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# Repositioning of the Insurance Industry in the Financial Sector and its Economic Role

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# **Repositioning of the Insurance Industry in the Financial Sector and its Economic Role\***

by Jan H. Holsboer\*\*

## **1. Introduction**

In the last decade, the insurance industry has assumed a more prominent role in financial markets and the economy as a whole. This has created both opportunities and challenges for traditional insurers, prompting new strategic choices.

This paper is an updated version of one originally presented in June 1997 to the Geneva Association. The purpose of the paper is to address the major changes in the external and internal environment and to assess their consequences for various sectors in the insurance industry. This analysis will be viewed within the context of current trends in the financial sector as a whole.

The main conclusion is that demographic and market changes have created new opportunities for insurers. At the same time, the traditional boundaries between insurers, banks and asset managers are converging.

Section 2 will treat the main drivers of change in the external environment. These include political, economic, social and technological developments. Section 3 will look more closely at the restructuring of pension systems in Europe and the impact of this process on capital markets. Section 4 will examine how external factors are prompting changes on the demand side, while section 5 will gauge the ramifications on the supply side. Section 6 will describe the convergence of insurance and other financial markets, paying special attention to the rise of bancassurance. Section 7 will focus on the economic role of the insurance industry. The conclusions of this report are summarized in section 8. Section 9 includes propositions for debate.

Although most subjects discussed are applicable to the global insurance industry, this paper primarily takes the European situation, and particularly developments in life insurance, as the basis for discussion.

## **2. Drivers of change in external environment**

### *Political*

Throughout Europe, the role of government is being reassessed against the background of an ageing population and budgetary constraints. The pressure to meet sound monetary and

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\* Originally presented at the General Assembly of the Geneva Association in Dresden, 25–27 June 1998, and updated in March 1999.

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