

Future industry situation and competitive environment

The aforementioned influence of the individual fields of consulting on the operating business segments also applies to the future industry situation and the 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 reluctance to sign long-term contracts is likely to continue – despite state subsidies/allowances for both private and occupational pension provision, the falling pension level and increasing life expectancy. The market potential remains promising, however, in particular among MLP's clientele, because of the growing pension shortfall.

In future, private and occupational pension provision is likely to assume an increasingly important role in Germany. In its 2018 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.

Yet despite this, as stated in the ERGO Risk Report 2018, most German citizens are saving too little for their retirement. According to data provided in the report, some 42% of Germans are saving nothing or less than € 50 per month towards their old-age provision. As such, half of all Germans believe that they will need to live a more restricted lifestyle after retiring. One in four is even fearful of poverty in old age.

German citizens are not saving enough

According to the latest Pension Insurance Report published by the German government, the standard pension level is currently only 48%. Within the scope of the German government's pension package, which came into force on January 1, 2019, it is to be maintained at that current level of 48% up to 2025. The premiums are also set to be kept below 20% of gross income until that time. However, the package of reforms contains no commitments for the time after 2025. Based on the current legal situation, the pension level may decline to 43% by 2030, while the premium rate may increase to up to 22%.

Statutory pension only to be strengthened up to 2025

You can read more about this in the Forecast section under → [“Competition and Regulation”](#).

Over the course of the next few years, the gap in provision for the aged in Germany is likely to increase dramatically. According to the Institute for Old-Age Provision and Financial Planning (IVFP), the gap could reach around 40% by 2040, and it is likely to be even higher among the self-employed and freelancers. Based on a survey conducted by the German Institute for Economic Research (DIW Berlin), more than half of those in gainful employment aged between 55 and 65 would not be able to cover their consumption solely from their entitlements to statutory or occupational pension provision payments. On average they would have a gap in provision of around € 700 per month.

Gap in provision likely to increase

The results of the latest Provision Atlas Germany by Union Investment also indicate that the young generation in particular must take action if it wishes to maintain its standard of living when reaching retirement age. According to the survey, those who are aged between 20 and 34 today will on average require an additional € 800 per month for their retirement. The gap in provision is even greater among higher earners.

The state supports supplementary old-age provision in Germany. In 2019, the maximum tax-deductible amount in Tier 1 is to increase from € 23,712 to € 24,305 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 86% to 88%. These figures are doubled for married couples.

Greater support for basic and Riester pension from 2019 onwards

The legislation on strengthening occupational pension provision in Germany (BRSg), which came into force on January 1, 2018, encompasses a comprehensive package of measures aimed at achieving greater market penetration for occupational pension provision. A compulsory employer's contribution was introduced on January 1, 2019 for new contracts within the scope of the legislation on strengthening occupational pension provision in Germany (BRSg). If employees pay part of their salary into a pension fund, a pension scheme or a direct insurance policy, the employer is then obliged to pay a further 15% of the converted premium to the occupational pension provision as an employer's contribution if they themselves then pay less in social security contributions as a result of the deferred compensation. You can find further information on this in the forecast section under → "Competition and regulation".

Attractiveness of occupational pension provision growing

A survey undertaken by Deloitte also indicates that there is still a significant need to catch up in the field of occupational pension provision. Based on the survey, 45% of employees do not receive any occupational pension provision financed by their employer. This figure increases even further to 60% among young employees aged 25 and under. Yet the importance of occupational pension provision has increased in terms of acquiring and motivating employees, as well as keeping them loyal to their employer. Indeed, some 55% of employees pay close attention to the occupational pension provision on offer when switching jobs and rate this as extremely important.

According to a survey conducted by Mercer, two thirds of companies would like to establish a digital information platform for their employees that presents their provision status as well as supplementary benefits in a clear and logical structure as a way of reducing the amount of administration associated with occupational pension provision. The importance of the occupational pension provision business is also growing from the perspective of brokers. According to the "2018 AssCompact Market Survey of Occupational Pension Provision", around two thirds of brokers (68%) are currently expecting occupational pension provision to become very important in the brokerage business in the next five years.

