

Swiss Re economic forum - Global economy to recover in second half 2002 - Positive insurance industry outlook

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At its economic forum "The New Risk Landscape" Swiss Re presented an outlook on the global economy, insurance industry and insurance stocks in 2002. The economy is expected to recover in the second half 2002. Since the beginning of this year the non-life market has been hardening with ongoing increases in premium rates. However, in the life sector growth has slowed due to weak financial markets. Insurance shares have underperformed in 2001 but are predicted to outperform the market in 2002.

In his opening remarks, event host Michel Liès, Head of Europe division at Swiss Re commented, "The non-life market has been hardening since the 2000/2001 renewal round, with poor stock market performance in 2001 reinforcing the trend. The devastating event of 11 September has accelerated this process and radically reshaped our risk perception. We now have to reassess the general assumptions in our business environment."

Economic recovery expected for the second half 2002

Covering the outlook for the global economy in 2002, Kurt Karl, Head of Economic Research & Consulting North America reviewed the last year, reflecting that since the middle of 2001, the US, Japan and possibly Europe, have been in recession. Despite this he remains optimistic about economic recovery next year.

"In the second half 2002, we can expect to see growth return as declines in investment and consumption cease and lower interest rates and fiscal stimulus packages boost growth," said Kurt Karl. "On the inflation front, core inflation will remain stable in Europe and the US while overall inflation, which includes energy and food, will actually decline."

This forecast is supported by Economic Research & Consulting's recent survey of economists, which offers a positive long-term outlook on the major economic indicators of growth and inflation. According to the respondents, the probability that US growth will average below 1.5% over the next 10 years is only 12%. For Europe, the probability of low, long-term growth is 18%. The estimated probability of inflation over 4.5% in the US for the next three years is 9%, while for Europe, inflation over 4.5% through 2004 is given only a 5% chance.

Insurance industry to improve in 2002

Thomas Hess, Head of Swiss Re Group Economic Research & Consulting reviewed the prospects for the insurance industry against the backdrop of economic developments. The current year has been characterised by volatile financial markets, low interest-rates and share prices, as well as the uncertainties created following the 11 September. As a consequence of weak financial markets, growth in the life insurance sector has slowed down. In the non-life sector premium rate increases started to be seen following a long period of low prices and poor underwriting results.

"Despite the significant amount of insurance capacity flowing into the market it will not be sufficient to fill the capacity gap created by the 11 September loss. As a result, in 2002, we can expect acceleration of growth and improvement of profits in non-life and an upswing in non-traditional insurance solutions," said Thomas Hess. "However, in the life sector there will only be restrained growth in demand."

Thomas Hess also pointed to an important structural challenge the industry is facing. "Efforts to improve insurer's cost structures will have to increase. Today the need may be even greater in life insurance than in non-life, because life insurers will not benefit from the higher prices, now being experienced in the non-life sector."

Insurance stocks set to outperform with market recovery in 2002

Lewis Phillips of Fox-Pitt, Kelton, Swiss Re's investment bank, specialising in the banking and insurance sectors, sees 2002 as positive for insurance stocks, largely in response to 11 September, which has resulted in dramatic price increases in non-life, as the industry adapts to a new awareness of new risks. However, life insurers will face a more difficult year, as weak financial markets have cut into margins and reduced demand.

"The current year has been tough for insurers, but profits will rebound in 2002," said Lewis Phillips. "Overall insurance shares have under-performed the market in 2001, but they will outperform if world stock markets recover in 2002."

Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. In the 2000 financial year, gross premium volume amounted to CHF 26.1 billion and the net income after tax reached CHF 3 billion. Swiss Re is rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "A++" (superior) by A.M. Best.

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