



Insurance trends and growth opportunities for Poland



Sopot annual conference
May 7th 2015

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company is strictly prohibited

Agenda

Motor, Pension and Health as key growth drivers in short-mid term in Poland

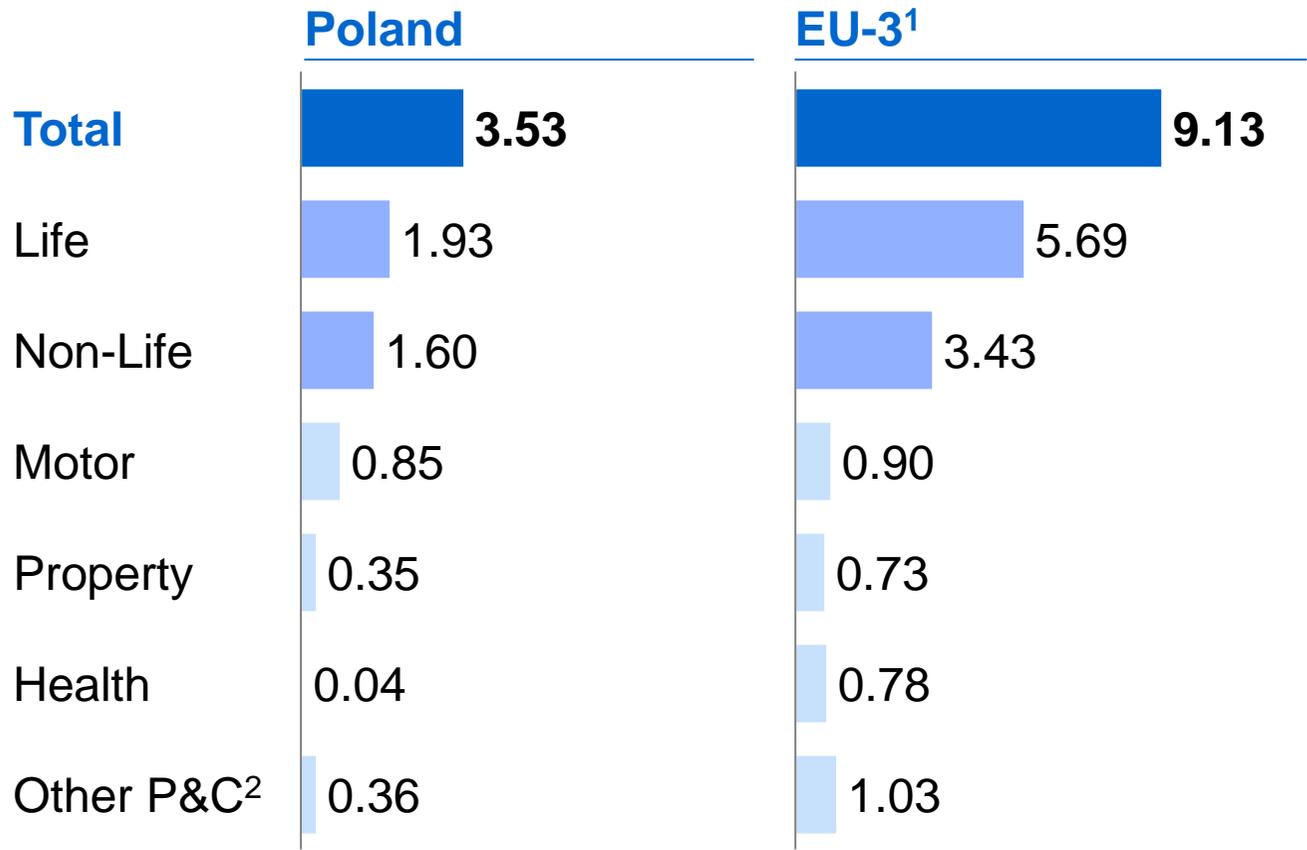
New global emerging trends are driving growth in the insurance industry

Regulatory changes have fostered market growth in Turkey (case example)

