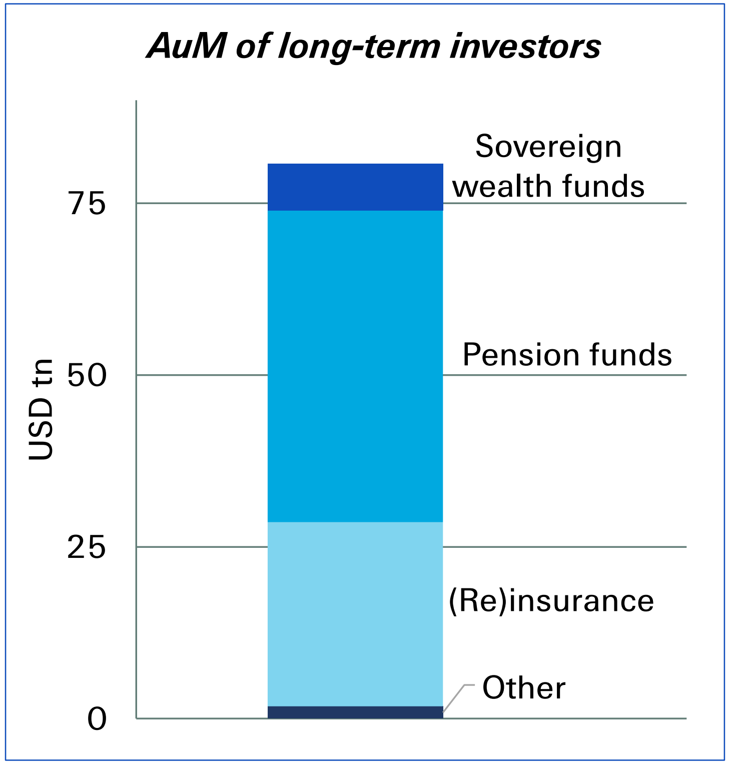
Swiss Re Institute

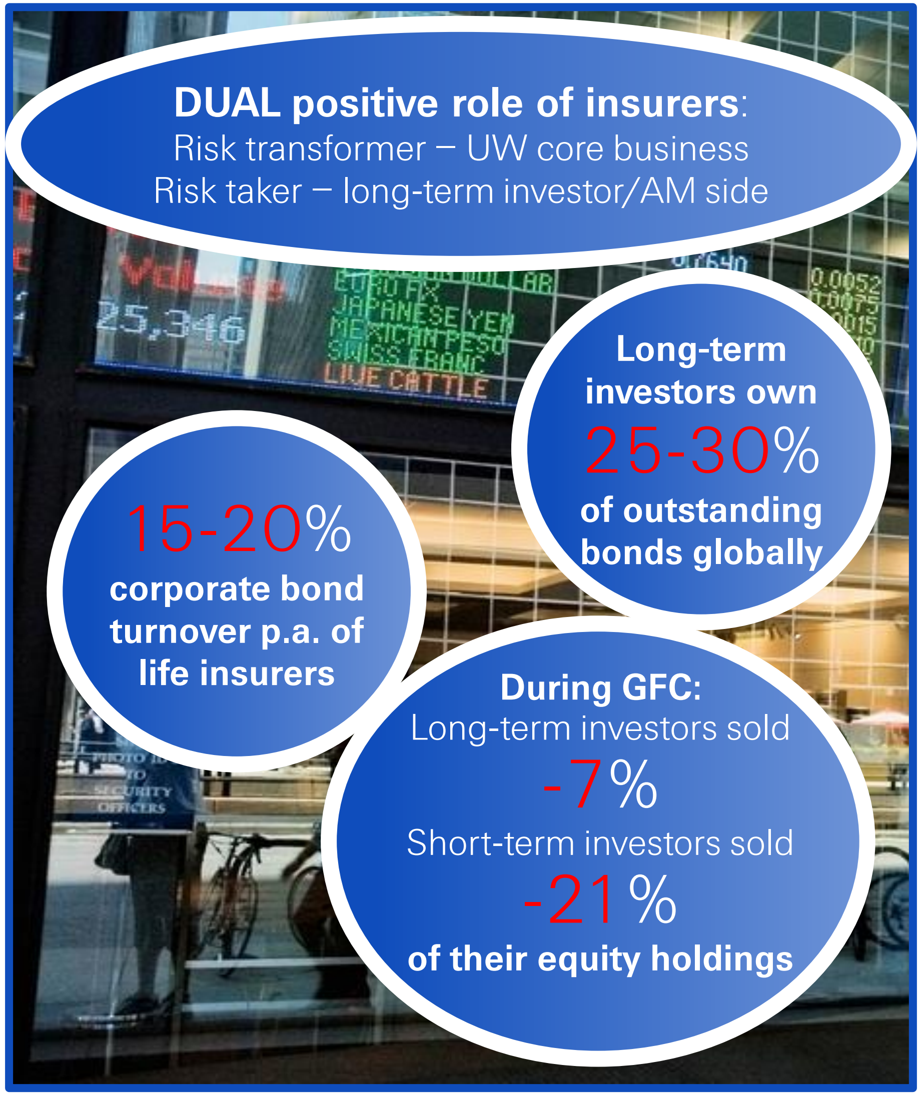
COVID 19 and the insurance industry

Dr. Jerome Haegeli, Group Chief Economist
NBER roundtable, 24 April 2020

