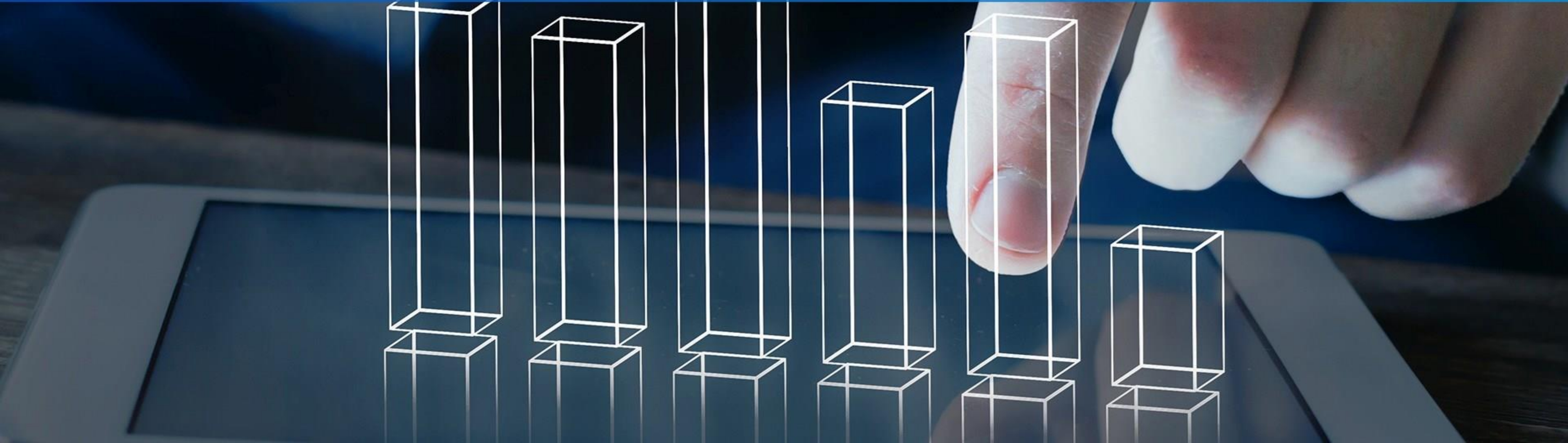
Outlook for the global economy and insurance industry

Astrid Frey, Chief Economist Europe, Swiss Re



“We should resist the temptation to view new economic shocks **through the prism of previous shocks**.”

Neil Shearing,
Group Chief Economist, Capital Economics.