Discussion points

Compared to mature Western European markets Poland is still underpenetrated

Insurance penetration – GWP/GDP, 2013, Percent



Life insurance penetration in Poland is far below EU-3 levels

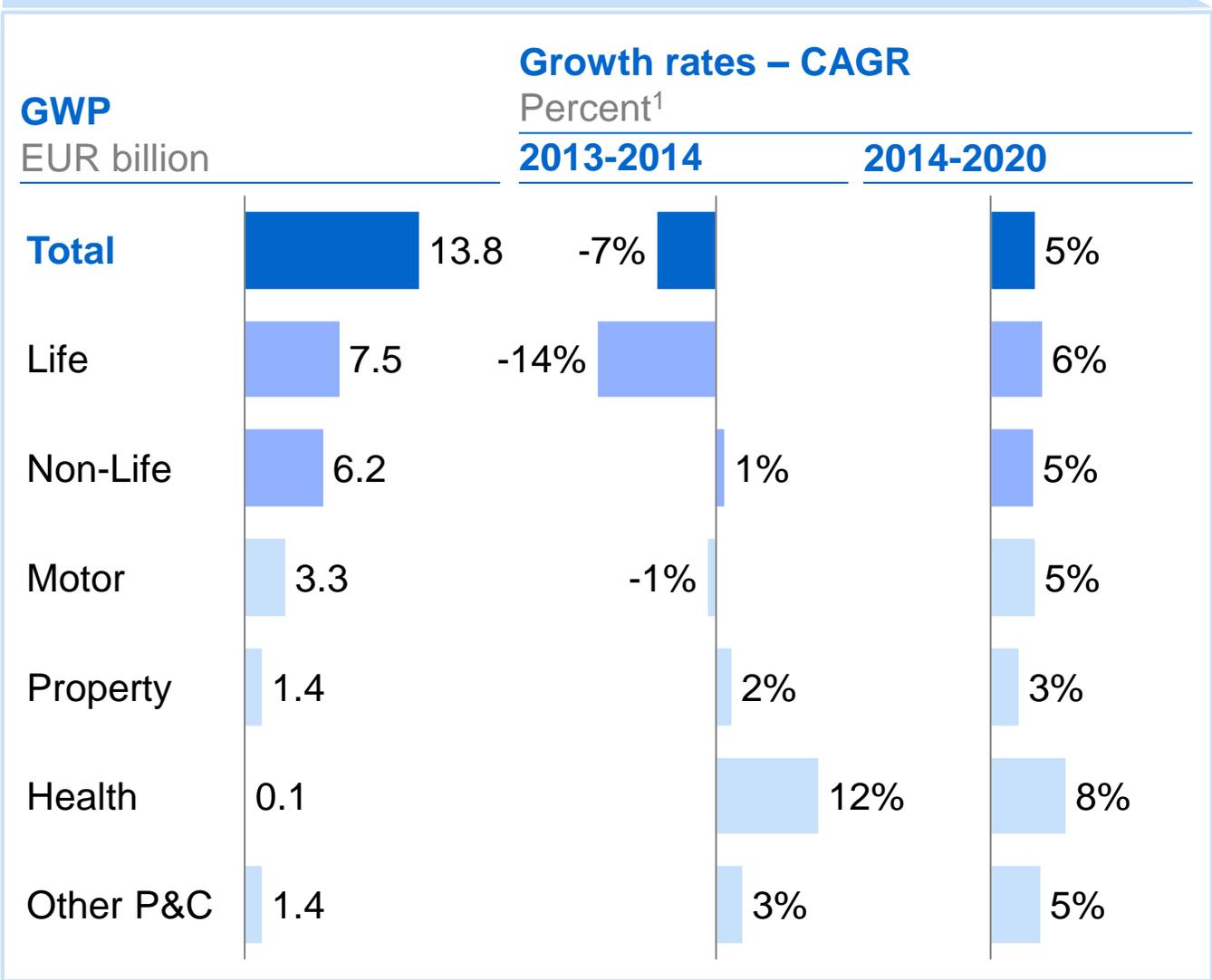
Largest gap is in health insurance



¹ Incl. France, Germany and UK

² Incl. mainly liability and accident insurance

Polish market is forecasted to grow by ~5% p.a. till 2020



Polish insurance market is expected to grow healthily, but inertially will not significantly cover the penetration gap

¹ LCU terms

Agenda

The background of the slide features a magnifying glass held over a document. The document contains a bar chart with blue bars and one red bar, and a 3D pie chart with various colored segments. The magnifying glass is positioned over the bar chart, which has labels for 'jul', 'aug', 'sep', 'nov', and 'dec' on the x-axis. The overall theme is financial analysis and data visualization.

Motor, Pension and Health as key growth drivers in short-mid term in Poland

New global emerging trends are driving growth in the insurance industry

Regulatory changes have fostered market growth in Turkey (case example)

Discussion points

We see a number of global trends driving growth in the insurance industry

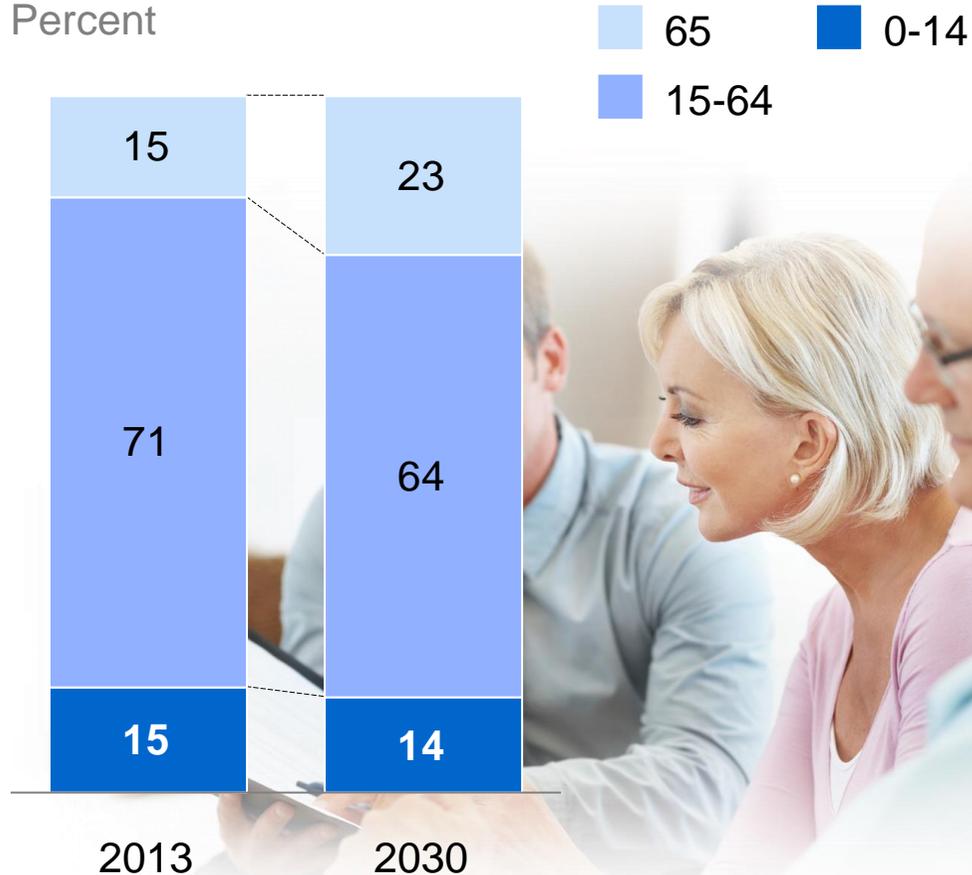
Trends	Description
 1 Aging population	<ul style="list-style-type: none">▪ The aging population leads to shifts in customer behavior and booming need (e.g., healthcare, retirement savings)
 2 New customer segments	<ul style="list-style-type: none">▪ Growth of the „emerging affluent” segment▪ Millenials resetting rules around product simplicity, customer experience and multichannel
 3 Changes in mindsets and behaviors	<ul style="list-style-type: none">▪ Multiple mediums used for shopping and information gathering▪ Life models becoming increasingly varied and less static
 4 New risks	<ul style="list-style-type: none">▪ Emergence of cyber security risks▪ Consumer lifestyle preferences shift toward riskier activities (e.g., sports, international travel)
 5 Increasing risk of catastrophes	<ul style="list-style-type: none">▪ Severe weather events occur with higher frequency (e.g., tornadoes, hail, floods), increasing claim costs in catastrophe prone geographies