Long-term institutional investors are a key pillar for financial stability

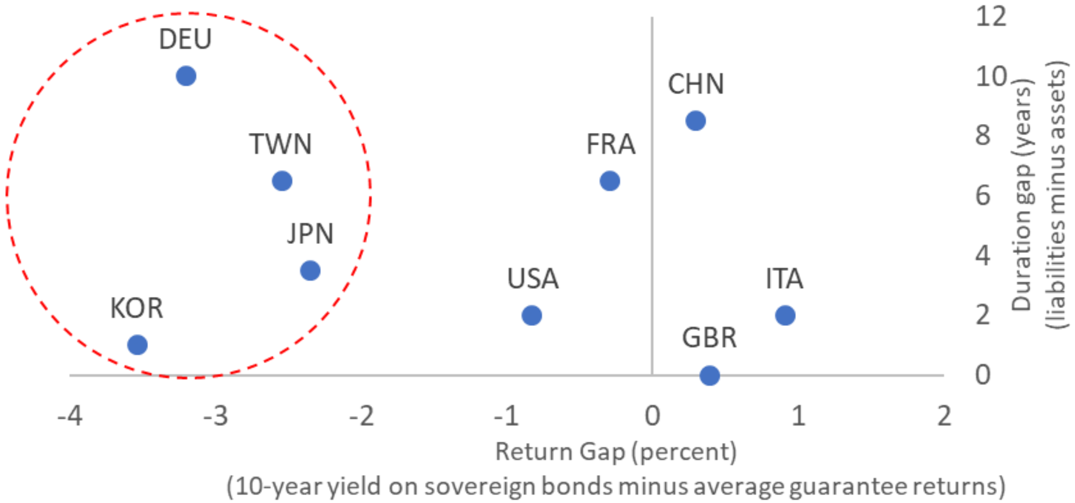


USD 80trn **asset base =**
~100% of global GDP

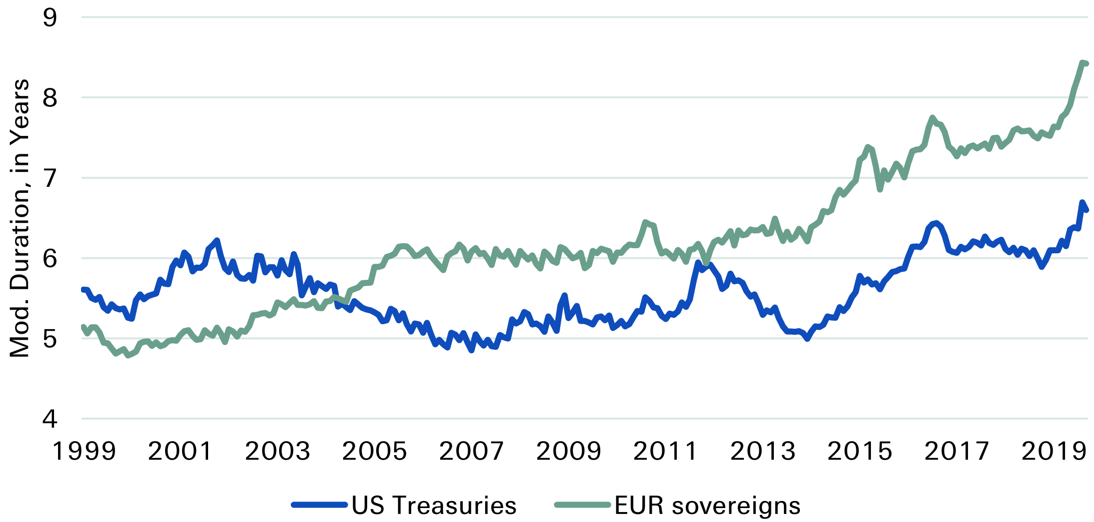


Negative rates are negative… and here to stay

