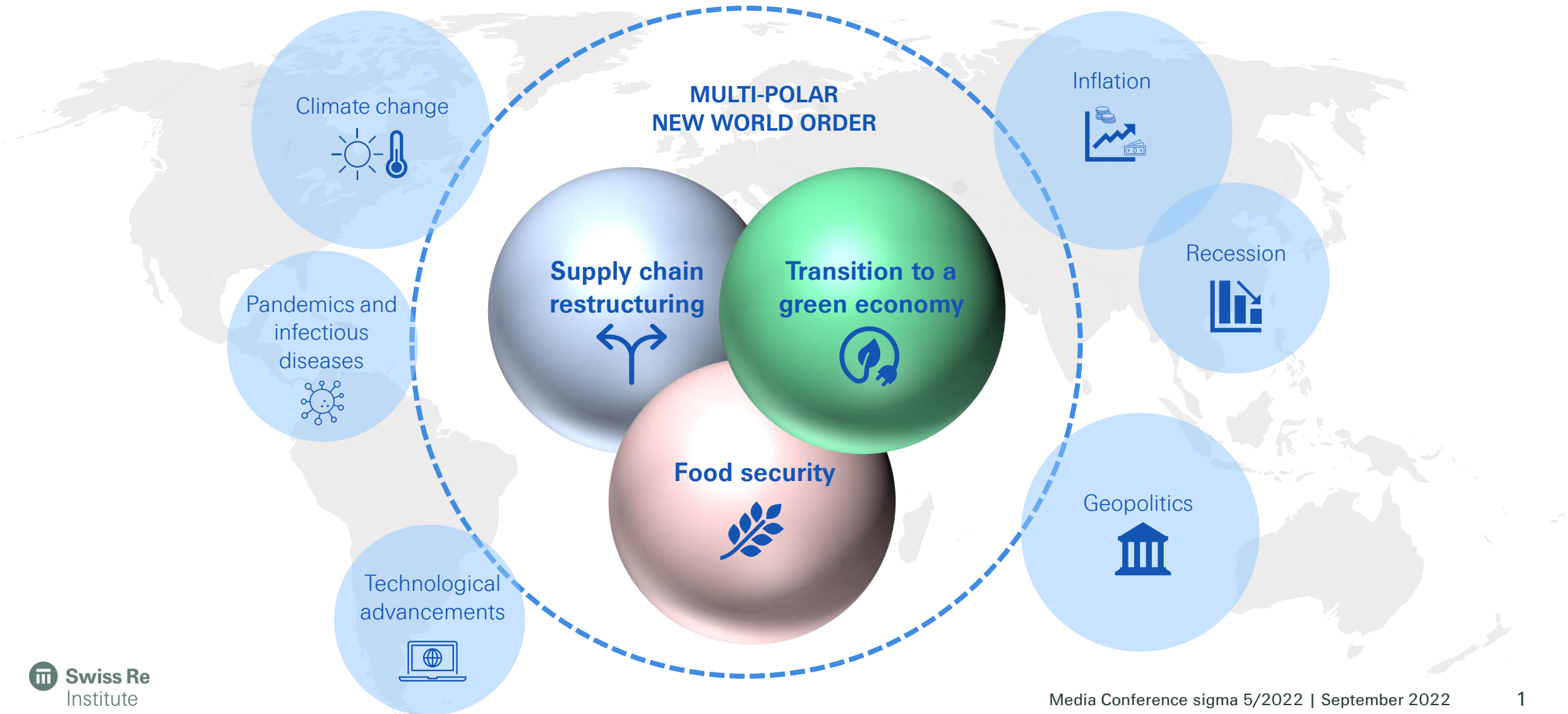


sigma 5/2022:
Maintaining resilience: the role of P&C insurers in
a new world order

Gianfranco Lot, Head Globals Reinsurance
Dr. Jérôme Haegeli, Group Chief Economist
Media Roundtable, 9 September 2022



Agility and partnerships will be key as the world order changes with increasing geopolitical complexity and economic unknowns



Key letters

P I C I R

The revival of the real economy in a multi-polar world with insurers as providers of resilience



Source: Swiss Re Institute

Note: *Commercial insurance: +3bn under friend-shoring and +31bn under reshoring; **Renewable energy premium to double by 2035, to USD235bn; ***Agro-insurance: premium to double by 2030 to USD80bn.

