

sigma

**Rebuilding better: global economic and insurance
market outlook 2021/22**

Executive summary

After sharp recession this year, we see protracted economic recovery in 2021, with the balance of risk broadly neutral.

Sustainable recovery requires new policy direction, including spending on projects with high growth multipliers and more focus on inclusive growth.

The global non-life insurance sector has demonstrated resilience to the impact of the pandemic, and we forecast a swift recovery in premium volumes next year.

The life sector has been harder hit but growth will rebound next year. Low interest rates will pressure profitability.

The world economy is in the midst of the deepest recession of our lifetime, sparked by COVID-19. We expect global gross domestic product (GDP) to shrink by 4.1% this year, followed by protracted recovery to 4.7% growth in 2021. Our forecast is below the market consensus expectation of 5.2%, reflecting our expectation that even with a vaccine, much of the structural damage to the global economy will already be done. This year's GDP shock is disinflationary but the risk of rising prices further out has increased due to fiscal stimulus, potential for debt monetisation and acceptance of higher inflation as a policy choice. Interest rates are set to stay low for longer.

The pandemic has accelerated some paradigm shifts such as digital transformation, de-globalisation (including de-risking global supply chains and fragmentation of regulatory regimes), and a larger role for governments in the economy. The huge fiscal stimulus unleashed to cushion the blow from the pandemic was necessary. However, we estimate the action will decrease economic resilience by 20%, shaving at least a cumulative 1.6 percentage points (ppt) off global growth over the next five years relative to long-term trends. For sustainable economic recovery, there needs to be a policy reset, with fiscal spending directed at productivity-enhancing areas like sustainable infrastructure and technology, and public sector initiatives to facilitate better recycling of private savings into the real economy. There also needs to be more focus on inclusive growth, not least because one effect of COVID-19 will likely be widened income inequalities, which will further weigh on growth. Insurance has a key role to play in supporting inclusive growth and resilience by providing households and businesses with the means to better withstand shock events.

COVID-19 has impacted the insurance industry, although less so than we initially feared. Growth in personal lines was better than expected in the first half, especially in advanced markets, reflecting rapid leverage of digital channels by insurers and brokers in response to restrictions on mobility. As a result, where we had expected stagnation, we now see global non-life premiums growing by 1.1% in real terms in 2020, with a recovery to 3.6% growth in 2021 and 2022. We forecast that premium volumes will be back above pre-pandemic levels by the end of next year already. Rate hardening in commercial lines of business has been a main factor supporting the resilience and this momentum is set to continue through next year, underpinned by strong demand amidst rising risk awareness and rising claims. We forecast that premiums in China will grow 10% annually over the next two years. Profitability in non-life is under pressure and we estimate that sector return on equity (ROE) will slip to 5% this year, mostly due to lower investment returns. The outlook remains challenging. More COVID-19 related losses are likely this year: Swiss Re estimates total Property and Casualty (P&C) market losses in a range of USD 50–80 billion. Such an outcome would increase the combined ratio in commercial lines by 5–8 ppt. Meanwhile, increasing competition in personal lines could pressure rates in business that benefitted from windfall gains during lockdown.

Although less than first expected, we forecast that global life premium volumes will still contract by 4.5% this year in the environment of rising joblessness, reduced purchasing power and ultra-low interest rates, which have diminished the attractiveness of saving-type insurance products. We expect a bounce back to 3% trend growth in 2021 on the back of economic recovery, increased risk awareness post COVID-19, and also greater use of data analytics and digital distribution channels by insurers and brokers to offer more commoditised products in personal lines. The emerging markets remain the engine of growth, led by China (life premiums up an estimated 8.5% in 2021). The full impact of COVID-19 on mortality claims this year is uncertain. However, with interest rates remaining very low, investment returns and insurer profitability will remain under pressure. Sector ROE fell to 7.3% in the first half this year, from 10.3% in 2019. Given ongoing uncertainty on the economic outlook, this *sigma* also considers alternative scenarios and the implications for insurers. Under a severe protracted recession scenario, insurers would be vulnerable to persistently low interest rates. Under a stagflation scenario, inflation surprises could be disruptive, especially for long-tail business.






