



# **International Economic Outlook & the Middle East Region's Role in the World Economy**

***Insurance & Reinsurance Market Implications***

**Multaqa Qatar 2012**

**Doha, Qatar**

**13 March 2012**

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**Robert P. Hartwig, Ph.D., CPCU, President & Economist**

**Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038**

**Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ [bobh@iii.org](mailto:bobh@iii.org) ♦ [www.iii.org](http://www.iii.org)**

## ■ Global Economic Overview & Outlook

- ◆ International Overview
- ◆ Emerging vs. Developing Markets
- ◆ Middle East Focus
- ◆ (Re) Insurance Implications
- ◆ Implications of the Persistent Low Yield Environment for (Re)Insurers

## ■ Oil and Energy Market Overview

- ◆ Price Trends
- ◆ Long-Term Supply, Demand and Infrastructure Considerations
- ◆ Insurance Implications

## ■ The Unfortunate Nexus of Opportunity, Risk and Uncertainty

- ◆ The Fusion of Economic and (Geo)Political Risk
- ◆ Top 10 Risks for the Global Economy

## ■ Global Catastrophe Loss Trends and Threats

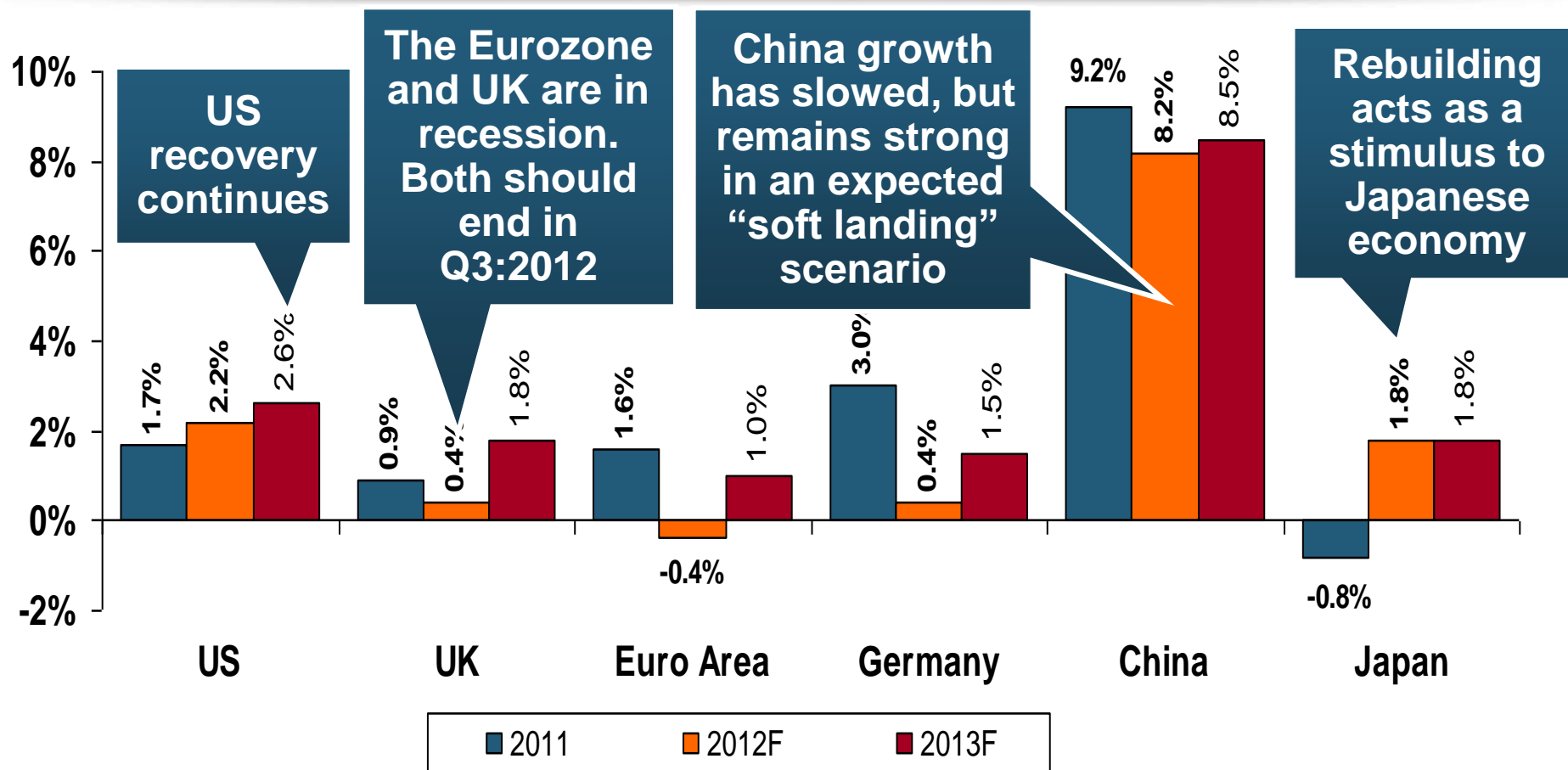
- ◆ Was 2011 an Aberration or a Foreshadowing of the Future

# **Global Economic Outlook: Regional and Major Economy Perspectives**

**Strength of Economies Varies Greatly as  
Does Pace of Recovery from the  
Challenges of 2011**

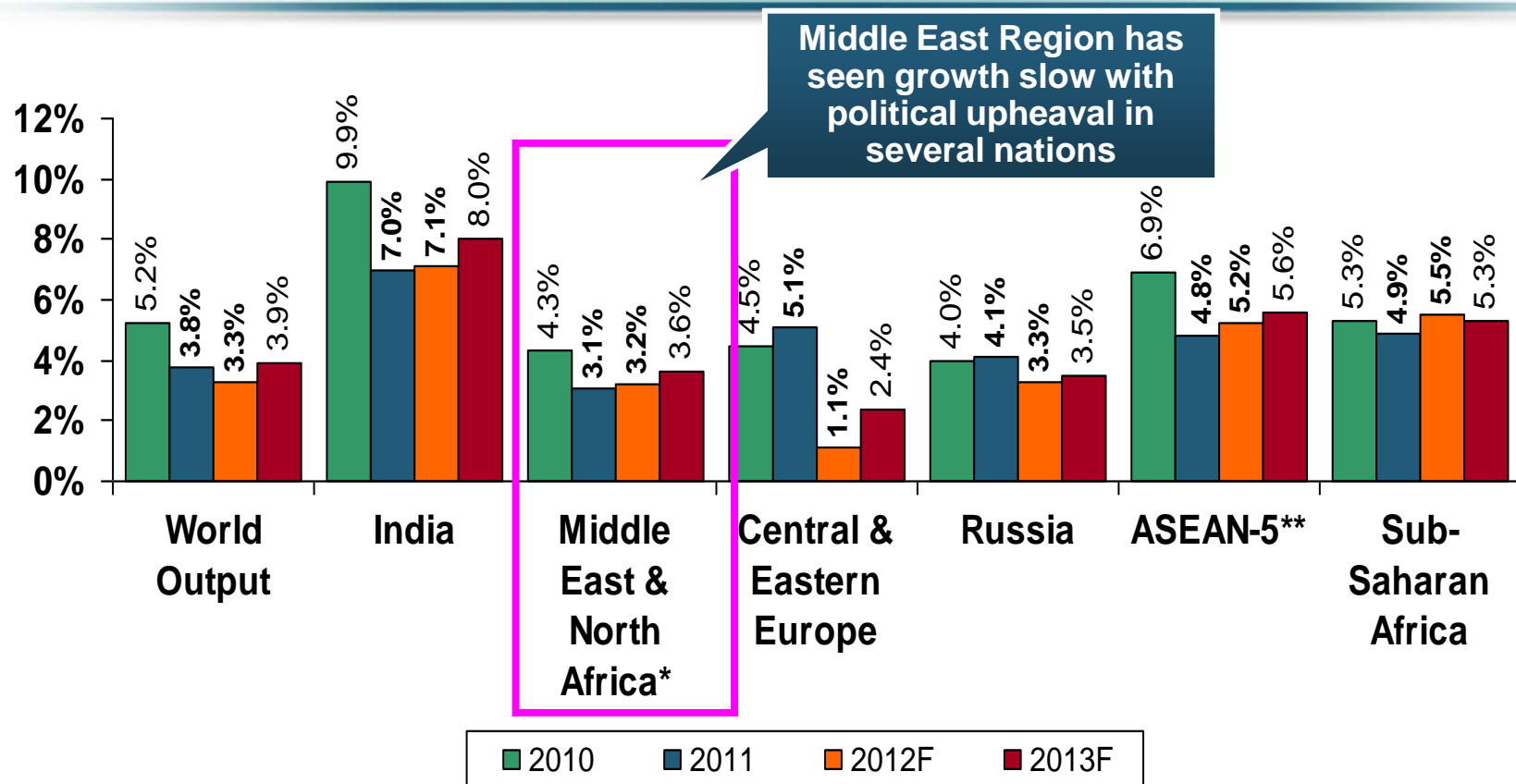
***Important Consequences for Insurer and  
Reinsurer Growth Opportunities***

# Real GDP Growth Forecasts: Major Economies: 2011 – 2013F



**Growth Prospects Vary Widely by Region: Brightening in the US, Mild Recession in the Eurozone, A “Soft Landing” in China, Strength in India, Reconstruction Stimulus in Japan and Modest Growth in America’s Largest Trading Partners—Canada and Mexico.**

# Real GDP Growth Forecasts: Emerging Market Regions: 2010 – 2013F



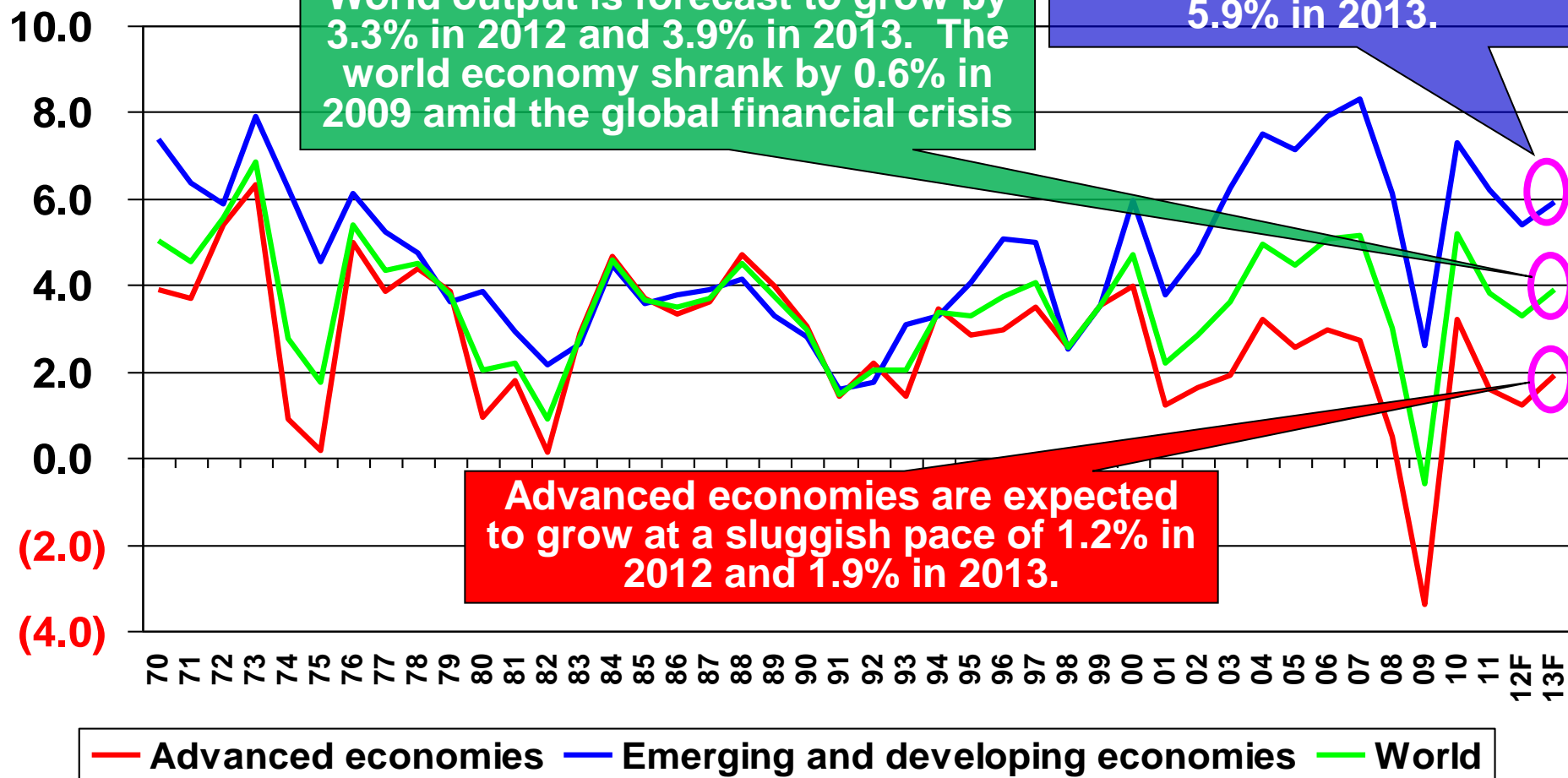
**Growth Prospects Vary Widely by Region: All Regions Slowed in 2011 As Economic Recovery Encountered Many Challenges. IMF Outlook for 2012 Is Mixed With Broader, More Robust Growth in 2013 Predicted. Actual Growth in 2012 Could Surprise to the Upside.**

\*Excludes Libya in 2011. \*\*Indonesia, Malaysia, Thailand, Philippines and Vietnam

Sources: IMF *World Economic Outlook* (Jan. 24, 2012 update); Insurance Information Institute.