Global macro outlook

“Inflationary recessions are materialising. Inflation is likely to be higher for longer even though it has already peaked in the US. Further central bank policy normalisation is needed and will happen. This is positive for the real economy, also with the risk-free rate not being return-free anymore.”

Dr. Jérôme Haegeli, Group Chief Economist



Economic Outlook: Inflationary recessions materializing with persistent inflation and aggressive monetary policy tightening



Inflationary recessions on the horizon



High inflation for longer



Faster monetary tightening, higher interest rates



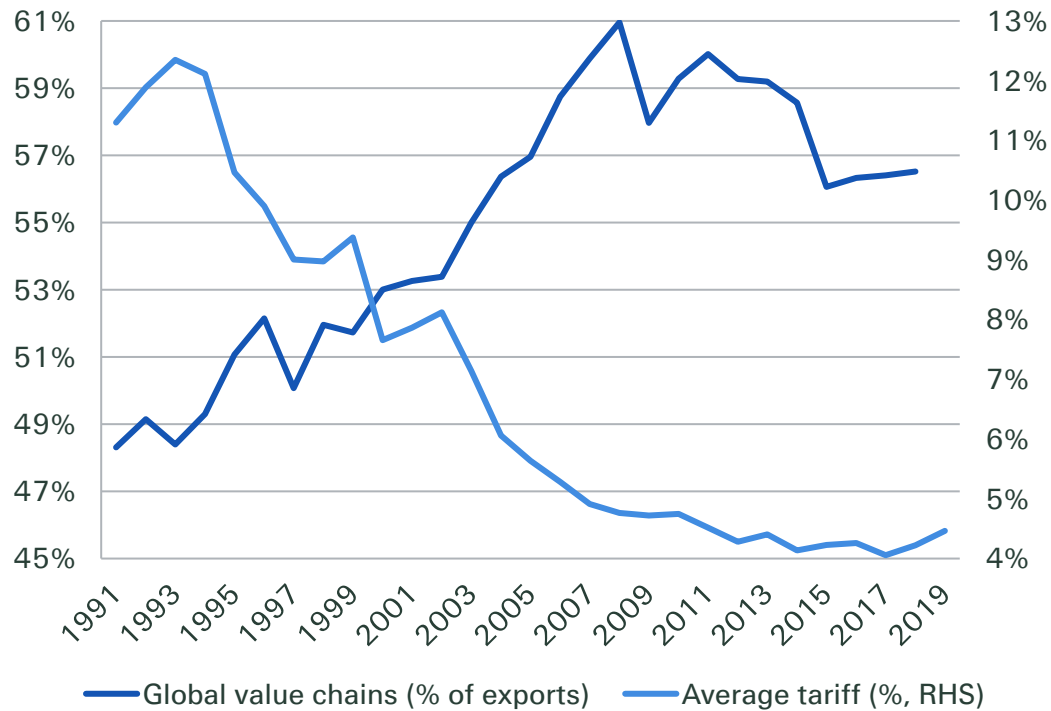
Heightened geopolitical and internal political risks

	Swiss Re Institute		Consensus	
	2022	2023	2022	2023
Real GDP (% change)				
US	1.5 (-1.8)	0.8 (-0.7)	1.7	1.0
Eurozone	2.3 (-1.7)	0.4 (-2.0)	2.8	0.7
UK	3.3 (-1.2)	0.2 (-1.8)	3.5	0.0
China	3.4 (-1.7)	5.3 -	3.5	5.2
CPI (% change)				
US	7.8 (2.2)	3.5 (0.9)	8.0	3.7
Eurozone	8.3 (4.0)	5.5 (3.7)	8.0	4.3
UK	9.6 (4.1)	8.5 (6.1)	9.3	6.8
China	2.3 -	2.6 (0.2)	2.3	2.3
10y Gov. Bond Yield (%)				
US	3.00 (1.2)	2.80 (0.8)	3.06	2.92
Eurozone	1.30 (1.1)	1.00 (0.6)	1.26	1.35
UK	2.30 (1.0)	2.00 (0.5)	2.21	1.88
China	2.70 -	2.60 -	2.73	2.78
Central bank rate (%)				
US	3.38 (2.3)	3.38 (1.8)	3.42	3.23
Eurozone	2.25 (2.3)	2.25 (2.3)	1.50	1.65
UK	3.25 (2.3)	3.25 (2.0)	2.55	2.30
China	2.00 -	2.00 (-0.2)	2.57	2.50