Key takeaways

We forecast 4.7% growth in global GDP in real terms in 2021, below the consensus of 5.2%, and have a balanced risk outlook. Aside from recent positive newsflow around a vaccine for COVID-19, accelerated digital transformation and policy efforts to rebuild economic resilience are the main upside factors in our outlook.

	2019 Actual (%)	2020E		2021F		2022F	
		SRI (%)	Consensus (%)	SRI (%)	Consensus (%)	SRI (%)	Consensus (%)
US							
	2.3	-4.1	-4.0	3.5	3.7	2.3	2.8**
UK							
	1.5	-11.0	-10.1	5.6	5.7	2.3	3.1
Euro area							
	1.3	-7.3	-7.5	4.0	5.3	3.0	2.8
Japan							
	0.7	-4.7	-5.7	2.4	2.5	1.1	1.6**
China							
	6.1	2.3	1.9*	7.4	8.2*	5.3	5.8*
World							
	2.5	-4.1	-3.9**	4.7	5.2**	3.3	3.6**

E = estimates, F = forecasts. Data as of 2 November 2020; *China data from IMF; ** Data from Bloomberg.
Source: Consensus Economics, Bloomberg, Swiss Re Institute

Cyclical and long-term macroeconomic picture: this year's massive public policy stimulus overshadows some of the longer-term consequences.

	 Cyclical picture		 Structural picture	
	Latest*	Short-term outlook	Longer-term outlook	Drivers
Real GDP growth, q-o-q (seasonally adjusted annual rate)	33%		More subdued	<ul style="list-style-type: none"> Higher debt levels Looming risk of "zombification" of firms Productivity increase through digital transformation
Unemployment	6.9%		Likely higher	<ul style="list-style-type: none"> Hardest-hit sectors struggling Increasing automation/digitalisation Lagging speed of skill adaptation
Real yield	-1.0%		Lower	<ul style="list-style-type: none"> Increasing "financial repression" Change in monetary frameworks Material risk of higher inflation

Note: from green = benign, to red = challenging territory of the level of a given macro indicator. Zombification refers to an increase in the number of highly leveraged and unproductive firms. *Data as of third quarter 2020. Values are for the US but are qualitatively applicable to many other economies.
Source: Swiss Re Institute

Insurance markets have demonstrated a degree of resilience in the face of this year's pandemic crisis. We forecast a swift return to trend premium growth in 2021–22.

	World		Advanced markets						Emerging markets	
	2020E	2021–22F	North America		EMEA		Asia-Pacific		2020E	2021–22F
Non-life, direct										
Premium growth (real) CAGR, %	1.3	3.6	1.4	2.7	-0.5	2.8	0.6	2.7	3.3	7.6
Profitability ROE average, %	5.2	6.0	5.3	6.6	5.0	4.3	5.3	5.7		
Underwriting results (average)*	2.2	2.0	1.5	1.0	2.1	1.0	7.4	7.0		
Investment results (average)*	6.7	8.0	6.7	9.0	6.5	7.0	6.8	7.0		
Life, direct										
Premium growth (real) CAGR, %	-4.5	3.0	-2.6	0.6	-9.7	2.8	-3.3	2.3	-0.2	7.0
Profitability ROE average, %	6.9		8.1		6.1		6.7			