Global Economic Outlook

Swiss Re Institute

Economic Outlook: A very unusual global recession

Far worse **global recession** than the GFC

Unprece-dented speed of economic contraction

Likely one of the **shortest** recessions

Services sector (typically a stabilising force) severely affected

Extra-ordinary degree of **uncertainty**

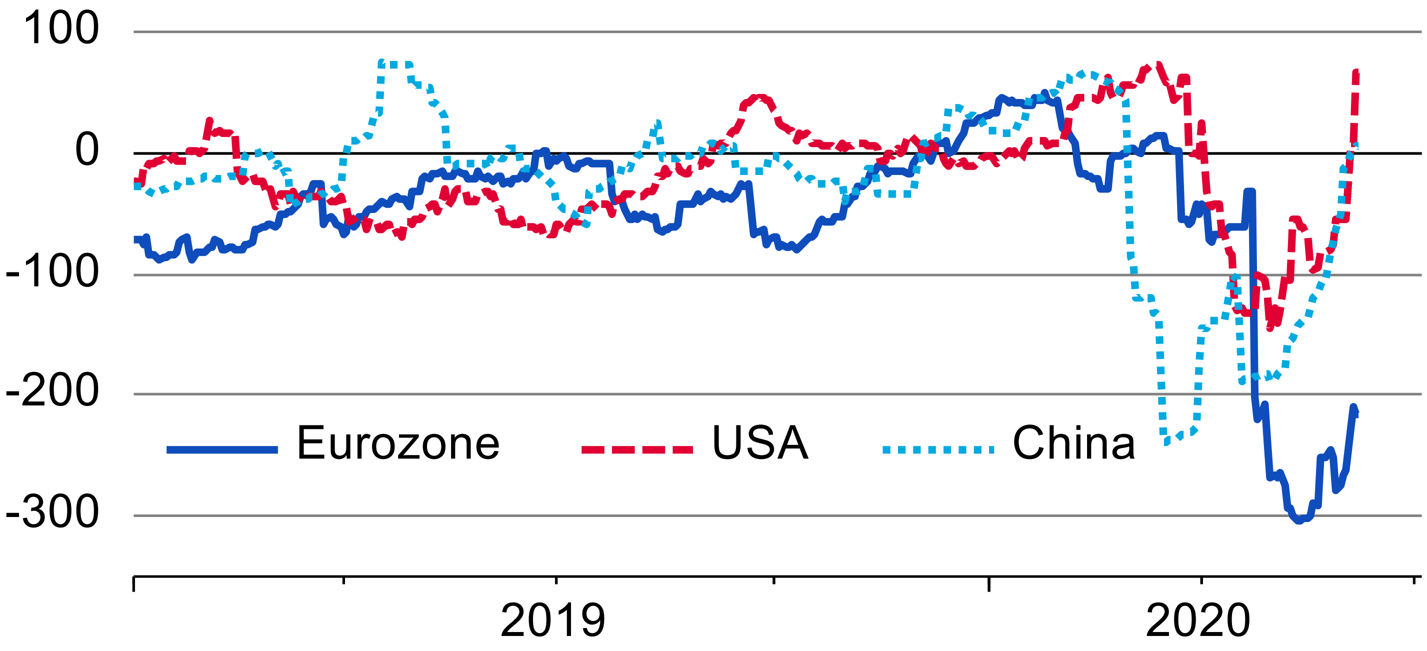
	Swiss Re Institute				Consensus	
	2019	2020	2021	2022	2020	2021
Real GDP (% change)						
US	*2.3*	-6.4	4.2	1.9	-5.4	4.3
Eurozone	*1.2*	-7.5	3.8	1.0	-7.9	6.2
China	*6.1*	2.7	7.0	5.3	1.8	8.0
CPI (% change)						
US	*1.8*	0.7	1.7	2.3	0.7	1.8
Eurozone	*1.2*	0.2	1.0	0.8	0.3	1.1
China	*2.9*	3.0	2.5	2.5	3.2	2.1
10y Gov. Bond Yield (%)						
US	*1.9*	1.0	1.0	1.2	0.9	1.3
Eurozone	*-0.2*	-0.6	-0.6	-0.4	-0.4	-0.1
China	*3.2*	2.6	2.6	2.8	2.4	2.6

Source: Swiss Re Institute
Note: No Consensus projections available for China, numbers refer to Bloomberg

The worst in terms of economic news is likely behind us

- **Economic data releases** across key regions **are stabilising** as illustrated by the economic surprise indices (with the Euro Area lagging behind)