Digital employer portals in demand for occupational pension provision

Assekurata takes the view that the ongoing low-interest-rate environment is leading to a situation in which the importance of classic life and pension insurance policies offering what has now become a very low guaranteed interest rate will continue to decline – and that their market volume will therefore fall further by 2020. The importance of unit-linked policies, on the other hand, is set to increase.

Sector facing major challenges

For 2019 the Insurance Markets Commission at the German Insurance Association (GDV e.V.) is anticipating an overall growth corridor of between -1.1% and +1.5% for the life insurance business.

Wealth management

FERI is of the opinion that the market environment in the wealth management area is in the middle of a pronounced cyclical change, which can potentially present serious challenges for the financial markets. Accordingly the future scenario is likely to be characterised by a weaker economic environment, a rather more restrictive overall monetary policy and geopolitical risks. According to FERI, world trade is set to virtually stagnate in 2019. The likelihood of politically motivated earnings risks is also set to increase further, which could lead to erratic market movements. In Europe the ultimate outcome of Brexit remains unclear, while the potential threat posed by Italy to the EU, EMU and the euro currency is an uncertainty that needs to be taken seriously. However, FERI also expects the basic scenario for asset allocation to present opportunities – above all if stock markets and other risk investments adapt to the new scenario relatively quickly.

The need for high-quality wealth management services is set to increase in the long term because of the constantly growing number of high-net-worth individuals. According to the Global Wealth Report published by Credit Suisse, worldwide wealth is likely to increase by just under 26% to US\$ 399 trillion by 2023. The number of millionaires is also set to increase quite significantly in the next five years, reaching a record number of 55 million.

Increasing demand

A survey undertaken by the German Institute for Economic Research (DIW) indicates that the actual value of inherited wealth is likely to be higher than previously anticipated 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), total inherited wealth in Germany is therefore likely to reach a level of just under € 400 billion per year by 2024.

Inherited wealth rises to € 400 billion per year

Despite the ongoing low-interest-rate environment, German citizens are still putting a large proportion of their savings in short-term investments that deliver scarcely any return. According to a survey conducted by the "Aktion pro Aktie" initiative, this could be due to unrealistic return expectations: those who put their money into savings accounts or overnight deposits still expect to receive a better return than is actually achievable in many cases. German investors expect to receive an average annual return of 3.5% from investment funds on the stock exchange. Yet despite this, only one in five has invested in these investment products.

Investment behaviour characterised by unrealistic return expectations

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 private debt, infrastructure, real estate and private equity within the next three to five years – 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

In light of a weaker economic environment, low interest rates and geopolitical risks, the capital market environment is likely to be characterised by pronounced volatility and remain challenging in the financial year 2019. In view of the above, we still expect to see an increased need for consulting services in the professional wealth management area among all of the Group's target client groups in the long-term.

Non-life insurance

Non-life insurance will play an increasingly important part in the market in future. Independent brokers in particular are also expecting the growth trend observed in the last few years to continue. According to a survey among insurance brokers conducted by AssCompact, 80% of respondents believe that the private non-life insurance business will be highly relevant in the next five years. They expect the greatest positive revenue trend in the field of residential building and legal expenses insurance policies. The areas of liability, accident and household contents insurance are also predicted to enjoy positive development.

Alongside the established private non-life insurance business, many brokers are increasingly expanding their focus to include the commercial arena. According to the AssCompact survey "Commercial Damage/Accident Business 2018", just under 60% of independent brokers consider commercial business to be very important and are expecting further forward momentum here in future. Above all, brokers see great growth potential in cyber insurance policies. Indeed, 87% expect to see better or much better revenue development here in the next one to three years.