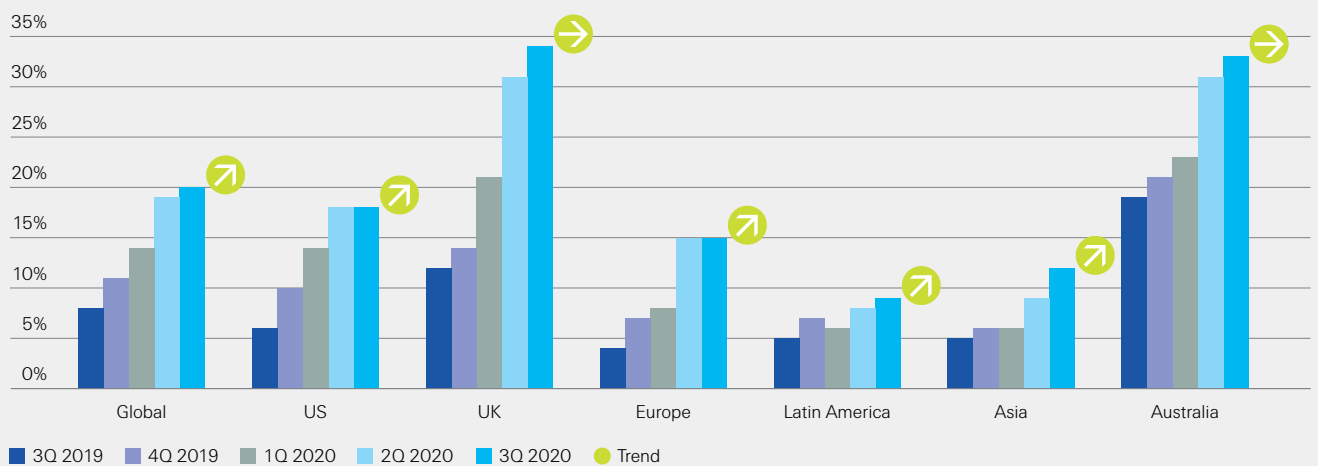
*As a % of net premiums earned. Non-life insurance encompasses property, casualty and also health insurance. CAGR = compound average growth rate.

Ring colourings based on deviation from long-term (2004–2019) trend in each region.



Source: Bloomberg, Swiss Re Institute

Rate hardening in commercial lines was core to this year's resilience in non-life business. We expect positive rate momentum to continue through 2021, given strong demand amidst rising risk awareness and rising claims.



Note: up green arrow: accelerating rate increase, flat green arrow: stable rate increase at high level

Source: Marsh, Global insurance rate index, Swiss Re Institute

Key takeaways

Our baseline scenario is subdued global economic recovery in 2021 and 2022. We also consider alternative macroeconomic scenarios and assign related probabilities.

Optimistic scenario (probability 15%)

- Approvals of effective vaccines in early 2021, improved treatments
- Structural reform drive, additional policy support and increased cooperation, leading to sustained economic growth

Severe and protracted recession scenario (probability 5%)

- Vaccine setbacks and/or mutations that make the virus more infectious and lethal at the same time; on and off broad-based lockdowns
- Global credit crisis ensues amid a severe and protracted recession
- Governments and central banks severely constrained in being able to offer further support

Stagflation scenario (probability 10%)

- Vaccine set backs, on and off regional lockdowns
- Loss of central bank independence; "mission creep"
- Supply chain disruptions
- Fiscal policy mix, with more inflationary transfers than, for example, infrastructure spending

Source: Swiss Re Institute

Anticipated insurance premium growth and profitability in alternative scenarios.

	Optimistic	Severe and protracted recession	Stagflation	
Premium growth				
Non-life				
Property	●	●	●	
Casualty	●	●	●	
Trade credit	●	●	●	
Life				
In-force				
Protection	●	●	●	
Life savings, guarantees	●	●	●	
Life savings, unit linked	●	●	●	
New business				
Protection	●	●	●	
Life savings, guarantees	●	●	●	
Life savings, unit linked	●	●	●	
Profitability excluding general investment returns				
Non-life				
Property	●	●	●	
Casualty	●	●	●	
Trade credit	●	●	●	
Life				
In-force				
Protection	●	●	●	
Life savings, guarantees	●	●	●	
Life savings, unit linked	●	●	●	
New business				
Protection	●	●	●	
Life savings, guarantees	●	●	●	
Life savings, unit linked	●	●	●	
Investment returns	●	●	●	
●	●	●	●	●
Negative	Moderately negative	Neutral	Moderately positive	Positive

Source: Swiss Re Institute

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Swiss Re Management Ltd
Swiss Re Institute
Mythenquai 50/60
P.O. Box
8022 Zurich
Switzerland

Telephone +41 43 285 2551

Irina Fan
Head Insurance Market Analysis

Patrick Saner
Head Macro Strategy

Dr Thomas Holzheu
Chief Economist Americas

Managing editor
Dr Jerome Jean Haegeli
Swiss Re Group Chief Economist

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