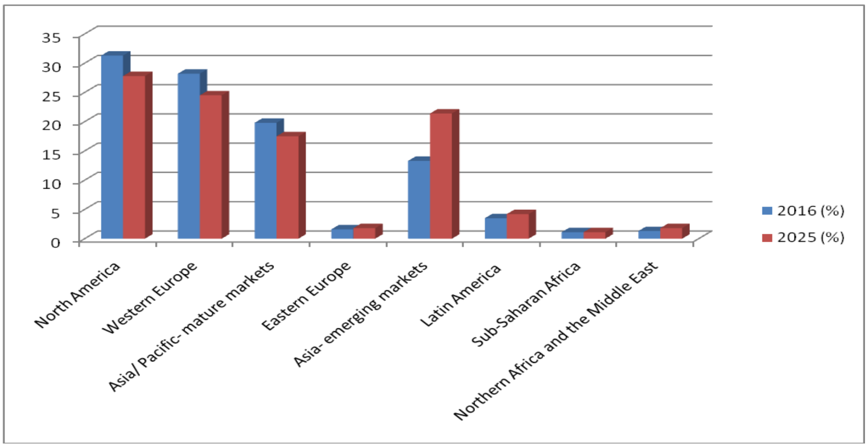

Figure 2. Directly subscribed gross premiums – regional distribution 2016 vs. 2025

In Figure 2. are presented the directly subscribed gross premiums – regional distribution 2016 vs. 2025 for studied regions. As regarding the industrialized markets, these will continue to be affected by the low interest rates.

For example, those from Japan, Germany or Italy have reported significant decreases in insurances of the type unit-linked or in sales of the product with a single premium, so that the expansion of the emerging markets will fully compensate the moderate development of the large markets. [8]

Perspective on long term

The growth of the living standards and the risk necessities overtaken insurances are the most important factors which underlie this prognosis. [1]

At the same time, the growth of the interest rates and the demographic tendencies will gradually reinvigorate the segment of life insurance. To all these we can add the additional stimulation, which may come from new products, which will concentrate on a greater flexibility, on covering biometrical risks, on digitizing sales and risk evaluation.

As a result, the MUNICH Re experts expect, until 2025 the market quota of the emerging Asian markets to reach 21.4%, a very close value to Western Europe (24.5%).

At the same time the experts from MUNICH Re underline the fact, that nevertheless the actual economic recession affecting a series of emerging markets should be only a temporary phenomenon, what will make us to suppose in our prediction, that on medium term the economic milieu will stabilize.[5], [14]

CONCLUSIONS

Conclusively, the BREXIT effect upon the financial markets is already obvious in the Asian stock exchanges, which have registered considerable decreases, starting with the Tokyo stock exchange, which during the day the official result has been released has suffered a decrease of 8 %.

The exact amplitude of the economic impact of BREXIT is not clear for the moment, but one thing is sure, its effect will be very disturbing on short term and will affect the economic growth and the occupancy rate on long term, especially in Great Britain.

On long term, MUNICH Re anticipates on international level a growth of the market quota for the emerging markets, the weighting of the additional incomes coming from premiums which will increase from 20% in 2016 to 47% in 2025. The estimated dynamics in the case of the emerging markets is 7.5% in real terms, a value superior to the predicted economic growth of 4.5%.

On the whole, MUNICH Re predicts on global level an evolution of the insurance market „in tandem” with the economy – a real growth of 3%, the equivalent of a volume of subscriptions of 6.35 trillion Euro in the year 2025. The prognosis on long term, on global level of the growth of life insurances is 3% (real terms), a value superior to the segment property casualty, which is estimated to extend with 2.5%.

Thus,if the actual political and economic risks will materialize, they will also have a negative impact upon the insurance markets.

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