1 Polish population is aging leading to changing risk profiles and demands

Poland's population is aging

2013 – 2030 Population Pyramid Evolution

Percent



Implications for distributors

Older population

- Changing risk profiles,
- Demand for unique products

New channels

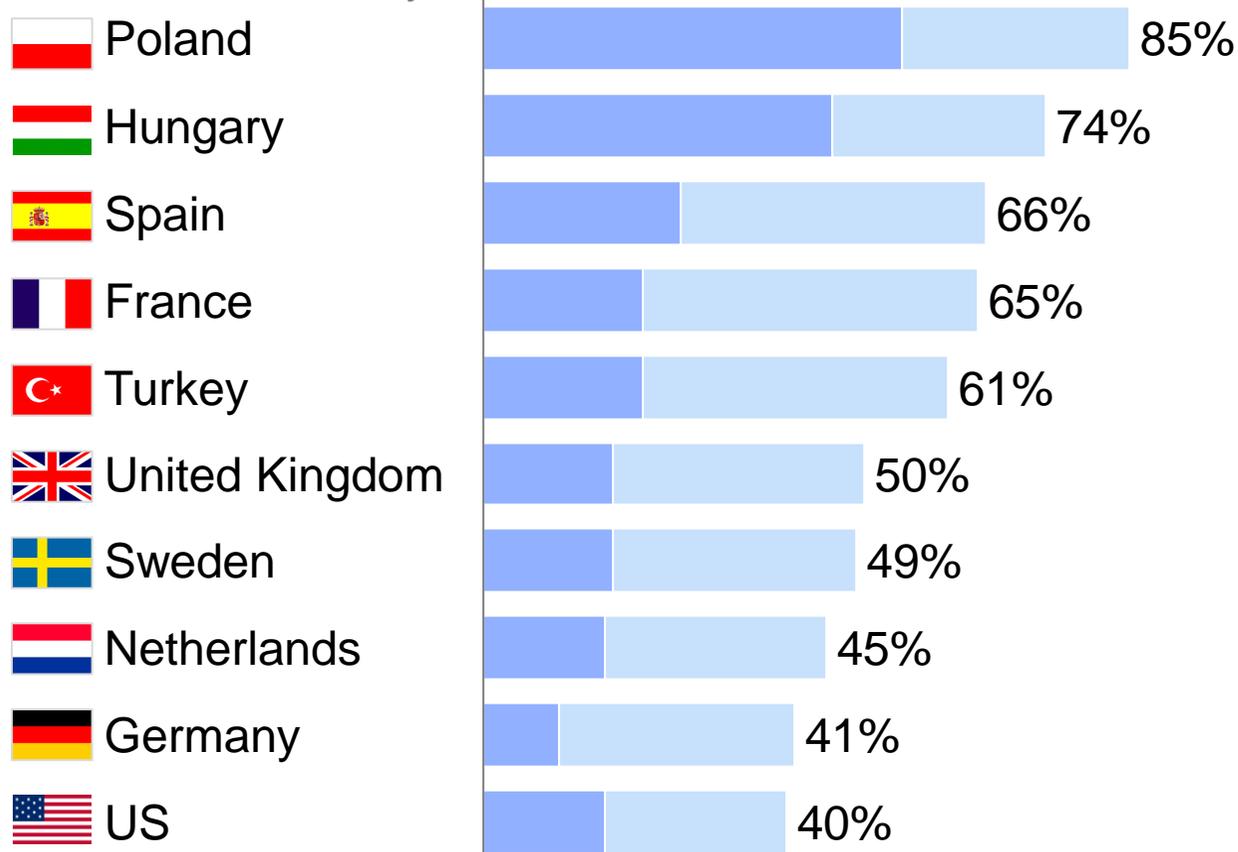
- Unique demands on marketing /underwriting/ claims management as the elderly require more personal attention

1 Customer anxiety around retirement security is significantly higher in Poland

■ Not at all confident
■ Not very confident

Expectations around retirement security in Europe

Percent of individuals 'not confident' they will be able to keep a comfortable lifestyle



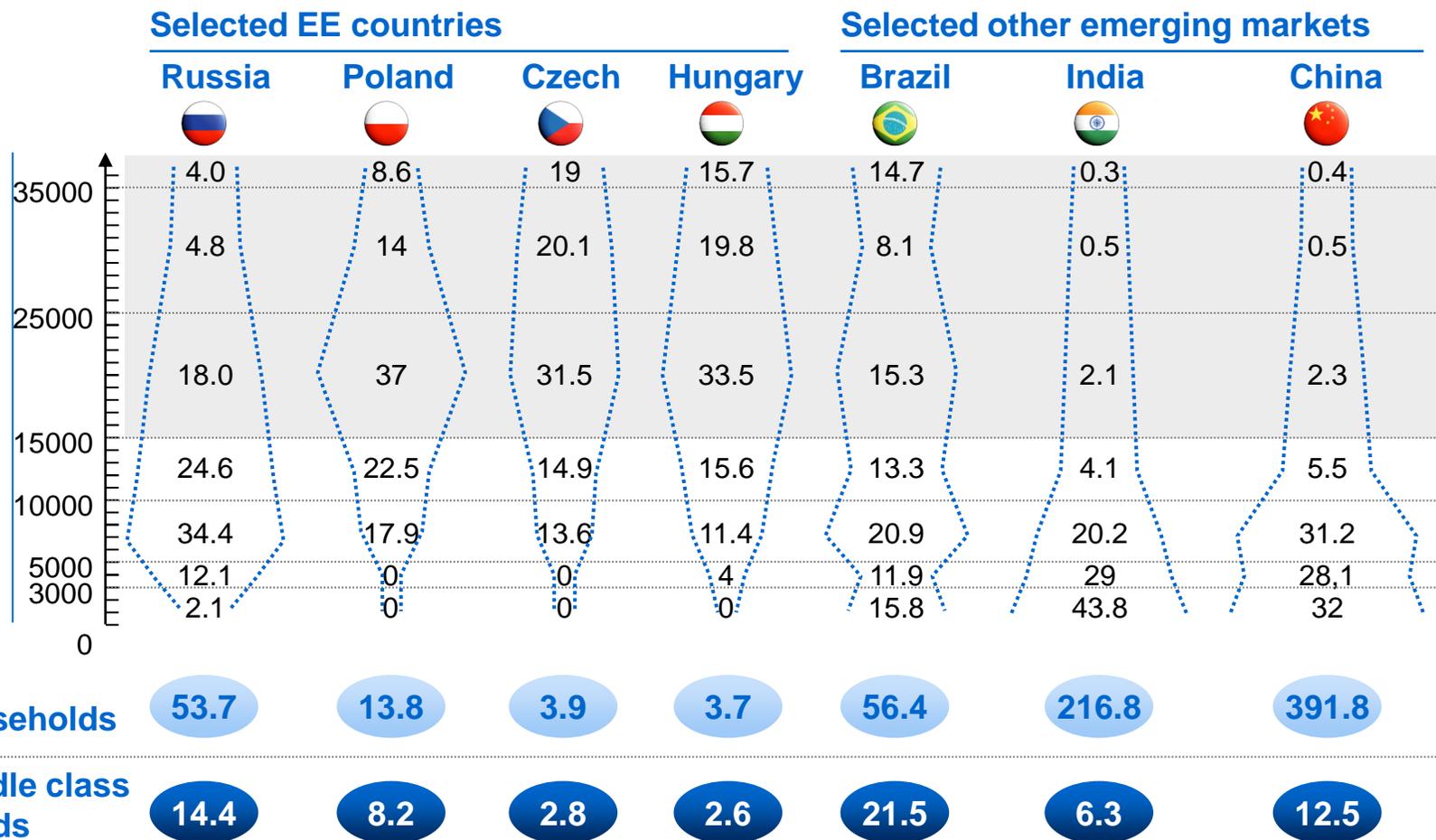
Polish are the most worried about retirement security