Life insurers guaranteed return spreads (%) and duration mismatches (years)



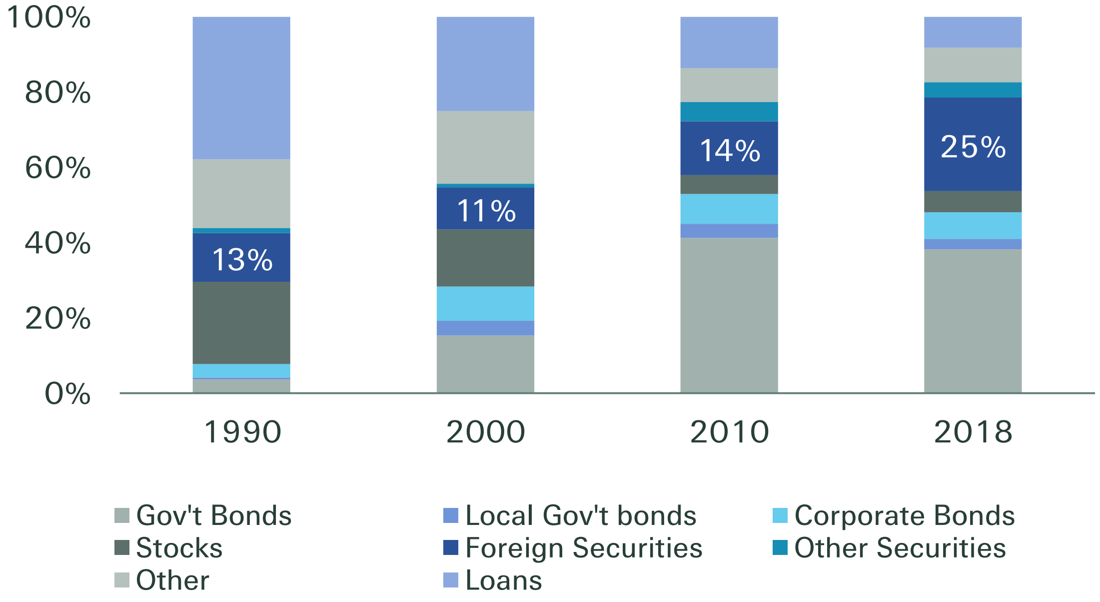
Aggregate sovereign bond index durations have increased



Sources: IMF GFSR, October 2019, Chapter 3, and Swiss Re Institute based on Barclays' data