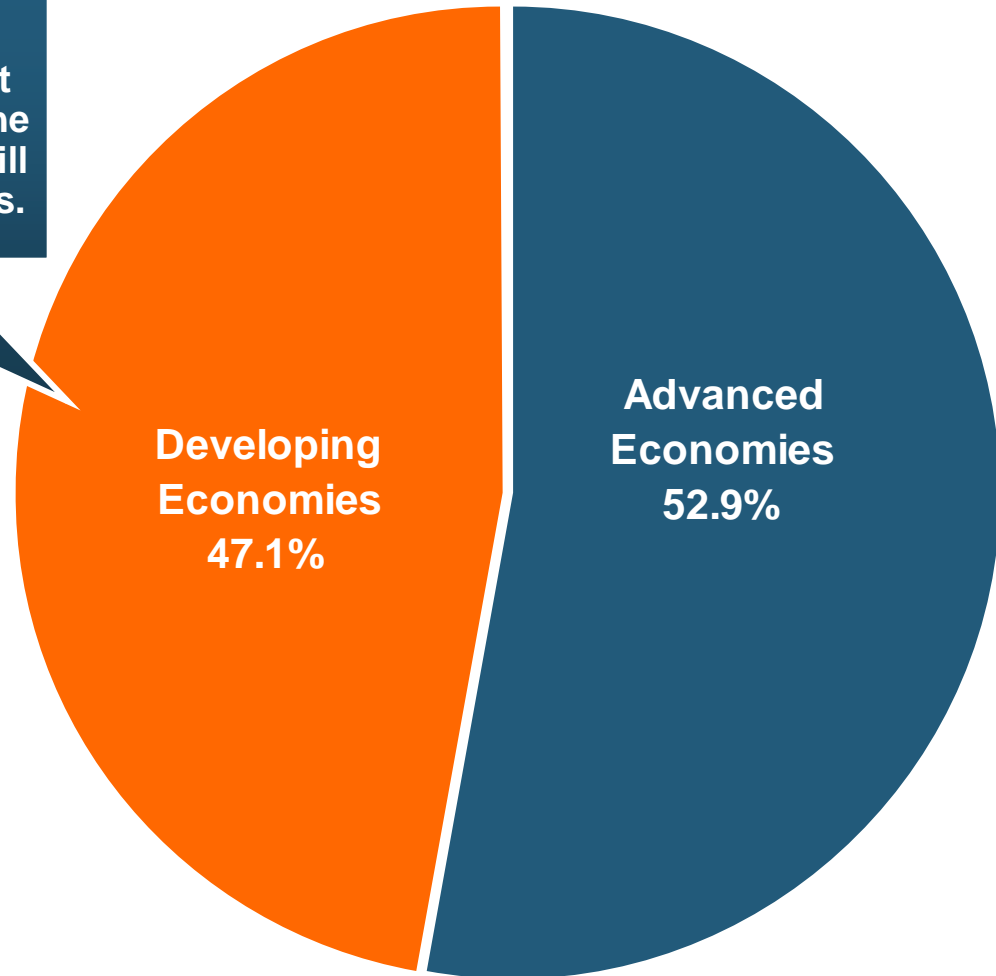
# GDP Growth: Advanced & Emerging Economies vs. World, 1970-2013F

GDP Growth (%)

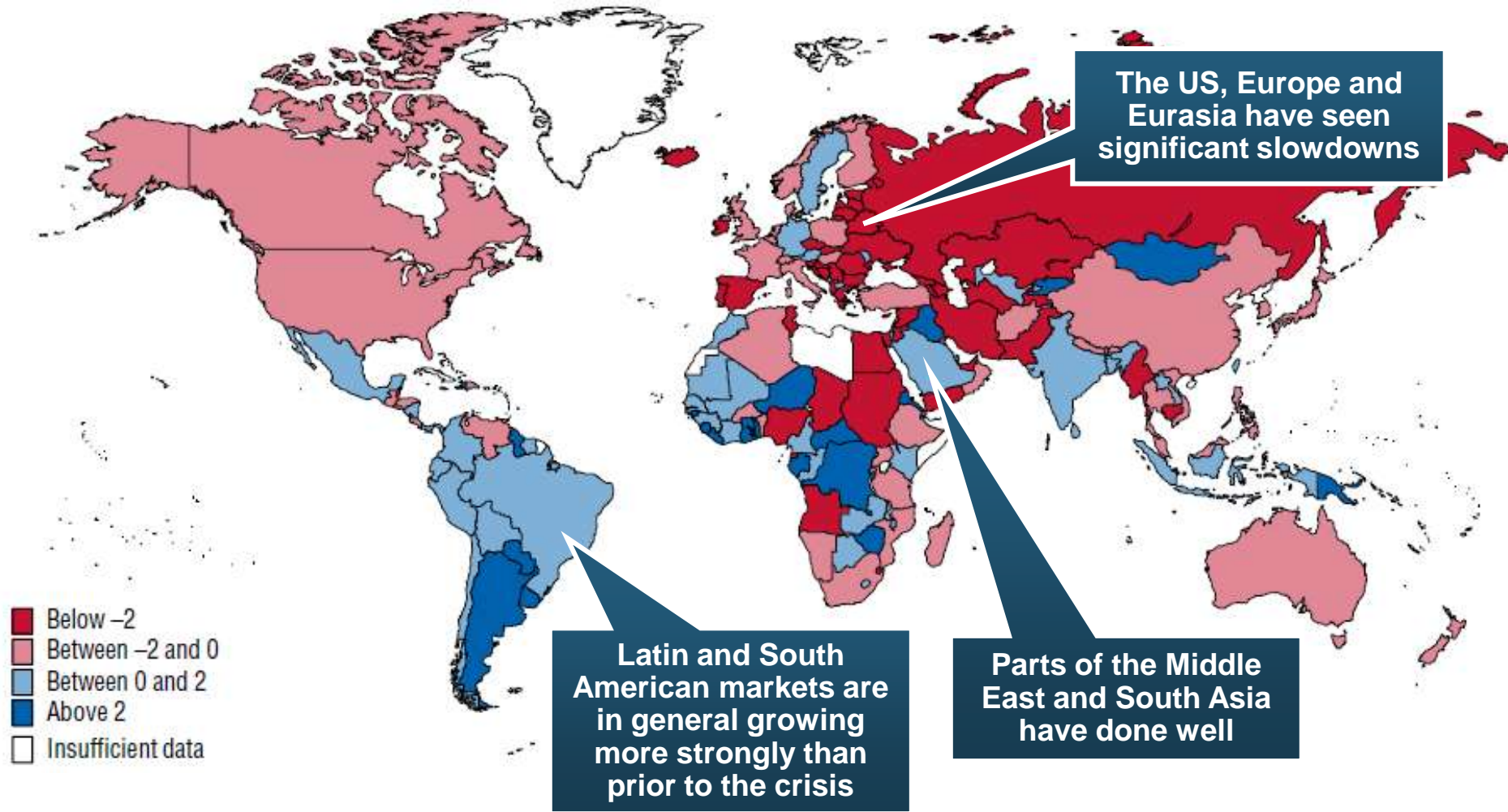


# Relative Shares of Global Output, Advanced vs. Developing Economies, 2009

The gap is closing quickly. China became the world's second largest economy in 2010 and before long the developing world's share of GDP will exceed that of advanced economies.



# Current Real GDP Growth vs. Pre-Crisis Average (2000-2007 vs. 2011F-2012F\*)

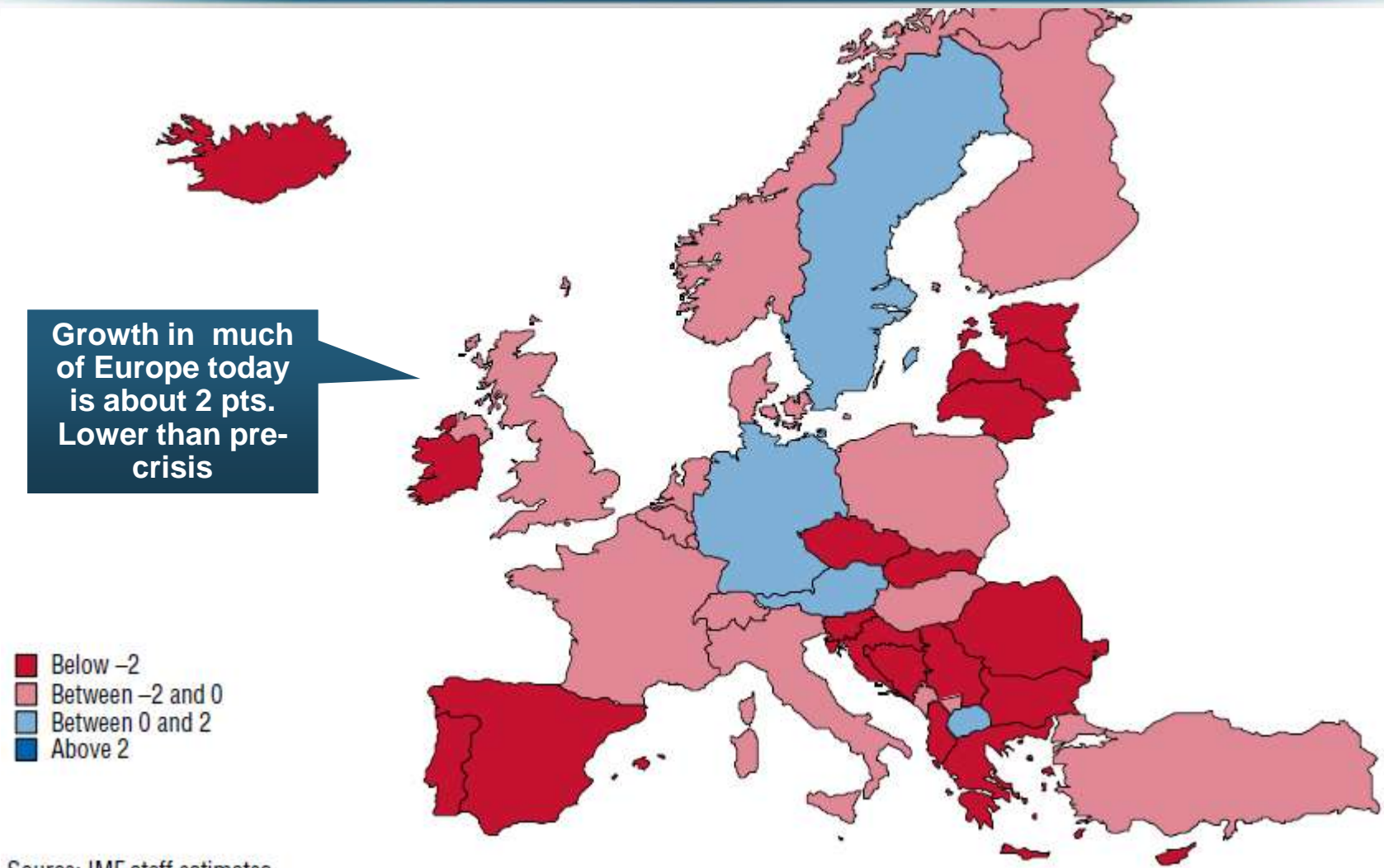


\*Percentage point difference between compound annual rates of change 2000-2007 vs. forecasts for 2011-2012.

Source: IMF, World Economic Outlook, September 2011; Insurance Information Institute.



# Current Real GDP Growth vs. Pre-Crisis Average (2000-2007 vs. 2011F-2012F\*)



Source: IMF staff estimates

\*Percentage point difference between compound annual rates of change 2000-2007 vs. forecasts for 2011-2012.

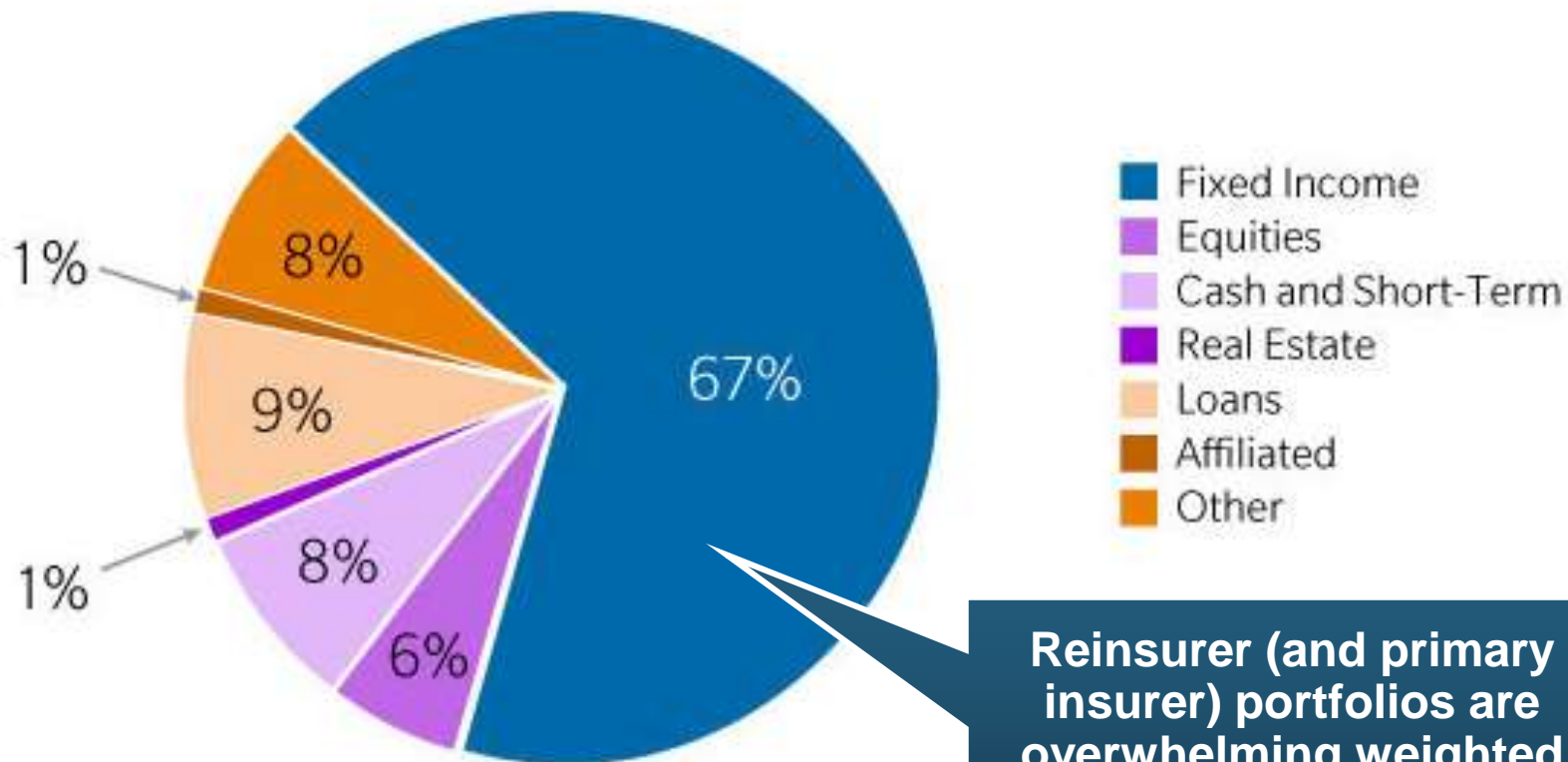
Source: IMF, World Economic Outlook, September 2011; Insurance Information Institute.

