Future industry situation and competitive environment

Old-age provision

With the exception of occupational pension provision, the old-age provision sector will continue to operate in a difficult market environment, in which reservations regarding signing long-term contracts are likely to continue. This applies to private pension provision despite state subsidies/allowances, the falling pension level and increasing life expectancy. In its 2019 Pension Insurance Report, the German government stressed that the decline in the level of the statutory pension can only be compensated through supplementary provision and use of state subsidies/allowances. Due to the growing pension shortfall, the market potential remains promising in particular among MLP's clientèle.

Statutory pension only stable up to 2025

The German government's pension package, which came into force on January 1, 2019, provides for a constant pension level of 48% up to 2025. It is currently at 48.2%. In addition, the premium rate will not exceed the 20% mark before 2025. Based on current calculations, it is likely to remain unchanged at 18.6% up to and including 2024. According to the German government's 2019 Pension Insurance Report, the premium rate will then rise to 19.8% in 2025. Based on the current legal situation, the pension level could potentially fall to 43% by 2030, while the premium rate could potentially rise to 22%. A pension commission, established by the government, is currently working on drawing up information as to how the pension system in Germany is to be secured for the period after 2025. You can find further information on this in the section entitled "Competition and regulation".

Underestimated life expectancy

The results of a Forsa survey, commissioned by the German Insurance Association (GDV e.V.), indicate that German citizens are living significantly longer than they think. According to this survey, Germans are underestimating their own life expectancy by almost five years on average. While those surveyed believed that they would reach an average age of 82.8, statistics indicate that the real figure might be closer to 87.7 years.

Gap in provision likely to increase

Calculations performed by research institute Prognos on behalf of the German Insurance Association (GDV e.V.) show that the young generation in particular must take action if it wishes to secure its standard of living on reaching retirement age. According to the information provided, younger generations need to invest around twice as much as older generations in order to make up for the old-age provision shortfall. While anyone born in 1960, for example, needs to save around 2.1% of their earned income, it is around 4.4% for those born in 1975 and 3.9% for those born in 1990. If interest rates remain at their current low levels for an extended period of time, the survey suggests that younger generations may even need to consider saving more than 8% of their earned income.

Pension information portal still some way off

Insurance companies believe that the coalition government is facing a tough task with the planned pension information portal. A survey performed by MLP indicates that 70% of insurers doubt whether the German government will introduce the portal for providing information on old-age provision (stipulated in the coalition agreement) by 2021. The goal with the planned online portal is to provide German citizens with a quick and easy overview of the payments they can expect to receive from statutory, private and occupational pension plans.

Greater incentivisation for basic pension from 2020 onwards

The state supports supplementary old-age provision in Germany. In 2020, the maximum tax-deductible amount in Tier 1 is to increase from € 24,305 to € 25,046 for single persons. At the same time, the percentage of premiums paid that is taken into account by the tax authorities is set to increase from 88% to 90%. These figures are doubled for married couples.

German SMEs are beginning to take up the opportunities offered by occupational pension provision and the legislation to strengthen occupational pension provision in Germany (BRSG). This was the conclusion of a survey undertaken by Generali Deutschland. According to information provided in the survey, the proportion of companies surveyed that will in future seek to expand their own occupational pension provision offering to take advantage of the opportunities presented by the BRSG legislation has doubled from 24% to 47% within just one year.

Occupational pension provision holds great potential

The importance of the occupational pension provision business is also growing from the perspective of brokers. The "AssCompact Market Survey of Occupational Pension Provision 2019" indicates that around three quarters of brokers (74%) currently expect occupational pension provision to become more important in their brokerage business over the course of the next five years.

As determined by the youth study undertaken by MetallRente, occupational pension provision has particular future potential among young savers. Indeed, 81% of the 17 to 27-year-olds that are not yet saving anything consider occupational pension provision the most attractive form of investment.

Based on estimates of ratings agency Assekurata, we are unlikely to see an end to the low interest rate phase in the short-to-medium term. The market environment for the life insurance sector therefore remains challenging. According to a statement published by the German Federal Financial Supervisory Authority (BaFin), pension schemes are being hit by the current low interest rate phase. Indeed, they might even face problems in paying out all occupational pensions in the mid-term. The Insurance Markets Commission of the German Insurance Association (GDV e.V.) is anticipating an overall growth corridor of between -0.6% and +2.7% for the life insurance business in 2020.