2 Poland is building an emerging mass affluent class

■ Middle class households

Number of households by income, percent



2 Generational divide – The customers of the future will have fundamentally different needs

Customer base today		Customer base 2030		Future
Cohort	 Baby boomers 1945-1960	 Gen X 1961-1980	 Gen Y 1981-2000	 Gen Z 2001-
Age	~60	~45	~25	~10
Characteristics	<ul style="list-style-type: none"> ▪ “Pull” use of digital ▪ Expect tailored marketing outreach ▪ Little brand loyalty ▪ TV dominant 	<ul style="list-style-type: none"> ▪ “Pull” use of digital – smartphones ▪ Value freedom of choice ▪ Skeptical of brands 	<ul style="list-style-type: none"> ▪ Always “on” and connected ▪ Value convenience ▪ Engage with brands ▪ Most buying journey online 	<ul style="list-style-type: none"> ▪ Digital is seen as tablestakes ▪ Strong bias to social/mobile media ▪ Social network key
Share of customers¹				
2014	26%	53%	21%	0%
2024	4%	49%	47%	0%

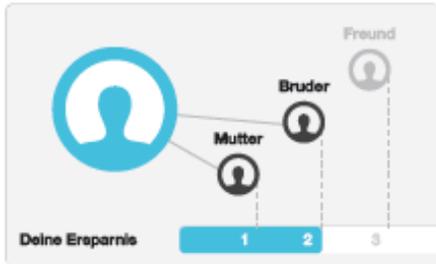
“Web page, users read at **most 28% of the words**; 20% is more likely.”

Waiting time for banking services is down to 5 minutes from 15 minutes

¹ Accessible customers defined as population aged between 25-65. Example shown based on Swiss demographics

2 “Social insurance” is emerging among “Millenials”

Friendsurance allows individuals to share small claims in a social network with conventional coverage for larger claims



Guevara allows customers to pool car insurance premiums in a group and retains the money in the pool for each group

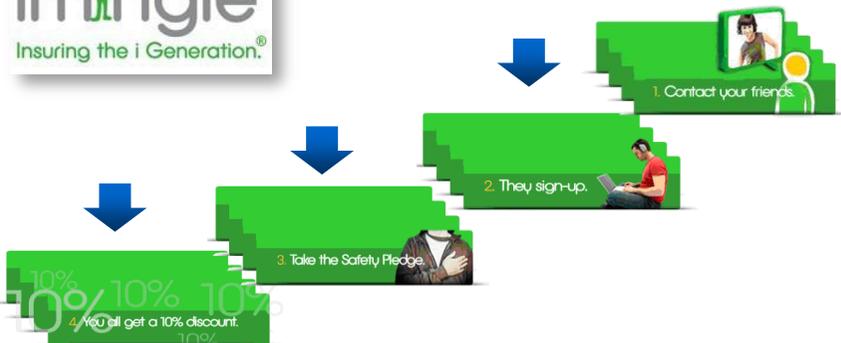
How much will peer-to-peer car insurance save you?

GB licence plate occupation postcode

We can't find the car associated to that registration.

QUOTE ME

IMingle allows for a 10% discount on a motor insurance if a customer's friend also signs up for the same insurance



Bought by many allows customers to team up with and collectively insure specific needs (pets, iPones, etc.)



You have a specific insurance need



Your specific insurance need could be for many reasons - for example, your profession, your passion, your postcode or even your pet.

Join a group of people with a similar need



You simply need to join the groups relevant to you - behind the scenes, we use the group's buying power to negotiate better deals for its members.

Get access to better insurance for that need



As a group member you can access cheaper cover, more comprehensive cover, or dedicated policies, none of which are available elsewhere.

