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Economic Insights
COVID-19 reinforces the value of insurance to cover mortality risk

Key takeaways

- Global mortality resilience will likely weaken in 2020, as excess deaths rise while household assets suffer in the deepest recession of modern times.
- The global mortality protection gap is expected to widen above its high of USD 427 billion in 2019.
- Mortality resilience has declined globally since 2001, though Latin America and Asia now have greater life insurance coverage.
- Swiss Re Institute's latest Asia consumer surveys show that premium level and add-on features are among key decision factors for mortality insurance purchases.

About Economic Insights
Analysis of key economic developments and their implications for the global re/insurance industry.

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In a nutshell

The COVID-19 pandemic is highlighting households' lack of adequate financial protection against the premature death of a breadwinner. We expect the global mortality protection gap to widen further in 2020 from a high of almost USD 430 billion in 2019. It is crucial that insurers understand the factors affecting insurance purchase decisions in order to narrow the mortality protection gap and improve societal resilience.

The pandemic is showing starkly the fragility of many households' livelihoods. It is also highlighting the crucial role insurance can play in ensuring resilience. The global death toll from the virus reached 937 391 on 17 September 2020.[1] While deaths are heavily skewed towards the elderly, they have also impacted the working-age population. For instance, in the US, where COVID-19-related mortality is highest globally, 21% of related deaths are among those aged 15-64.[2] Yet many households lack sufficient financial protection against the premature death of a primary breadwinner, leaving them vulnerable to financial hardship. We expect global mortality resilience to fall in 2020 compared with 2019 (see Figure 1) as COVID-19 leads to higher excess deaths while household assets decline in the deepest global recession of modern history. However, the pandemic has also triggered higher interest in insurance purchases, which will help build resilience against future shocks.

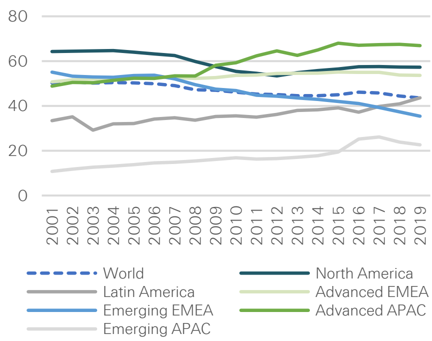
The Swiss Re Institute Mortality Resilience Index (Mortality I-RI) declined slightly to 43.6% in 2019 from 44.4% in 2018.[3] This indicates that less than 44% of the funds needed to maintain household living standards in the event of the death of the primary breadwinner are "protected" by assets such as life insurance, social security survivor benefits or household savings (in other words, 56% of the mortality risk is unprotected). Emerging markets' mortality resilience score, at 29.2%, is only roughly half the level of advanced markets (57.6%). The most resilient region, advanced Asia-Pacific, had a score of 66.9%, and the least resilient, emerging Asia-Pacific, of 22.6%. Most regions showed a decline in mortality resilience in 2019 compared to 2018.

The COVID-19 crisis may further increase the global mortality protection gap in 2020 due to excess mortality and reduced household assets as a result of the recession. The global mortality protection gap widened by 1.7% yoy to a new high of USD 427 billion in 2019, continuing the rising trend of the past two decades (see Figure 2). This was largely caused by a widening mortality

[1] Coronavirus Disease (COVID-19) Dashboard, World Health Organization, 2020.
[2] Provisional COVID-19 death count by week, US Centers for Disease Control and Prevention, 2020.
[3] The Swiss Re Institute Mortality Resilience Index ise based on research into protection gaps and measure the relation between protection needed and available. The value ranges from 0-100%. The greater the value, the greater the protection relative to the needs and the higher the resilience. Some historical values changed due to data revision or revised estimates. More details about the methodology, please see *sigma* Resilence Index 2020: global resilience put to the pandemic test.

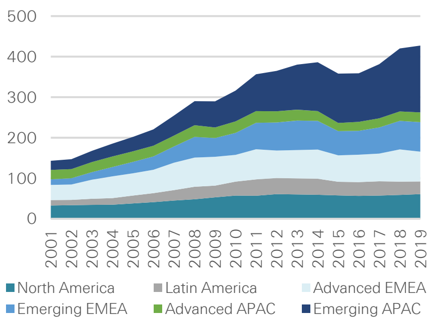
24 September 2020

Figure 1: Mortality Resilience Index by region



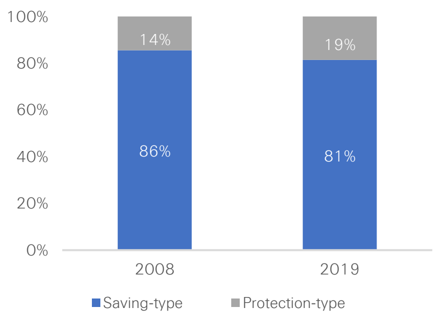
Source: Swiss Re Institute

Figure 2: Mortality protection gap by region (USD billion)



Source: Swiss Re Institute

Figure 3: Life premiums by product type



Source: Swiss Re Institute

protection gap in Asia Pacific. In emerging Asia, China's protection gap expanded by 12% in 2019, primarily due to rapidly growing household debt. Advanced Asia experienced a drop in household financial assets and reductions in the sum-insured value of life insurance in Korea and Taiwan.

Global mortality resilience has weakened steadily for 20 years, down from 50.3% in 2001, driven by the increasing weight of emerging markets with lower Mortality I-RI values. Resilience has trended down in North America and emerging Europe. North America's score declined by 5.2 percentage points after the global financial crisis (GFC), as wage replacement needs and debt grew faster than accumulated financial assets and almost-stagnant life coverage; in emerging Europe, the decline is attributable to growth in wage replacement needs. Most countries in Latin America and Asia (advanced and emerging) are more resilient to mortality risk now than in 2001, largely due to greater life insurance coverage. For example, in Brazil, life premiums grew by 13% yoy in 2019. In advanced Asia Pacific, life insurance penetration rates in Taiwan, Hong Kong, South Korea and Japan are among the highest in the world, driven by savings-type products, but these have seen little improvement in the last few years. In emerging Asia, too, the positive trend has reversed in recent years, which has been the key driver of the widening in the global mortality protection gap.

Risk protection – and mortality coverage in particular – is a core value proposition of life insurers, but to date the life insurance market has focused more on saving-type business and only a relatively small share of life insurance premiums stem from risk protection. However, the years of ultra-low interest rates since the GFC have negatively impacted sales of saving-types products, and life insurers have turned to products such as biometric risk instead.[4] The share of saving-type products in total life premiums declined to 81% in 2019 from 86% in 2008 (see Figure 3) – a positive development given many households still lack adequate protection against mortality risk.

It is crucial that insurers understand how people make insurance decisions, in order to address the mortality protection gap. Swiss Re's recent surveys in 10 key Asian markets reveal consumers' preferences towards mortality products.[5] Factors influencing purchase decisions include premium levels, sum assured, length of cover and availability of return of premium. Most consumers also prefer bundled products with add-on features, rather than pure life policies. As acceptance of digital interaction grows, life insurers should develop tools to engage with consumers online across all stages of the purchase journey.

[4] Low interest rates: what they mean for insurers, Swiss Re Institute, September 2020.
[5] Closing Asia's mortality protection gap, Swiss Re Insitute, July 2020.