Sector facing major challenges

Wealth management

FERI is anticipating a global economic recovery in the investment year 2020, although the extent and duration of any such recovery are likely to be limited. Set against the background of an expansive global monetary policy, the positive trend on the stock markets may then continue, at least in the short term. Yet despite this, the global economy and the capital markets are still facing serious risks, which could serve to cloud the overall sentiment over the course of 2020. FERI believes that US politics represent a particular risk factor. The impeachment proceedings against US President Trump not only threaten political stability in the US but could potentially also motivate Trump to take arbitrary action in terms of the country's foreign policy. In addition, the capital markets could begin to factor in the consequences of a possible election victory by the opposing Democrat candidate over the course of 2020.

The need for high-quality wealth management services is set to increase in the long term, due to the constantly growing number of high net-worth individuals. According to the Global Wealth Report published by Credit Suisse, total worldwide wealth is likely to increase by just under 27% to US$ 459 trillion by 2024. The number of millionaires is likely to increase significantly in the next five years to almost 63 million.

Worldwide wealth on the rise

The German Institute for Economic Research (DIW) has calculated that inherited wealth is likely to be around 28% higher than previously assumed over the course of the next few years. According to information provided by the survey authors, this is because previous estimates were based solely on assets and did not take into account factors such as regular savings or potential increases in value. According to figures from the German Institute for Economic Research (DIW), the total inherited wealth in Germany is therefore likely to reach a level of just under € 400 billion per year by 2024.

Inherited wealth continuously increasing

According to the 2019 Wealth Barometer of the Deutsche Sparkassen- und Giroverband, the low interest rate is playing an increasing part in investment decisions – especially among those on a higher income. To avoid the issues associated with low interest rates, over half (54%) of savers with an income of more than € 2,500 per month are planning to adjust their savings behaviour and reallocate assets to other investment products – or have already done so.

Low interest rates influencing savings behaviour

Sustainability is today a key factor when rating companies and the performance of investments. Based on estimates of the investment experts at FERI, sustainable investment strategies offer great market potential and are developing into a dominant trend in the investment industry. New regulatory requirements will also make it vital, in particular for professional investors, to align investments with sustainability criteria. Yet, FERI also anticipates increasing demand among private investors and family offices.

Investors focussing on sustainability

The trend towards alternative investments is continuing among institutional investors. According to the Alternative Investor Survey 2018 of the German Association of Alternative Investments (BAI), the investors surveyed are keen to expand their commitments in the fields of infrastructure, real estate and private equity - i.e. precisely those areas in which they have already invested heavily in the past according to the survey.

Institutional investors keen to expand their commitment to alternative investments

Within this context, we expect to see an increased need for professional consulting services in the field of wealth management among all of the Group's target client groups for the financial year 2020.

Non-life insurance

Non-life insurance will play an increasingly important role in the market in the future. Based on estimates of independent brokers, the growth trend recorded in this business field over the last few years will continue. According to a survey performed by AssCompact, more than three quarters of brokers surveyed are anticipating non-life insurance business to become more important. Respondents are expecting an increase in revenue, in particular from building insurance policies. This can primarily be attributed to increasing premium income, resulting from high expenditure on claims by insurers, as well as the increased sensitivity of homeowners to the kind of natural phenomena that are now occurring increasingly often, such as torrential rain. Insurance products have undergone major changes over the last few years and there is a trend towards higher quality coverage here.

In addition to private non-life insurance business, brokers believe that the commercial sector is set to become increasingly important. Alongside securing and expanding their portfolio base, the reasons for this in particular include growing demand among traders. These are the results of the "AssCompact – Commercial Property/Casualty Business Survey 2019" study. Respondents stated that they are anticipating positive development over the next one to three years, particularly for cyber insurance policies.

Commercial insurance policies offer potential

A survey undertaken by Gothaer also supports this. Accordingly, 36% of larger SMEs with between 200 and 500 employees are planning to conclude a cyber insurance policy in the next two years. These companies also have the greatest fear of cyber attacks. Overall, 23% of all surveyed SMEs are planning to conclude a cyber insurance policy in the course of the next two years.

