ECONOMIC REPORT

Overall economic climate

Overall economic situation

The recovery in the eurozone continued in the reporting year. According to estimates provided by FERI Investment Research, economic growth for the eurozone was 1.5% in 2016 – and was thereby slightly below the previous year (2015: 1.9%). The expansive monetary policy of the European Central Bank was the key contributing factor to the recovery in the eurozone.

In Germany, growth in the last financial year continued to be bolstered by a comparatively robust domestic economy. In its autumn forecast, the German government stated the low oil price as another reason for the positive development. According to calculations performed by FERI, inflation-adjusted gross domestic product (GDP) in Germany increased slightly to 1.9% in 2016.

Consumers in Germany continue to display a highly positive attitude, as underlined by the Consumer Sentiment Index of the German Consumer Research Association (GfK). The Index stood at 9.8 points in December 2016, compared with 9.3 points twelve months earlier. In September 2016, it even surpassed the 10-point mark with 10.2 points. According to the study performed by the German Consumer Research Association (GfK), one reason for the very positive overall sentiment is the fact that consumers are displaying resilience to a range of risk factors, such as the result of the US election, the Brexit decision, the financial crisis flaring up again in Italy following the unsuccessful referendum and Renzi’s resignation from the government, as well as the ongoing threat of terrorism. In addition to this, the employment market remains solid and private household incomes are displaying good development. The Consumer Sentiment Index of the German Consumer Research Association (GfK) is considered one of the most important indicators of behaviour among German consumers and of economic stability.

The overall mood in the German economy remains positive. The recovery remained intact in Germany right to the end of the year. The ifo business climate index was unchanged in November 2016 at 110.4 points – having been at just 107.4 points in January 2016. In December 2016, it increased even further to 111.0 points – representing its highest level since February 2012.
The employment upturn in Germany continued in the reporting year. According to data published by Germany’s Federal Employment Agency, the annual average number of registered jobseekers fell by 104,000 year-on-year to approximately 2.7 million persons in 2016. The corresponding unemployment rate of 6.1% (2015: 6.4%) is the lowest level in 25 years. The employment market continued to offer opportunities for highly skilled employees. According to Germany’s Federal Employment Agency, the unemployment rate among academics remained very low at just 2.4%.

According to the German government, the healthy situation on the employment market led to significant salary increases. Indeed, net wages increased by 3.7% in 2016. According to data published by the German Federal Statistical Office, the disposable income of private households increased by 2.8%. The savings rate in Germany increased slightly in the last financial year, reaching 9.8% in 2016. It was 9.7% in 2015.

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*Industry situation and competitive environment*

Traditionally, the vast majority of MLP’s total revenue is generated from the following three core fields of consultancy: old-age provision, health insurance and wealth management. In the financial year 2016, these fields together represented 73.4% of total revenue. Revenues in the fields of old-age provision and health insurance are generated in the financial services segment. Wealth management revenue is generated at the FERI segment and the financial services segment. The non-life insurance consulting field become significantly more important through the acquisition of the DOMCURA Group in 2015. Alongside the DOMCURA segment, revenue in this consulting field is also generated at MLP Finanzdienstleistungen AG. The share of non-life insurance increased accordingly in the financial year 2016 to 17.9% (2015: 11%).

The main factors that had a particular influence on the market environment and the results of operations in the four aforementioned consulting fields in 2016 are described below.

**Old-age provision**

As had already been the case in previous years, the ongoing period of low interest rates and the reservations being displayed by many consumers when it comes to signing long-term contracts continued to dampen the market environment in the old-age provision segment in Germany in the financial year 2016. The situation is being made even more acute by the new requirements as per Solvency II, which have been in force since January 1, 2016 and have a significant impact on both the insurance sector and the capital investment strategies of companies. You can find further information on this in the chapter entitled “Competition and regulation”.

Among other things, life insurers are addressing these challenges with innovations in the product landscape. They are increasingly choosing to offer old-age provision products with flexible guarantees or even no guarantees at all. Several life insurers have already dispensed with traditional guarantee products altogether. However, the classic collateral pool remains an efficient instrument for generating guarantee components for many other products.