Economic Surprise Indices: the trough is behind us

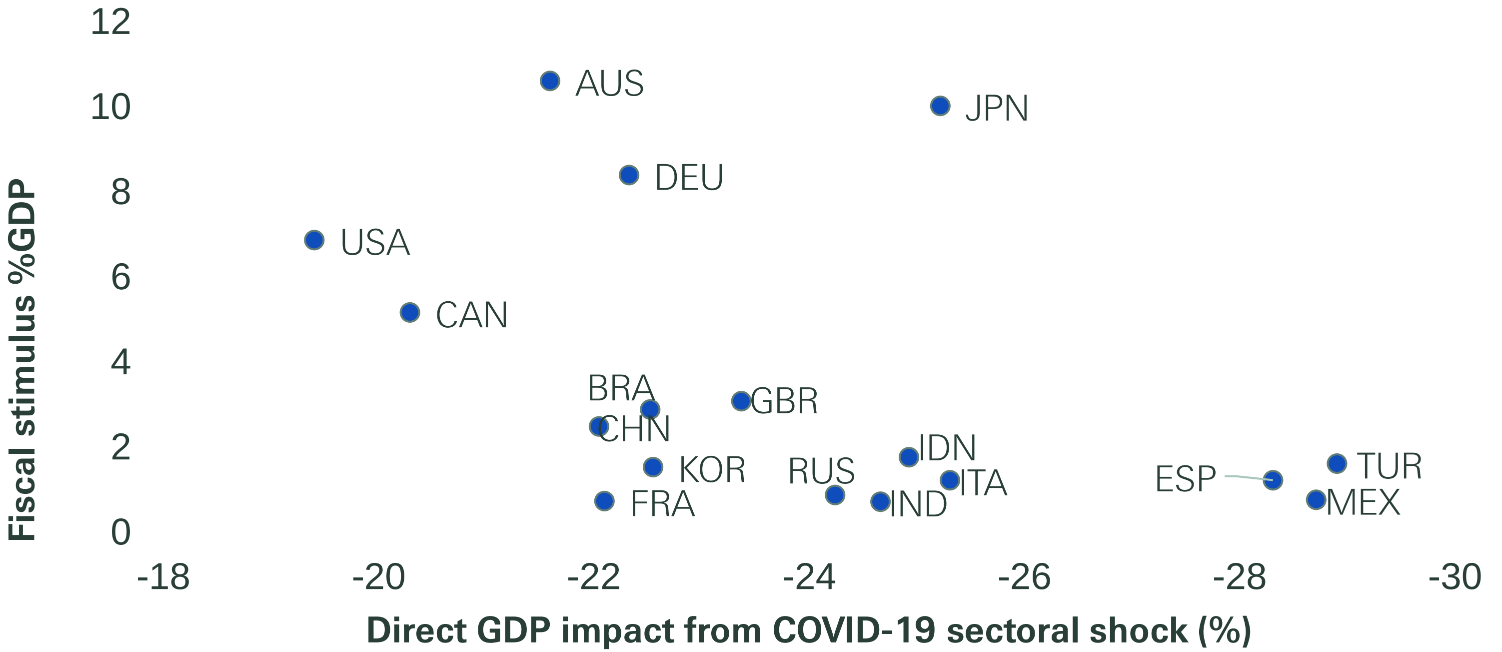


Source: Refinitiv, Citi, Swiss Re Institute

Massive fiscal policy response will support recovery, but not all countries benefit equally

- Countries highly exposed to the hardest hit sectors are among those receiving least fiscal stimulus. **Overall, the US and Germany are relatively better positioned to cope with and recover from the economic implications of COVID than many other countries**

