



Berenberg/HWWI study: Security industry to remain a growing market

Hamburg/Berlin. In their latest study, private bank Berenberg and the Hamburg Institute of International Economics (HWWI) have examined the topic of *security*. “We’re living in an age of greater risk,” says HWWI Director Professor Dr. Henning Vöpel. “This essentially reflects the fact that we’re experiencing dramatic geopolitical and technological upheavals around the world. What’s missing above all else is a functioning global framework for limiting and resolving conflicts that are expanding and worsening to create global crises.” Security is one of the most basic needs that people have. The more uncertain the times, the greater the willingness to expend additional resources to create security. “The security industry will remain a growing market,” says Wolfgang Pflüger, an economist at Berenberg. “Be it geopolitical conflicts, international terrorism, violent crime or cyber risks – there are plenty of pressing reasons to invest in security precautions.”

Geopolitical conflicts

In light of the uncertain times across the globe, the issue of security is right at the top of the political and economic agenda. A total of 42 trouble spots were counted at the beginning of 2016. Spending on security has risen again of late in response to the global threat. This is seen, for instance, in military expenditures worldwide, which are approaching the \$1.8 billion mark. The undisputed leader in this segment remains the United States at nearly \$600 billion, although China is recording very fast growth. “The international body politic faces major challenges, including things like managing the conflict between Russia and Ukraine, fighting the so-called Islamic State (IS) and resolving the refugee crisis. Politicians need to create the right institutions and legal and regulatory conditions to ensure greater security,” says Vöpel.

International terrorism

A latent threat has arisen from the string of terrorist attacks over recent years. That this danger has returned to Europe is seen primarily from the horrific events in Paris on 13 November 2015. The risk of terrorist attacks has similarly increased outside of Europe. The number of deaths from such attacks is the highest in war-torn countries and crisis-hit regions like Iraq, Afghanistan and Nigeria. The threat from terrorism has, however, also extended to other countries and regions that are more popular with tourists, like Turkey, Tunisia and Egypt. All in all, the cost of terrorism has risen sharply over recent years. In 2014, international terrorism is reckoned to have caused direct costs totalling roughly \$53 billion, more than ever before.

In economic terms, the consequences of terrorist attacks were manageable for the countries affected in the past, especially when the incidents were one-off attacks on major economies. In less developed countries, on the other hand, series of attacks can have a considerable impact. Economic development can take a serious hit, especially in badly affected segments such as tourism, transport and insurance. “In the long run, terror can endanger the prosperity of the countries affected, when state interventions like more identity checks, checkpoints on roads and border controls are implemented to prevent terrorism and stricter import regulations impede previously free trade. This particularly affects emerging economies that are heavily dependent upon foreign capital and imports from the industrialised world,” comments Pflüger.

Digitisation and cyber risks

Data protection is also set to become massively more significant in a short period of time due to the current and pending digitisation of business and society. The worldwide volume of data is predicted to expand by a factor of five by 2020 compared with 2015 levels. The complexity of data security will also increase. Platforms dealing with large volumes of data (“big data”), the development of artificial intelligence and the exchange of program files for 3D printing raise questions relating to data security, data protection and the insurance of data risks. “Digital globalisation and the associated networking of diverse parts of the world have changed the risk situation with regard to data security,” says HWWI Director Vöpel. The costs incurred as a result of cybercrime were estimated at around \$400 billion in 2014.

Crime

A certain everyday form of insecurity for private households results from break-ins, theft and extortion. Incidents of burglary in particular have risen alarmingly in Germany of late. Whereas there were just 120,000 break-ins in 2010, that number rose to 167,000 by 2015. This represents an increase of one-third. Insurance payouts increased by 50% during the same period, from €350 million to €530 million. The average loss amounts to €3,000, while the detection rate is pretty low at around 15%. “In the case of private solutions, an increase in security services can be observed in the field of personal and property protection. The phrase ‘home security’ is used to cover a range of new digital technologies that are increasingly being employed in private homes. These technologies represent a highly lucrative market going forward”, predicts Pflüger.