Japanification going global, also for insurance companies

Asset allocation of Japanese life insurers



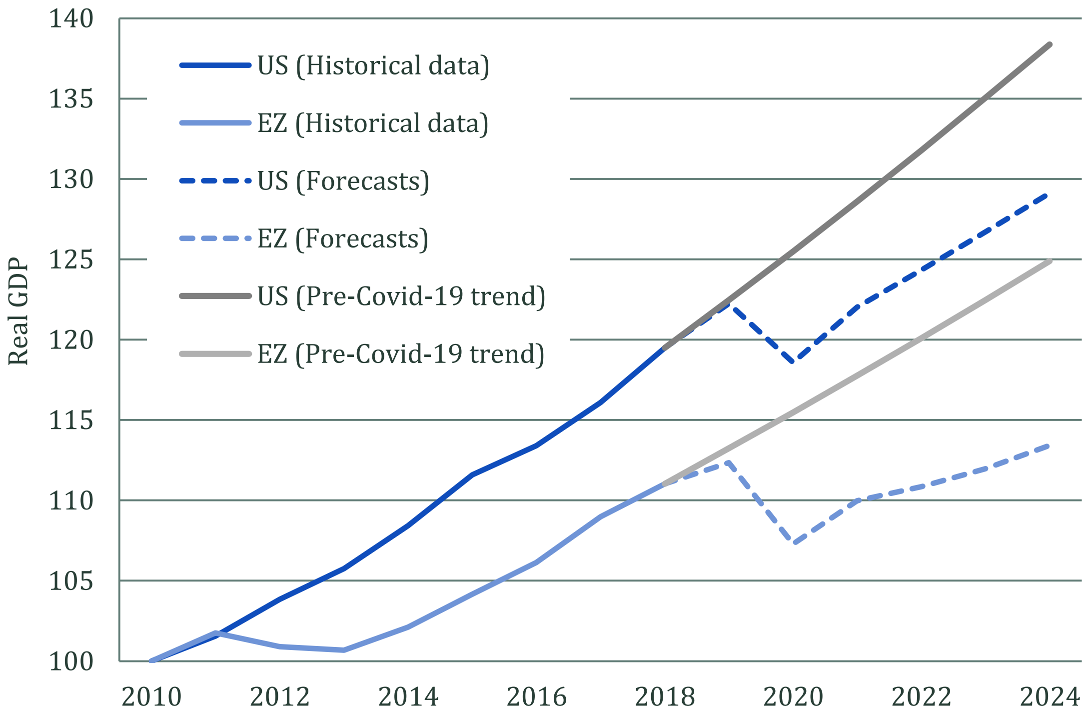
Changes of Japan life insurer companies since 1990

Asset allocation	• **Increased illiquid** and **overseas assets** as well as **duration**
Product mix and pricing	• **Switch to unit-linked** to **reduce insurers' investment risk** • Sold more **protection products (less interest rate sensitive)** • Shifted to **higher margin health insurance solutions** • **Charged higher prices** or lower guaranteed rates (also retrospectively)
Industry structure	• **Consolidation** of mid-sized life insurers • Expansion to **overseas** markets

Sources: Japanese Life Insurance Association, Swiss Re Institute

A protracted recovery
Global cumulative output loss of around USD 8tn by 2021

- **Output lost** (esp. in service sector) **will not be fully recovered**
- **Falling consumer and business confidence**. Consumers and business outlook (esp. Capex) to remain cautious
- **Global economy is less resilient** to shocks than it was pre-GFC
- At present, **fiscal stimulus is aimed at buffering the shock** and **not at increasing future sustainable growth**



Note: the pre-Covid-19 trend for real GDP is based on the average real GDP growth rate from 2014 to 2018
Source: Oxford Economics, Swiss Re Institute

Potential paradigm shifts for the global economy

Covid-19 is likely to bring forward some of the megatrends previously identified

- Even more innovative central banks
- Fiscal/ Monetary coordination and outright debt monetization
- Peak of globalization and parallel supply chains
- Accelerated digital transformation
- Return of higher inflation?
- Rising nationalization / equity stakes from government in large corporations

sigma 6/2019: Sustaining resilience https://www.swissre.com/institute/research/sigma-research/sigma-2019-06.html

Source: Swiss Re Institute

Welcome to our new «Resilience-index» family

Resilience: The ability to absorb shocks

SRI-LSE Macro Resilience Index	SRI Insurance Resilience Indices
Tracks the ability of economies to withstand shocks over time	Measure the contribution of insurance to the financial stability of households and organisations
Macro Buffer, structural components	**Nat cat** · **Mortality** · **Health**