# **INVESTMENTS: THE NEW REALITY**

**How Much of a Threat Are  
Persistently Low Interest  
Rates for (Re)Insurers?**

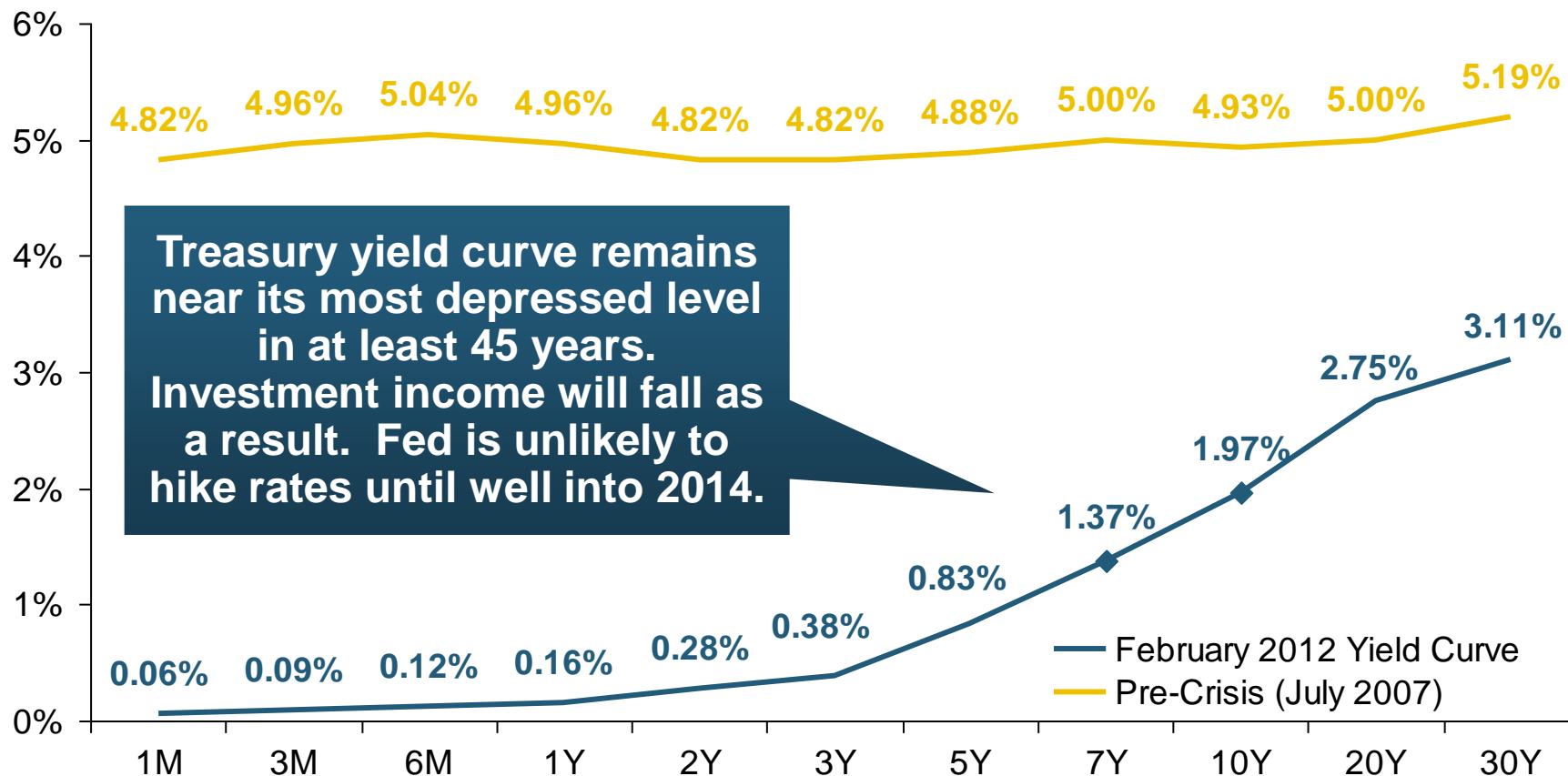
# Reinsurer Investments: Bonds Are Safe but Vulnerable to Low Yield Environment

## Asset Allocation of Reinsurer Investment Portfolio (As of September 30, 2011)



**Reinsurer (and primary insurer) portfolios are overwhelming weighted toward fixed income securities**

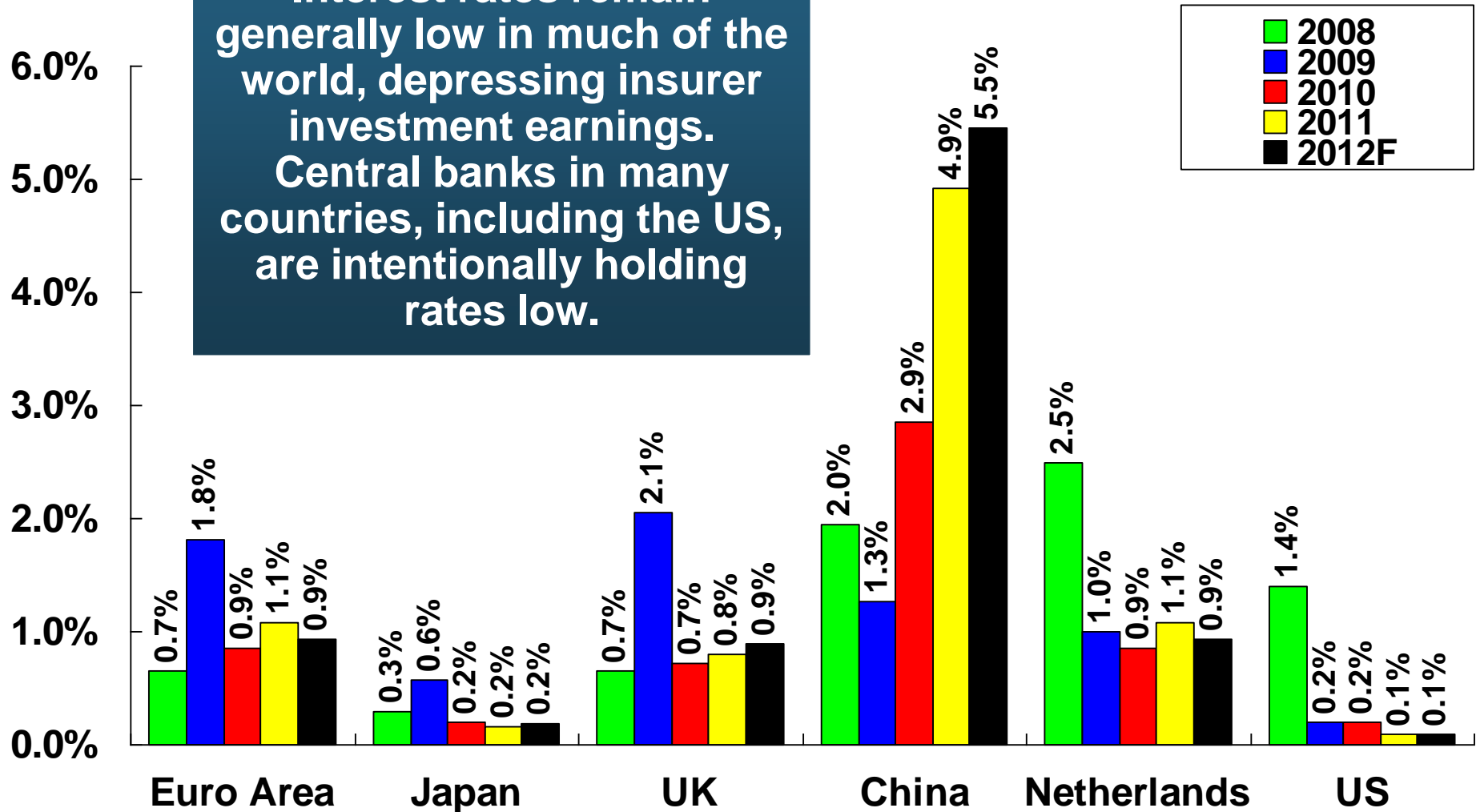
# Treasury Yield Curves: Pre-Crisis (July 2007) vs. Feb. 2012



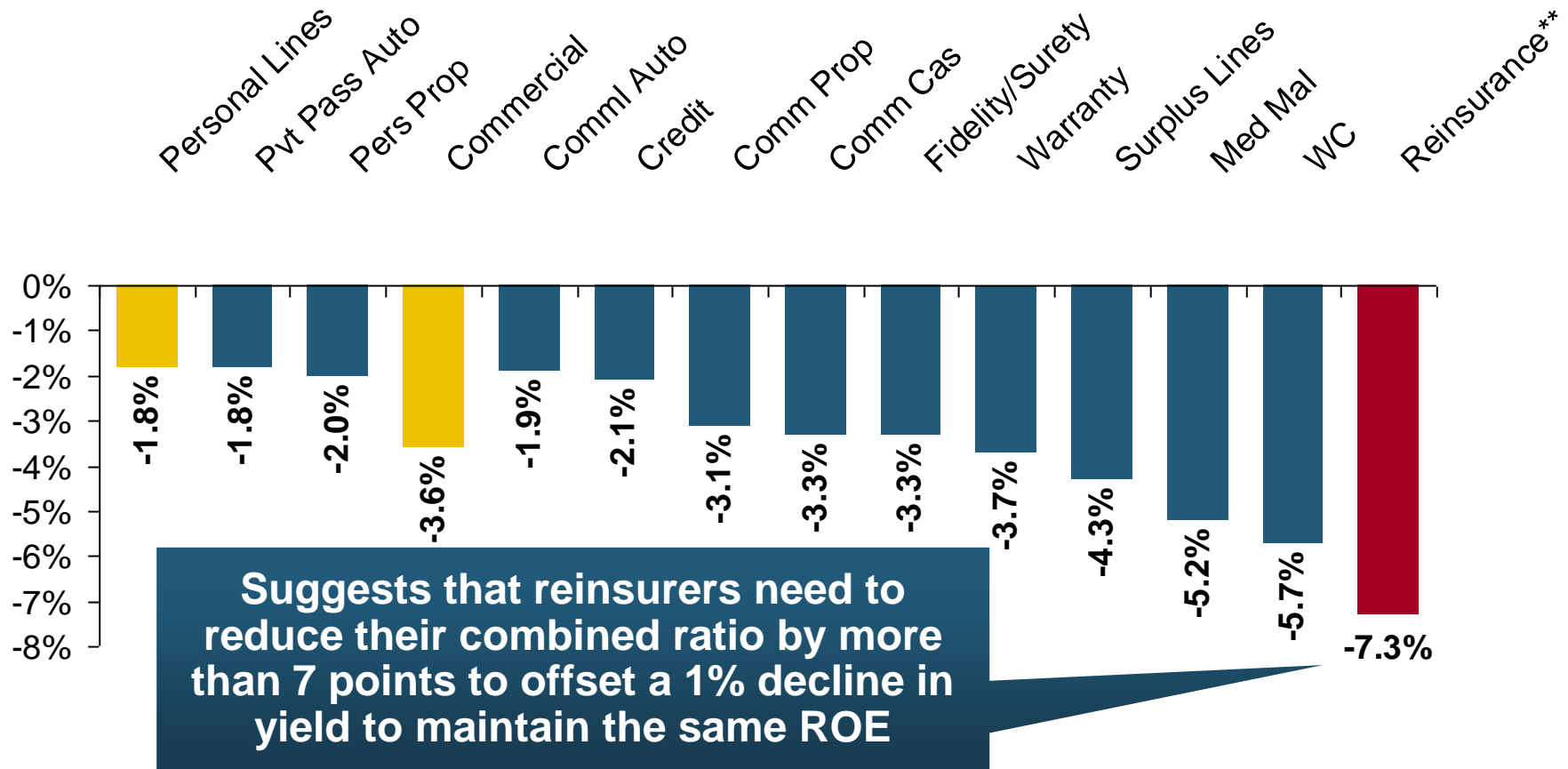
**The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Through Late 2014**

# 3-Month Interest Rates for Major Global Economies, 2008-2012F

Interest rates remain generally low in much of the world, depressing insurer investment earnings. Central banks in many countries, including the US, are intentionally holding rates low.



# Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line\*



**Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline**

\*Based on 2008 Invested Assets and Earned Premiums

\*\*US domestic reinsurance only

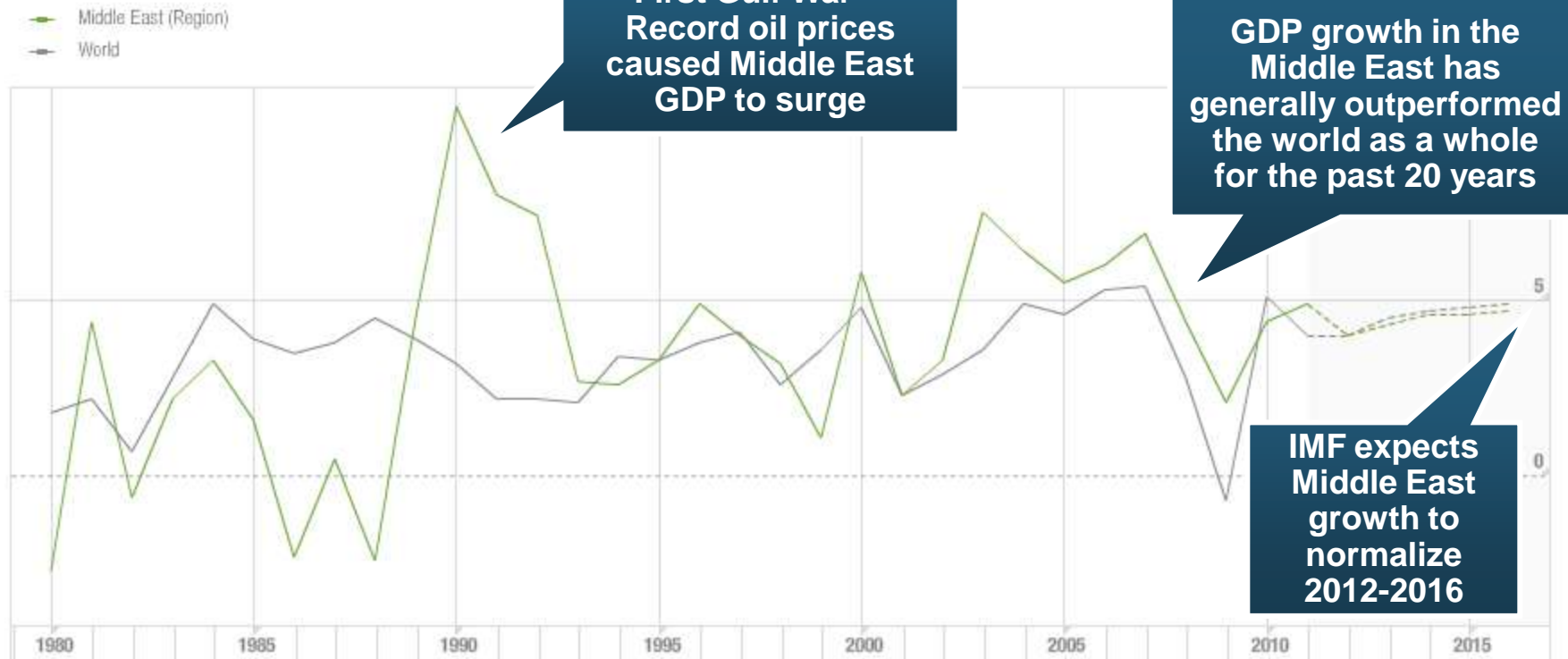
Source: A.M. Best; Insurance Information Institute.