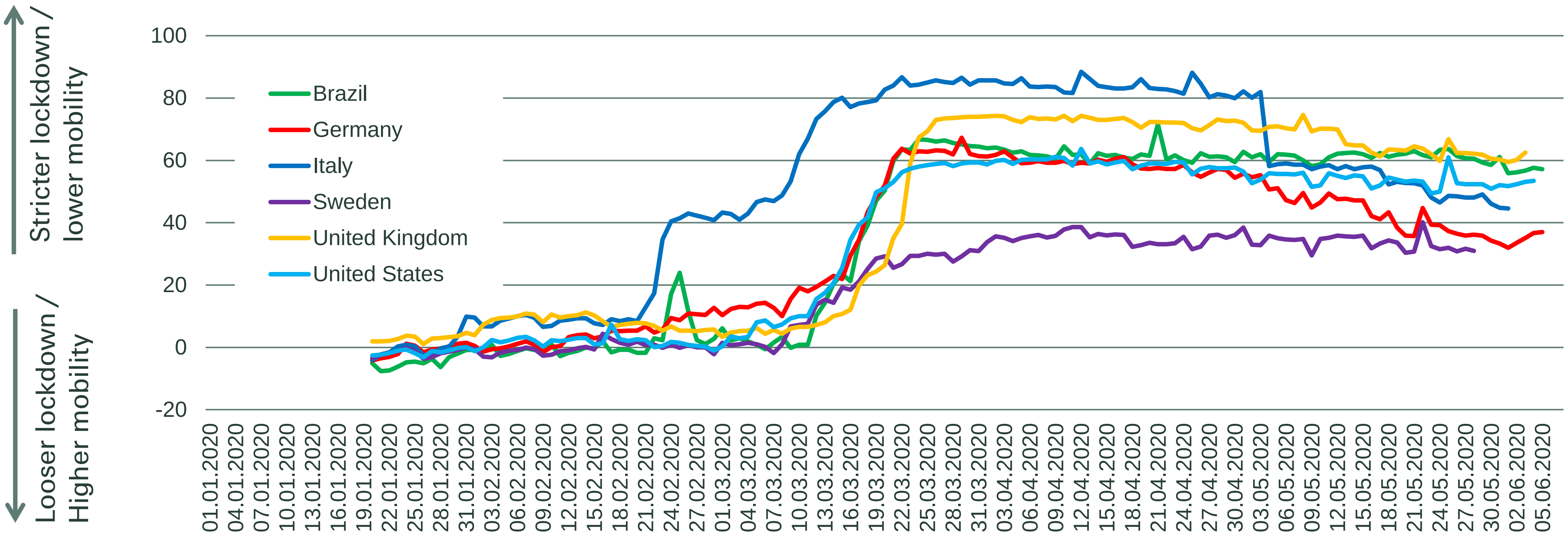
Sectoral vulnerability vs fiscal stimulus



Sources: Capital Economics; Oxford University; OECD; Refinitiv; Bloomberg; IMF; J. I Dingel, B. Neiman, *How many jobs can be done at home?*, Brecker Friedman Institute, Swiss Re Institute.

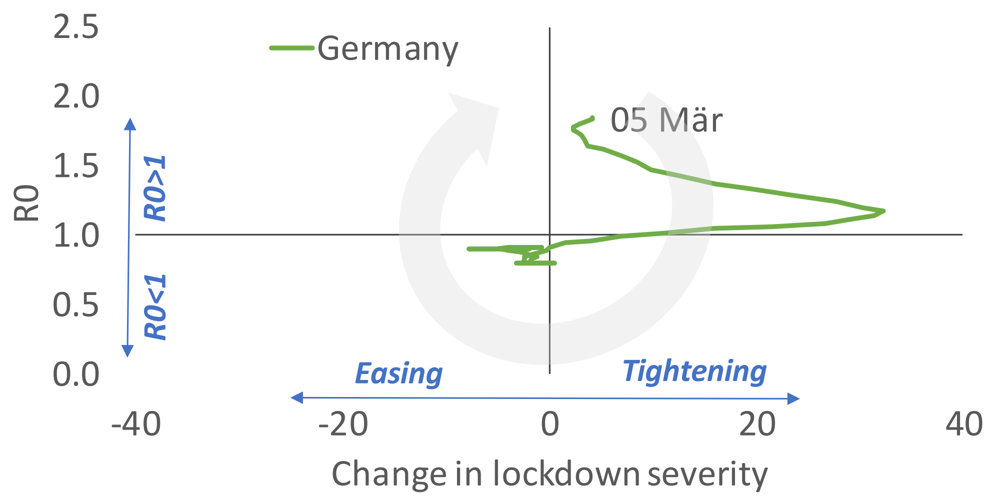
Economic outlook: short-term determined by lockdown easing