3 Ubiquitous adoption of smartphones and apps transform how products and services are bought



Smartphones everywhere

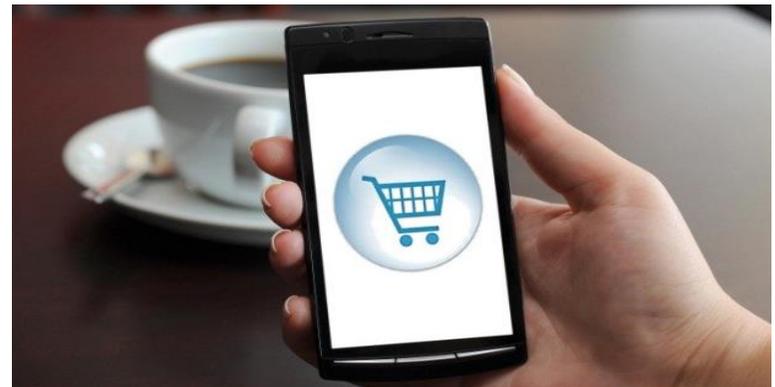


Planet of the Apps



Like or Dislike

Everything is rated

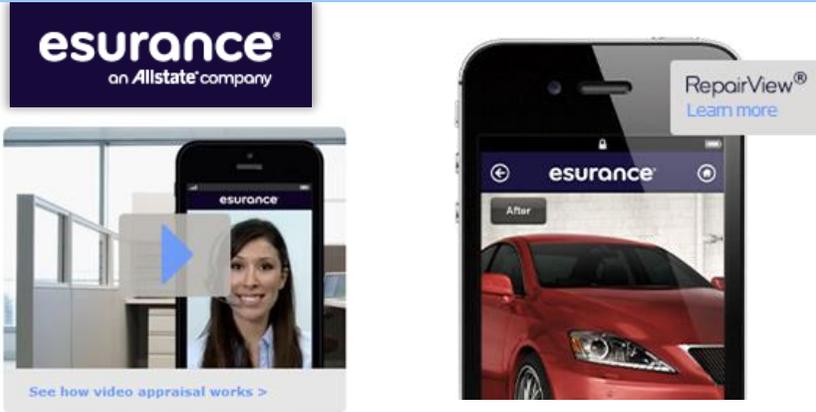


Retail 3.0

Other channels support online channel

3 Many insurance companies are experimenting with online and mobile offerings

Esurance mobile launches real time video-chat appraisal for claim estimates



State Farm Insurance has a cool app for house-movers



Liberty Mutual allows to catalogue your belongings easily and quickly



Allstate provides an app for bikers also for non-Allstate customers



3 Insurance player adjust their product portfolios in order to react to changes in customer lifestyles

LIFE

Wunschpolice



- Addressing customers' hesitance to commit to long-term savings plans by offering adaptability to changing life phases
- Life phases concept allowing for a personalized old-age provision, with high flexibility over entire contract duration

P&C

Expatriate Home Contents Insurance



Customized home insurance that offers worldwide personal liability cover

Dairyland non-owner car insurance



Dairyland offers flexible car insurance policy which offers the following key propositions:

Motorcycle insurance



- Offers a variety of suggestions to the customers before the purchase based on customer's lifestyle and motorcycle

Allianz flexible home insurance



- Allianz launched new home insurance product that enables customers to purchase a basic level of comprehensive cover and then add up to 11 optional insurance extras

3 ...and are using different forms of cooperation to promote their products



Retailers

- Prominent in-store advertisement to attract customers to retailer branded direct channel; plus sale at PoS at in-store finance centers (shop-in-shop) or at checkout; also embedded in the buying process in online stores



Car dealerships

- Car dealer offering product at the PoS as part of the car sale



Other innovative channels

- Directly sold at PoS and with high reference to the product
- *Products:* Ski insurance, mobile handset insurance, etc.



Affinity groups/at worksite

- Framework agreements with organizations (e.g., companies, associations), marketing via organization and UW via direct channel or insurance agents/brokers on the ground



Direct banks

- Cross selling of insurance products through direct bank either through referral to the insurer or integrated IT process of insurer and bank



3 Telematics is becoming pervasive and an important form of auto insurance

Every car is telematics enabled, connected to cloud and communicating in real time



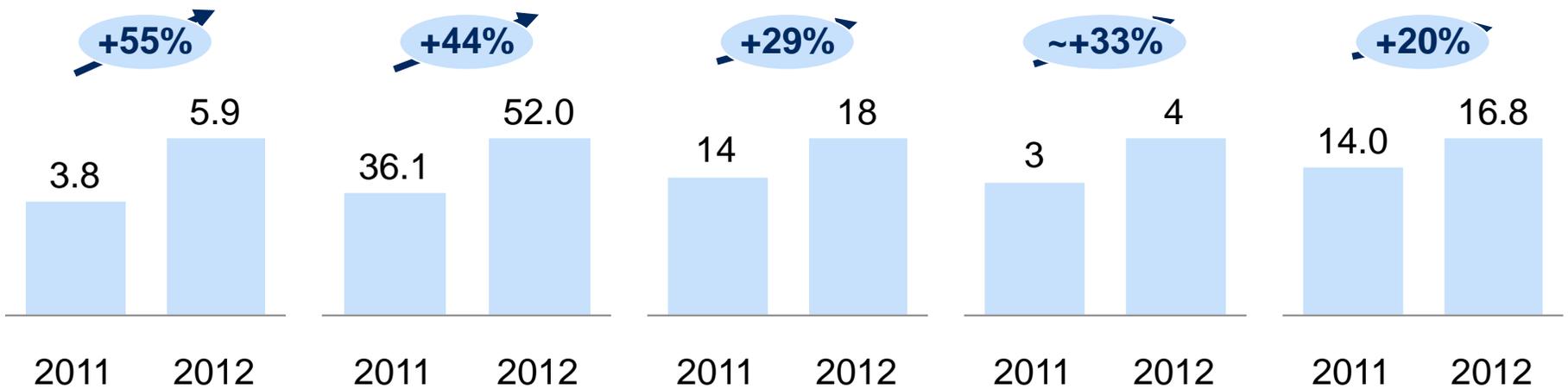
Drivers do not purchase insurance offline – they just **provide their coverage preferences**

Telematics system guides the driver on how to drive more safely, avoid bad routes and call help in case of accidents

Telematics determines the risk and automatically charges the driver based on: driving behavior, time of day, driving location, etc.