# **Focus on Middle East Economies**

**Economic Experiences of Middle East  
Countries Varies Widely**

# Real GDP Growth: World vs. Middle East, Region, 1980-2016F

IMF Data Mapper ®

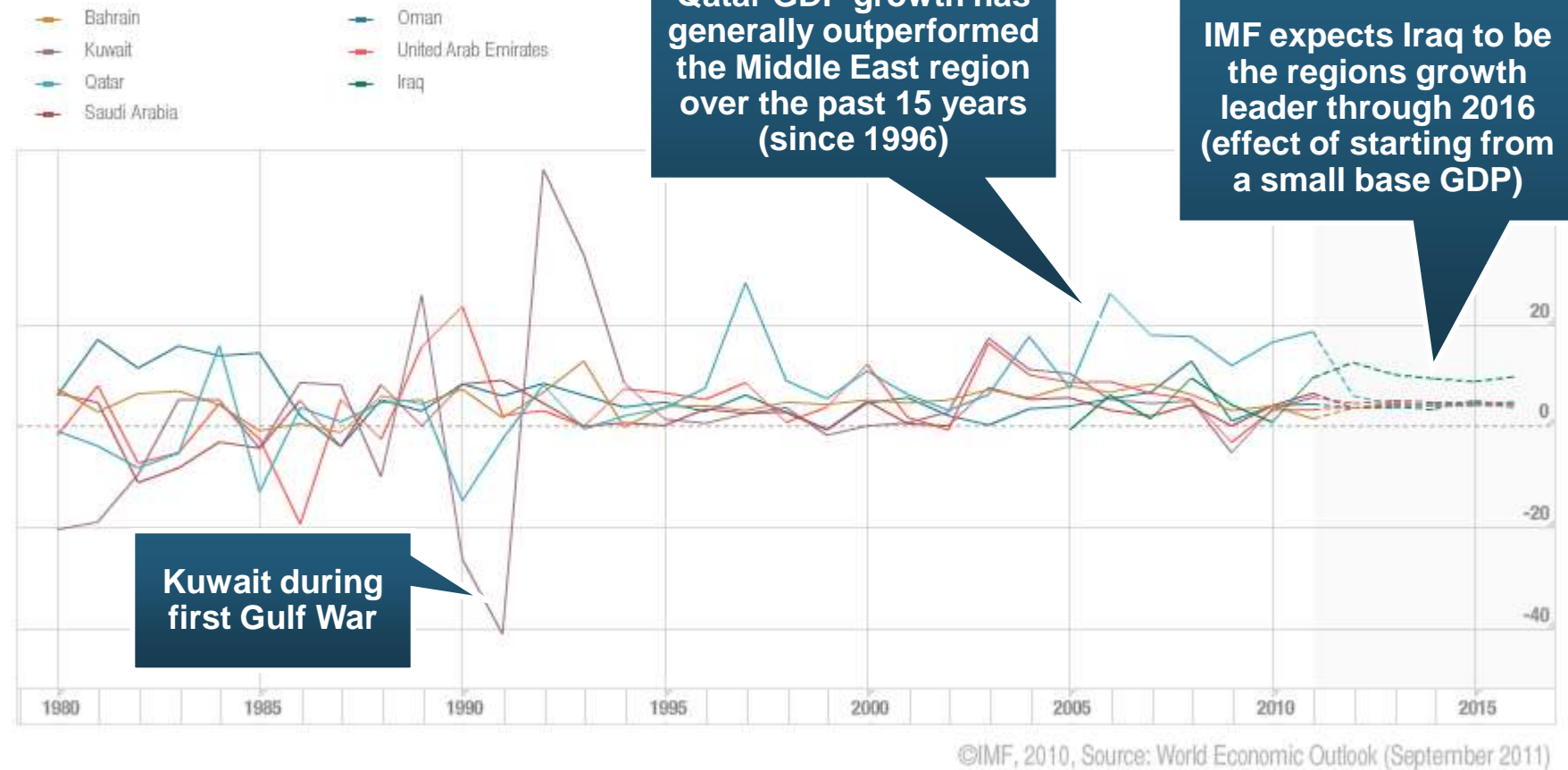


©IMF, 2010, Source: World Economic Outlook (September 2011)

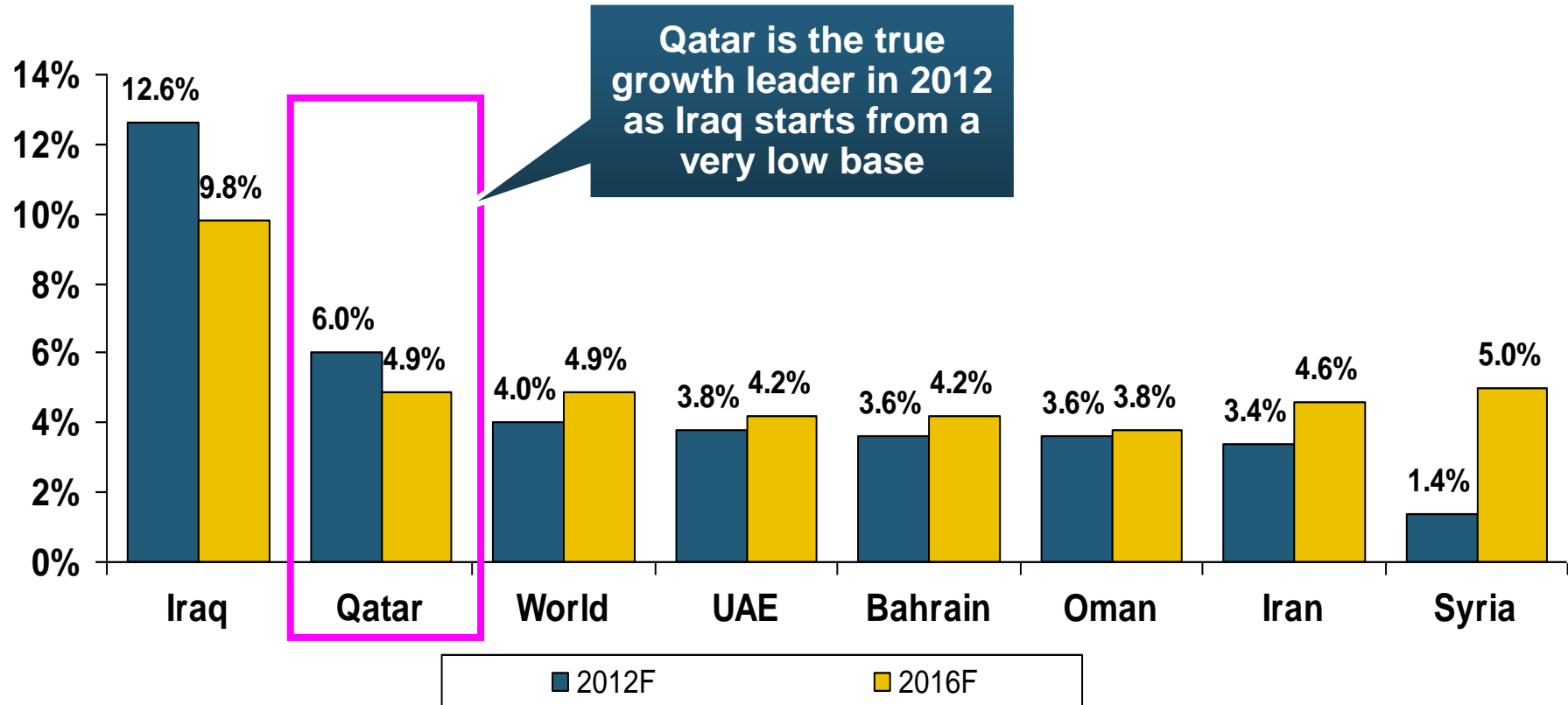


# Real GDP Growth: Key Middle Eastern States, Including Qatar, 1980-2016F

IMF Data Mapper®



# Real GDP Growth Forecasts: Emerging Market Regions: 2010 – 2013F



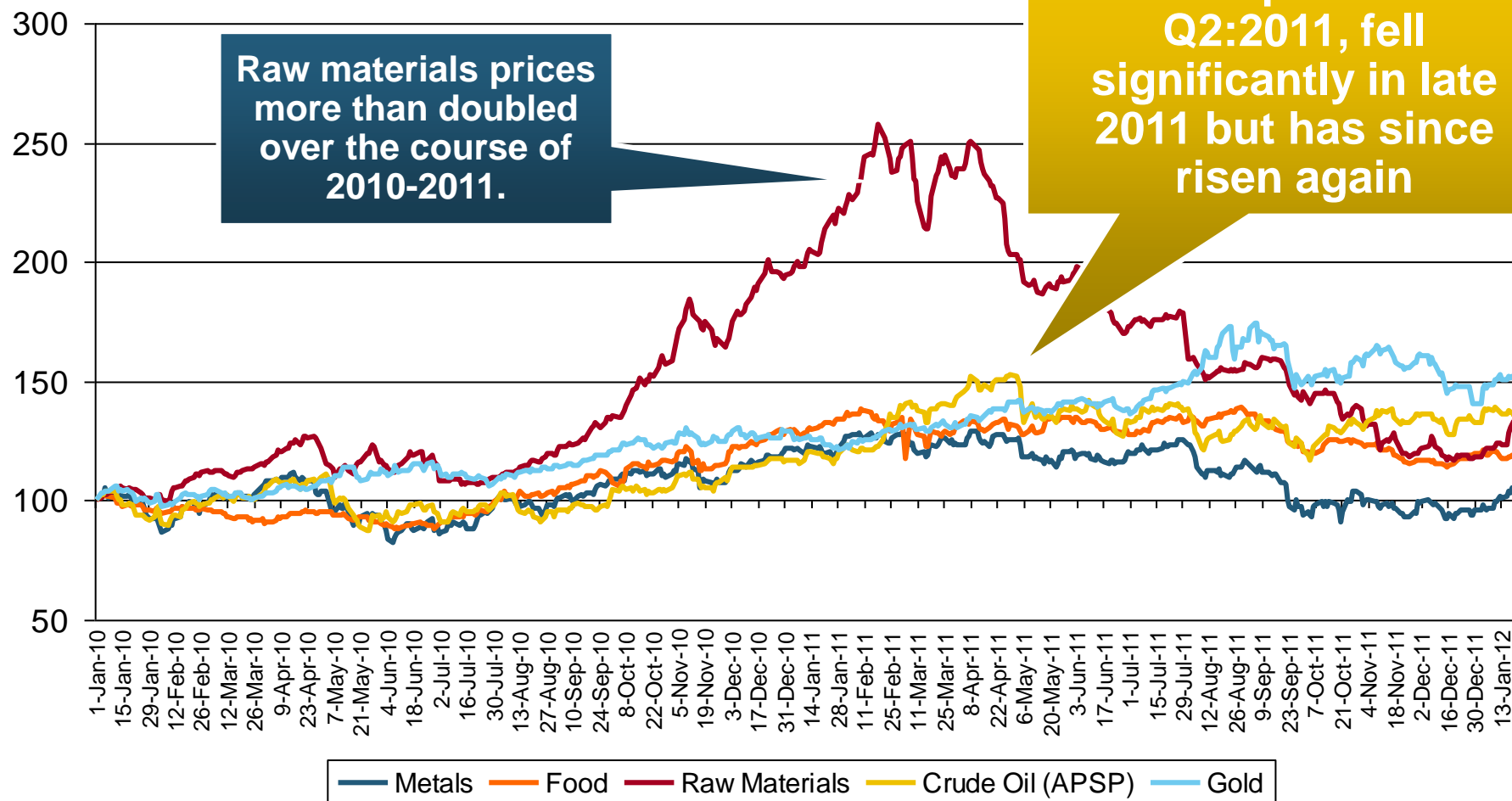
**Growth Prospects Vary Widely Throughout the Middle East.**

# **Oil Demand Will Rise, Oil Prices Will Rise Still Faster**

**Long-Run Demand and Price Dynamics  
Remain Strong for Oil and  
Associated Insurance Markets**

# Commodity Price Changes Including Oil, Jan. 2010- Jan. 2012\*

Index (Jan 3, 2006 = 100)



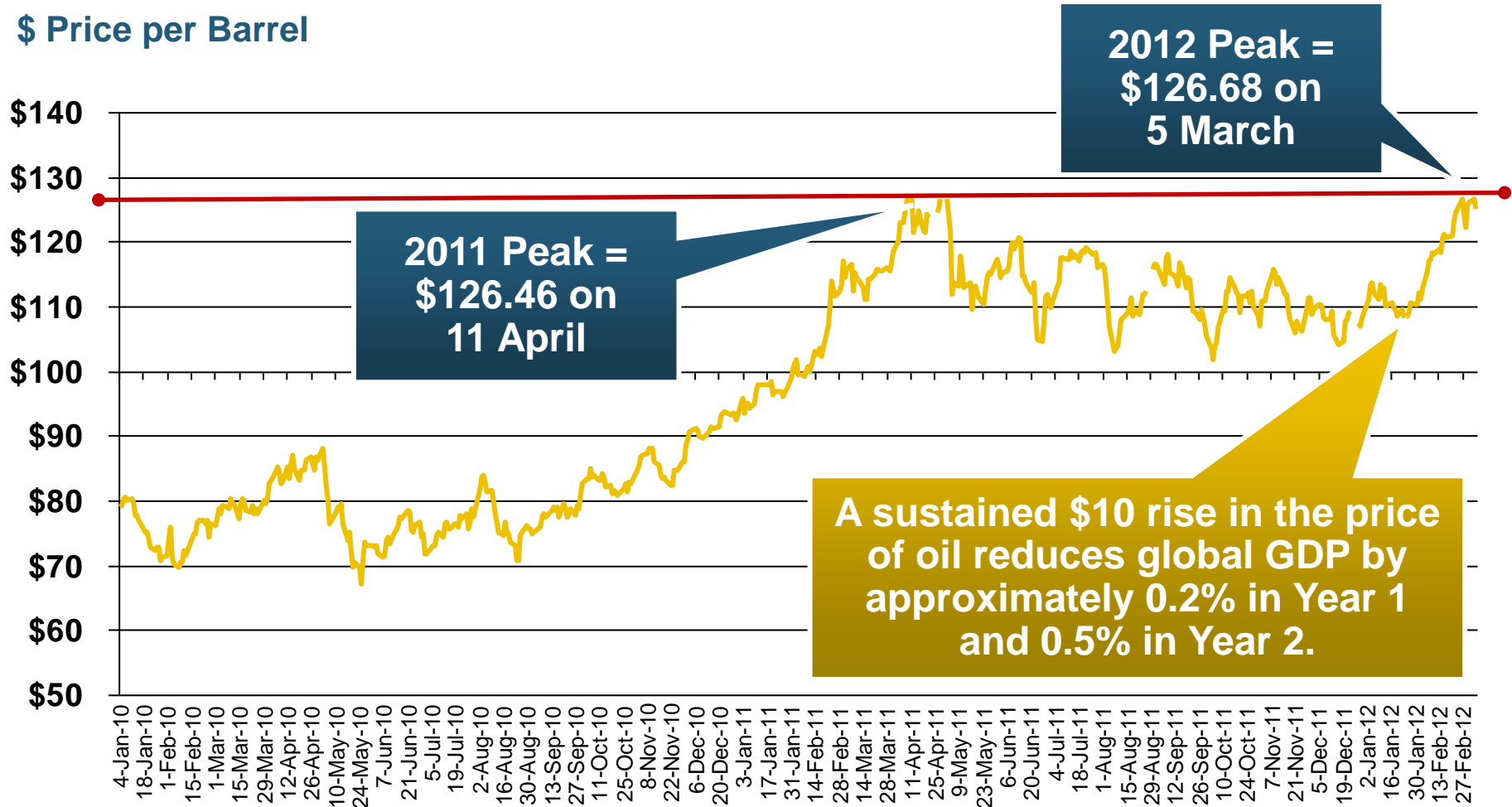
\*Data are through January 13, 2012

Source: International Monetary Fund World Economic Outlook January 2012 update at

<http://www.imf.org/external/pubs/ft/weo/2012/update/01/index.htm> ; Insurance Information Institute.

