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Institute

News release

Large natural catastrophe losses in 2017 and current low prices likely to lead to improved pricing in non-life re/insurance

- **Major natural catastrophe events in 2017 and current low prices are expected to push pricing in non-life insurance and reinsurance higher**
- **Cyclical upswing in global economy set to continue in 2018 and 2019, supporting insurance premium volume growth**
- **Global non-life premiums are forecast to grow by at least 3% annually in real terms in next two years; life premiums by 4%**
- **Emerging markets will remain the driver of global non-life and life premium growth**

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London, 21 November 2017 – Prices in non-life insurance and reinsurance are expected to increase, according to Swiss Re Institute's *Global insurance review 2017, and outlook 2018/19* report. The multiple large natural catastrophe events that occurred in the second half of 2017 have drained capital from the Property & Casualty (P&C) sector. At the same time, prices have been low, having fallen substantially over the past several years. The global economy is in a cyclical upswing, and the forecast is for moderate growth in 2018 and 2019. This should further support growth in the insurance markets, with global non-life premiums forecast to rise by at least 3% and life premiums by about 4% in real terms annually in 2018 and 2019. The emerging markets, particularly in Asia, will continue to be the main driver of premium volume gains.

A string of large natural catastrophes in the second half of 2017 – hurricanes Harvey, Irma, Maria, earthquakes in Mexico, and wildfires in California – resulted in significant losses in P&C insurance and reinsurance. The three hurricanes and earthquakes in Mexico resulted in estimated insured losses of USD 95 billion, and non-life re/insurers' full-year underwriting results are likely to be severely impacted. For example, the combined ratio in US P&C insurance for 2017 is forecast to rise to 109% from 101% in 2016. In global reinsurance, assuming no further large catastrophe events, the combined ratio for this year is estimated to be around 115%, up from 92% in 2016.

The large losses are expected to lead to rate hardening in both non-life insurance and reinsurance. "Price rises in loss-affected segments are already happening and could be substantial" says Kurt Karl, Swiss Re's Group Chief Economist. "The ultimate volume of losses is not yet known, but appears to be large enough to cause price increases beyond the affected sectors. This is also happening because prices have fallen so low over the past few years." In reinsurance, the above-mentioned catastrophes have drained capacity from both the traditional and alternative capital sectors. Prices in loss-affected accounts could rise significantly.

Global economy is in a cyclical upswing

Growth momentum in the global economy improved in 2017, and moderate growth is forecast for 2018 and 2019. In the US, gross domestic product (GDP) growth is expected to remain steady at around 2.2% in 2017 and 2018. The euro area is forecast to grow by around 2% this year and next, before slowing in 2019. The Chinese economy grew by an estimated 6.8% in 2017, with an anticipated slowdown to 6.2% by 2019. Inflation has been moderate in most countries, although it is expected to move gradually higher in the US. Overall, interest rates are expected to remain low. In the US and the UK, the central banks are forecast to raise policy rates gradually over the next couple of years and as such, long-term government bond yields are projected to rise modestly (for example to 3.2% in the US by the end of next year).

A number of risks could derail this relatively benign growth outlook. For example, protectionist trends pose an increasing threat to global economic growth. Also, there are worries that unwinding of quantitative easing programmes by central banks could spark a negative financial market reaction. In addition, elevated corporate debt levels in China, despite measures taken, remain a concern.

Non-life insurance premium growth to remain steady

The improved economic outlook is expected to boost demand for non-life insurance. Global non-life insurance premium growth is forecast to be at least 3% in 2018 and 2019 and could be substantially higher, depending on the magnitude of the expected price increases. Emerging markets will continue to be the main driver of growth, with premiums forecast to rise by 6% to 7% in real terms annually over the next two years, little changed from 2017. The overall emerging market non-life premium growth reflects the stabilising economic conditions in most regions. In addition, non-life business will continue to benefit from urbanisation, and rising home and car ownership. Concerns about environmental protection, food safety and underinsurance in property are also expected to start to filter through to sturdier demand for associated liability and property covers.

Global non-life insurance industry profitability has declined in 2017, with return on equity (ROE) down to 3% from 6% in 2016. The decline was driven by three main factors: soft underwriting conditions, low investment yields and catastrophe losses. Insurers' investment income has continued to be weak given the ultra-low interest rate environment over recent years, and will not recover soon. As interest rates gradually rise, investment income will grow only slowly, with a lag to rising rates. As such, while profitability in non-life insurance is expected to strengthen in 2018 and 2019 as underwriting conditions turn more favourable, the improvement will be modest with industry ROE at around 7-8%.

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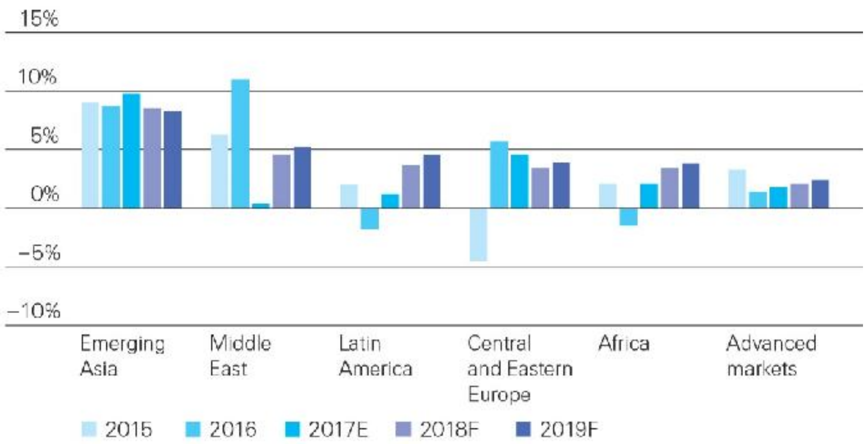
Figure 1: Non-life real premium growth by region, 2015 to 2019F



Source: Swiss Re Institute.

