Future industry situation and competitive environment

Old-age provision

The old-age provision segment continues to operate in a market environment that is already challenging and has been made even more difficult by the coronavirus pandemic. In the light of short-time work and imminent company insolvencies, it is safe to assume that both private and corporate clients will continue to display reservations when it comes to signing long-term contracts. In addition, there is no end in sight to the low interest rate phase.

In the short term, the coronavirus pandemic remains a factor of uncertainty. According to the results of a YouGov survey, just under a third of German citizens (31%) consider it likely that their old-age provision plans could be negatively impacted by the pandemic and its effects.

However, focus could shift back towards retirement plans in the long term. In its 2020 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 clientele.

Course of the pandemic influencing demand for life insurance

The German Insurance Association (GDV e.V.) is expecting demand for life insurance products to increase once again after the corona pandemic has been overcome. However, the trend towards hybrid products with guarantees is likely to continue. The proportion of classic products with fixed interest guarantees will see a marked decline in terms of new business.

Occupational pension provision holds long-term potential

The course that the corona pandemic takes in 2021 will also have a significant influence on the development of occupational pension provision. However, the interest displayed by corporate clients in occupational pension provision is likely to remain lukewarm at best in the near term. Parallel to this, the pandemic will expedite digitalisation in new business, whereby digital structures and occupational pension provision portals are likely to play a bigger role in shaping the market in the future. However, face-to-face consulting and implementation will remain important for corporate clients.

The German government has provided positive impetus in the context of approving the basic pension by doubling its support for occupational pension provision from a maximum of € 144 to € 288. By taking this step, the government has created a stronger incentive for the creation of an additional employer-financed occupational pension provision concept.

The legislation to strengthen occupational pension provision in Germany (BRSG), which came into force in 2018, will also have an influence here. After all, a transitional arrangement stipulates that the new compulsory employer subsidy will also become binding for all existing contracts as of 1 January 2022.

Depending on how the pandemic progresses and the economy develops, the German Insurance Association (GDV e.V.) is forecasting a development in gross premiums of between +3.0% and –7.0% for life insurance policies in 2021.

Wealth management

For the investment year 2021, FERI is expecting the global economy to overcome the coronavirus pandemic and resume a clear growth course. FERI cites the imminent deployment of effective coronavirus vaccines, huge economic stimulus packages in both the US and Europe, strengthened growth in China, as well as the ongoing period of low interest as the key factors supporting this. The positive trend on the global stock markets should then continue. However, it is impossible to rule out negative surprises in terms of interest rates, which could in turn serve to dampen the favourable stock market environment.

Assets on long-term growth trajectory despite the crisis

Based on a recent survey undertaken by management consulting firm Boston Consulting Group (BCG), the corona pandemic could potentially bring the worldwide growth in private assets to a standstill. However, an analysis produced by management consultancy zeb indicates that this is likely to rise again in the long term. The company cites global megatrends – such as expansion of the middle classes, an increasing number of high-net-worth individuals (HNWI), the ongoing shifting of funds from deposits to financial assets, increased life expectancy and longer pension terms – in support of this. The need for high-quality wealth management services is therefore likely to increase in the long term despite the crisis.

Inherited wealth continuously increasing

Around ten percent of all adults in Germany have received at least one inheritance or major gift in the past 15 years. This was determined by the German Institute for Economic Research (DIW). According to this, the average amount of these inheritances in real terms is a good € 85,000 per person, and € 89,000 for gifts. Compared to 2001, inheritances and gifts have increased on average by about 20 per cent in real terms. The structure of MLP's client base means that the volume should be above average here.

Investors focussing on sustainability

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. A planned amendment to the MiFID II stipulations states that investment advisors will be obligated, likely from the start of 2022, to query the "sustainability preferences" of their clients. According to a survey performed by asset management firm Blackrock, institutional investors such as pension schemes, insurance companies, foundations, pension funds, sovereign wealth funds and family offices are keen to more than double their sustainably managed assets from 18 percent as things stand today to 37 percent by 2025. MLP has already been offering a range of sustainable funds since 2012 and these are set to be further expanded in 2021.