Demand for cyber insurance policies growing

According to information provided in the Gothaer SME Survey 2019, business liability insurance is the most popular type of insurance and represents 88%. However, there is still considerable potential for all other commercial insurance policies. Indeed, only around half of all companies (56%) have commercial building insurance policies in place, while fewer than one in three companies (29%) are covered by an electronics insurance policy.

Many SMEs still without adequate insurance coverage

Overall, the German Insurance Association (GDV e.V.) anticipates a further increase in premium income of 2.5% for 2020 in the property and casualty insurance line of business.

Health insurance

Access to private health insurance will also be further restricted in 2020 as a result of the increase to the statutory insurance limit from € 60,750 to € 62,550 per year. Only those employees with income above this threshold will have the opportunity to switch over to private insurance. Anyone earning less than the threshold is subject to compulsory insurance in the statutory health insurance system.

Increasing premiums in the statutory health insurance system

Although it was possible to reduce the average additional premium paid into the statutory health insurance system by 0.1 percentage points to 0.9% last year, largely thanks to the good revenue situation of the statutory health insurance funds, it is set to increase again in 2020 and will amount to 1.1% from then on. This indicates that statutory health insurance policy holders should also expect to pay significantly increasing premiums in the long term. Based on calculations performed by the German Association of Actuaries (DAV), the premium rate in the statutory health insurance system could rise to almost 25% and, in the long-term, care insurance to 8.5% by 2060. The main reason behind this is the demographic shift in Germany.

Private health provision remains relevant

As highlighted by the "Continentale Survey 2019", the vast majority of those paying into statutory funds are worried about the future of the healthcare system in Germany. Indeed, 82% are worried that good health provision is costing or will in future cost a lot of money on top of the statutory health insurance premiums. Many consider private provision to be the right solution here. Three quarters of respondents that pay into the statutory health insurance system (77%) believe that good cover will only be possible with private provision.

Private supplementary and long-term care insurance holds great potential

A recent survey undertaken by the Chamber of Insurance indicated that the vast majority of German citizens feel as though they are poorly prepared from a financial perspective should they require long-term care. Only 36% stated that they feel well covered for the event that they need nursing care later in life. Accordingly, 92% are also convinced that additional voluntary provision is required to cover the risks associated with the need for long-term care. However, only 34% currently have corresponding provision in place. A survey conducted by AssCompact therefore rates the future of private supplementary and long-term care insurance policies as positive. 62% or 66% of brokers surveyed believe that private supplementary or long-term care insurance will become very important over the next few years.

The Act to Reduce the Burden on Families (Angehörigen-Entlastungsgesetz), which came into force on January 1, 2020, has provided new developments in the field of long-term care. Accordingly, adult children whose parents require nursing care but cannot finance this themselves are only required to make maintenance payments when their gross annual income exceeds € 100,000. Previously, so-called minimum excess payments were in place, which had to be covered by the person(s) required to pay maintenance and were stipulated by the Higher Regional Courts. In 2019, these were generally € 1,800 for the child and an additional € 1,440 for their spouse.

Occupational health insurance on growth trajectory

The occupational health insurance business is continuing to grow in Germany. According to the Association of Private Health Insurers, some 820,000 persons had occupational health insurance provision in place as of December 31, 2019 (+8.3%). The number of employers offering occupational health insurance increased by 32.0% over the previous year to 10,200. In a survey performed by AssCompact, 49% of brokers surveyed indicated that occupational health insurance will become increasingly important in the future.

Real estate

Demand for housing will continue to rise up to 2040 and beyond. This is the conclusion of the "Real Estate Forecast 2060" published by the University of Freiburg. According to information provided in the survey, the trend towards smaller households will in particular continue to drive demand for decades and thereby partially contradict demographic changes. The living space per person is also likely to continue increasing.

Real estate gaining in value in many regions

Based on projections of the University of Freiburg, real estate prices will also continue to rise until 2030 – particularly in urban centres and prestigious locations. These more popular areas should even expect to see property prices continue to rise until 2060. In many regions, strong demand is leading to significant residential property appreciation.