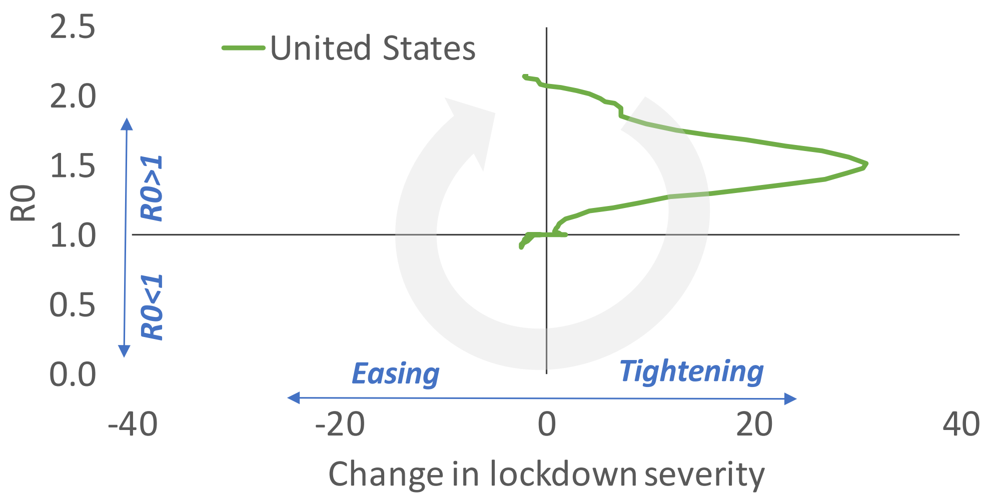
Lockdown indices: gradually improving

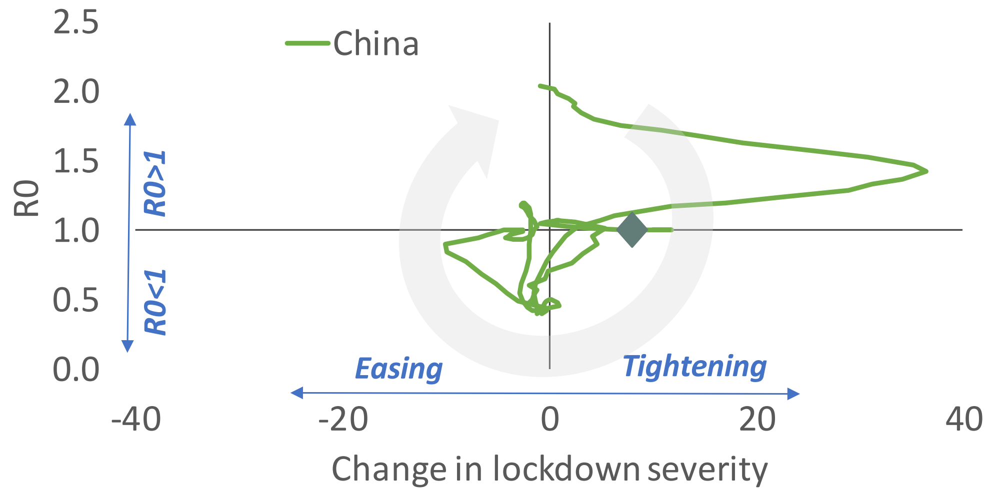


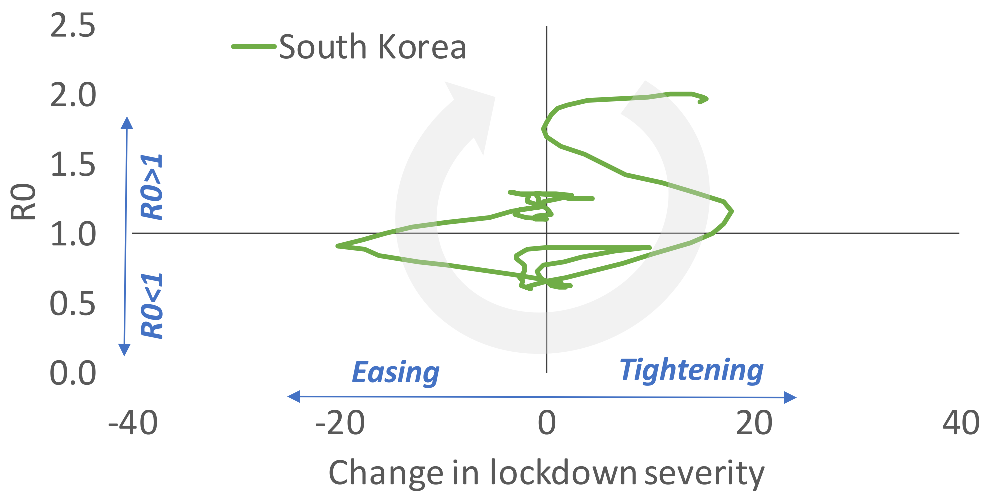
Note: Lockdown indices are a combination of Oxford University measure stringency index and Google/Apple mobility data