Commercial non-life insurance business holds potential

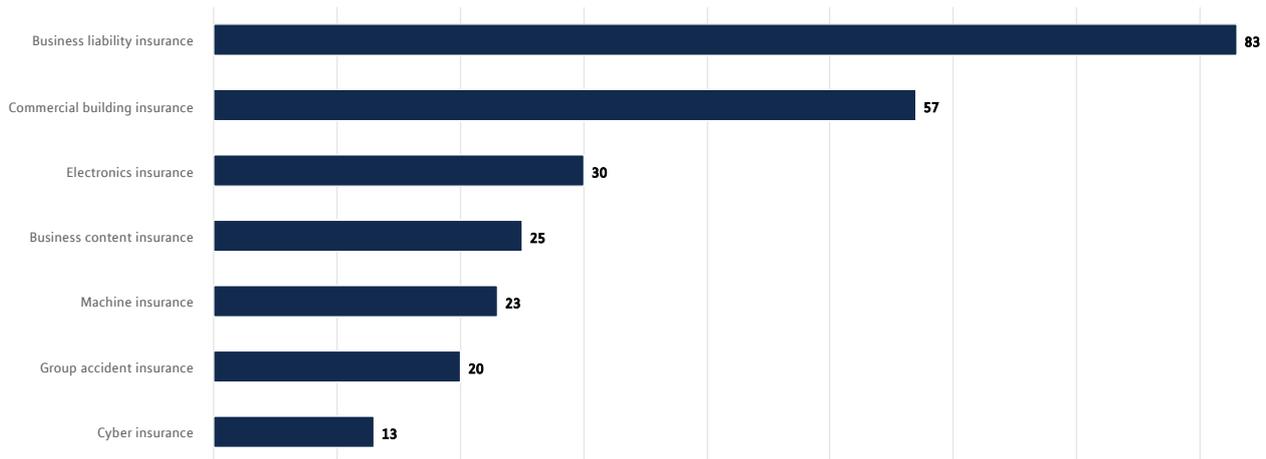
Based on estimates by ratings agency Assekurata, the focus in the commercial non-life insurance business is likely to shift towards the target group of small and medium-sized enterprises (SMEs) in future. Based on its size alone, this target group offers great growth potential. According to data published by the German Federal Statistical Office, there are around 2.4 million SMEs in Germany – representing 99.3% of all companies in the country.

SMEs with large backlog

In addition there is an enormous backlog demand for insurance cover from SMEs, as underlined by a survey conducted by Gothaer. Based on this, 45% of companies only have up to three insurance policies, while a further third has fewer than six policies in place. More than half of the companies (58%) fail to review their own insurance cover on an annual basis.

In terms of the type of insurance, business liability insurance is the dominant area with 83% of all policies. However, there is still considerable potential for all other commercial insurance policies. According to the Gothaer's "SME Survey 2018", only around half (57%) of companies have commercial buildings insurance and just under a third (30%) have taken out electronics insurance policies.

The insurance policies currently in place at SMEs (in %):



Source: Gothaer SME Survey 2018

Increasing digital networking is also placing an ever-greater focus on the topic of cyber insurance among German damage insurers. Based on estimates provided by Assekurata, SMEs in particular have a lot of catching up to do in this area. As per the Gothaer SME Survey 2018, 40% of SMEs in Germany consider cyber risks, such as hacker attacks or data theft, as one of the greatest hazards to their operations. This figure was considerably lower one year previously at just 32%. However, only 13% of respondents to the survey currently have a cyber insurance policy in place.

Growth market of cyber insurance

The market potential for online insurance policy sales is great. Indeed, every second German citizen (57%) would have no problem signing up for an insurance policy online. The favourites in terms of online sales are basic insurance policies such as vehicle, liability and household contents insurance. These were the results of the "Digital Insurance 2018" survey conducted by software producer Adcubum.

Online policy sales in demand, particularly for basic products

For commercial insurance policies, on the other hand, classic sales channels are maintaining their dominance. Face-to-face consulting remains the top priority for commercial clients, as underlined by the survey entitled "Commercial Insurance 2018 – What Clients Really Want". Although digital channels are indeed playing an increasingly important part in terms of research and information procurement, commercial clients still consider a trusting relationship with their broker a particularly important criterion when taking out new policies.

Strong demand for face-to-face consulting still present for commercial insurance policies

Ratings agency Assekurata still expects stable, positive results of operations overall for the non-life insurance business. However, insurers are facing the challenge of being seen as "replaceable" risk bearers by clients, while at the same time maintaining close client relationships in order to achieve long-term client loyalty.

Overall, the German Insurance Association (GDV e.V.) anticipates a further increase in premium income of between 2.0% and 3.5% for 2019 in the property and casualty insurance business.