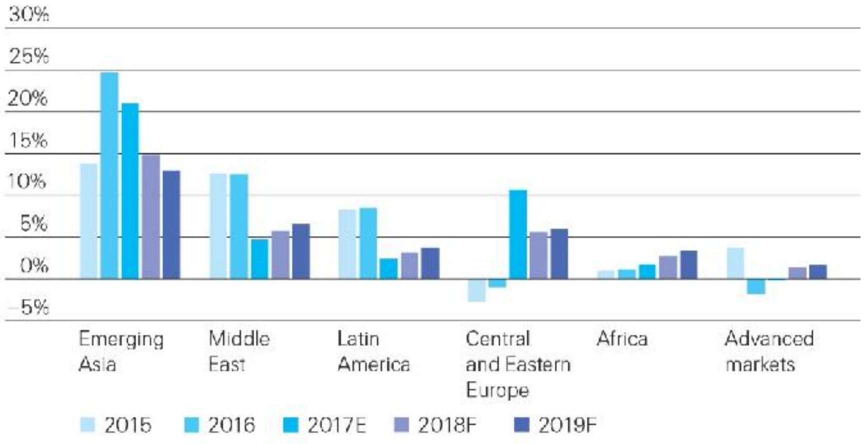
In non-life reinsurance, global premiums are estimated to have grown by 3% in 2017 in real terms, based on rapidly increasing cessions from emerging markets. In 2018 and 2019, premium growth in emerging markets is expected to remain steady, driven by stronger sales of primary insurance in all regions. In the advanced markets, premium growth will reflect a moderate hardening of rates and stronger primary market growth.

Life premiums boosted by strong sales in emerging markets

Global life premiums are estimated to have grown by about 3% in 2017 (up from 2% in 2016), supported by robust performance of savings products in emerging markets, particularly in Asia. Premiums are forecast to increase by close to 4% annually over the next two years. The major driver will remain the emerging markets, where premiums are expected to grow by around 10% in 2018 and 2019. China will continue to dominate, supported by a favourable policy environment. The Chinese government has a target to grow total insurance (life and non-life) penetration to 5% by 2020 from around 3% in 2014. Supportive policies include tax incentives, and a drive to promote protection, health and pension products, which could result in a changing portfolio mix for insurers. Chinese insurers are also making increased use of digital technology to improve efficiency and customer experience.

Profitability in the life sector, however, remains challenging due to low interest rates. In this environment, insurers continue to reconfigure their investment portfolios in search of higher returns, as demonstrated by an increased appetite for less liquid asset classes. Several life insurers have sought to restructure their insurance portfolios to focus on more attractive and/or less capital intensive business lines. In-force management is also increasingly recognised as an effective tool to improve profitability.

Figure 2: L&H real premium growth by region, 2015 to 2019F



Source: Swiss Re Institute

Global life reinsurance cessions are expected to grow by just over 1% this year and in the following two years, dragged down by weakness in North America and Europe. Strength in advanced and emerging Asia will offset some of that weakness. Emerging market life cessions are forecast to grow by more than 10% annually in 2018 and 2019. The reinsurance sector is likely to benefit from the adoption of risk-based regulatory regimes in many emerging markets. But in certain regions, such as sub-Saharan Africa, some governments have made protectionist moves in favour of local reinsurers or enacted additional collateral requirements for foreign reinsurers, which could dampen both primary insurance and reinsurance premium growth.

Notes to editors

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How to order this study:

The study available electronically on the Swiss Re Institute website: institute@swissre.com

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Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase", "may fluctuate" and similar expressions, or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual results of operations, financial condition, solvency ratios, capital or liquidity positions or prospects to be materially different from any future results of operations, financial condition, solvency ratios, capital or liquidity positions or prospects expressed or implied by such statements or cause Swiss Re to not achieve its published targets. Such factors include, among others:

- further instability affecting the global financial system and developments related thereto;
- further deterioration in global economic conditions;
- the Group's ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls due to actual or perceived deterioration of the Group's financial strength or otherwise;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on the Group's investment assets;
- changes in the Group's investment result as a result of changes in its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- uncertainties in valuing credit default swaps and other credit-related instruments;
- possible inability to realise amounts on sales of securities on the Group's balance sheet equivalent to their mark-to-market values recorded for accounting purposes;
- the outcome of tax audits, the ability to realise tax loss carryforwards and the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings;
- the possibility that the Group's hedging arrangements may not be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more Swiss Re companies, and developments adversely affecting the Group's ability to achieve improved ratings;
- the cyclicality of the reinsurance industry;
- uncertainties in estimating reserves;
- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;
- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- policy renewal and lapse rates;
- extraordinary events affecting the Group's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting the Group or its ceding companies and the interpretation of legislation or regulations;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;

- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions;
- changing levels of competition; and
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