Source: Swiss Re Institute, Oxford University, Google, Apple

Key to watch: Swiss Re Institute pandemic macro clock



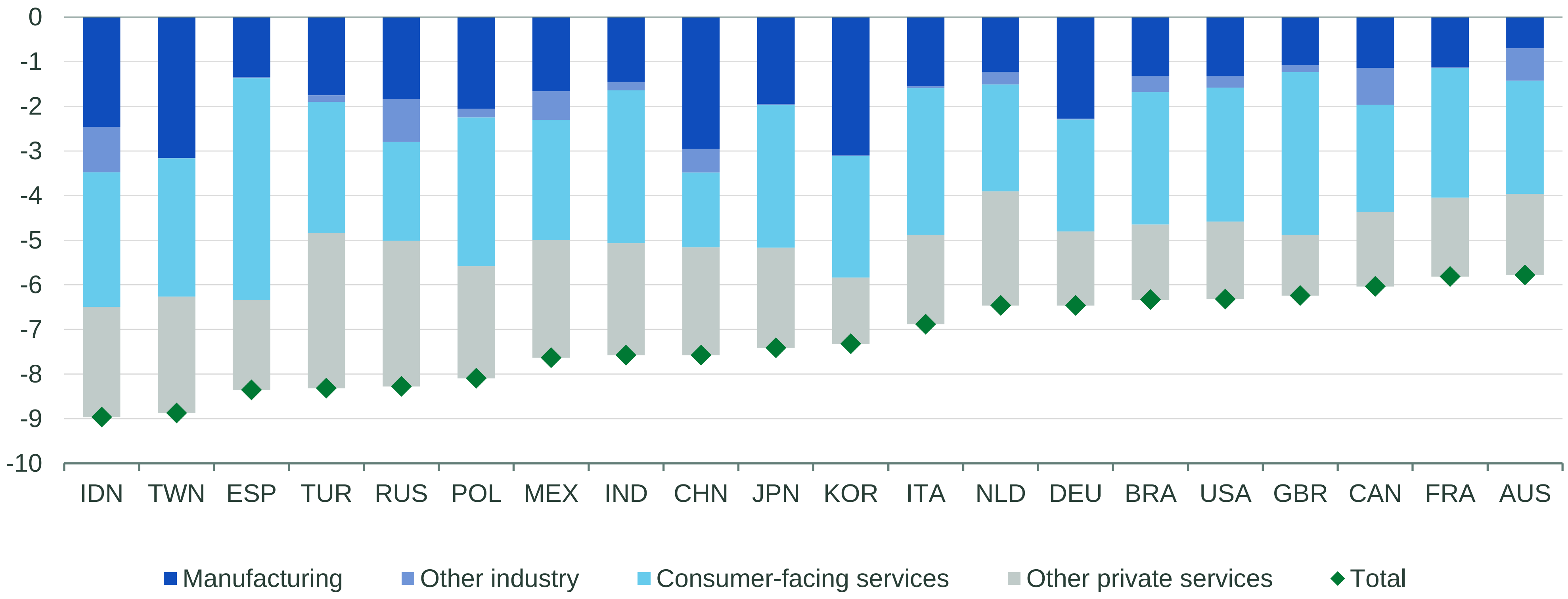






Economies will not return back to “normal” – we’ll have to live with “semi-normal” for some time