Health insurance

Further reforms are to be expected in the German healthcare system over the course of the next few years. The industry is currently focusing much of its attention on the Statutory Health Insurance Contribution Relief Act (GKV-VEG). This legislation states that the premiums for statutory health insurance are once again to be shared absolutely equally by employers and employees as of January 1, 2019. In future, self-employed persons with a low income can also expect to pay lower premiums if they willingly sign up to a statutory health insurance fund. You can find further information on this in the forecast section under → "Competition and regulation".

Based on estimates provided by the experts at ratings agency Assekurata, the competitive position of comprehensive private insurance providers is likely to be further compromised in 2019 as a result of this legislation – primarily because the minimum premium for the statutory health insurance system is set to be halved for self-employed persons and freelancers. This will make the statutory health insurance system significantly more affordable for this target group as of January 1, 2019 and thereby make it more attractive for them to remain in the statutory system. The planned return to equal premium sharing could also reduce the desire of employees voluntarily paying into statutory insurance policies to change over to private insurance. Nevertheless, for many in this group the better benefits offered by private health insurance policies could still represent a powerful argument in favour of making the switch.

Access to private health insurance will also be further restricted in 2019 as a result of the increase in the statutory insurance limit from € 59,400 to € 60,750 per year. Only employees with incomes 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.

Even if, as the German Health Ministry has reported, the average additional premium is reduced by 0.1 percentage points to 0.9% in 2019 because of the good current revenue situation of the statutory health insurance funds, statutory health insurance policy holders must still expect significant increases to premiums in the long term. Based on calculations conducted by the German Association of Actuaries (DAV), the premium rate in the statutory health insurance system could rise to 25% and in long-term care insurance to 8.5% by 2060. The main reason behind this is the demographic shift in Germany.

As highlighted by the "Continentale Survey 2018", the vast majority of those paying into statutory funds are worried about the future of the healthcare system in Germany. Indeed, 80% 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 (73%) believe that good cover will only be possible with private provision.

A recent YouGov survey indicated the vast majority of German citizens feel as though they are poorly prepared from a financial perspective should they require long-term care. According to the survey, more than three quarters (77%) are worried that the benefits of statutory long-term care insurance will not be sufficient to cover their needs. Yet despite this, only a small number (15%) have actually concluded a private care policy. Those surveyed stated budgetary issues are the main reason for their lack of cover. Indeed, just under two thirds (63%) of respondents stated that they simply could not afford private long-term care insurance at the present time, while 20% believe that they do not know enough about what makes good insurance cover to be able to reach a well-founded decision.

A survey conducted by AssCompact therefore rates the future of private supplementary and long-term care insurance policies as positive. Some 60% of brokers believe that these insurance areas will be very important in the next five years. Ratings agency Assekurata sees enormous sales potential, above all in the supplementary long-term care insurance business, as only one third of those with supplementary long-term care insurance are younger than 40.

Statutory Health Insurance Contribution Relief Act (GKV-VEG) weakening the competitive position of comprehensive insurance

Statutory health insurance funds: premiums will increase

Trust in private health provision remains solid

Statutory long-term care insurance not sufficient

The occupational health insurance area is making slow progress in Germany. According to the Association of Private Health Insurers, some 672,500 people had occupational health insurance provision in place as at December 31, 2017 (+10.8%). The number of employers offering occupational health insurance increased by 23.8% over the previous year to 6,057. A survey conducted by the German Consumer Research Association (GfK) highlighted just how much potential there is here. According to the survey, 91% of companies in Germany are still not offering anything in this field. The survey goes on to state that this kind of coverage represents an ideal way of both acquiring the right staff and keeping them loyal to the Company. In fact, 70% of employees with occupational health insurance consider this a special kind of appreciation by their boss and some 92% of employees are so impressed by their occupational health insurance that they tell their friends about it.

Occupational health insurance still offers great potential

Depending on the level of premium adjustments and development of net new business in the comprehensive insurance area, the Insurance Markets Commission of the Economics Committee at the German Insurance Association (GDV e.V.) is anticipating an increase in premiums of between 2% and 4% for 2019 in the market for health and long-term care insurance.

Real estate

According to the "Wealth Barometer 2018", one third of all 20- to 50-year-olds are planning to purchase property in future. In 2017 this figure was just 23%. This applies in particular to young people, as the group of 20- to 29-year-olds represent 55%, which is significantly above the average. In 2017 only 38% of people in this age group were looking to purchase property. Purchasing an owner-occupied home is particularly popular: almost half (46%) of potential purchasers aged between 20 and 50 are keen to purchase an owner-occupied property, while 22% are looking for a buy-to-let investment and 30% plan to purchase both a buy-to-let and an owner-occupied property.

