

The development of the insurance industry at the global level in light of the Covid-19 crisis-different experiences

تطور صناعة التأمين على المستوى العالمي في ظل أزمة كوفيد 19 تجارب مختلفة

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Abstract:

The Covid-19 epidemic crisis has caused a deep recession at the level of various economic activities, including the insurance industry, where the demand for insurance decreased by 6% in 2020, and this is a result of the decrease in demand for many insurance products related to saving, whether for individuals or institutions; This is due to high unemployment rates and low income. With regard to other types of insurance (other than life), the most types of insurance that will be exposed to a decrease in demand are motor insurance, travel insurance, and insurance related to business; Thus, those insurance branches will be the most affected. With regard to the overall performance of the insurance markets.

Key words: insurance industry; Covid-19 crisis; global level.

ملخص:

أحدثت الأزمة الوبائية كوفيد-19 ركود عميق على مستوى مختلف الأنشطة الاقتصادية، ومن بينها صناعة التأمين، حيث انخفض الطلب على التأمين بنسبة 6% سنة 2020، وهذا نتيجة لانخفاض الطلب على العديد من المنتجات التأمينية التي تتعلق بالادخار سواء للأفراد أو المؤسسات؛ وذلك نتيجة لارتفاع معدلات البطالة وانخفاض الدخل. أما فيما يتعلق بأنواع التأمين الأخرى (غير الحياة) فإن أكثر أنواع التأمين التي ستتعرض لانخفاض الطلب عليها هي تأمين السيارات وتأمين السفر والتأمينات المرتبطة بالأعمال التجارية؛ وبالتالي ستكون تلك الفروع التأمينية هي الأكثر تضررا على الأداء العام لأسواق التأمين.

الكلمات المفتاحية: صناعة التأمين، أزمة كوفيد 19، المستوى العالمي.

1. INTRODUCTION

The COVID-19 pandemic has caused the deepest recession since the 1930s, and global gross domestic product (GDP) is expected to shrink by about 4% in 2020. This will lower demand for insurance this year, especially life insurance; As it is expected that the volume of premiums will decrease by 6% for life insurances and by 0.1% for property insurances. Despite this, the industry is expected to recover from that recession, which is supposed to be short-lived, insurance premiums will start growing again and the economy will enter a phase of long-term recovery. It is expected

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that property and casualty insurance will be the main driver of the insurance recovery again, and the largest share of this recovery will be for emerging markets.

At present, the Covid-19 crisis will cause premium growth (life and non-life) to decline by about 3% from the pre-recession period. However, it is expected that the total written premiums for both life and property insurances will reach 3% higher than the level of the volume of premiums at the time of the pandemic, during the year 2021, and this rise is strong if compared to the severity of the recession level for this year.

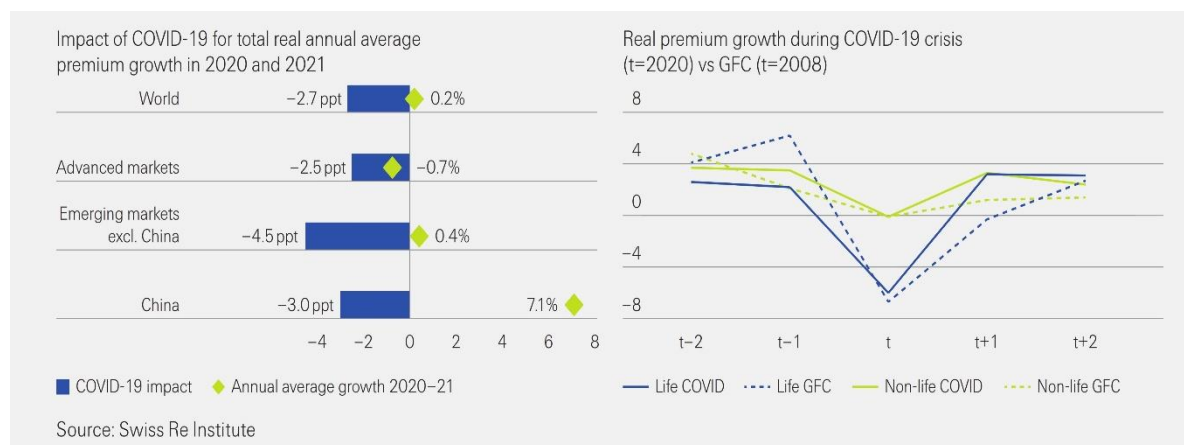
Hence, we pose the following problem:

What is the impact of the Covid-19 crisis on the global insurance industry?