Economic capacity will only recover to 90-95% in major economies even after lockdown exit



Note: Capacity shortfall in % of GDP
Source: Swiss Re Institute, Capital Economics

Insurance Outlook

An overview of the insurance market outlook

Rate hardening will support strong rebound for P&C, improving financial markets will support life business

- **Premium growth contraction: less than for Global Financial Crisis**. COVID-19 is estimated to cut 2020 growth by ~ 6 pct points in real terms. The **recovery will be much swifter than global financial crisis**
- **Rates development*: strong hardening expected** in most commercial lines to **support strong P&C rebound in 2021. Improving financial markets will support life business** recovery in 2021, as we do not expect lingering financial turmoil like GFC. Rising risk awareness also bodes well for protection business
- **Emerging markets: positive premium growth** lead by strong insurance demand in China. We **reaffirm** our view that **China will become the largest insurance market by mid-2030s****
- **Scenario thinking**: the **risk of "a stagflation scenario" is not immaterial, which will be most toxic** with deep contraction in premium accompanied by higher claims inflation

Direct Premium real growth (%)

	2020F	2021F	2022F
P&C	-2,1	3.7	2.6
L&H	-4.7	3.4	2.8
Total	-2.8	3.2	2.8

Global Financial Crisis recession path

	2008	2009	2010
P&C	-2.3	-0.9	1.2
L&H	-6.3	-0.1	3.2
Total	-4.0	-0.4	2.4

Source: Swiss Re Institute

Note: * We expect commercial lines rate to grow by high double digits in 2021, ** Analysis based on non-life and traditional life business.

Looking beyond

Scenario thinking is more important than ever

	Optimistic scenario 10%	Severe and protracted recession 10%	Stagflation scenario 10-15%
Narrative	• **Virus outbreak peaks in April/ May,** with **lockdown measures lifted** after 1-3 months • Swift and coordinated policy action leads to **V-shaped recovery; situatio**n **back to normal by summer**	• **Virus outbreak lasts longer with 2nd waves,** resulting in **extended lockdown measures** • Virus outbreak morphs into a **credit crisis followed by** period of economic stagnation • **Eurozone is exposed to increased internal political tensions**	• **Similar to the severe recession scenario but with:** • Further **market malfunctioning and** • **Massive policy easing resulting in inflationary depression**
Triggers	1. Coordinated policy choices 2. Positive consumer sentiment 3. Contained new infection rates	1. Re-introduction of lockdown measures 2. Rising unemployment/ falling wage growth 3. Tightening financial conditions 4. Falling real estate market	1. Re-introduction of lockdown measures 2. Massive loose policy choice 3. Oil price increase 4. Rise in velocity of money

Source: Swiss Re Institute

Looking further ahead:
COVID-19 likely to bring forward some of the megatrends already in the making

- Even more innovative central banks
- Fiscal/ Monetary coordination and outright debt monetization
- Peak of globalization and parallel supply chains
- Accelerated digital transformation
- Return of higher inflation?
- Rising nationalization / equity stakes from government in large corporations

Key takeaways

Key takeaways

1. The global recession in 2020 will be very different from the last one: deeper and sharper but likely more short-lived. The worst in cyclical macro news is likely behind us

2. Different crisis – different recovery: No return back to "normal" anytime soon

3. Watch out for paradigm shifts that could have a significant impact on the re/insurance industry: both new threats and opportunities