# Crude Oil Price Changes, Jan. 2010- 6 Mar. 2012\*

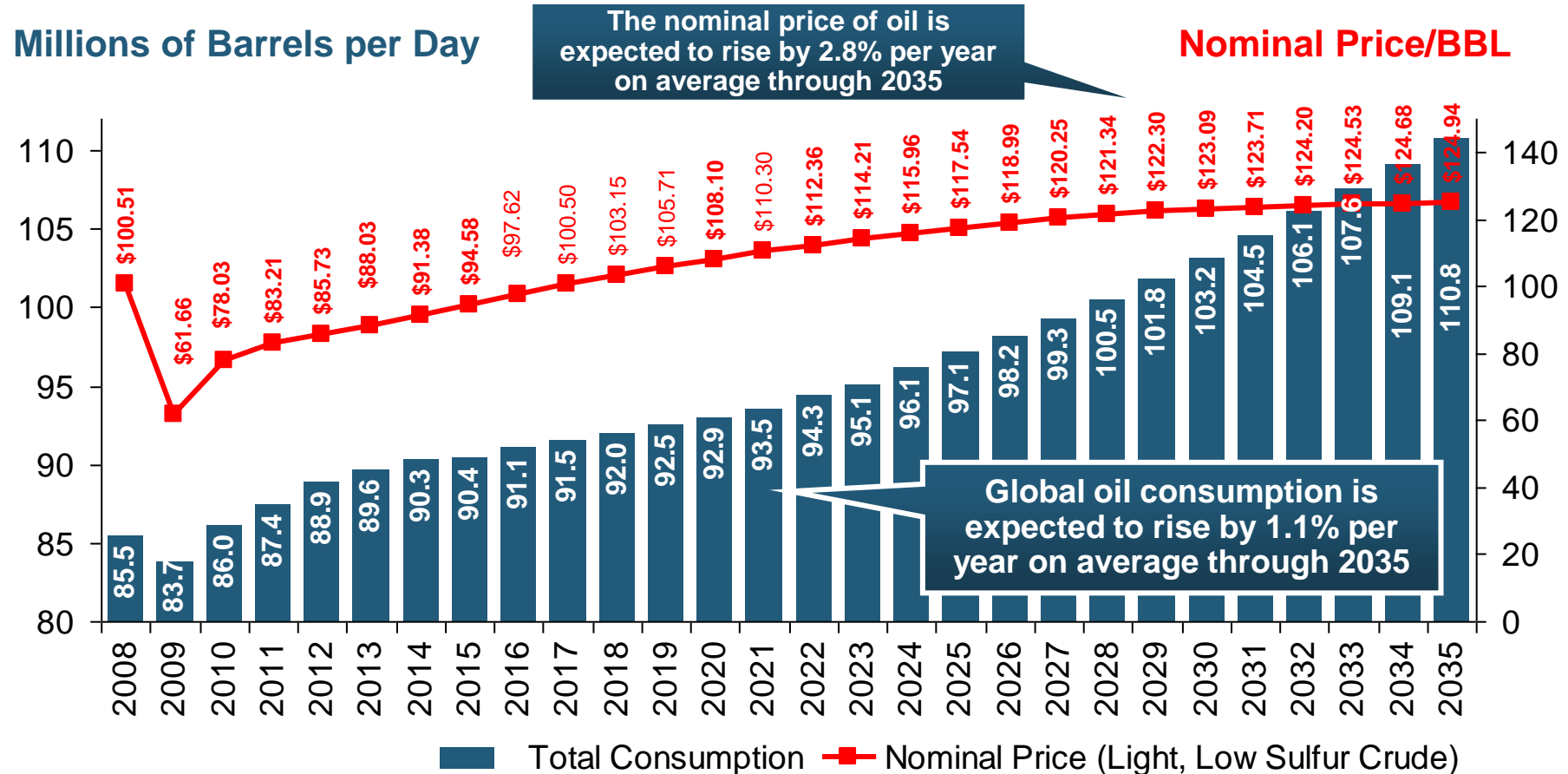
\$ Price per Barrel



\*Europe Brent Spot FOB price.

Source: US Energy Information Administration update at [http://www.eia.gov/dnav/pet/pet\\_pri\\_spt\\_s1\\_d.htm](http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm) ; Insurance Information Inst.

# Global Oil Consumption and Price, 2008 – 2035F



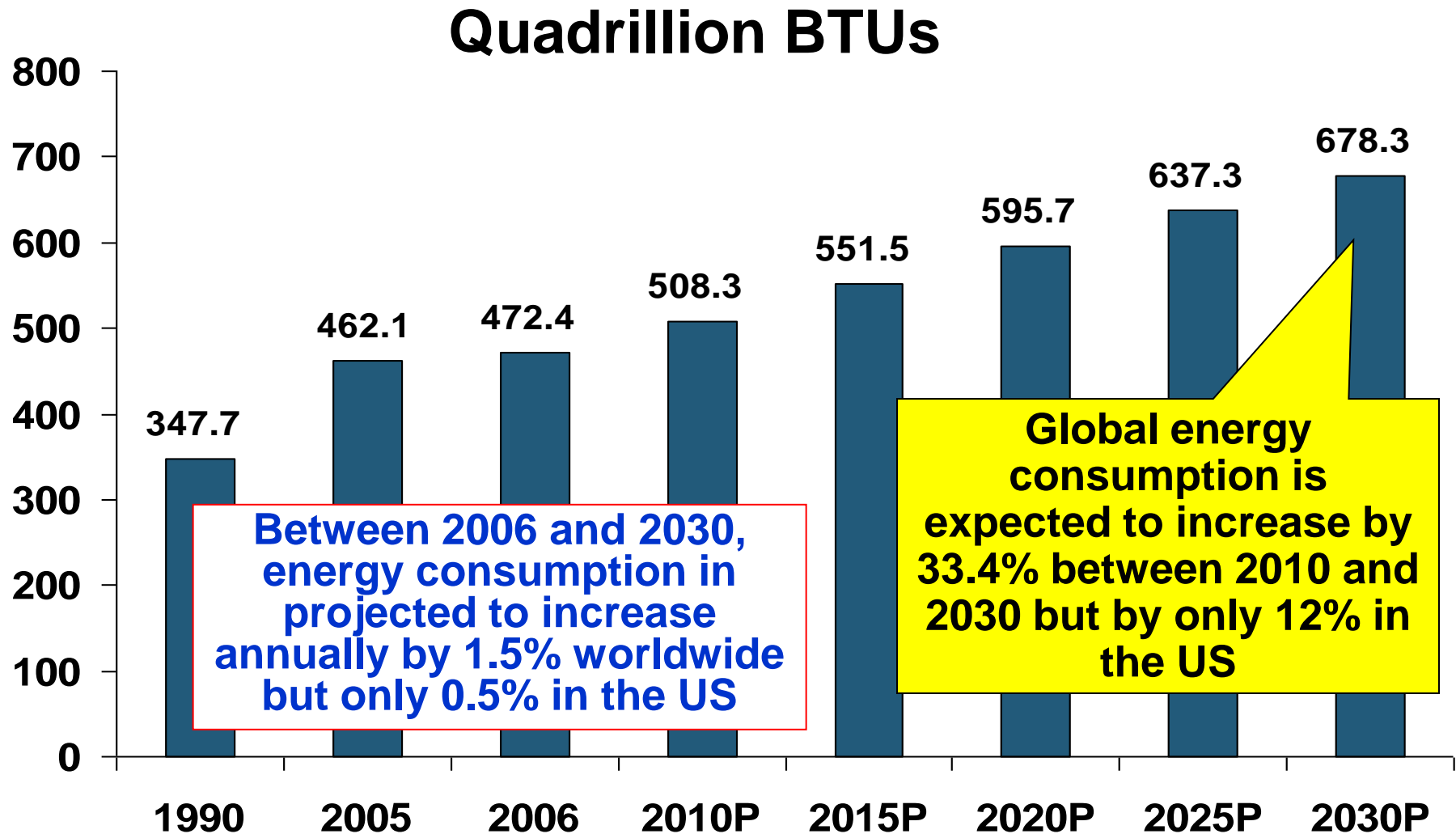
**Oil Will Become Relatively More Expensive Over Time, With Price Increases Outstripping Income Growth in Many Parts of the World**

\*

# **Much Uncertainty Exists in the World, But Energy Demand Grows Under All Scenarios**

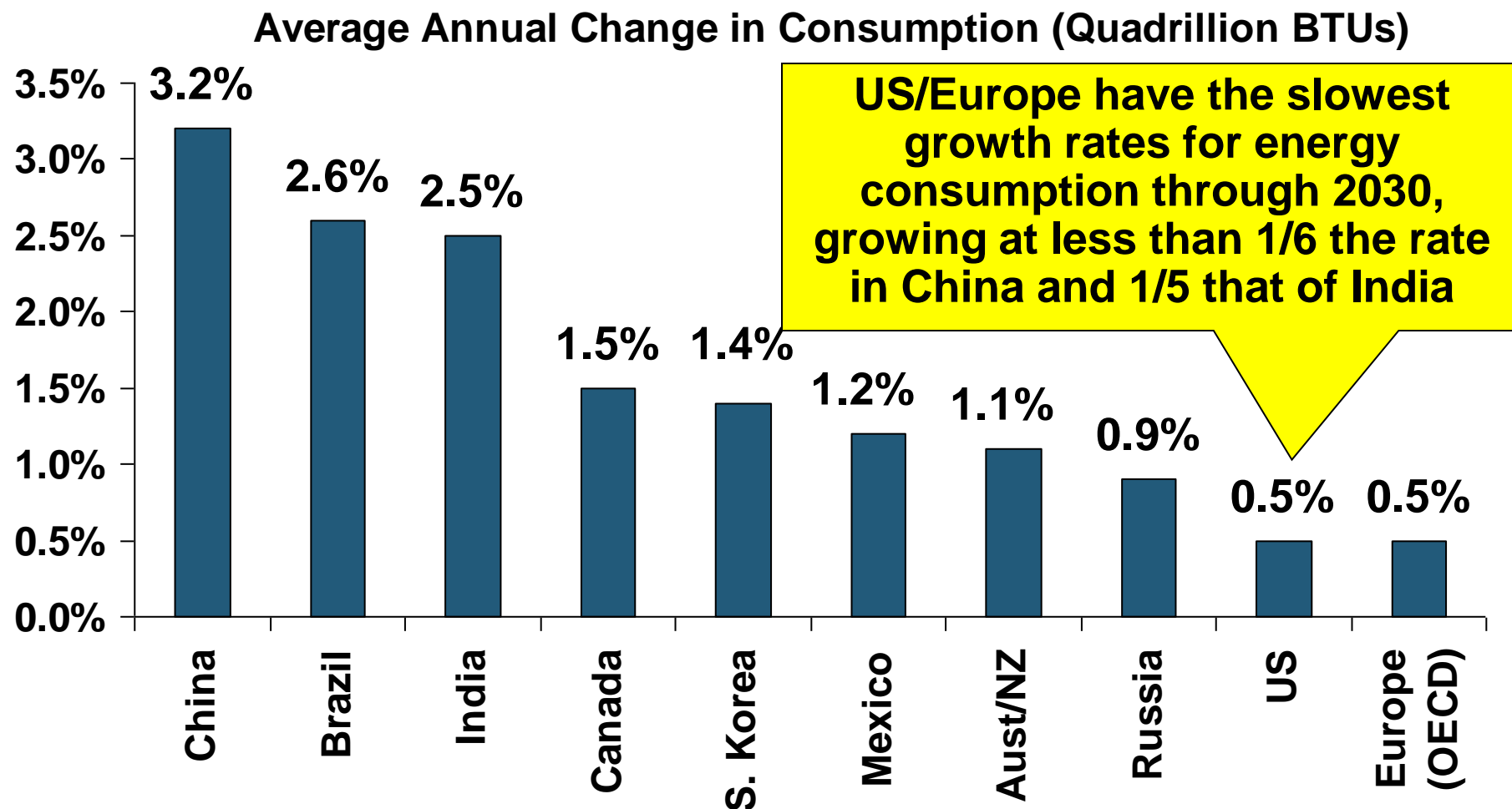
**Energy is One of the Few Major Markets/Industries With Clear Growth Long-Term Trends**

# World Primary Energy Consumption, 1990-2030P





# Avg. Annual Change in Total Energy Consumption by Country/Region:2006-2030P

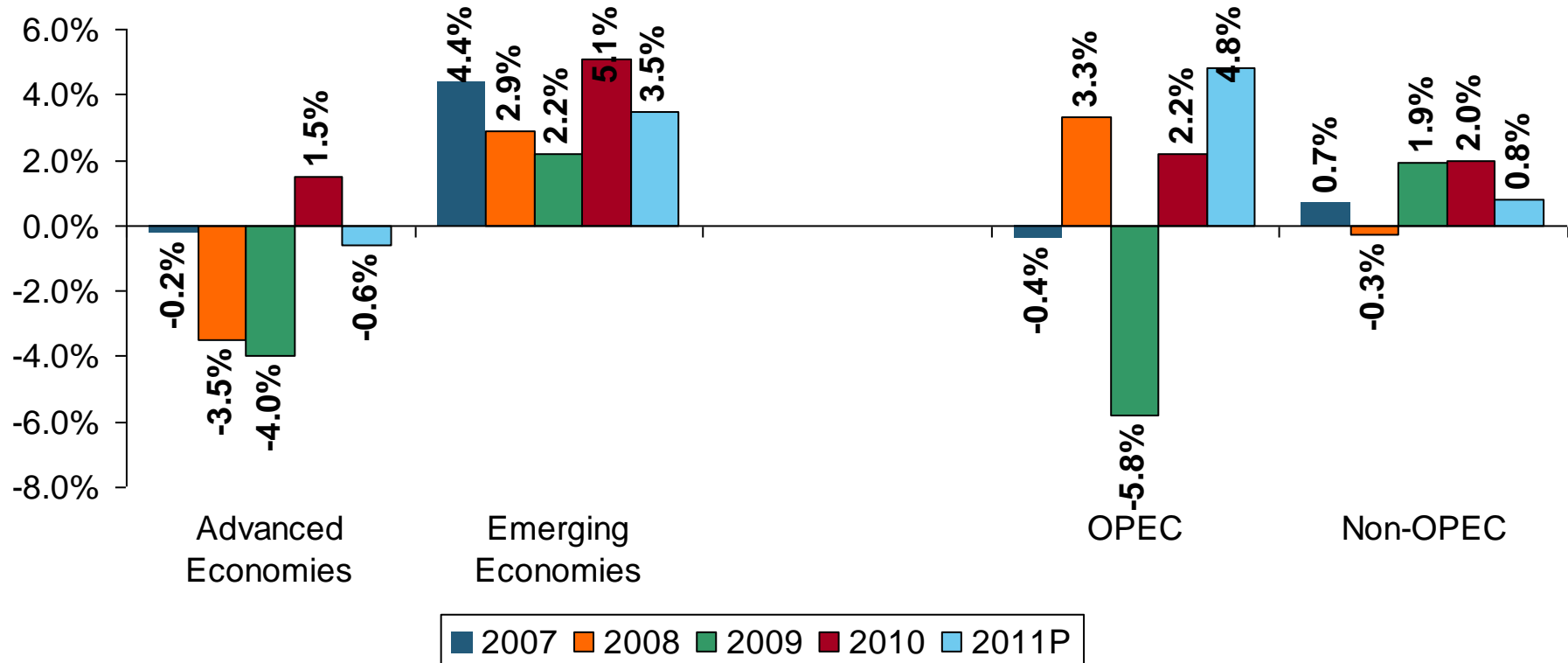


# Global Oil Demand and Production, by Region

Percentage Change (%)