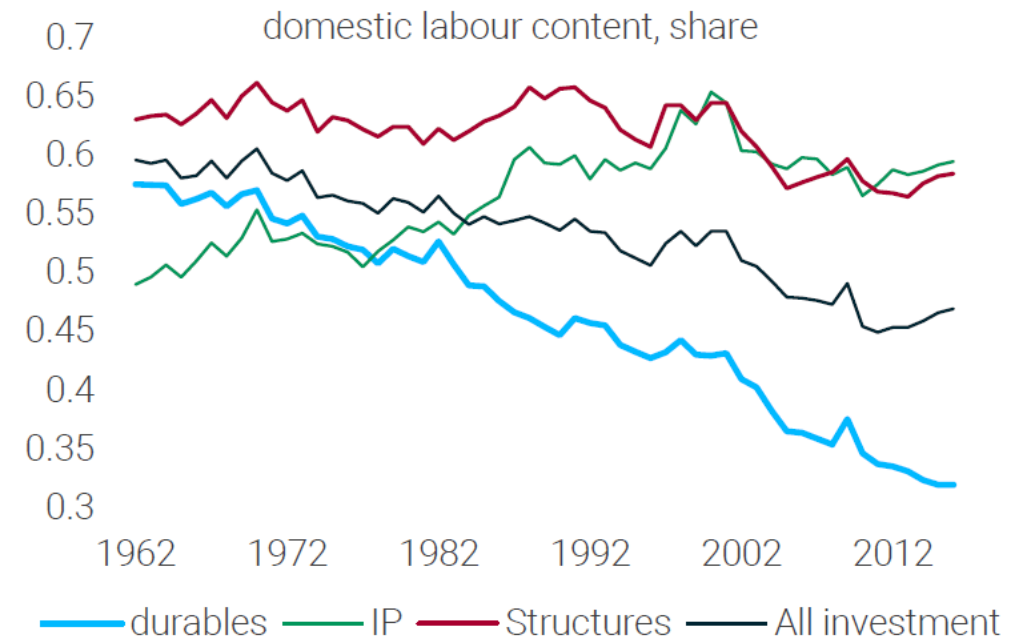
Source: Swiss Re Institute, Bloomberg for Consensus figures (as of September 2022)
Numbers in brackets refer to percentage point change in forecasts since pre-Ukraine war (11 February 2022)

Regime shift 1: globalisation has peaked with more strategic government interventions and investments in the transition phase to a new equilibrium

Free trade enabled globalisation



Outsourcing of domestic employment (US)



Regime shift 2: revival of real economy with tangible assets in this supercycle to do better and no 2009 GFC-like market outperformance this time around



Regime shift 3: inflation and lower economic resilience is constraining the government's ability to fight the next crisis with super easy money and fiscal stimulus again