2. Life insurances will be more affected by Covid-19 than non-life insurances

In 2019, global premium volume grew steadily at just under 3 % . There has been a slowdown in the growth of life insurance premiums; Where the volume of growth amounted to 2.2 % . On the same approach, the Covid-19 crisis is expected to cause a slowdown in the growth of life premiums compared to the previous year, which will lead to a 1.5 % contraction in the market size; The group's demand for insurance products related to savings, whether for individuals or institutions, will also decrease . This is due to high unemployment rates and low income. As for other types of insurance (other than life), the most insurance types that will be exposed to a decrease in demand are insurance Auto, travel and business related insurances; Thus, those insurance branches will be the most affected. With regard to the general performance of the insurance markets; Emerging markets will outperform both life and non-life insurance.

Gragh(02): Impact of COVID-19 for total annual average growth 2020-2021.



Source: Swiss Re Institute, at:

<https://www.swissre.com/institute/research/sigma-research/sigma-2020-04.html>

The insurance industry was well capitalized before the pandemic, which is largely able to absorb the shock it has been exposed to as a result of COVID-19. To date, the amount of final claims associated with property insurance remains uncertain; As the average estimates obtained from various sources amount to about 55 billion dollars, and this average is much less than the amount of the total losses of natural disasters that occurred last year. For example, the losses caused by Hurricane Katrina were about \$90 billion (in 2019 prices) and the industry has absorbed those

losses. Hence, the industry will face challenges related to the level of profitability. Investment returns will remain low and interest rates will remain low for a period, which will affect life and other types of long-term insurance, and on the other hand, if companies default on their debts, this can lead to losses in the invested assets. In addition, the preventive and precautionary measures that were imposed to contain the spread of the virus are likely to affect the profits of most commercial activities this year; As there will be a decrease in the volume of sales and income resulting from fees collected from individuals in many destinations due to the closure (Daniel Staib, 2020).

2.1. The profitability of the industry will be supported by tightening insurance rates and accelerating the development of protection requirements against new risks that have arisen as a result of the crisis:-

The COVID-19 crisis started at a time when non-life insurances are seeing price tightening, and this trend is expected to continue in commercial lines in particular, with capital scarce. The expected increase in demand for insurance should contribute to supporting profits in the long run. Moreover, the experience of the health system and the economic crises that occurred this year, will increase awareness of risks, which in turn will affect the increase in demand for insurance across many lines of business, including the demand for products that provide solutions to the effects resulting from those a pandemic (which in turn may require some form of government support given the unconventional nature of such a threat). The shock of Covid-19 is likely to lead to an attempt to accelerate the development of other business models as well, such as restructuring global supply chains to mitigate the risks of future business disruptions, Which will lead to the emergence of new complexes regarding property and engineering insurances. In addition, there will be support and promotion for the trend towards digital transformation in both personal and working life, as well as there will be an incentive to accelerate the development of new insurance products and services.

2.2 Gross written premiums will return to pre-pandemic levels in 2021:

After 2019, global premium growth (life and non-life) will stagnate over the course of 2020 and 2021 . Life insurance premiums in developed markets will decline sharply, while the non-life insurance sector will be less affected by the Covid-19 crisis and this sector will witness an improvement in premium growth rates. Emerging markets will outperform both sectors. COVID-19 will slow insurance market growth by nearly 3 percentage points. The extent of the decline in the gross premiums growth rate in 2020 due to the COVID-19 pandemic will be similar to that which occurred during the global financial crisis of 2007-2009, but the decline resulting from the COVID-19 pandemic will be smaller than that. What happened during the global financial crisis Also, it is not expected that the same continuous turmoil in the financial market that occurred at the time of the global crisis will occur (sigma 4/2020:).

3. Macroeconomic environment for insurance companies

COVID-19 has forced a radical change in the direction of the global economy. After the economy was expected to experience sluggish growth at the beginning of the year, the economy is now expected to experience a severe and deep recession in 2020, across all regions. There has been a rapid rise in unemployment, and many bankruptcies are expected. As a result, the demand for insurance will decrease due to the collapse in economic activity, so insurance companies have to expect a lower return for many years to come.