Young people in particular are planning a property purchase

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. Indeed, the number of people requiring nursing care in Germany is set to rise within 20 years from around 2.9 million in 2015 to 3.8 million by 2035. Around a third of these will require a place in a nursing home. These are the results of the "Nursing Home Atlas Germany 2018" survey conducted by real estate consulting firm Wüest Partner Germany. The survey forecasts that around 230,000 new inpatient nursing care places will be required by 2035, most of them in Berlin (10,400) and Hamburg (3,600).

Nursing care properties as an investment

Demographic developments in Germany could lead to a significant increase in demand for micro-apartments, thereby also increasing the value of this type of property. According to estimates provided by the German Federal Statistical Office, the trend towards smaller households is set to continue in future. Indeed, the proportion of single-person and two-person households in Germany will rise to 80% by 2035. Around four out of every five households in Germany will be home to just one or two people in future. The proportion of small households is particularly high in the cities of Berlin, Hamburg and Bremen, where the proportion of single-person households is set to increase to an average of 55.5%.

Demand for micro-apartments set to rise

The boom currently being experienced in the cities is reinforcing this trend. Based on a survey undertaken by the Institute of the German Economy (IW), more than 4 million people will be living in Berlin by 2035, while Munich will be home to 1.66 million people and Frankfurt/Main will have 813,000 residents.

Cities are booming

Although property prices have already seen pronounced rises in many areas over the last few years, further increases are to be expected. This is the conclusion of the Postbank "Residential Atlas 2018" survey. In more than half (55%) of German administrative districts and cities, property owners can expect their house or apartment to increase in value until at least 2030. The prices for real estate are set to keep rising – primarily in urban centres, yet also in popular rural regions.

Prices continuing to rise in urban centres

Investors are therefore taking a rather optimistic overall view of the German real estate market. According to a survey undertaken by auditing firm PwC, two thirds (68%) of investors surveyed expect to see rising returns in the next five years.

Loans and mortgages

Based on information provided in the "Wealth Barometer 2018" of the Deutsche Sparkassen- und Giroverband (DSGV), some 82% of potential property purchasers aged between 20 and 50 would be willing to take on debt in order to finance their own homes. The WB also states that 43% would be willing to sign up for a mortgage to finance as much as 60% of the purchase price, while 28% would even finance up to 80% of the purchase price through borrowing.

High degree of willingness to take on debt

Based on information provided in a survey, additional impetus should also be expected from the "Baukindergeld" family housing grant scheme introduced in 2018. According to a model calculation of Berlin-based property research institute Empirica, the "Baukindergeld" scheme will help an additional 58,000 young families purchase their own home. The number of young tenant households with children that qualify for home ownership on the basis of their income and equity situation will thereby increase by 32% from 181,000 to 239,000 households.

Impetus through "Baukindergeld" family housing grant scheme

According to the "Consumer Credit Index 2018/2019" of the Professional Banking Association (Bankenfachverband e.V.), demand for consumer lending remains stable. The willingness to sign up for loans is therefore likely to increase slightly, although according to forecasts this effect will be equalised by consumer purchase planning remaining at around the same level.

Consumer lending remains stable

FERI does not expect to see any increase to the prime rate by the European Central Bank until the second half of 2019 at the earliest. The prime rate has been stagnating at zero since March 2016.

Ongoing low-interest-rate environment

Further growth is anticipated overall in the loans and mortgages area, primarily driven by property loans.

Competition and regulation

The market for financial services and the insurance sector is facing consolidation. Germany is considered to be the market with the greatest potential in Europe, in which both national and international service providers are competing. Because of stricter regulations, pressure is in particular mounting on low-level providers, which will lead to a further reduction in the number of market players. According to current figures provided by the Association of German Chambers of Industry and Commerce (DIHK), the number of registered insurance brokers declined by around 19,200 to some 201,600 in the period from January to December 2018 alone. Accordingly, there are now almost a quarter fewer registered insurance intermediaries than in 2011.