High debt burden

**+70%_{pts}
of GDP**



Lower macroeconomic resilience

-15%



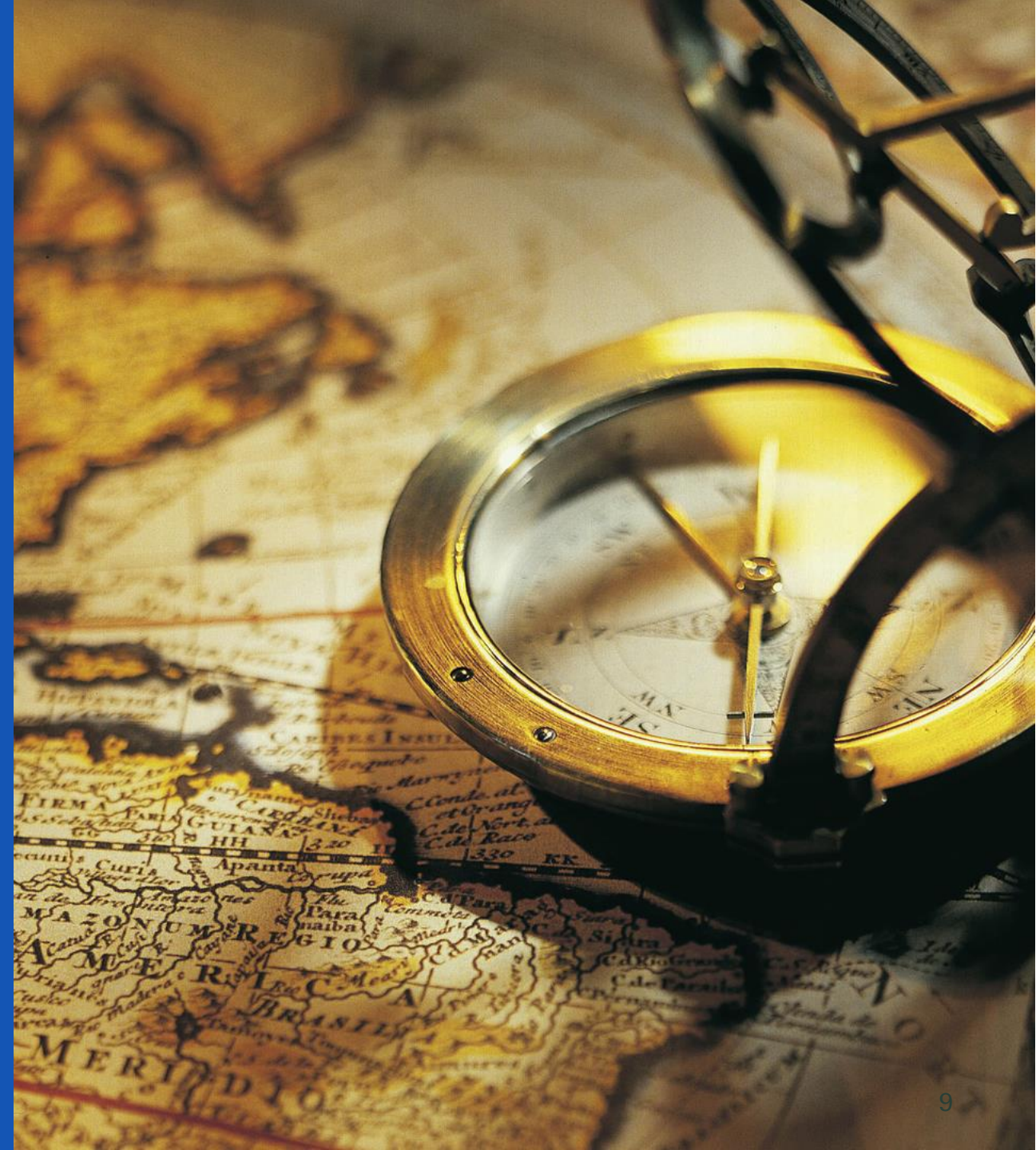
Lower economic growth

- 1.3%_{pts}

A new economic world order

“The new economic order also means a revival of investments into the real economy. In the midst of this are insurers who contribute to economic growth and are providers of resilience in times of high uncertainty.”

Dr. Jérôme Haegeli, Group Chief Economist



Real economy driver 1, supply chains

Reshoring and friend-shoring by advanced markets point to a reconfiguration of global supply chains with either scenario meaning more commercial insurance coverage

Annual average real GDP growth percentage deviations from our baseline

Markets		Reshoring	Friend-shoring
Advanced markets	Germany	1.67%	0.09%
	UK	1.54%	0.41%
	US	1.18%	0.09%
	Japan	0.61%	0.16%
	Canada	-0.80%	0.02%
Emerging markets excl.China	Switzerland	-0.92%	0.07%
	Malaysia	-0.11%	0.52%
	Turkey	-0.46%	0.07%
	Mexico	-0.92%	1.07%
	Vietnam	-1.79%	2.13%
China	China	-0.38%	-0.50%
World		0.18%	-0.04%

Impact on primary insurance premiums 2022-26 (USD bn)