3.1 Growth and inflation forecasts in the global economy

Currently, global GDP is expected to shrink to nearly 4 % in 2020, double the rate (–1.8 %) seen during the global financial crisis. Growth has been on the downside even before the onset of the COVID-19 pandemic early this year, after hitting a 10-year low of 2.5 % in 2019 (Casper Christophersen and Petr Jakubik, Financial Stability Report | May 2014).

The COVID-19 pandemic has completely changed the fate of the global economy, and is expected to Most of the world's 30 largest economies will witness a recession in 2020 due to the closure measures taken to contain the virus, but after the sharp economic contraction in the first half of 2020, a long-term recovery is expected in the second half of 2020 and until 2021 With inflation remaining low (FMI, 2021).

3.2 Europe is more affected than the United States:

Given its resilience before the outbreak of the Covid-19 crisis, the shock to the economy in the United States of America is likely to be less pronounced, and therefore the American economy could recover in 2021 more strongly than in the European region. Many of the largest advanced economies are expected to contract by 6.5–7.5 % in 2020, Italy and Spain will contract close to 10 %, while Japan and South Korea will see an improvement in economic activity. Europe is also expected to recover only a portion of the lost output in 2021, with growth remaining below 4 %.

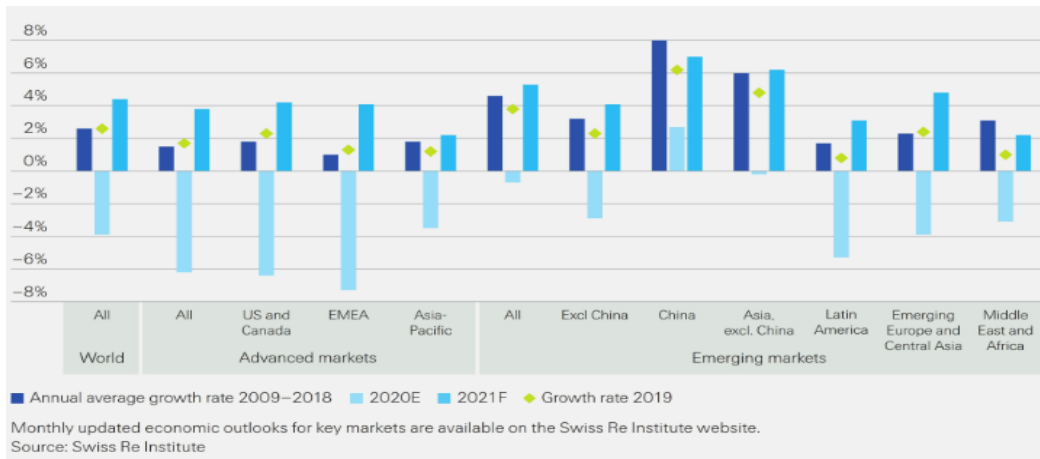
3.3. The affect for China:

The activity is gradually returning in China, but the Chinese economy will suffer from stagnation as a result of decreasing demand globally. China is expected to grow by 2.7 % in 2020, a decrease of 3.4 % from 2019. There will be a recovery in 2021, with monetary support leading to an expected growth of 7 %.

Emerging economies are lagging behind the curve of the Covid-19 pandemic, but will struggle until growth rates return to normal.

Although emerging markets are somewhat lagging behind the epidemiological curves of COVID-19, they will be hit hard, especially those that have already been plagued by structural issues. GDP is expected to dwindle in the ten largest emerging economies. Low financial space, reliance on US dollar financing, strong capital inflows, as well as fragile health systems and infrastructure; It is one of the challenges posed by the epidemic. The collapse in commodity prices, especially oil, may benefit imports, but it will lead to a kind of pressure on the countries that export (Haegeli, 2020).

Graph (02): Rael Growth rate bay region.



Source: Swiss Re Institute, at:

<https://www.swissre.com/institute/research/sigma-research/sigma-2020-04.html>

3.4 rise in unemployment and bankruptcy rates, even with the huge solvency and monetary support measures in many markets:

How quickly economic activity recovers, once lockdown measures are lifted, will depend on how effective the policy response is in containing lasting damage and second waves of infection, and the ability of health systems and investors to carry higher debt burdens. Despite the supportive monetary and fiscal policy measures, the Covid-19 crisis will cause many institutions and companies to go bankrupt and a sharp rise in unemployment levels; The crisis will therefore leave businesses and consumers in a weaker position even when the epidemic subsides.