Institutional investors increasingly choosing private assets

Due to major economic concerns associated with the coronavirus pandemic, and also in an attempt to diversify their portfolio, institutional investors are keen to channel more funds into private assets or alternative investments in the future. These are the conclusions of the Schroders Institutional Investor Study 2020. Private equity, infrastructure equity and private debt are the three most important investment segments here.

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 2021.

Non-life insurance

Non-life insurance will remain very important both for the market as a whole and for independent brokers. According to a recent survey undertaken by AssCompact, almost half of respondents expect the relevance of the private property and casualty business to remain at its current high level in the next five years. In terms of sales, the importance of the property and casualty business has been continuously rising over the last five years.

Risk of natural disasters on the rise

Based on estimates of the German Insurance Association (GDV e.V.), increased awareness of natural hazards could have positive effects on the demand for corresponding insurance products. For example, the GDV is anticipating a stronger demand for insurance coverage that offers protection from natural disasters due to the ever-increasing incidence of extreme weather conditions.

Based on forecasts of the German Insurance Association (GDV e.V.), demographic developments are increasing demand for assistance products and services in the field of property and casualty insurance – particularly among older sections of the population.

Assistance services in greater demand

Cyber attacks are still on the rise. According to the "Marsh Insurance Market Report for Germany", almost half of all companies fell victim to cybercrime in 2019. A survey undertaken by AssCompact also indicates that more than three quarters of all independent brokers operating in the commercial property and casualty business are anticipating a positive sales revenue trend for commercial cyber insurance policies over the next three years.

Growth market of cyber insurance

According to data published by the German Insurance Association (GDV e.V.), process optimisations and the use of artificial intelligence (AI) will help make procedures more efficient and affordable in the future, particularly in terms of claims management. This in turn should create scope for new offers. However, the cost decreases could potentially lead to reductions in the price structure in an intensive competitive environment.

Digitalisation as the main driving force behind change

The Allianz Global Insurance Report 2020 forecasts that the topic of sustainability is likely to develop into a key factor for the entire industry. The trend towards sustainable insurance products and the importance of ESG factors will increase, thereby also opening up new market opportunities in the non-life insurance business.

ESG criteria offer new market opportunities

Overall, the German Insurance Association (GDV e.V.) expects gross premium income in the property and casualty insurance field to display development of between –3.0% and +1.8% for 2021. The Allianz Global Insurance Report 2020 expects the premium volume to return to pre-corona pandemic levels as early as in 2022.

Health insurance

Access to private health insurance will also be further restricted in 2021 as a result of the increase to the statutory insurance limit from € 62,550 to € 64,350 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.

Due to a billion-euro hole in the statutory health insurance funds due to the coronavirus pandemic, members should expect to pay higher premiums from 1 January 2021 onwards. The average additional premium for 2021 is likely to increase from 0.2 percentage points to 1.3%.

Statutory health insurance funds: premiums on the rise

As highlighted by the "Continentale Survey 2020", the vast majority of those paying into the statutory health insurance system are worried about the future of the healthcare system in Germany. 81% fear that securing good health provision is likely to cost a lot of money on top of their statutory health insurance premiums. Some 73% therefore consider private provision crucial.

Private health provision remains in demand

Occupational health insurance is slowly starting to pick up speed. Based on figures provided by the Association of Private Health Insurers, the number of companies that offer their employees additional insurance cover of this kind more than tripled between 2015 and 2020. According to the Association of Private Health Insurers, some 1.04 million persons had occupational health insurance provision in place as of 31 December 2020 (+18% compared to the previous year). The number of employers offering occupational health insurance increased by 29% over the previous year to 13,500. In a survey performed by AssCompact, 49% of brokers surveyed indicated that occupational health insurance will become increasingly important in future.

Occupational health insurance offers potential

In its current market outlook, Assekurata rates the business expectations of comprehensive private health insurance as negative overall. However, the field of supplementary insurance is likely to provide positive stimulus here, above all in the areas of supplementary dental insurance, outpatient hospital tariffs, as well as supplementary long-term care insurance.