4 Damages resulting from cyber security risks are growing, opening a new market for insurers

Cost of cyber crimes, sample of US companies in million \$ / year	Frequency of successful cyber attacks, sample of US companies amount/year	Ø time to resolve successful attack, sample of US companies in days	Cyber insurance customers, US market sample Ths	Ø cyber insurance limit, US market sample in million \$
--	--	--	--	--



Total damages 300 – 400 bn \$¹

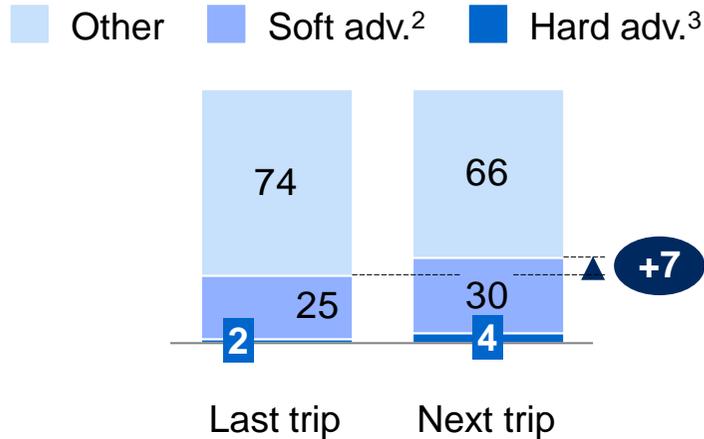
¹ Most probable range; number could be as high as 1 trillion \$

SOURCE: Total costs worldwide: CSIS, "The Economic Impact of Cybercrime and Cyber Espionage", 2013; number of clients and insurance limits: Marsh, "Benchmarking Trends: More Companies Purchasing Cyber Insurance", 2013; number and severity of attacks: Ponemon Institute, "Cost of Cyber Crime Study: United States", 2012

4 Adventure tourism is growing

The share of adventure tourism is likely to grow

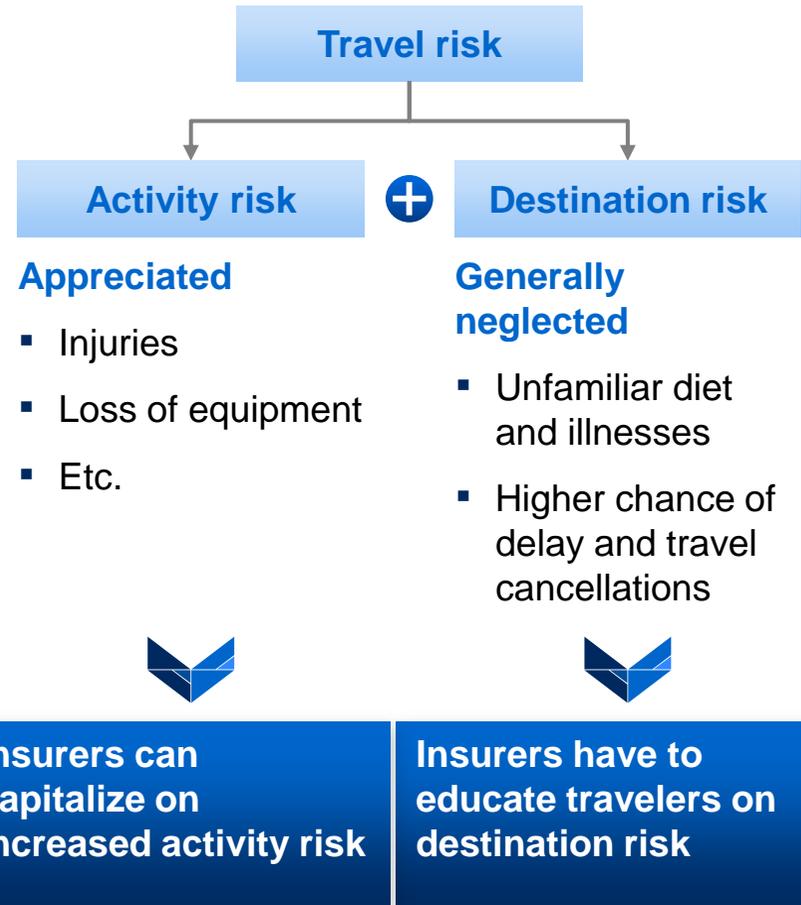
Share of respondents¹
in percent



Most important trends

- Increasing demand for authentic experiences
- Travelers becoming more experienced and actively seeking new and unusual destinations
- Increasing demand for ethical, green and sustainable products

Travelers are only sensitive to activity risk



¹ Representative study with respondents from North America, Latin America and Europa

² Sailing, hiking, eco-tourism, horseback-riding, safaris, etc.

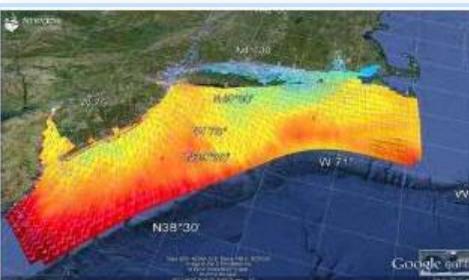
³ Caving, trekking, climbing, etc.