Unemployment rates are expected to peak in the first half of this year and then begin to decline gradually. Various strategies have been used all over the world to combat the rise in unemployment rates. In the United States, an unprecedented number of people filed unemployment claims; In the 13 weeks since the start of the crisis, more than 45 million people have filed unemployment claims, nearly 6 million more than during the global financial crisis. Many European countries have begun to implement plans or programs to combat underemployment, whereby the state pays a certain share of wages if employees are retained for the period in which companies are closed in whole or in part. Such programs have worked well in previous recessions and have shown strong uptake in the current crisis.

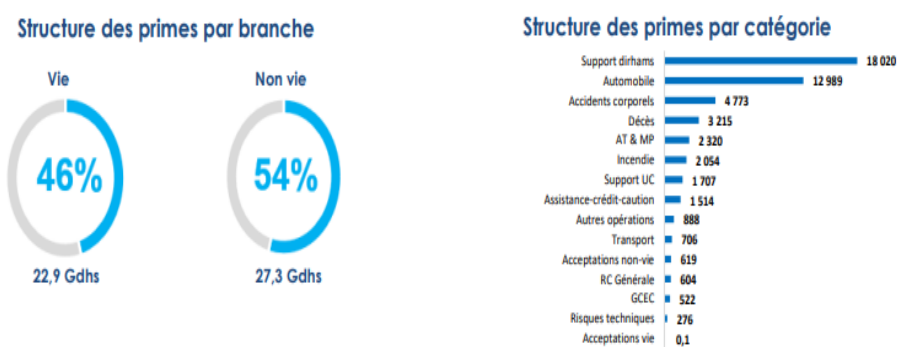
3.5. The state of the insurance sector in the UAE:

Graph (03): Statistics of the insurance and reinsurance sector in the UAE for the year 2021.



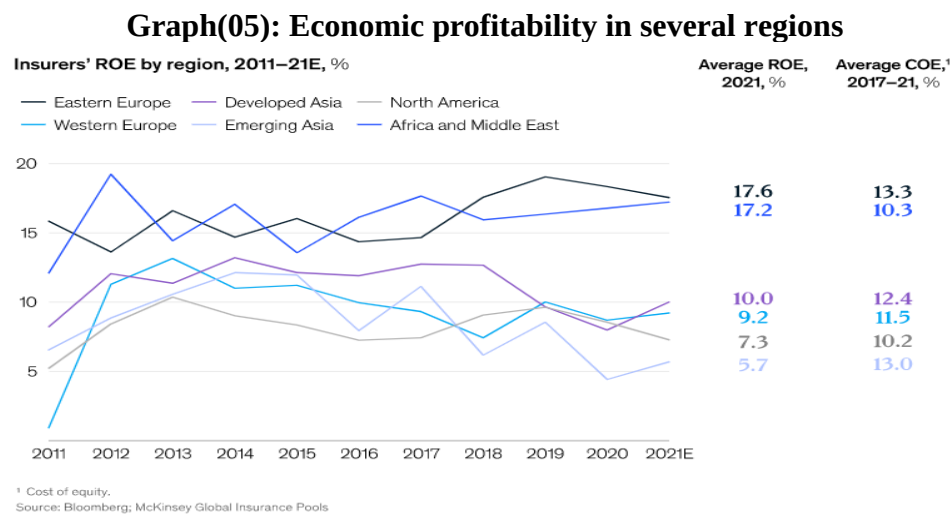
Source: <https://www.acaps.ma/en/statistiques/statistiques-sectorielles-assurance>, 28/04/2022.

Graph (04): Structure of insurance premiums by category.



Source: <https://www.acaps.ma/en/statistiques/statistiques-sectorielles-assurance>, 28/04/2022.

3.6. Economic profitability in several regions:



Source : Mckinsey global Insurance pools, at: <https://www.mckinsey.com/industries/financial-services/our-insights/creating-value-finding-focus-global-insurance-report-2022> , 28/04/22.