Real estate

Based on estimates provided in the survey "Living in Germany 2020", produced by the Sparda banks, the real estate market in Germany is still likely to display robust development even after the coronavirus pandemic. The demand for property is continuing to increase and remains consistently high, particularly in major cities. Accordingly, the survey also highlights an increasing future need for construction work in the urban centres, as well as the areas immediately surrounding major cities.

Trend towards smaller households

There is no end in sight for the boom, even in the long term. 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 continue to drive demand for decades. In many regions, strong demand will be leading to significant residential property appreciation.

Based on projections of the University of Freiburg, real estate prices will 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 increase until 2060. In many regions, strong demand will be leading to significant residential property appreciation.

Property purchasers facing challenges

The Real Estate Sector Autumn Report 2020 is forecasting that pronounced increases in both land prices and construction costs will also lead to a significant rise in residential property purchase prices in many locations. Despite affordable interest rates, property purchasers are finding it increasingly difficult to secure loans and mortgages - not least due to the stricter equity and creditworthiness requirements encountered during the application process.

Need for senior citizen housing rising

Properties with nursing care are becoming increasingly popular as an investment. In the course of demographic developments in Germany, the need for in-patient nursing care is set to rise to 3.51 million patients by 2060. This is the estimate of real estate research specialist Bulwiengesa. Accordingly, the number of citizens specifically receiving in-patient care as a percentage of all those requiring nursing care is likely to increase from 31% to 73%. Housing suitable for senior citizens will cease to be a niche product over the course of the next few years and instead form the focus of housing construction policy. After all, the current housing stock is simply not fit for purpose. Indeed, only 3.4% of the housing stock of households with persons of retirement age is currently easily accessible (barrier-free access).

The growing pressure of demand is already being reflected in the returns in the market for properties with nursing care. According to data provided in the Real Estate Sector Autumn Report 2020, the prime yields for nursing homes are currently at around 4.3% or 3.5% for assisted living.

Loans and mortgages

The prime rate of the European Central Bank (ECB) has been at a record low of zero percent since March 2016. No end to the low interest rate phase is currently in sight. According to a survey of 71 economists performed by international news organisation Reuters, the ECB is likely to stick to its zero percent policy at least until the end of 2021. In terms of the prime rate, the vast majority believe that the so-called deposit rate is also likely to remain at –0.5% in Q4 2021.

Construction interest rate remains low

The experts at Interhyp are only anticipating a slight increase in the mortgage rate in the second half of 2021 at the earliest.

According to our estimates, demand for real estate will remain high. The need for housing suitable for the disabled and elderly will also increase continuously. Investments in property with nursing care are therefore enjoying great popularity and are also considered a secure form of financial investment by banks. Accordingly, we expect demand for loans and mortgages to remain high overall.

Demand for real estate supports financing growth

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. The political discussion in this regard is ongoing. Whether and when the parliamentary process is picked up again in the parliamentary term is impossible to predict. As such, there is unlikely to be any direct impact on MLP's operating business in the field of old-age provision in 2021.

Sluggish parliamentary process regarding legislation to cap insurance commission

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. As a financial institution and provider of a liability umbrella for its investment advisers, MLP Banking AG 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. The draft bill has been the topic of much controversial debate in Berlin's political landscape.

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

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 agreed that various improvements to the current structure of Riester pensions were necessary for this, including the relaxation of the fixed premium guarantee that is currently reducing returns considerably in the low interest rate environment. The CDU is holding discussions with the coalition partner SPD on modernising the Riester pension. It is not yet possible to predict whether and when any legislative action will result from this. However, MLP believes that Riester pensions can still be a prudent old-age provision component for our clients in many cases.

Planned modernisation of the Riester pension

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 10 March 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

It is to be implemented by means of amendments to the disclosure requirements, the MiFID II and the IDD, as well as a whole host of new regulations, such as a label for green financial products, a uniform EU classification system, new EU benchmarks and various EU standards for non-financial reporting. The first step will focus on the disclosure requirements, whereby financial market participants and financial consultants are obligated to disclose in their "precontractual information" how sustainability risks are considered when reaching investment decisions or when providing investment/insurance consulting services. The MLP sales and consulting process will also need to be extended continuously to include further sustainability aspects.

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 in connection with the UN SDGs and allow 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 working 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 the 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 future. 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