5 Mega-risk management will become big business

“Basic”
risks
dis-
appears



Insuranc
e is all
about
mega
risks



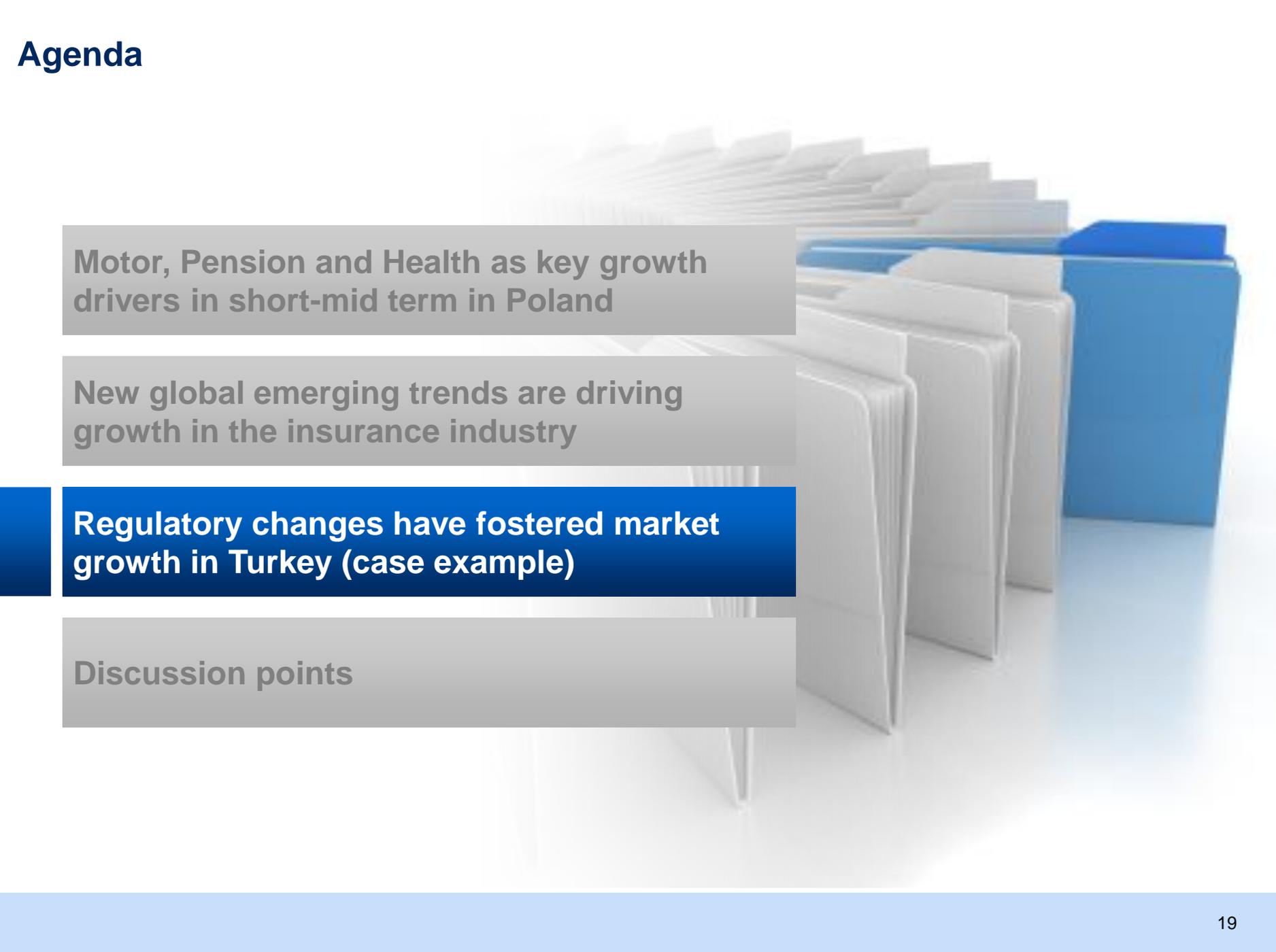
The future

Basic risks are **significantly reduced** as technologies make core products safer (e.g. smart homes, self-driving cars)

There is **higher exposure to man-made and CAT risk**

- Concentration of risks due to urbanization and interdependencies of economies
- Higher frequency and damage caused by natural disasters (suggested by the trends in the last 10 years)

Agenda



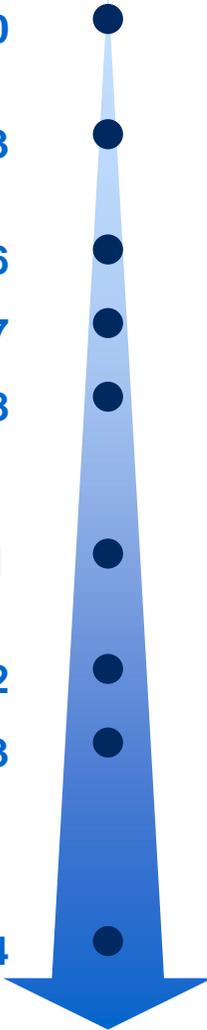
Motor, Pension and Health as key growth drivers in short-mid term in Poland

New global emerging trends are driving growth in the insurance industry

Regulatory changes have fostered market growth in Turkey (case example)

Discussion points

Regulatory framework for insurance sector in Turkey in evolution

- 
- 2000
 - Introduction of Motor TPL in 1996 and compulsory earthquake insurance in 2000
 - 2003
 - Private pension regulation enacted in 2001 and market established in 2003 with tax incentives
 - 2006
 - Government supported agriculture insurance
 - 2007
 - **Major insurance law** introduced
 - 2008
 - **“Agencies Law”** enacted, minimum standards defined
 - 2011
 - Semi-liberalized tariff at Motor TPL
 - 2012
 - Supplementary private health insurance defined
 - 2013
 - New motor regulation - 4 different casco offerings
 - New incentive system for private pension - government matches 25% of individual contributions
 - 2014
 - **“Agencies Law”** revised and min standards for agencies improved

New regulatory changes in the pipeline

- **New work security package:** compulsory life insurance for mining workers and empowerment of insurance companies to evaluate the riskiness of the mining companies
- **Penalties** to be applied to companies not having **compulsory insurance**



Regulatory changes have fostered Turkish market growth

% GDP penetration

Traditional Life insurance

GWP, TL mln

Year	GWP (TL mln)	% GDP penetration
2004	1,218	0.22
2009	1,822	0.19
2014	3,255	0.19 ¹

Key drivers

- **Negative perception of customers** against life insurance especially based on past experience in 90s, where major dissatisfactions occurred

Non-life insurance

GWP, TL mln

Year	GWP (TL mln)	% GDP penetration
2004	5,376	0.96
2009	10,614	1.06
2014	22,522	1.30

Key drivers

- Growth in **health insurance** continues yet still with profitability issues
- **Compulsory earthquake insurance** pushed with additional check-points i.e., no utility service without DASK policies

