

Q2 2020 SUMMARY | THE YEAR AHEAD In the last four months, COVID-19 became the largest pandemic in a century. The global economy shrank by \$9 trillion, at least 70 million of working adults lost their jobs, and global health authorities [reported](#) 6.5 million infections and 390,000 deaths from the virus. In such times, economic and business estimates are at best indicative and forecasters would do well to refrain from conveying too much certainty by being overly specific. To grasp the scale of the devastation, consider the following: the damage to global growth already done by mid-year is the equivalent of every business in New York, Pennsylvania, Texas, Florida, and California shutting down for a full year; the entire working populations of both the U.K. and France being laid off in less than 8 weeks; and a city roughly the size of Boston losing its entire population over the same period. And while we hope the worst has passed in the U.S., Canada, and Western Europe, notwithstanding infection rebounds in the fall and winter, it is important not to overlook new daily cases around the world growing at record pace and global viral hotspots emerging from Brazil to Russia and in Mexico.





GLOBAL MACRO

BALANCE OF RISKS TILTED TO NEGATIVE

Significant fiscal and monetary stimulus



G20 GDP growth to decrease to -3.0% in 2020 from +2.9% in 2019. Recession to continue into 2021.

COVID-19 expanding at fastest speed yet in Southern Hemisphere

Trade disruptions, tariffs, China and Hong Kong tensions tops political risk list



Growth and Inflation

The [IMF](#) reported in April that 18 out of the world's 20 largest economies are in recession. Global GDP growth in 2020 is expected to decrease to -3.0% from +2.9% in 2019. In developed economies, where business closures and stay-at-home orders were more extensive than in emerging markets (EM), GDP is expected to decrease to -6.1% in 2020 from +1.7% in 2019. The IMF expects EM GDP to decrease to -1.0% in 2020 from +3.7% in 2019 but this forecast will likely be revised downward due to the pandemic worsening in [Brazil](#) and [Russia](#), now respectively in second and third place in reported global [cases](#). The IMF expects global inflation to be 2.99% in 2020, down from 3.61% in 2019. Advanced economies are experiencing the bulk of the decrease with inflation expected to be 0.50% in 2020, down from 1.40% in 2019. Inflation in EM is expected to be 4.62% in 2020, down from 5.05% in 2019. (See *Triple-I* on [inflation](#) and the insurance industry.)

The IMF forecast for global growth in 2021 is excessively optimistic, projecting an upward swing of nearly 9% from -3.0% in 2020 to +5.8% in 2021, nearly twice 2019's annual pre-COVID-19 global GDP growth rate of +2.9%. Given the scope of the downturn so far in China, North America and Western Europe, the virus' continuing expansion in the Southern Hemisphere,

and the possibility of further rebounds in the former this fall and winter, the likelihood of a V-shaped recovery is extremely low. The most likely outcome for the rest of 2020 is a slow recovery, with multiple false starts and step backs, that does not stabilize until well into 2021.

Monetary and Fiscal Policy

Central banks responded to COVID-19 by cutting interest rates by an average of -0.64% in the first half of 2020, down to 0.62% in May from 1.26% in January. Overnight rates in the G7 average 0.10%, including Japan's negative -0.10%. The average of the 10-year yield curves for the G7 is 0.43%. The entire German yield curve is negative while those of Japan, Switzerland and the Netherlands have been oscillating between 0% and negative rates depending on duration. Governments in the G20 have spent nearly [\\$9 trillion](#) to mitigate the impact of COVID-19. Of these, \$3.3 trillion went to direct spending or lost revenues; \$2.7 trillion to guarantees; and \$1.8 trillion to public sector loans and equity injections. This is the equivalent of 5.0% of the G20's combined annual GDP output. Germany and Italy's fiscal spending was the biggest, at 6.0% and 7.0% of GDP respectively, nearly three times the 2.5% of GDP spent by the U.S. to mitigate the economic crisis there.

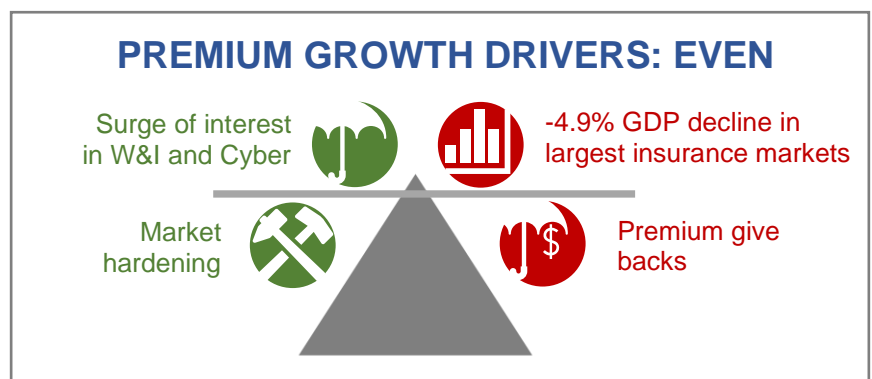
Political Risk

Overall, political risks continued to increase in Q2 2020 in Russia, China, and Brazil, where dictator/populist regimes are using the pandemic to advance repression. Business political risk is also increasing, driven for its part by disruption to both domestic and international supply chains, trade restrictions, protectionist measures and political violence. The most significant threat to global political stability and equity market's recent recovery is China's actions against self-rule in Hong Kong. Indeed, the correlation between volatility in global equity markets and political risk in Hong Kong is stronger than the correlations between equity markets volatility and any of the other political risks we reviewed for this report.