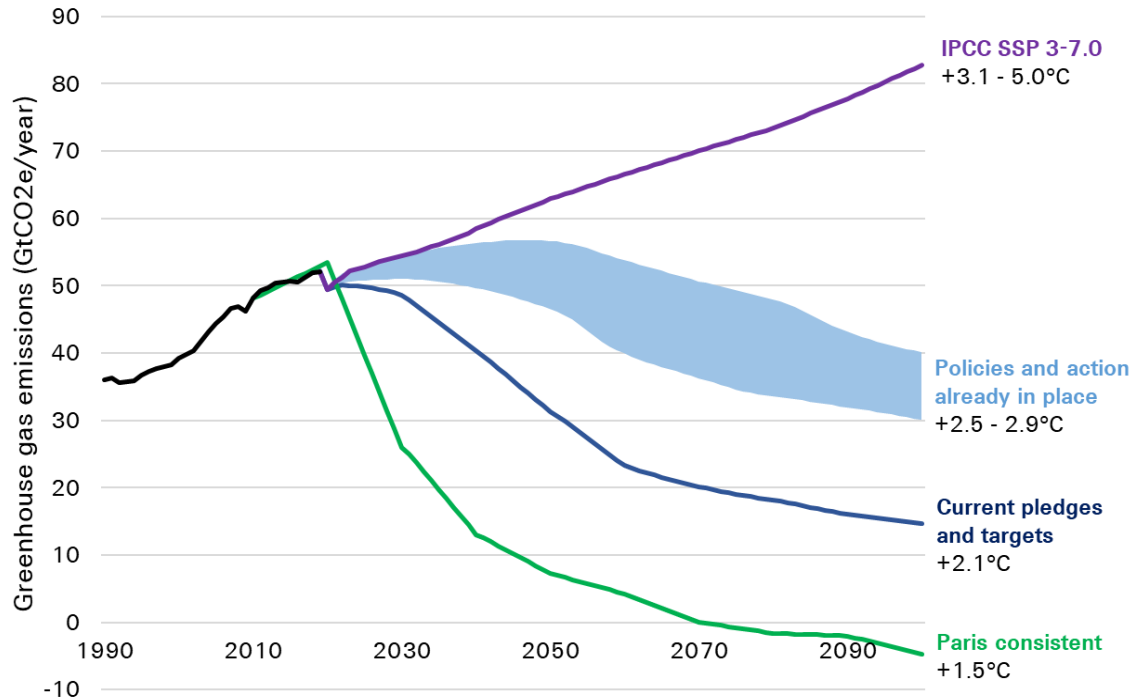
Markets	Reshoring	Friend-shoring
Advanced markets	34.4	5.8
Emerging markets excl. China	-1.0	1.1
China	-2.9	-3.9
World	30.5	2.9

Note: Under the **reshoring** scenario, we assume major advanced countries including the US, the UK, Germany and Japan reduce real imports by 10% over a 5-year horizon, and increase domestic private investment accordingly. In the **friend-shoring** case, we assume the US and the EU reduce their imports from China by 30% in strategically important sectors, and turn to their top 3 alternative exporting countries to fill in the production gap.

Real economy driver 2, energy transition

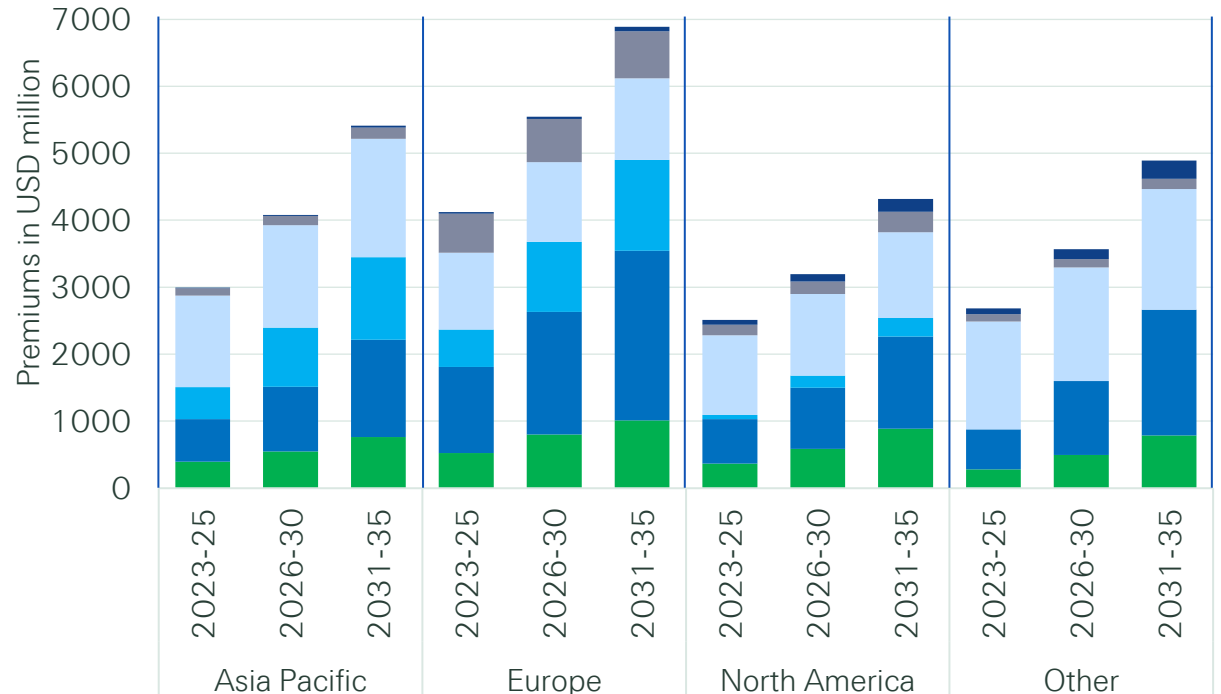
Energy security concerns add urgency to accelerate the green transition, though fragmentation could further undermine coordinated global action