Many German citizens planning to purchase real estate

According to the "Wealth Barometer 2019", some 31% of those aged between 20 and 50 are planning to acquire real estate, compared with a figure of just 19% two years ago. This applies in particular to young people as the group of 20 to 29-years olds represents 50%, which is significantly above the average. In 2017, only 29% of people in this age group were looking to purchase property. Purchasing an owner-occupied home is particularly popular. More than half (56%) of potential purchasers aged between 20 and 50 are keen to purchase an owner-occupied property, while 24% plan to purchase both a buy-to-let and an owner-occupied property.

Need for warden-assisted apartments and senior citizen residential properties on the rise

Properties with nursing care are becoming increasingly popular as an investment. The need for compact dwellings with nursing care will increase in future as a result of the demographic shift. There are likely to be 4.4 million citizens requiring nursing care in Germany by 2030 and as many as 5 million by 2040. This corresponds to an increase of 26% or 42% respectively compared to 2017. This is the conclusion of the "Nursing Home Rating Report 2020" of the German Institute for Economic Research in Leibniz (RWI). The survey forecasts that some 378,000 additional inpatient nursing care places will likely be needed by 2040.

Loans and mortgages

The prime rate of the European Central Bank (ECB) has been at a record low of zero per cent since March 2016. No end to the low interest rate phase is currently in sight. At the start of her term in office during the reporting period, new Head of the ECB Christine Lagarde announced that she would not be seeking to make any changes to the expansive monetary policy pursued by her predecessor, Mario Draghi, in the foreseeable future.

Low interest rate environment and negative interest

At the end of 2019, the German Development Bank KfW announced that it would be launching promotional loans with negative interest rates from 2020 onwards. However, the on-lending banks cannot yet handle the negative interest rate in their IT systems. Mortgage lenders therefore will not be able to benefit from this directly in the near term. Yet despite this, Head of the German Development Bank (KfW) Günther Bräunig generally expects all regular and savings banks to be capable of passing on the negative interest rate to end customers by autumn 2020. However, slight increases in the construction interest rate were observed in the market in the last few weeks of 2019, although the level is still very low and is likely to remain that way.

German citizens very willing to take on debt to finance their own home

In light of the low interest rate environment, acquisition of real estate is also likely to remain very attractive in the future. According to the "Wealth Barometer 2019" of the Deutsche Sparkassen- und Giroverband, almost a third (31%) of German citizens aged between 20 and 50 are planning to acquire property. This figure then increases to one in two among those aged between 20 and 29 (50%). The willingness to take on debt remains as high as ever. Indeed, a total of 82% of potential property purchasers aged between 20 and 50 would be willing to take on debt to finance their own home. 39% would be prepared to take on a mortgage to cover up to 60% of the purchase price, while 28% would be willing to finance up to 80% and 15% would even be prepared to take on debt to finance up to 100% of the purchase price.

As was already the case in the previous year, the "Baukindergeld" family housing grant scheme could also provide additional impetus in 2020. However, the grant scheme expires at the end of 2020 and the German government is currently not planning to extend it.

Impetus through "Baukindergeld" family housing grant scheme

Competition and regulation

In 2019, the German Federal Ministry of Finance (BMF) presented a draft bill for capping commission in the life insurance sector and for credit life insurance policies. However, the matter has not yet been dealt with by the cabinet. Despite this lack of action, the political discussion on this topic is continuing and the parliamentary process is likely to commence in 2020. However, the planned capping is unlikely to come into force before the start of 2021, so it will not have any direct impact on MLP's operating business in the field of old-age provision in 2020.

Sluggish parliamentary process regarding legislation to cap insurance commission

If the German Federal Ministry of Finance (BMF) decides to introduce the commission cap described in the draft bill, many free brokers – unlike our MLP consultants – will need to fear for their continued existence. The average reduction in terms of annual commission income is likely to be around 27%. Around one in four brokers – more than 27% – are even anticipating cuts of at least 40%. Only 13% are forecasting declines of less than 10%. These are the results of the latest Broker Barometer survey performed by the Federal Association of German Financial Services Providers (AfW e.V.), which questioned around 1,550 brokers on various issues, including the concrete effects of the planned regulation. Effects of the introduction of such a commission cap would be felt by MLP at the earliest in 2021. However, since any such effects would be significantly lower for MLP than the market as a whole, MLP would likely be able to benefit from the further consolidation in the mid-term.