Closing gaps: positive for macro resilience

sigma 5/2019: Indexing resilience: A primer for insurance markets and economies
https://www.swissre.com/institute/research/sigma-research/sigma-2019-05.html

Source: Swiss Re Institute

SRI-LSE macro resilience index: going beyond traditional GDP analysis to track economic resilience. See today's top resilient countries & the top movers

Macroeconomic resilience factors

50%	**Macro Buffers** Fiscal policy space Monetary policy space
50%	**Structural factors** Banking industry backdrop Labour market efficiency Fin. market development

Top macro resilient (2018)

Country	Rank
Switzerland	1
Canada	2
USA	3
Finland	4
Norway	5

Top movers (2007 to 2018)

Country	Rank	Rank change since '07
Japan	9	+8
South Korea	14	+7
China	20	+6
Australia	12	+6
New Zealand	13	+6

Note: Other structural elements not listed here include economic complexity, low carbon economy, human capital and insurance penetration

Sources: Swiss Re Institute and London School of Economics and Political Sciences

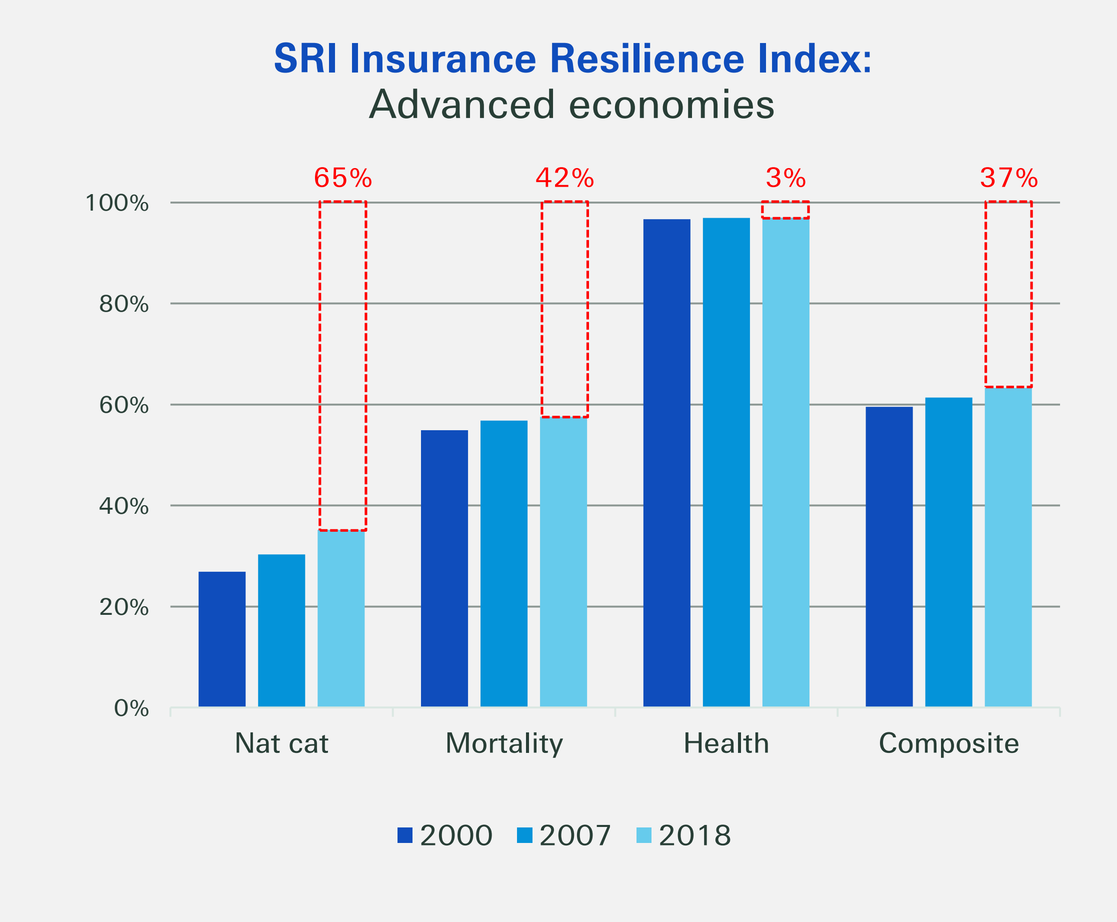
SRI Insurance Resilience Indices: New record high protection gaps