Global greenhouse gas emissions and associated warming by 2100 under various scenarios



Source: IRENA, IEA, Swiss Re Institute

Average annual premium by technology and region (USD million)



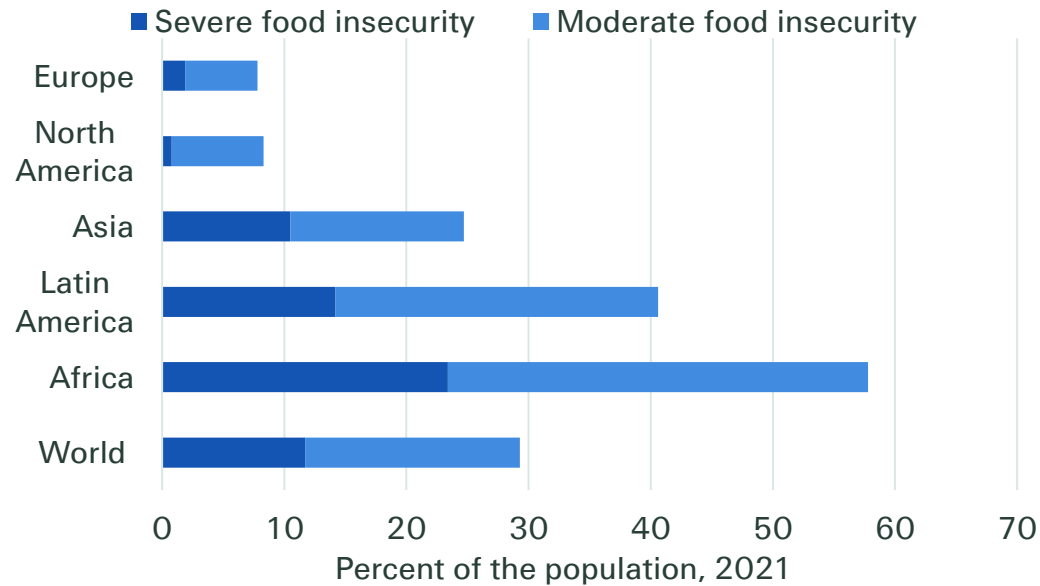
Legend: Solar (green), Onshore wind (dark blue), Offshore wind (light blue), Hydropower (lightest blue), Bioenergy (grey), Other renewables (darkest blue)

Note: Greenhouse gas emissions are in gigatons of carbon dioxide equivalents. Warming is in Celsius and relative to pre-industrial levels (1850–1900). Source: IIASA, Sixth Assessment Report of the IPCC Working Group 1, 2021; Climate Action Tracker; Swiss Re Institute