## OIL DEMAND

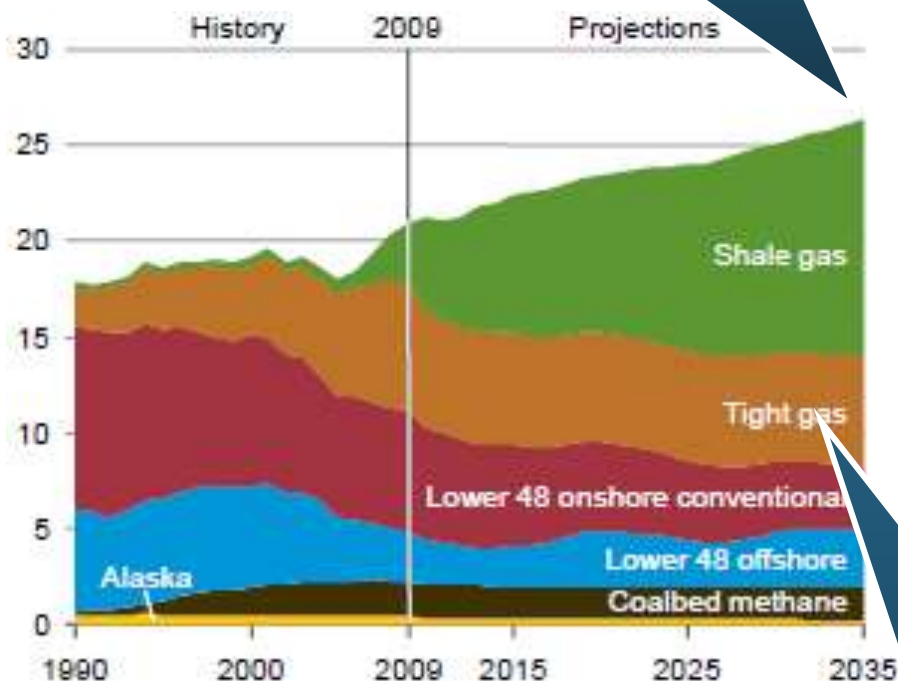
## OIL PRODUCTION



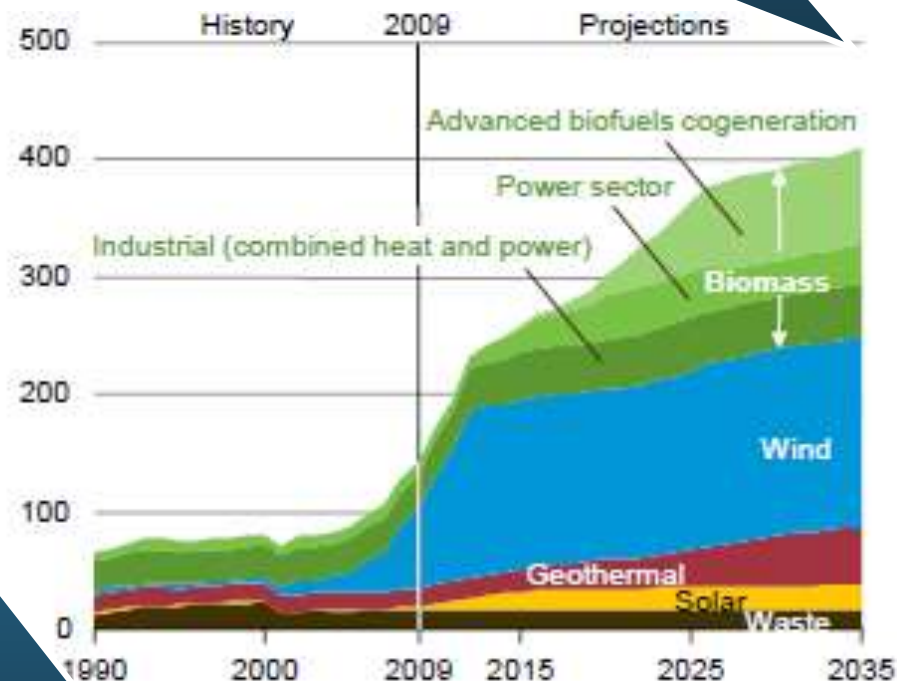
**Oil Demand in Advanced Economies is Weak but Production Gains Continue to Satisfy Demand in Emerging Countries**

# US Natural Gas Production and Non-Hydro Renewable Electricity Generation, 1990-2035

Shale gas production is expected to grow rapidly in the US

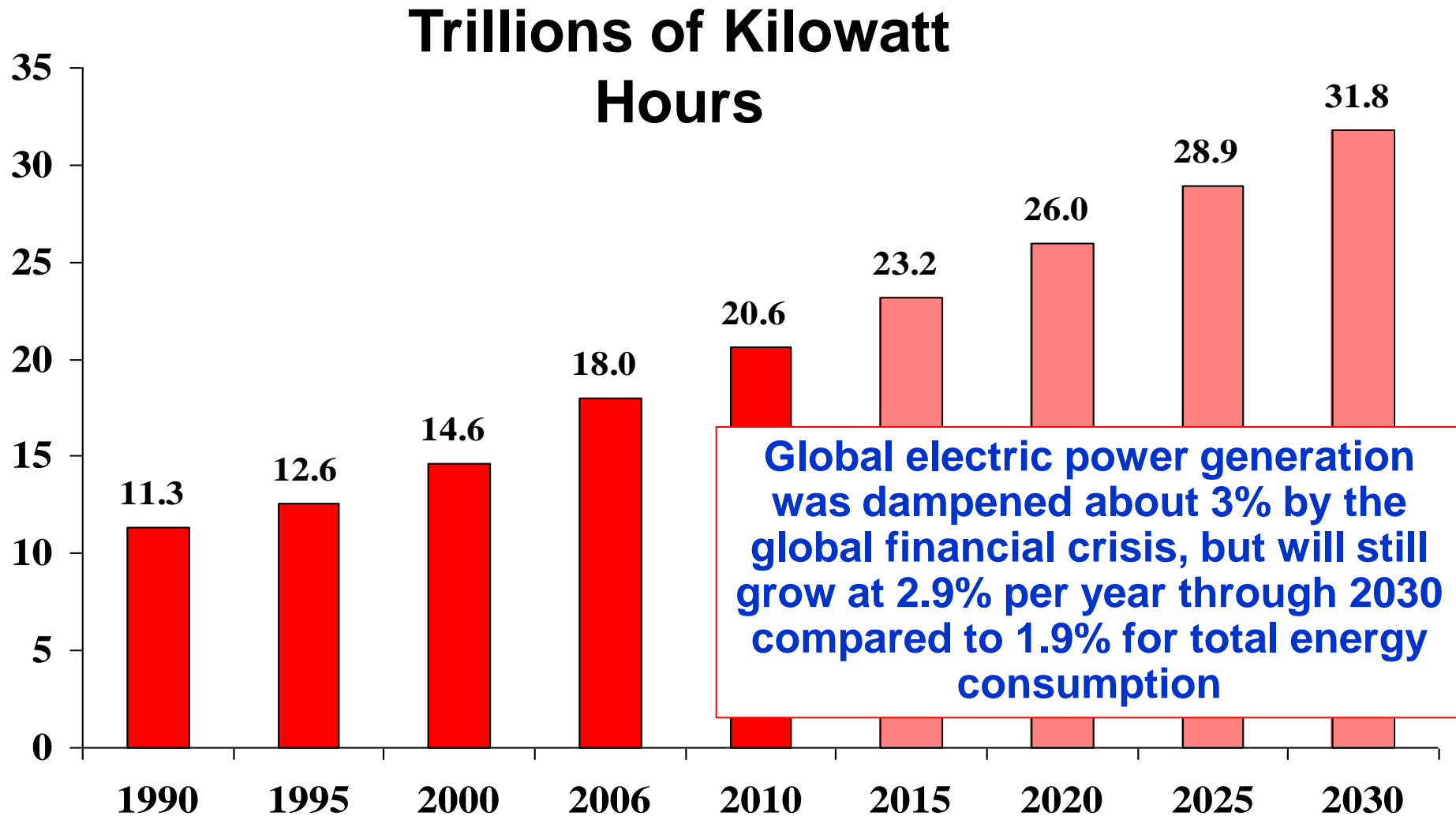


Wind is expected to account for the majority of renewable electricity generation



Tight gas production involves controversial hydraulic fracturing (fracking) techniques

# World Net Effective Electric Power Generation, 1990-2030P

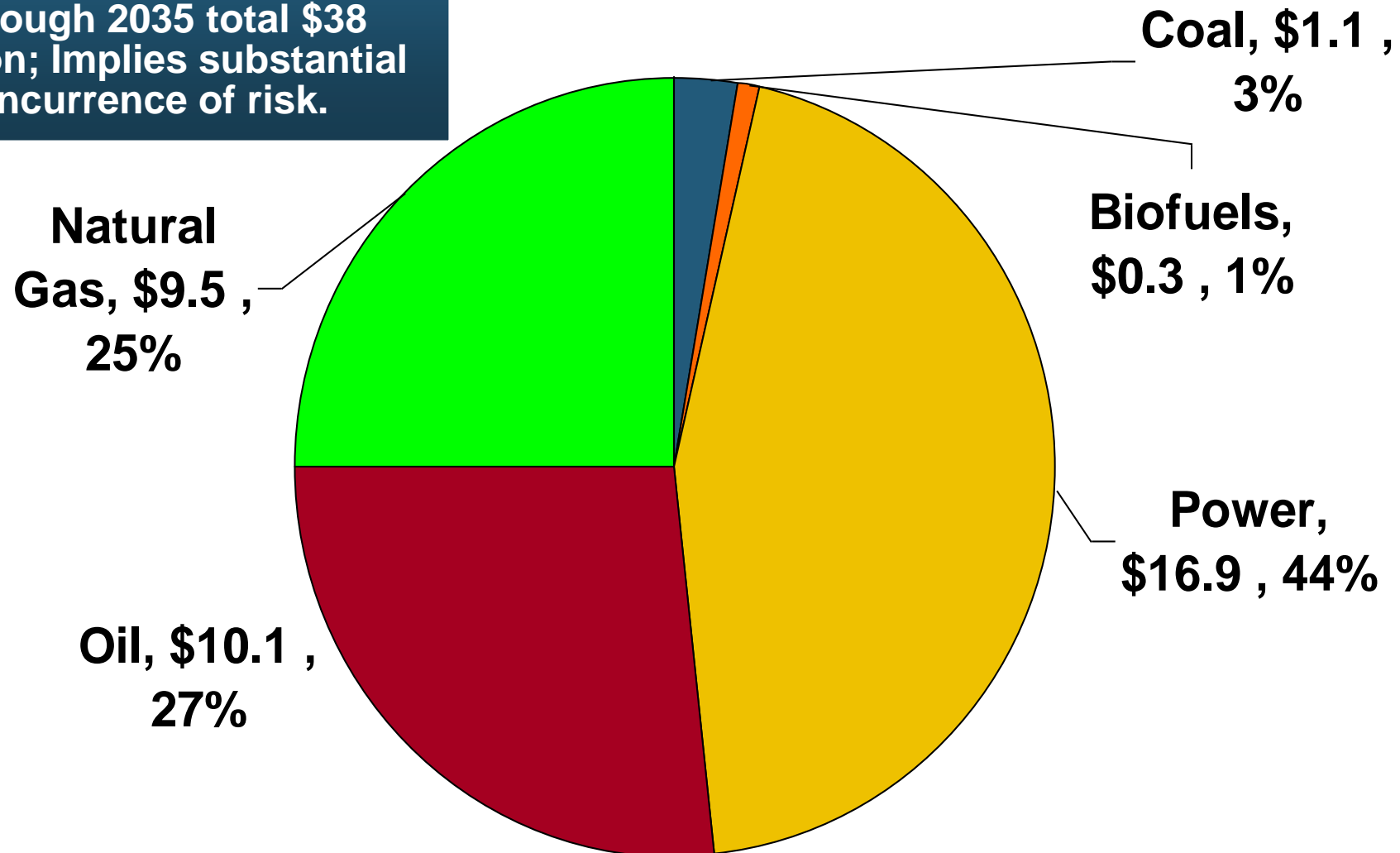


# **Massive Investments in Global Energy Infrastructure Are Needed**

**Upgrading the World's Antiquated  
Energy Infrastructure is Also  
Critical for Future Energy Security**

# Cumulative Projected Investment in Global Energy Infrastructure, 2011-2035 (\$ Trill.)

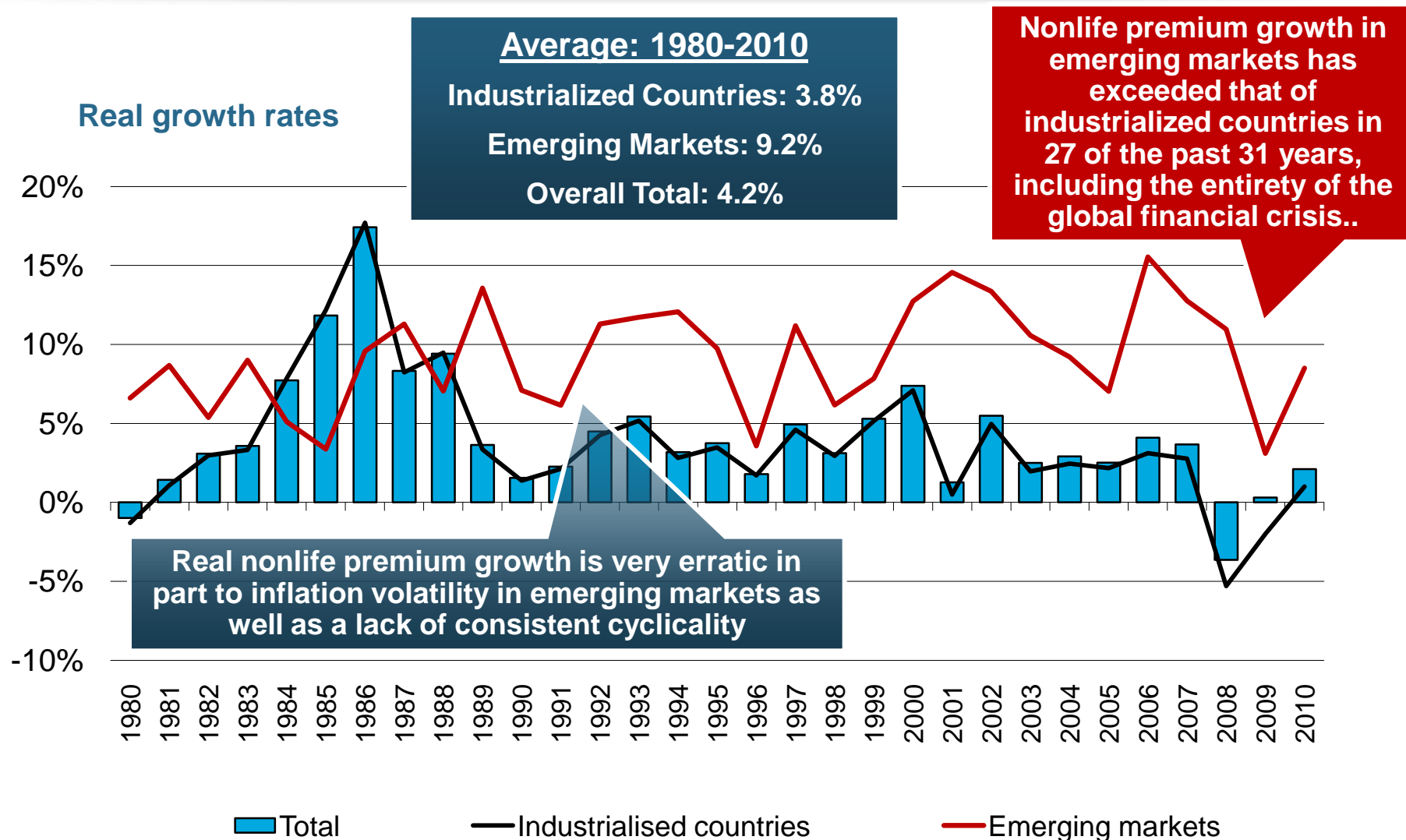
**Projected energy infrastructure investment through 2035 total \$38 trillion; Implies substantial incurrence of risk.**