Private pensions

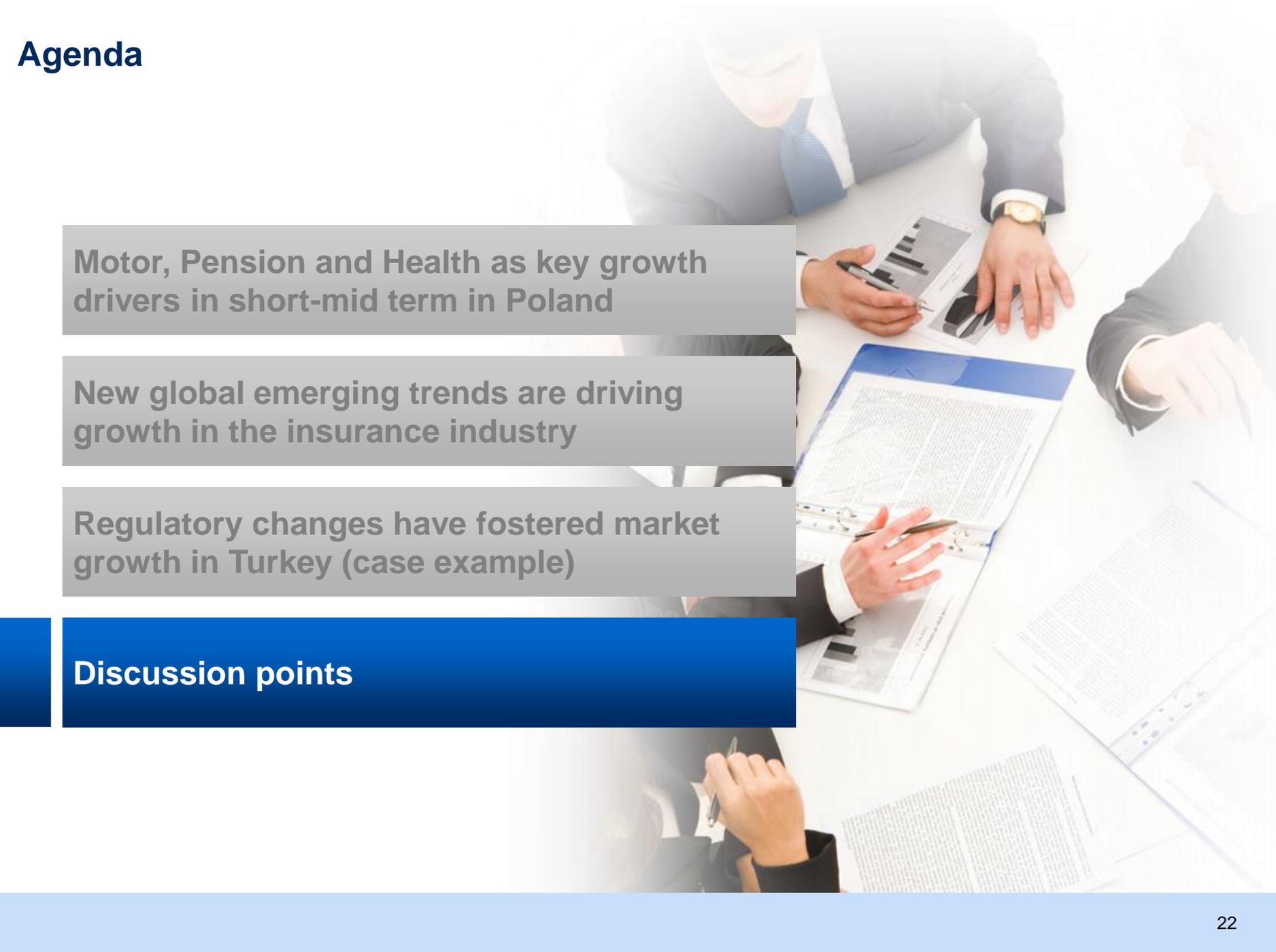
AuM, TL mln

Year	AuM (TL mln)	% GDP penetration
2003	6	0
2009	6,870	0.7
2014	27,610	1.6

Key drivers

- **Tax incentivisation** on pensions fuelled the growth
- **Ageing population and rising wealth** generated a strong demand
- **Strong focus and push by companies** through banks and direct sales force

Agenda

A background image showing a group of business professionals in a meeting. They are seated around a table, looking at documents and charts. The image is slightly faded and serves as a backdrop for the text.

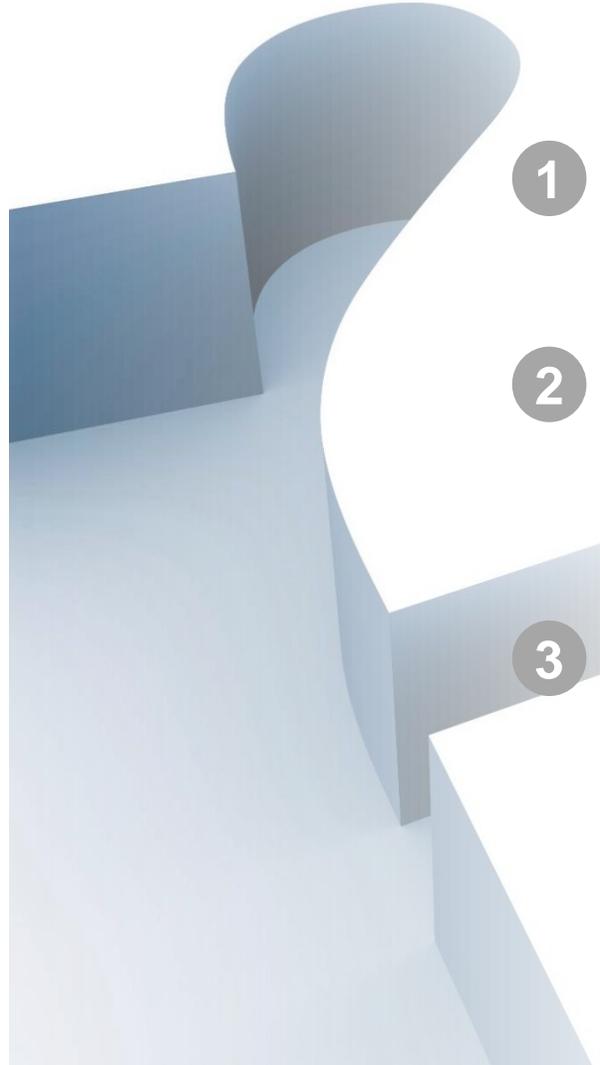
Motor, Pension and Health as key growth drivers in short-mid term in Poland

New global emerging trends are driving growth in the insurance industry

Regulatory changes have fostered market growth in Turkey (case example)

Discussion points

Topics for the debate

- 
- 1 What are the key barriers for penetration growth of insurance market?
 - 2 How insurance market can better serve emerging customer needs especially in Healthcare and Retirement?
 - 3 What we can learn from other markets?



Insurance trends and growth opportunities for Poland



Sopot annual conference
May 7th 2015

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company is strictly prohibited