Commission cap placing a strain on brokers in the market

A draft bill of the German Federal Ministry of Finance (BMF) to transfer supervision of financial investment brokers to the Federal Financial Supervisory Authority (BaFin) was published at the end of December 2019. Accordingly, transfer of supervisory duties is scheduled for 2021. The annual costs to the Federal Financial Supervisory Authority (BaFin) for performing these duties are around € 36.4 million. These costs are to be borne by the affected companies on the basis of "the obligation to pay a levy as well as separate reimbursement of arbitrary fees and costs to the Federal Financial Supervisory Authority (BaFin)". As a financial institution and provider of a liability umbrella for its investment advisers, MLP Banking has already been supervised by the Federal Financial Supervisory Authority (BaFin) for years. The planned regulatory step, a government policy that is set out in the coalition agreement, therefore applies exclusively to other market members.

Transfer of supervisory duties for financial investment brokers to the Federal Financial Supervisory Authority (BaFin)

The pension commission, which was established in 2018, is set to present its report in March 2020. This should provide recommendations as to which measures the government should implement in order to stabilise the pension system to the end of the current review period in 2025 and beyond. The committee is made up of a total of 10 members. These are social experts from the parliamentary groups of the CSU and SPD, trade union and employer representatives, as well as three scientists.

Pension commission presents report

Following a comprehensive internal discussion, the CDU passed a resolution at its party conference in November 2019 to grant a phase for improving penetration of the Riester pension, which has also been criticised by its government partner, among the general population. It is demanding an increase of around 30% over the current situation within three years. Those involved all agree that various improvements to the current structure of Riester pensions are necessary for this, including relaxing the fixed premium guarantee that is currently reducing returns significantly in the low interest rate environment. However, MLP believes that Riester pensions can still be a prudent old-age provision component for our clients in many cases.

Riester pension under observation

The regulation on sustainability-related disclosure requirements in the financial services sector, published in the Official Journal of the EU in December 2019, will be adopted for the first time from March 10, 2021. The objective of this regulation is to inform investors more effectively of the extent to which providers and brokers of financial investments take into account sustainability considerations.

Sustainability-related disclosure requirements in the financial services sector

Information, analyses and investment parameters associated with the Sustainable Development Goals (SDGs) are also incorporated in various phases and steps at FERI throughout the entire investment process. FERI is already proactively offering its clients various services that grant them transparency in terms of the degree of compatibility and support of their investments with regard to the UN SDGs and allows them to increase this at the various stages of the investment process. The extent to which SDG compatibility can be increased depends on the respective investment objectives and restrictions of the clients.

In certain circumstances, the new legislation can have effects on the companies incorporated in the supervisory scope of consolidation, and thereby on the capital adequacy of the MLP Group, due to regulatory guidelines of the Capital Requirements Regulation (CRR II) and Capital Requirements Directive (CRD V).

Adjustments to capital adequacy requirements through regulatory changes

Over the next few years, the regulatory bodies are likely to continue work on ways to make the costs associated with financial products more comparable for clients, while clients themselves are likely to become more conscious about costs and consulting quality overall. Fee-based consulting in particular is likely to remain an important topic in the world of politics. MLP today already offers fee-based consulting in those areas in which we sense corresponding demand on the part of our clients, such as retirement planning.

Further regulation to be anticipated

In the field of investment advisory services, the Fee-Based Investment Advice Act, which came into force in 2014, has not had any appreciable effects to date due to continued application of non-competitive provisions pertaining to historic policies. However, should any further market potential actually materialise here, MLP is already well-positioned to handle this, as new wealth management business is already remunerated on a fee-like basis at MLP.

MLP has already implemented numerous requirements that will become binding law in the future. Implementation expertise is required in order to comply with the legal documentation, qualification and transparency obligations. MLP believes it is prepared for this. But irrespective of this, the regulatory developments will certainly represent a challenge overall and lead to additional implementation costs.

Well prepared to handle new regulatory requirements