# **The Unfortunate Nexus: Opportunity, Risk & Instability**

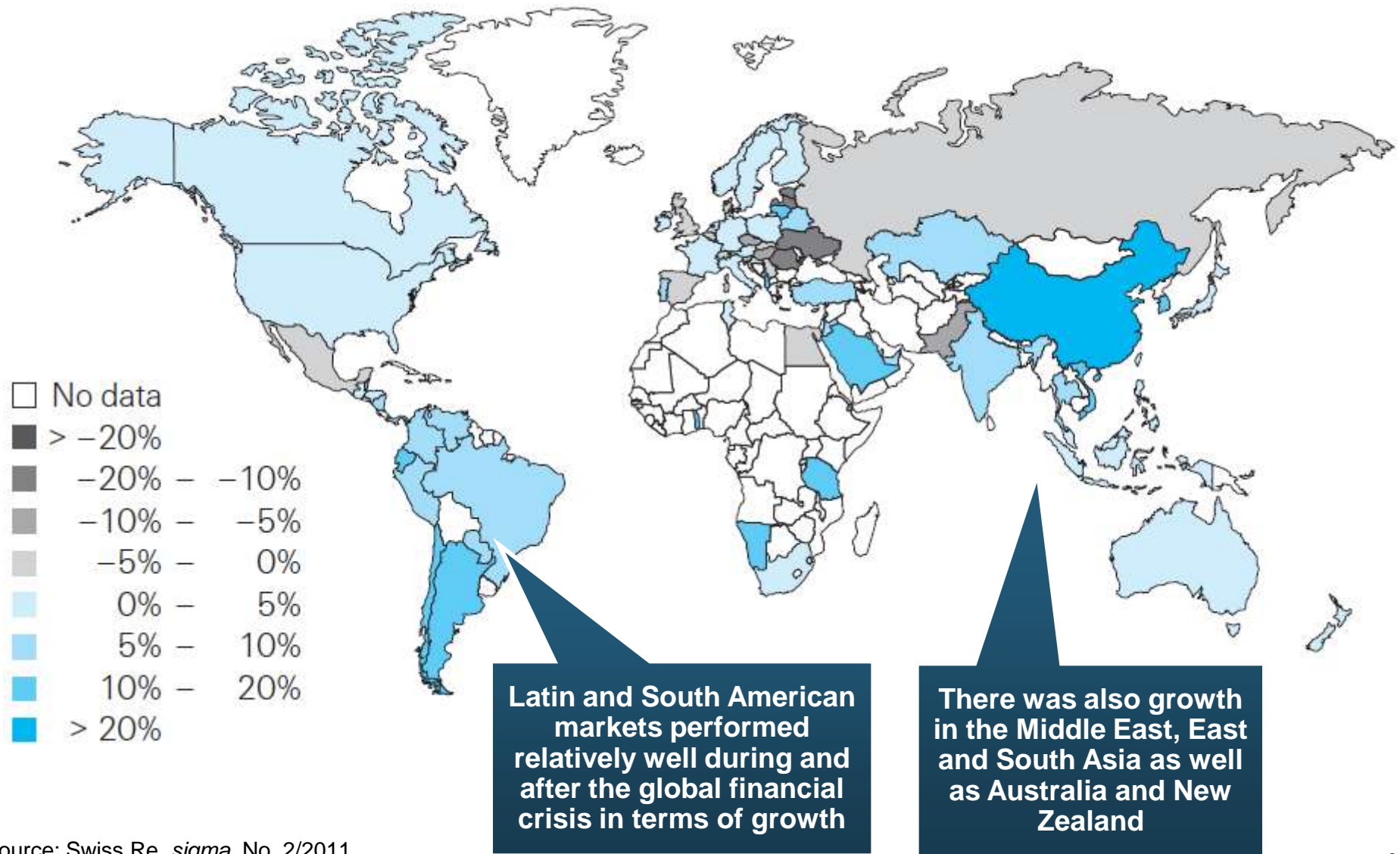
**Most of the Global Economy's Future  
Gains Will be Fraught with Much  
Greater Risk and Uncertainty than in  
the Past**

# Global Real (Inflation Adjusted) Nonlife Premium Growth: 1980-2010





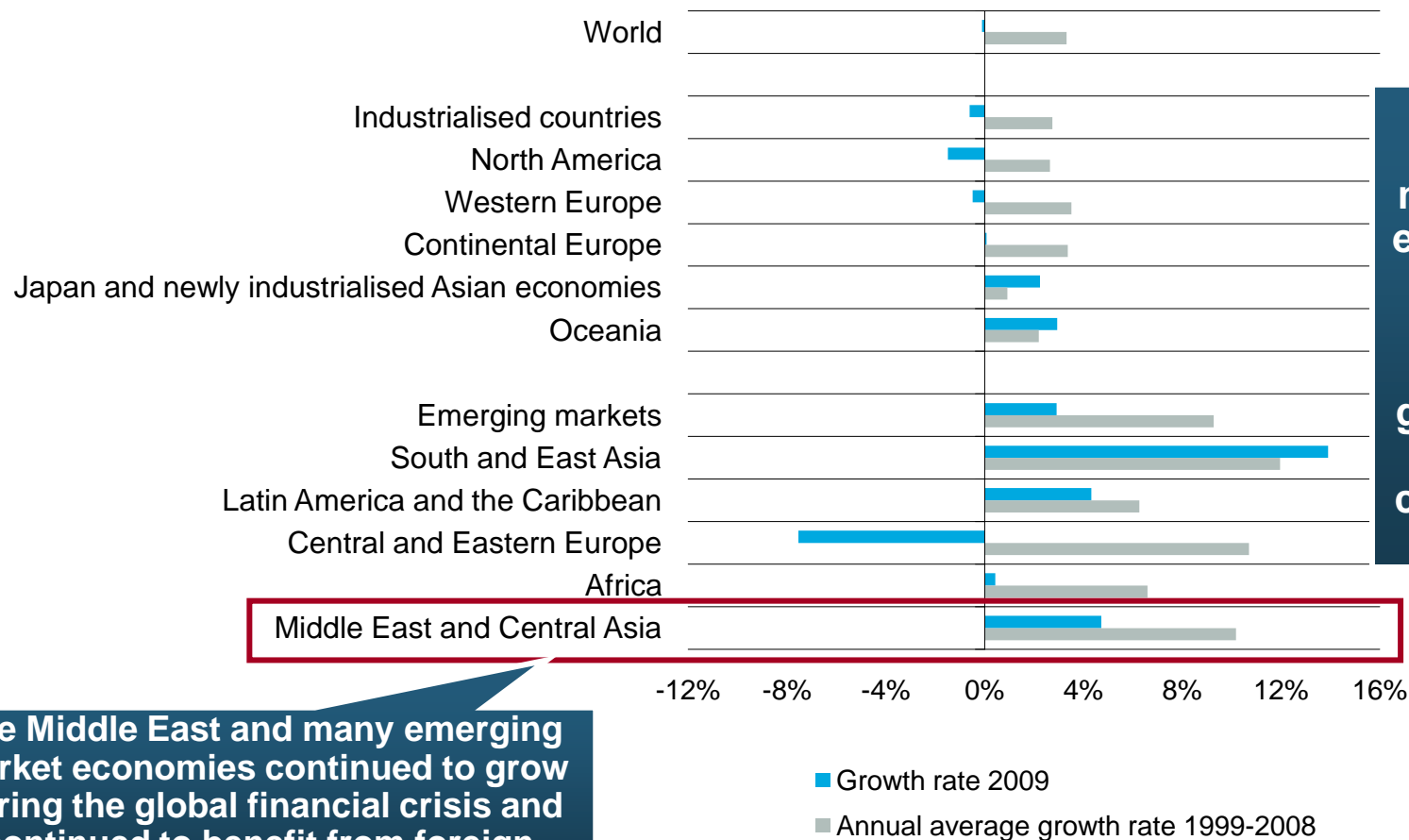
# Nonlife Real Premium Growth in 2010



Source: Swiss Re, *sigma*, No. 2/2011.

# Nonlife Real Premium Growth Rates by Region: 2000-2009 and 2010

## Real Premium Growth Rates



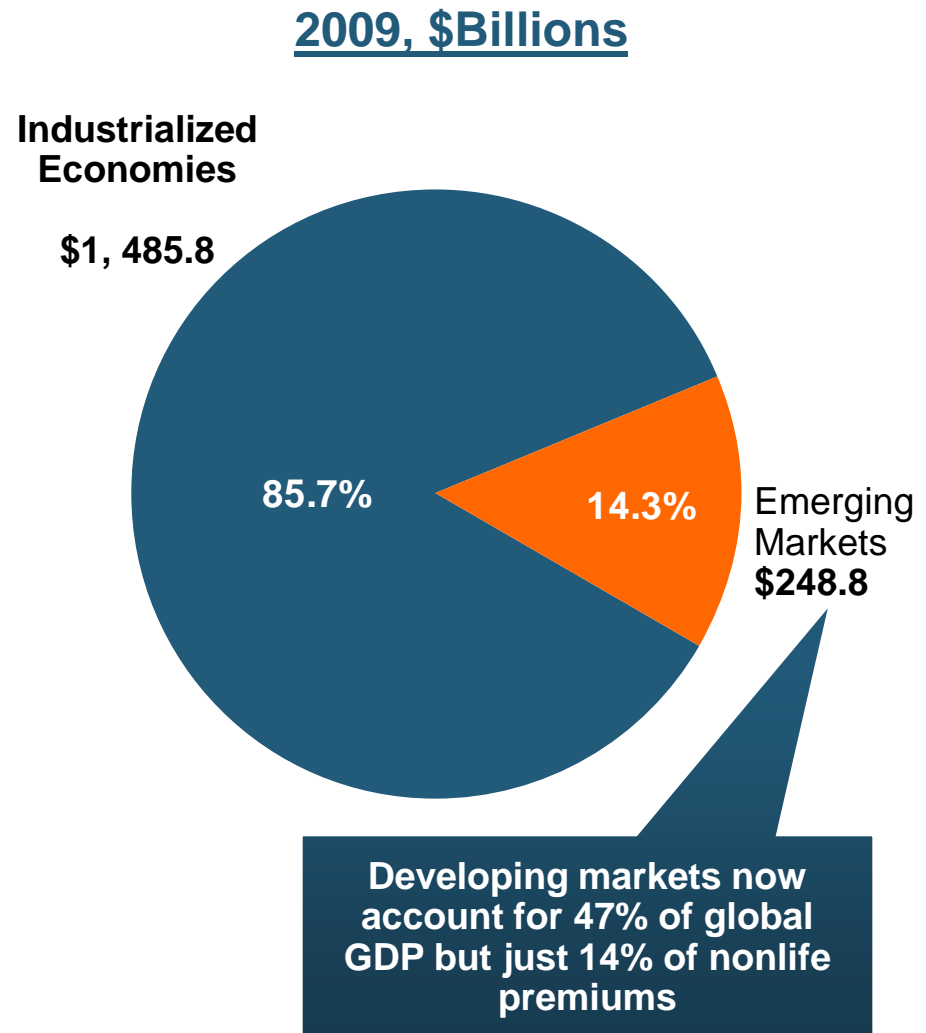
**Every emerging market region except Central and Eastern Europe experienced growth during the financial crisis and into 2010**

**The Middle East and many emerging market economies continued to grow during the global financial crisis and continued to benefit from foreign direct investment**

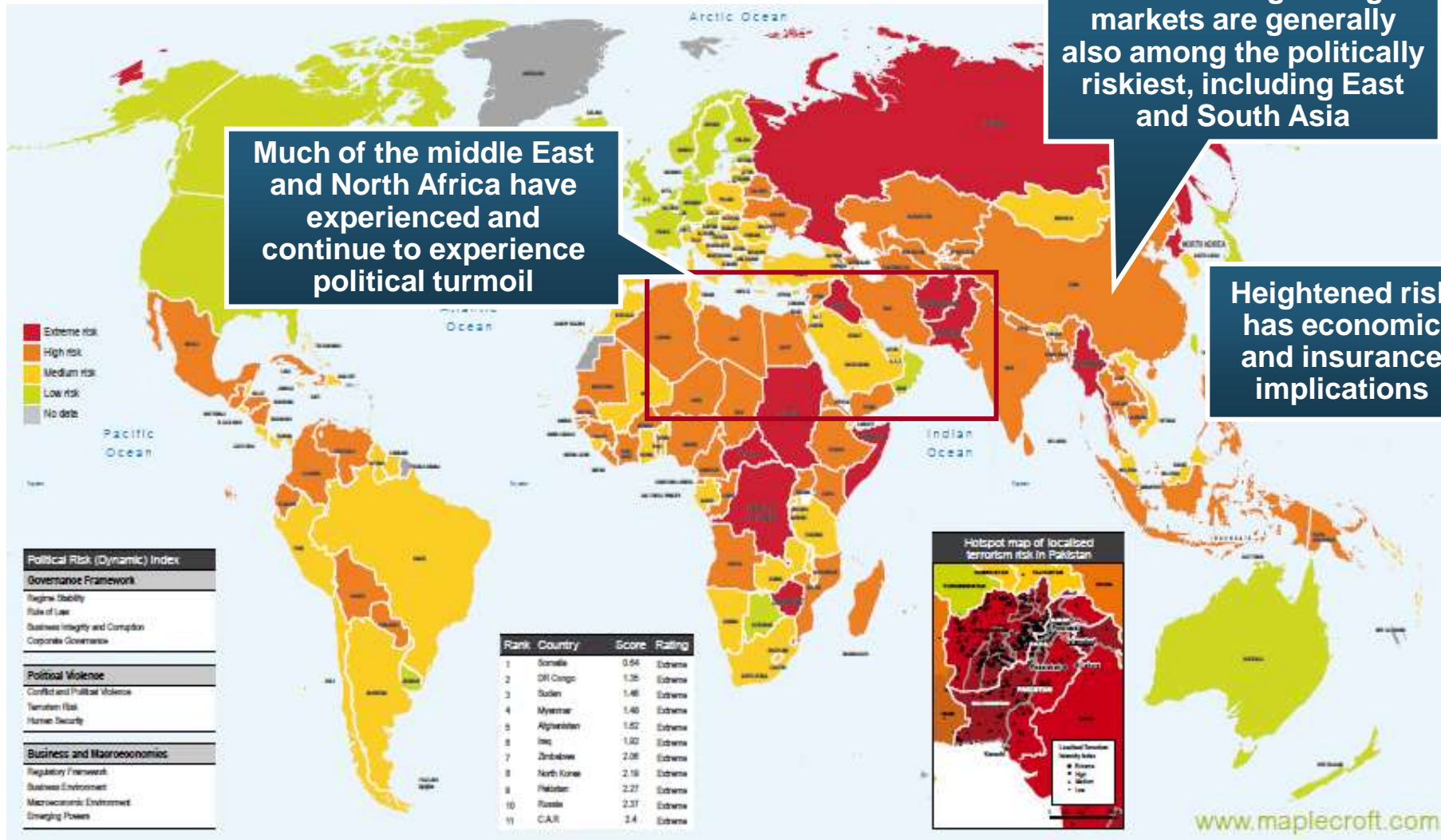
# Distribution of Nonlife Premium: Industrialized vs. Emerging Markets, 2009

## Premium Growth Facts

- Although premium growth throughout the industrialized world was negative in 2009, its share of global nonlife premiums remained very high at nearly 86%--accounting for nearly \$1.5 trillion in premiums.
- The financial crisis and sluggish recovery in the major insurance markets will accelerate the expansion of the emerging market sector



