

## Economic Insights

### Global life and health: 2021 to offer respite after COVID-19 hit this year

#### Key takeaways

- Global life and health insurance premiums are expected to contract 2.9% to USD 4.2 trillion this year but recover swiftly to 3.2% growth in 2021.
- We estimate that COVID-19 will cut life and traditional health premiums (excluding medical cover) by 8ppt globally to fall by 4.4% in real terms this year.
- Protection-type insurance products should be more resilient to the COVID-19 hit than savings business, which typically suffers during downturns.
- Heightened health risk awareness and normalising financial market conditions should drive the rebound.
- We continue to expect manageable life and health claims, partly due to typically lower mortality rates in the insured vs general population.

#### 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 global life and health insurance sector is displaying resilience in the COVID-19 crisis. An expected 2.9% premium contraction this year will be followed by a swift recovery to 3.2% growth in 2021. Life savings business lines will be hardest hit, but protection-type business should see slight growth.

COVID-19 will take a toll on life and health (L&H) insurance premiums this year as the global economy goes through the sharpest and deepest economic recession in modern history. Combined, we expect premiums to contract by almost 3% in real terms to USD 4.2 trillion in 2020. However, the pain will be unequally spread: while life savings business will be hit hard, we forecast greater resilience in health lines (traditional health and medical insurance<sup>1</sup>), where premium growth should remain positive. We estimate that COVID-19 will cut life (including savings and annuities) and traditional health insurance premiums globally by 8 percentage points in real terms in 2020 (see Figure 1), resulting in a forecast premium contraction of 4.4% this year. While the impact of COVID-19 on medical insurance is hard to quantify, we expect a marginal 0.4% real terms rise in global medical premiums, to USD 1.4 trillion.

By line of business, savings premiums typically suffer more during economic downturns as consumers face lower incomes and rising economic uncertainty. Lapses tend to rise with loss of employment and the need to access the cash value of savings policies as emergency funds. Protection-type life and health insurance products are in general less affected and should receive an uplift from rising risk awareness among consumers in response to COVID-19 (see Figure 3).

We expect life and health premiums to recover swiftly, growing by 3.2% in 2021 to USD 4.4 trillion. The rebound should be faster than after the global financial crisis in 2008-2009 (see Figure 2) despite a deeper downturn in global GDP (we estimate a 4% fall in 2020 vs. 2% in 2008). Across all lines, new sales are expected to grow strongly in line with relaxation of lockdown measures, which have hindered agency sales, the predominant distribution channel. Insurers are also expanding online distribution and accelerated underwriting of products to adjust to the "new norm" of digital interaction.

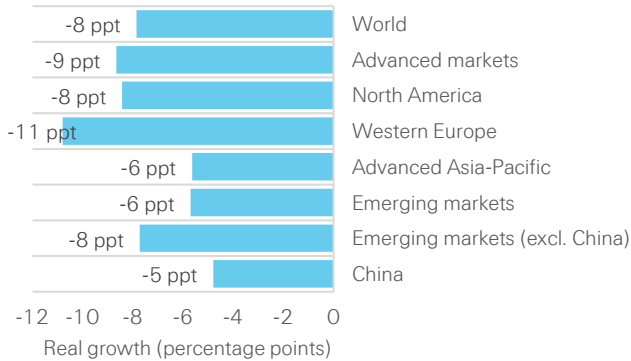
Life savings products (over 50% of total life and health premiums globally) are expected to be a key driver for recovery, as gradually normalising financial market conditions increase demand. We do not expect the same lengthy financial turmoil as seen during the financial crisis. Nevertheless, savings products will be less appealing as investment vehicles in an

<sup>1</sup> We define medical insurance as products reimbursing medical costs, and traditional health insurance as products such as critical illness, disability and long-term care insurance.

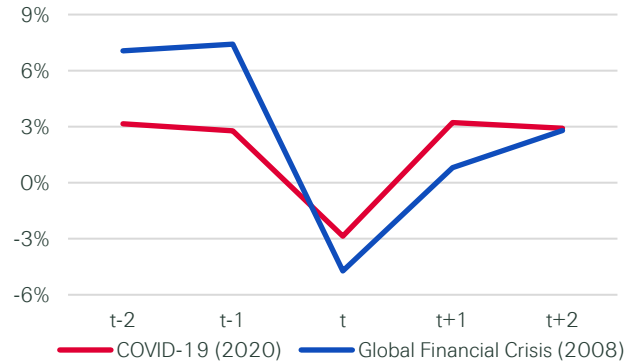
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**Figure 1:** Life & traditional health premium real growth, 2020



**Figure 2:** Life & health premium real growth: COVID-19 vs GFC



Note: t represents the outbreak of each crisis period.

Source: Swiss Re Institute

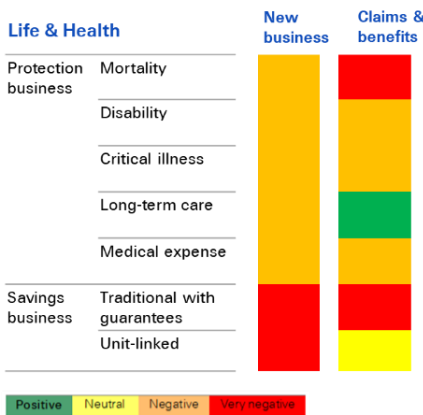
environment of low interest rates. On the other hand, the rising health risk awareness will bode well for health insurance demand. In Asia-Pacific, for example, our consumer survey in April found increased interest in life and health insurance, and respondents indicated that insurance was a priority to retain should a financial sacrifice be needed <sup>2</sup>.

Claims for life and health insurers look set to increase (see Figure 3). Direct claims related to COVID-19 will come from two main sources: death benefits from excess mortality, and medical expenses. Claims from COVID-19 testing and costly stationary care treatments (eg intensive care) will increase.

On the life book, we believe the mortality "shock" to in-force books will be lower than for the overall population for two reasons: 1) Age: deaths from COVID-19 have been concentrated among older adults, which may not be among the insured population (typically 30-65 years old). 2) Comorbidities: death rates are higher among people with pre-existing chronic medical conditions (eg, cardiovascular disease, diabetes, respiratory diseases, hypertension). Those with life insurance are typically healthier than the general population.

The impact on life insurers should consequently be manageable in our view, unless the number of deaths increases significantly – which will depend on the future success of virus containment and social-distancing policies.

**Figure 3:** Covid-19 impacts on life and health business lines in 2020-2021



Source: Swiss Re Institute

<sup>2</sup> Swiss Re COVID-19 Consumer Survey: Financial anxiety, demand for insurance products accelerates across Asia, Swiss Re, 29 April 2020.

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