Consolidation of intermediaries ongoing

In 2018 the German Federal Ministry of Finance (BMF) published an evaluation report on the Life Insurance Reform Act (LVRG). Although its conclusions are largely positive, the capping of acquisition commission is listed as a potential measure in the report – albeit without any further details to date. The political discussion on this is ongoing. A draft bill is expected from the German Federal Ministry of Finance (BMF) around spring 2019, and it will then be subjected to the parliamentary process. No direct effects on the operating business of MLP in the old-age provision area are therefore to be expected for 2019.

Long-term effects of the Life Insurance Reform Act (LVRG) still unclear

Should the German Federal Ministry of Finance (BMF) introduce a commission cap, a survey conducted by AssCompact suggests that many free intermediaries and brokers should be worried about their future. Indeed, around 70% of brokers surveyed feel certain that any form of commission capping would have negative effects on their brokerage business. If the commission cap is applied to all life insurance products (including biometric products), the brokers estimate that up to 50% of free intermediaries could struggle to survive.

Commission cap depressing the overall mood

As of 2019 a compulsory employer's contribution was introduced in the occupational pension provision area within the scope of the legislation on strengthening occupational pension provision in Germany (BRSVG), which came into force in 2018. If employees pay part of their salary into a pension fund, a pension scheme or a direct insurance policy, as of January 2019 the employer is then obliged to pay a further 15% of the converted premium into the occupational pension provision as an employer's contribution if they themselves then pay less in social security contributions as a result of the deferred compensation. This applies to all deferred compensation agreements concluded from 2019 onwards. For those deferred compensation agreements already concluded or in place before this time, the allowance will only be paid as of 2022.

Legislation to strengthen occupational pension provision in Germany (BRSVG) is having the desired effect

The legislation designed to improve service and stabilise the statutory pension came into force on January 1, 2019. In future the pension level before taxes should be at least 48%, while the premium rate is set to rise to a maximum of 20%. However, this "belt and braces" approach will only apply provisionally up to 2025. The legislature has not yet given any information as to what may happen after 2025. Experts are already issuing warnings about the heavy costs associated with the new legislation.

Statutory pension level set to be stabilised

The new Statutory Health Insurance Contribution Relief Act (GKV-VEG) came into force on January 1, 2019. This stipulates that the premiums paid into statutory health insurance are once again to be split completely equally between employers and employees from 2019 onwards. Unlike in the past, this now applies not only to the general premium rate but also to the individual additional premium that each healthcare fund determines itself. In future, self-employed persons with a low income can also expect to pay lower premiums if they willingly sign up to a statutory health insurance fund.

Changes to statutory health insurance

Over the next few years 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 of costs and consulting quality overall. Issues that could also contribute to this include the fact that the legislature has already taken action with binding stipulation of an effective cost ratio both in Germany in the form of the Old-Age Provision Product Contact Point (PiA) and at European level with the Key Information Documents (KIDs) for Packaged Retail and Insurance-Based Investment Products (PRIIPS), which have been stipulated since January 1, 2018, as well as the new PRIIP-KIDs for UCITS funds which apply from January 1, 2019 onwards. However, even these most recent regulatory steps have not even come close to securing sufficient comparability of the products or their costs. In addition, clients are becoming increasingly aware of the differences between the various groups of consultants (brokers, etc.).

Further regulation to be anticipated

It is in principle true that the world of politics continues to pursue a strategy aimed at strengthening the field of fee-based consulting. Yet the Fee-Based Investment Advisory Service Act (HANlBG) which came into force in 2014 – referring solely to the field of investment consulting – has not delivered any appreciable effects to date because of regulations affecting existing contracts that prove to be out of step with the market. Should any further market potential actually materialise, however, MLP is well prepared to handle it, as new business in the wealth management area is already remunerated on a fee-like basis at MLP.

Fee-based consulting remains a topic of discussion in the world of politics

The draft of the IDD Implementation Act initially presented by the German government also stipulated that insurance brokers could only have their work remunerated by insurance companies. With a de facto commission ruling, the German legislature clearly opposed the possibility of fee-based consulting or mixed models provided in Article 19 of the IDD. Following severe criticism, this legal text was amended again so that private clients can continue to receive fee-based consulting.

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

Well equipped to handle new regulatory requirements