The challenges run deep. And insurance leaders must also contend with a raft of trends unleashed by COVID-19. It's a unique moment; insurers now face several fundamental strategic questions. How can they create more value for shareholders? Can they unlock latent demand and improve the customer experience? How can they regain momentum on the long-running quest to improve productivity? Also, what about talent? How can they reimagine the employee proposition to attract and retain the brightest and best after the pandemic? Finally, how can insurers, individually and collectively, reframe the role and purpose of insurance in society?

leadership teams need to capitalize on nine value levers (mckinsey and Company, 2022):

- Make environmental, social, and governance (ESG) considerations a core feature of the business model. ESG issues increasingly affect how all companies do business. Consider climate risk, an area in which evidence is mounting that P&C insurers will soon need to revisit their business models. However, while many insurers have begun to incorporate climate-risk considerations in their investment processes, new-product launches and underwriting processes are mostly unchanged.
- Regain relevance through product innovation and coverage of new risks. While the insurance industry has built financial resilience recently, some substantial risks have been left uninsured. A fast-changing world is creating many new and evolving risks. In P&C commercial lines, for instance, data and cybersecurity risk and machine-learning liability are coming to the fore. New risks call for new products and a reallocation of priorities, and represent significant opportunities for P&C and life insurers that are willing to innovate.
- Develop new businesses for the digital age. Private investors have spotted the potential for improvement and the not-too-distant prospect of attractive returns in insurance. They are investing heavily in insurtechs, whose attractive talent pools can rapidly create and scale new businesses. In this context, incumbent carriers must reinvent their business models to fulfill the imperative to grow and, ultimately, to deliver stakeholder value.

4. The main risks and expected alternative scenarios

The global economy and the international community may look completely different after Covid-19. Every major crisis represents an inflection point, and the global economic shock of COVID-19 cannot be excluded from this rule. However, the development of alternative scenarios and the possibilities associated with them is very important. The following is a presentation of the alternative scenarios and possibilities:

- Pessimistic scenario : severe and prolonged:

- The spread of the virus continues for a longer period with the emergence of a subsequent wave in 2021 that results in the renewed / expanded continuation of preventive measures and precautionary measures.
- The spread of the virus turns into a financial crisis after a period of economic stagnation.

- The second pessimistic scenario: Inflation accompanied by economic stagnation (bloated stagnation):

- The virus outbreak remains under control, but preventive measures and wrong policies weaken the economy's chances of recovery.
- The occurrence of more imbalance in the market, which leads to a bloated recession.

- The optimistic scenario:

- The virus outbreak is under control.
- Adjusting closure procedures depending on the number of injuries, causing minor economic damage.

Taking a set of quick and coordinated measures and supporting the economic recovery scheme called V - shaped recovery , which will contribute to the rapid return of economic activity to normal.

4.1. Trends in global insurance markets:

Direct underwriting premiums in global insurance markets were steadily growing at just under 3 % in 2019 prior to the onslaught of the COVID-19 pandemic. The pandemic is expected to derail market growth by 3 % below its pre-recession growth trajectory in 2020 and 2021. Gross premium volumes will return to 2019 levels next year but with a different distribution between life and non-life, as a 1.5 % contraction in average life premiums globally is expected over the two years. Relative to the market downturn at the time of the global financial crisis , the expected premium growth in 2020 will be less severe in life insurance and will be the same magnitude in non-life insurance. Insurance premium growth is expected to recover from the slump caused by COVID-19 more robustly than it has yet. The global financial crisis in both life and non-life (mckinsey and Company, 2022).

5. CONCLUSION

Besides the medium-term impact of the COVID-19 crisis, there is a long period of shifts in economic models that will affect the insurance sector. In addition to a dynamic monetary policy with lower interest rates prevailing for a longer period and a potential risk of higher inflation, this will require insurance companies to focus on sustainable and sound underwriting, and accordingly there are three main potential developments:

- **Increasing awareness of risks:** Although epidemics are known as peak risks, that crisis has raised awareness worldwide of the value of insurance, both for economic institutions and individuals. Although epidemics are not fully insured, the Covid-19 crisis will raise awareness of the financial risks associated with epidemics, and thus will contribute to stimulating the creation of new coverages to address those risks.
- **Digital transformation urgently:** The closure measures and social distancing rules that have been implemented have highlighted the importance and value of digital transformation through all steps of the insurance value chain. Hence, digital technology must be used in distribution models in order for sales to continue. Usage-based insurance products are likely to become more attractive as they quickly adapt to changes in behavior or turnover. Moreover, digital claims handling and loss adjusting techniques will become even more important in order to continue to efficiently settle claims in light of the movement restrictions imposed on people.
- **Peak globalization and parallel supply chains:** The pandemic has highlighted the dangers of non-diverse supply chains. Changes in supply chains will lead to insurance growth opportunities in various countries of the world through the presence of new products that include engineering insurance, property insurance and all other lines of business.

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