Security industry from the investor viewpoint

The forecast given in the Berenberg/HWWI study of the security industry in 2008 for the growth of the security market (+7.8% p. a. – and hence practically doubling the market volume) has come true. In 2015, global spending in the security industry was estimated to total \$244 billion. “We expect this growth trend to persist into the future,” says Wolfgang Pflüger. The security industry has the following sub-markets:

1. The homeland defence market. Ensuring internal security is one of the central functions of the state. This includes the ability to track all cross-border movements of people and goods and protect what is known as critical infrastructure (seaports and airports, energy and water supply, public buildings). Western Europe is likely to see the highest growth rates in this segment over the next few years. The average annual increase could reach 13.4% and the market volume could grow from \$85 billion in 2015 to \$146 billion in 2020.
2. Security services, protection of property and people, alarm systems, CCTV, armoured cars, safety at major events. Around 70% of total global revenues of around \$140 billion are generated by companies, 10% by institutional customers, and the rest by private individuals. The large emerging markets will stand at the top of the growth pyramid with double-digit growth rates. Globally, however, annual increases of just 3 to 5% can be expected.

3. Network and data protection – cybersecurity. Protecting infrastructure, networks, connected terminals, software applications. In the battle against cybercrime, growth averaging 9.8% is expected each year between 2015 and 2020, taking the market volume from \$106.3 billion to \$170.2 billion. Some areas like secure cloud computing or data backup for the use of mobile communication devices are likely to expand faster than others.

Lucrative investment opportunities are available to capital investors in the security segment. Alongside a number of individual securities, there are now a series of fund products and index certificates to choose from. The *S&P Global Security Index* should be mentioned as a proxy for this product category. From January 2008 to May 2016, the Global Security Index enjoyed a much stronger performance than the DAX and EURO STOXX 50.

Conclusion

Security is set to remain one of the mega-topics of the future. In addition, security risks are evidently becoming increasingly international in nature. This calls for more internationally coordinated and harmonised security measures. The security vacuum that can currently be observed is yielding a burgeoning private security market that has many diverse facets. Berenberg economist Wolfgang Pflüger summarizes: “In light of the future relevance of security and the anticipated technological innovation in security products and security services, security is and is set to remain a topic of great interest to investors.”

Performance of SGI Global Security Index/EURO STOXX 50

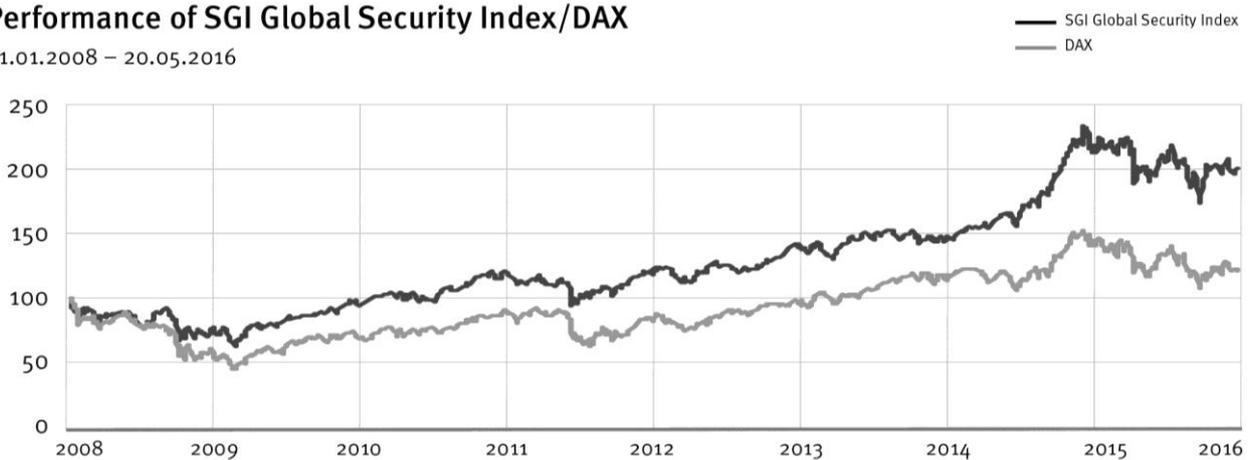
01.01.2008 – 20.05.2016



Sources: SIPRI (2016); HWWI calculations.

Performance of SGI Global Security Index/DAX

01.01.2008 – 20.05.2016



Sources: SIPRI (2016); HWWI calculations.

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About Berenberg

Founded in 1590, Berenberg is one of Europe's leading private banks today, offering services in the divisions of Private Banking, Investment Banking, Asset Management, and Corporate Banking. Headquartered in Hamburg and led by managing partners, Berenberg maintains a strong presence in the financial centres of London, Zurich, New York, and Frankfurt, and has a total of 19 offices in Europe, the Americas and Asia. More than 1,330 employees carry the bank's long tradition of success into the future.

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