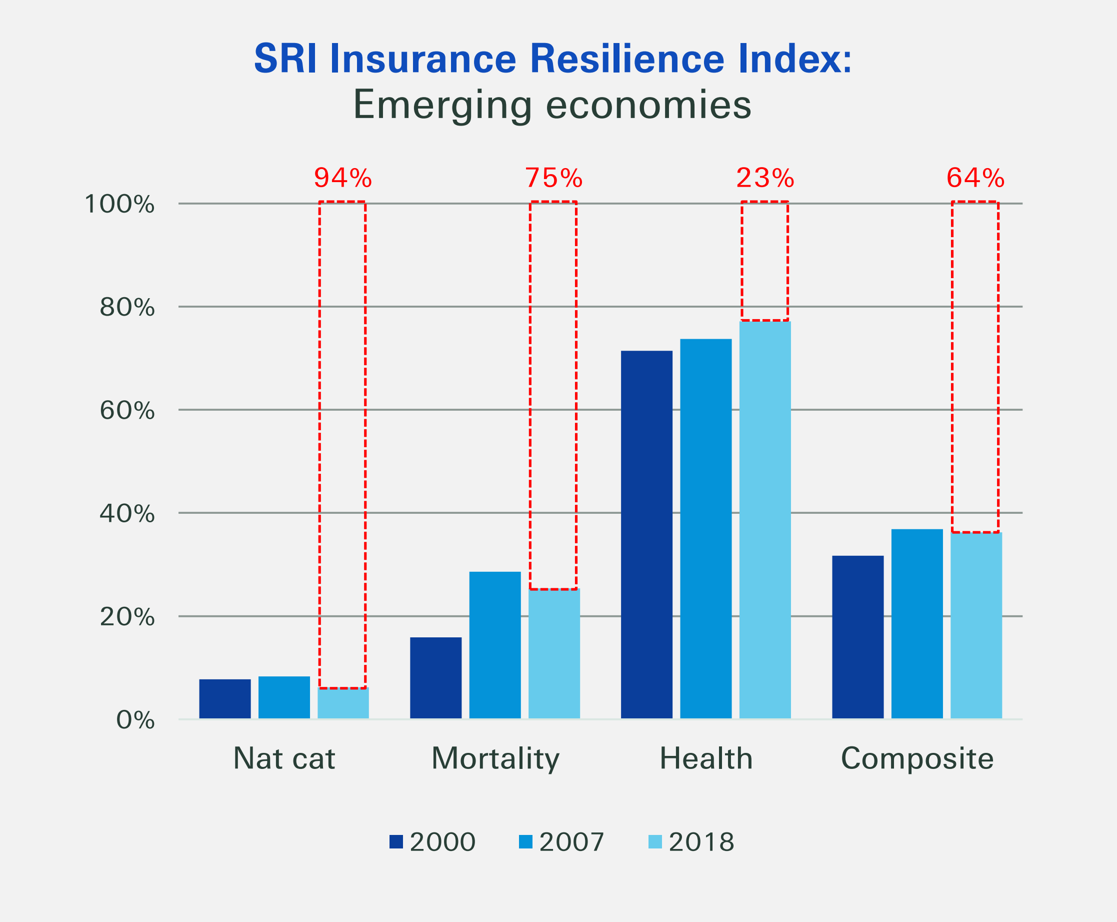
Starting the USD 1 trillion debate

	Need (N)	Available (A)	Protection Gap (N − A)	Insurance Resilience Index (A ÷ N)
Nat Cat	Expected annual loss from storms, earthquakes and floods	Estimated insurance coverage for primary nat cat perils	**USD 222bn**	**24%**
Mortality	Income needed to maintain survivors' living standards	Life insurance, financial assets, social security	**USD 386bn**	**45%**
Health	Total healthcare expenditure *(funded)*	Total healthcare expenditures minus households' stressful out-of-pocket expenses	**USD 616bn**	**93%**
Composite	--	--	**USD 1.2trn**	**54%**