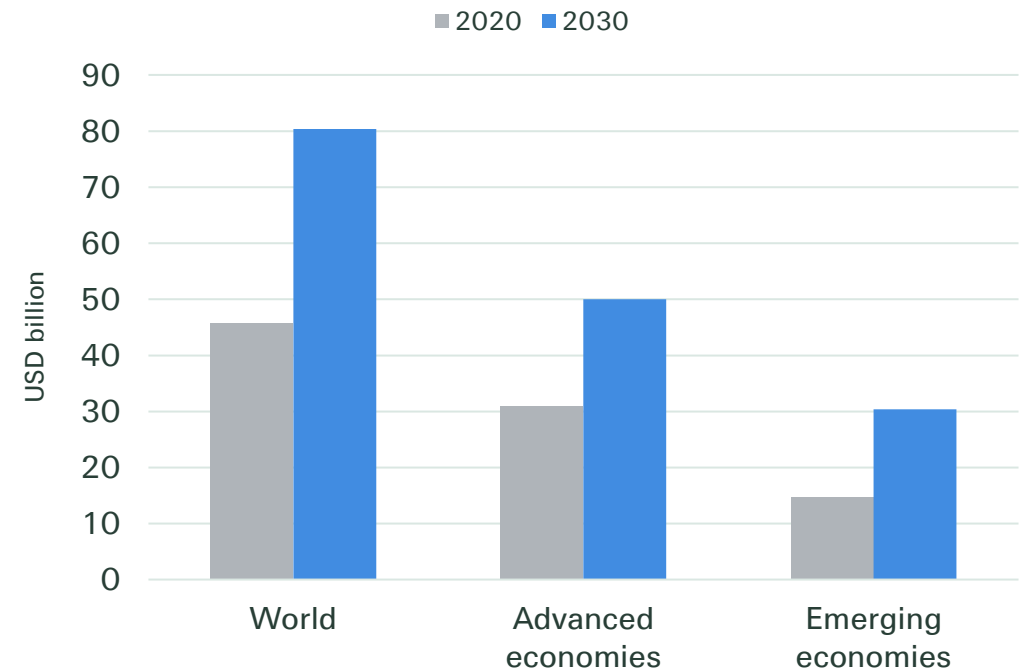
Real economy driver 3, food crisis

Agricultural insurance cannot solve the food crisis but is a core element to improve food insecurity present already for almost 1/3 of the global population

Food insecurity could become more common, particularly in countries highly dependent on food imports



We forecast global agriculture insurance will reach USD 80 billion by 2030



Insurers can help maintain resilience as a new world order takes shape by focusing on the three real economy drivers



Global supply chain restructuring

- Insurance solutions can smoothen the business transactions
- The customised and innovative P&C insurance help de-risk supply chain



Transition to a green economy

- Insurance provides risk protection to renewable energy programme
- Redirect long-term investments towards a sustainable future



Volatile and higher food prices

- Public-private partnerships help extend reach of agricultural insurance
- Technology and innovation can help address some of the challenges

Key takeaways

"In an increasingly multi-polar world, the role of the insurance industry as an agent of resilience is becoming ever more important."

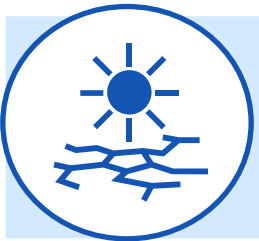
Dr. Jérôme Haegeli, Group Chief Economist



Key takeaways



The near-term outlook remains highly uncertain with **inflationary recessions materialising**. In the longer run, **inflation and interest rates will be structurally higher**.



The world turns increasingly **multi-polar**, driven by (1) **supply chain restructurings**, (2) **added impetus to the green transition**, and (3) **higher food prices and risk of food shortages**.



The **insurance industry will remain an agent of resilience** as the world order changes. The utility of insurers as **providers of risk mitigation solutions and investors** in a sustainable future holds firm.

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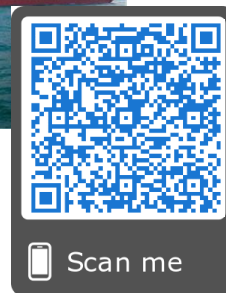
Sigma

- Market information for managers and specialist in the (re)insurance industry



Expertise Publications

- Expert analysis of specific risk topics in regional markets and the global (re)insurance industry



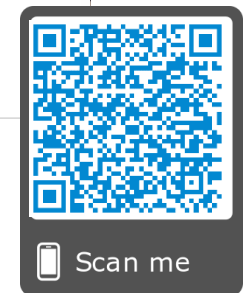
Economic Insights

- Key findings on macro developments and market events, and their implications for the (re)insurance industry



Economic Outlook

- Monthly newsletters on global economic and financial market risk landscape





Partners in resilience

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