Premium Growth

Insurance companies expect premium growth to be flat in 2020, given roughly equal upward and downward pressure. On the upside, the hardening market should contribute to premium growth while the pandemic has led to increases in take-up rates for warranty and indemnity, cyber and a surge of interest in captives. However, on the downside, premium growth is related to economic activity, and GDP growth for the world's 10 [largest insurance markets](#)



is expected to decrease by -4.9% in 2020, compared to 2019. We defined market size as total premium written as of 2018-2019 and estimated the decline in GDP by weighting each country's GDP change by the size of its insurance market. In addition, premium give-backs are dampening their growth, the hardening of personal lines will be slower than for commercial lines, and take-up rates for products such as travel insurance will likely decrease.

COVID-19 Losses

S&P Global Market Intelligence [estimated](#) that global insurance losses from COVID-19 in Q1 2020 alone could reach \$1 trillion with AXIS (\$235 million), Berkshire (\$230 million), and Swiss Re (\$175 million) bearing the bulk of the costs. Zurich, for its part, [estimated](#) that COVID-19 related claims for all of 2020 could cost the carrier \$750 million in 2020. The bulk of the [losses](#) across the industry comes from health, mortality claims, event cancellation, BI, and credit and surety insurance.

Business Interruption (BI)

The U.K.'s Financial Conduct Authority (FCA) [announced](#) on May 15 that it would move forward with a test case in court to clarify uncertainty in a set of [representative](#) BI policies. Because the insurance regulatory structure in the U.K. is more centralized than in the U.S., the FCA is aiming to anticipate potential litigation on the BI pandemic claims and trying, for the sake of both the insurers and policyholders, to seek a template from the courts that can save time and money in settling these claims. There is no indication that the FCA took into consideration whether the totality of such claims could bankrupt the industry. Court hearings are scheduled for the second half of July and the court's decision will be binding for the insurers invited as parties including Arch, Hiscox, QBE and Zurich and provide guidance on future interpretation and legal cases. Marsh U.K. issued a [statement](#) that it would provide a submission to the FCA including summaries of key policy issues and their own views advocating on behalf of its clients.

In France, a court [ruled](#) that AXA must pay BI policyholders in the hospitality sector two months of covered COVID-19 BI losses to meet its obligations under BI policies covering pandemic related BI. AXA reported that a small number of its clients in the hospitality sector, mostly restaurants, had purchased BI policies covering losses due to conditions such as COVID-19. However, this was the exception and the majority of BI policies does not provide such coverage. The insurer [announced](#) that it would immediately pay the court ordered two months' worth of pandemic related losses and that this would impact about 10% of all BI policies. In [Ireland](#), a court will hear a case in July against FBD Holdings on whether the insurance company should compensate 1,000 pub owners for COVID-19 BI losses.

Industry Liquidity

In May, AM Best [reported](#) that all insurance companies performed well under its stress tests for COVID-19's impact on the industry, with global P/C insurers performing slightly better than life and health insurers. Carriers and reinsurers based in lower risk countries or regions (i.e. the U.S., Canada, and the EU) outperformed those in higher risk ones (i.e. Latin America and Africa). For its part, FitchRatings, which has a negative sector outlook on the P/C and global reinsurance sectors, expressed [concerns](#) about the combined impact on the industry of COVID-19 losses, returns on investments uncertainty, and the likelihood of a major hurricane season.

Hard Market

Wells Fargo is [forecasting](#) the hardest insurance and reinsurance markets in recent years for the U.S. and worldwide by the end of 2020. Even before the bulk of COVID-19's impact in Q2, Marsh [reported](#) that global insurance pricing rose 14% in Q1 2020 compared to Q4 of 2019, the tenth consecutive quarter of price increase. Over the period, global prices for financial and professional liability rose the most at 26%, while prices for property rose 15% and for casualty 5%. Geographically, prices rose the most in the Pacific region at 23%, followed by 21% in the U.K. and 14% in the U.S. Because of regulatory considerations, pricing for commercial lines increased faster than for personal lines, with increases for the latter likely to pick up in 2021.



For more information, please contact:

Michel Leonard, PhD, CBE
Senior Economist and Vice President
michell@iii.org

Deena Snell
Director, Membership
deenas@iii.org

Michael Barry
Head of Media and Public Affairs
michaelb@iii.org

The Insurance Information Institute reserves the right to change, improve or correct the information, materials and descriptions in this report. The information contained herein is the work of Triple-I analysts and contains information from third party sources. Triple-I gives no guarantees, undertakings, or warranties concerning the accuracy, completeness, validity, or timeliness of the information provided. Independent confirmation of the accuracy of the information contained herein is recommended. Any dated information is published as of its date only. © Insurance Information Institute 2020