Note: All figures for 2018 and global; Protection gap is in premium equivalent terms
Source: Swiss Re Institute

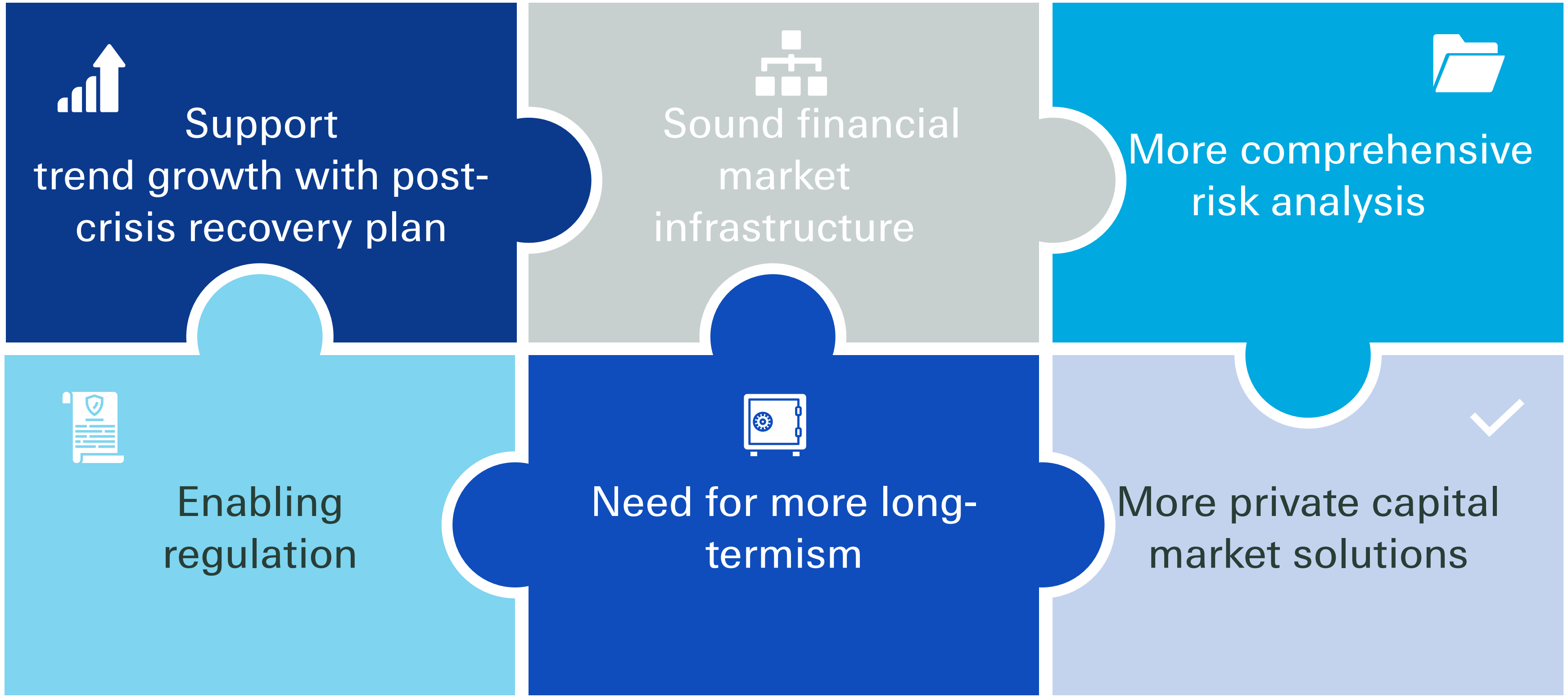
The resilience gap remains huge, even as it improved mostly on Nat Cat in advanced countries and with large gap in emerging markets





Source: Swiss Re Institute

A key pillar of post-crisis recovery is keeping a dynamic capitalism alive and incentivizing long-termism



Source: Swiss Re Institute

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