# Political Risk in 2011/12: Greatest Business Opportunities Are Often in Risky Nations

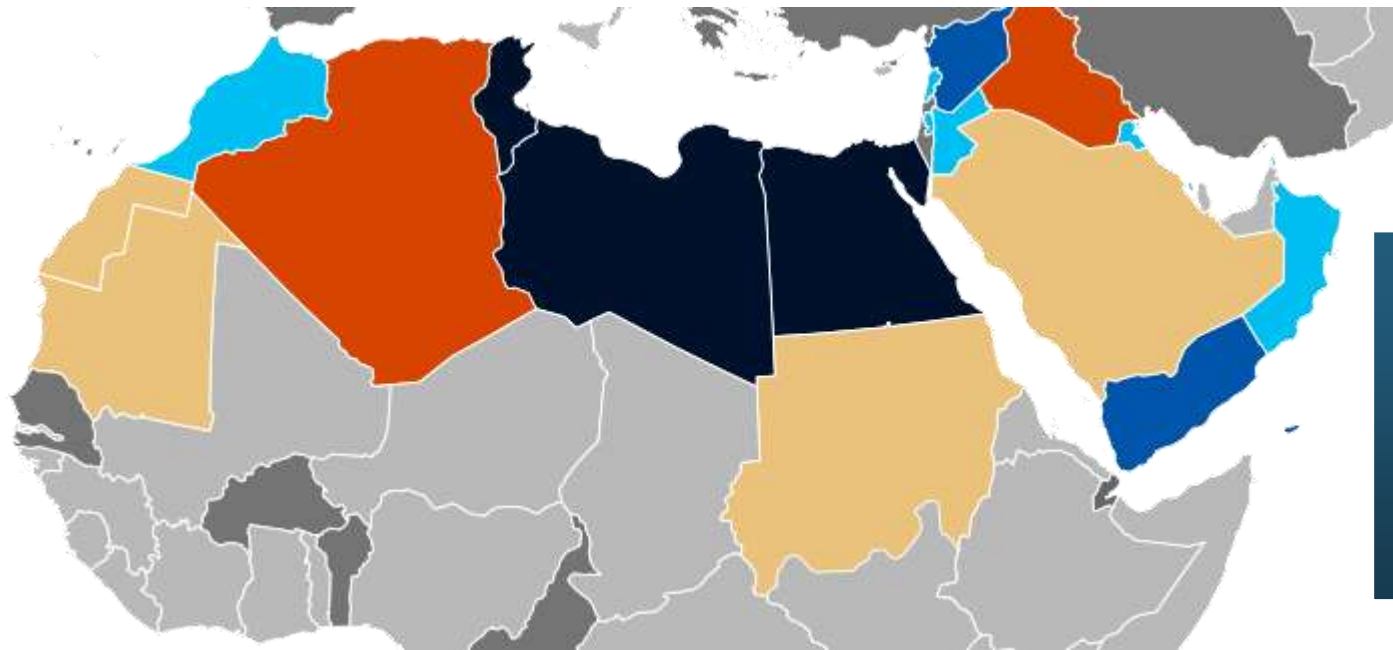




# The “Arab Spring” Has Increased Uncertainty in an Already Volatile Part of the World

Arab Spring  
الربيع العربي

Some energy-rich nations  
have been among the most  
unstable in 2011/12



Longer-run,  
significant  
investment and  
insurance  
opportunities  
exist throughout  
the region

- Government overthrow
- Sustained civil disorder and governmental changes
- Protests and governmental changes
- Major protests
- Minor protests
- Protests outside the Arab world

# Summary of 10 Greatest Potential Threats to Global Economy as of March 2012

- 1. Armed Conflict in the Middle East, Disrupting Oil Markets**
  - A conflict between Iran and Israel viewed by some as imminent
  - \$200/bbl oil is possible; Severe supply disruptions
  - Result→serious damage to the global economy, killing fragile recovery
- 2. Rising Oil Prices**
  - Even in the absence of armed conflict, oil prices slowing growth
  - Sustained \$10/bbl increase → -0.2% on global GDP
- 3. Sovereign Debt Concerns in Europe (was #1 threat in 2011)**
  - Contagion spreads beyond Greece→Italy, Spain, Portugal, etc.
  - Greek/EU political/economic solution fails resulting in disorderly default
- 4. “Hard Landing” of Chinese Economy**
  - A sharp decline in China’s GDP would damage global economies
- 5. Mega-Catastrophe Trends Continue at Record Pace**
  - Catastrophes trimmed 0.5% off global GDP in 2011
  - Massive disruptions to fragile global supply chains
- 6. Sudden Weakening of US Economy**
- 7. Intensification of Geopolitical Instability (esp. in Middle East)**
- 8. Disintegration of Eurozone (*Political Failure*)**
- 9. Commodity Price Inflation (apart from oil)**
- 10. Large-Scale Cyber Attack/Terrorism Attack (including cyberterror)**

# Global Catastrophe Loss Developments and Trends

**2011 Rewrote Catastrophe Loss and  
Insurance History**

***But Will Losses Turn the Market?***

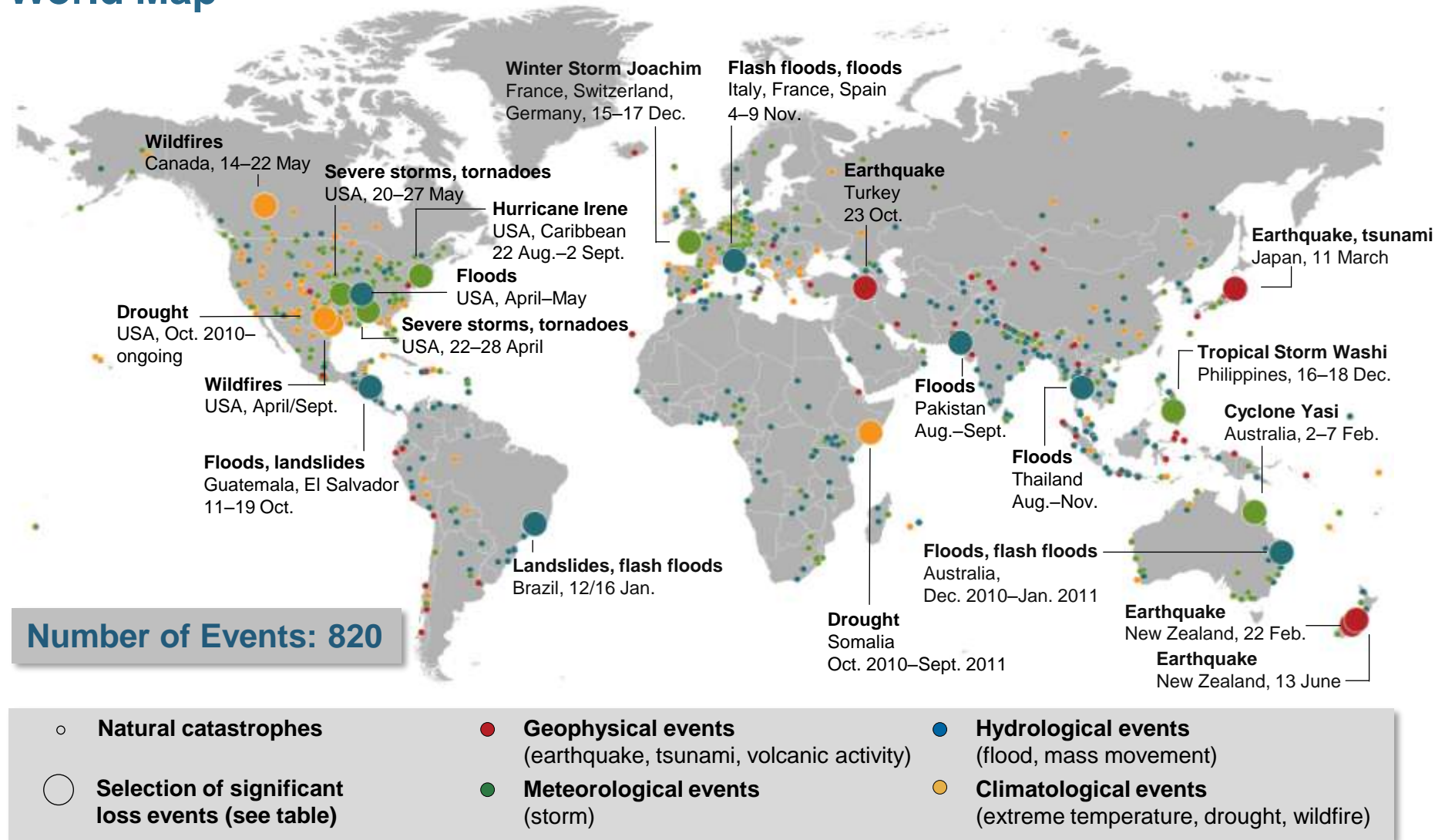
# Global Catastrophe Loss Summary: 2011

- **2011 Was the *Highest* Loss Year on Record for Economic Losses Globally**
  - ◆ Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss
- **\$380 Billion in *Economic* Losses Globally (New Record)**
  - ◆ New record, exceeding the previous record of \$270B in 2005
- **\$105 Billion in *Insured* Losses Globally**
  - ◆ 2011 losses were 2.5 times 2010 insured losses of \$42B
  - ◆ Second only to 2005 on an inflation adjusted basis (new record on a unadjusted basis)
  - ◆ Over 5 times the 30-year average of \$19B
- **\$72.8 Billion in *Economic* Losses in the US**
  - ◆ Represents a 129% increase over the \$11.8 billion amount through the first half of 2010
- **\$35.9 Billion in *Insured* Losses in the US Arising from 171 CAT Events**
  - ◆ Fifth highest year on record
  - ◆ Represents 51% increase over the \$23.8 billion total in 2010



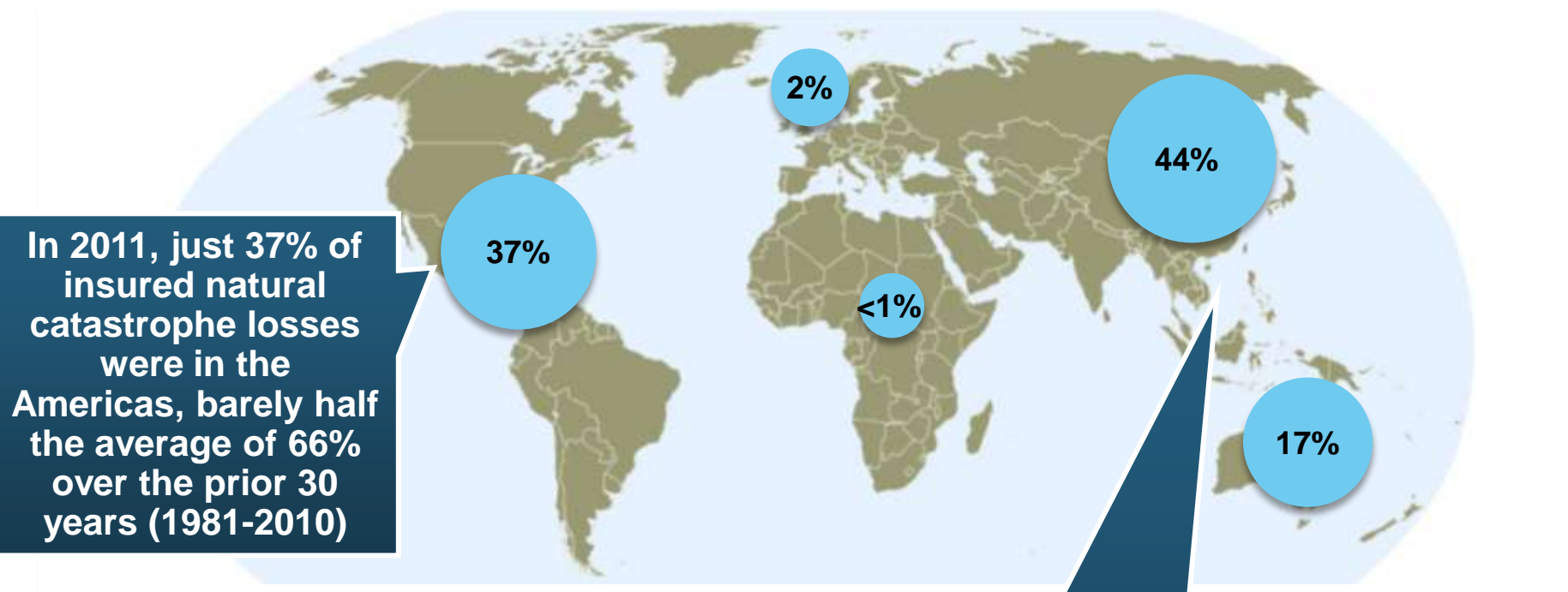
# Natural Loss Events, 2011

## World Map



# Natural Catastrophes Worldwide 2011

Insured losses US\$ 105bn - Percentage distribution per continent

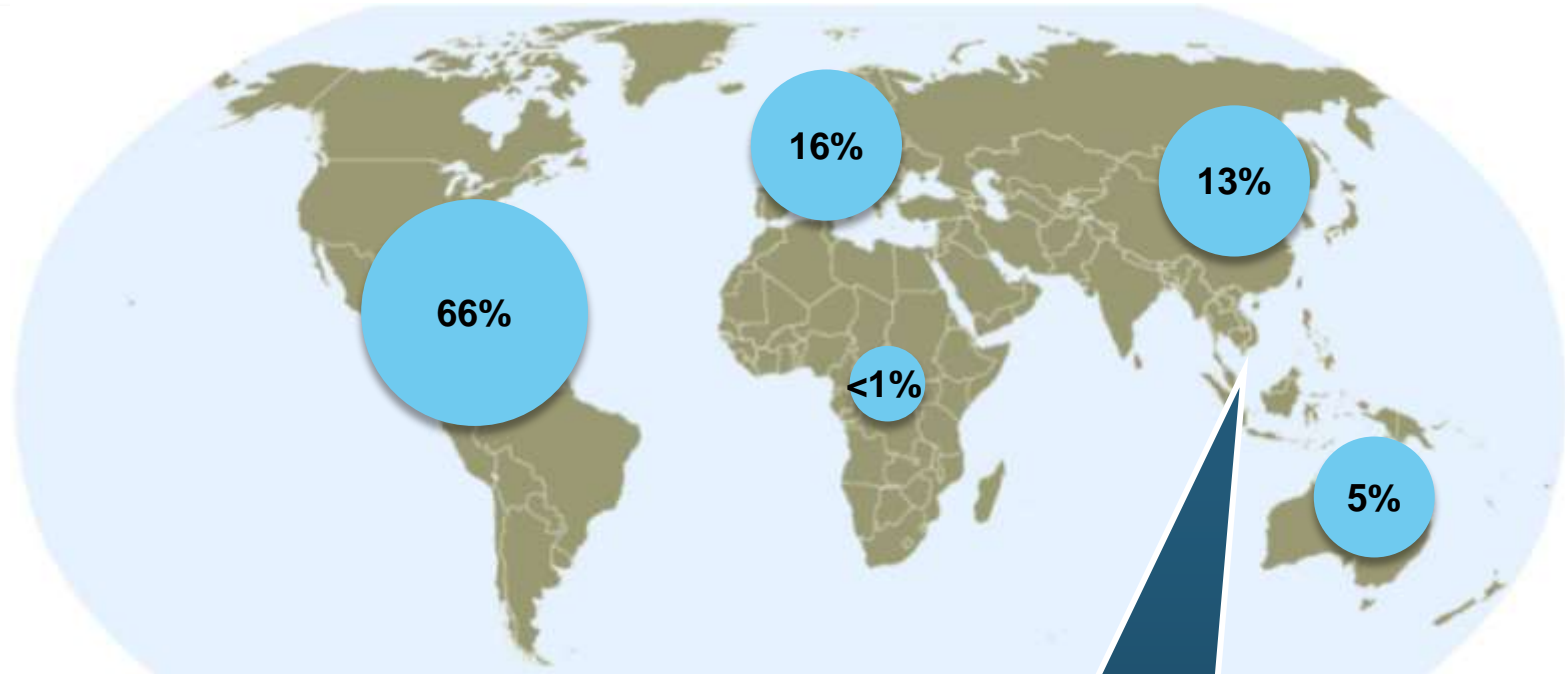


Continent	Insured losses US\$ m
America (North and South America)	40,000
Europe	2,000
Africa	Minor damages
Asia	45,000
Australia/Oceania	18,000

In 2011, 61% of insured natural catastrophe losses were in the Asia/Pacific region, nearly 3.5 times the average of 13% over the prior 30 years (1981-2010)

# Natural Catastrophes Worldwide 1980 – 2011

Insured losses US\$ 870bn - Percentage distribution per continent

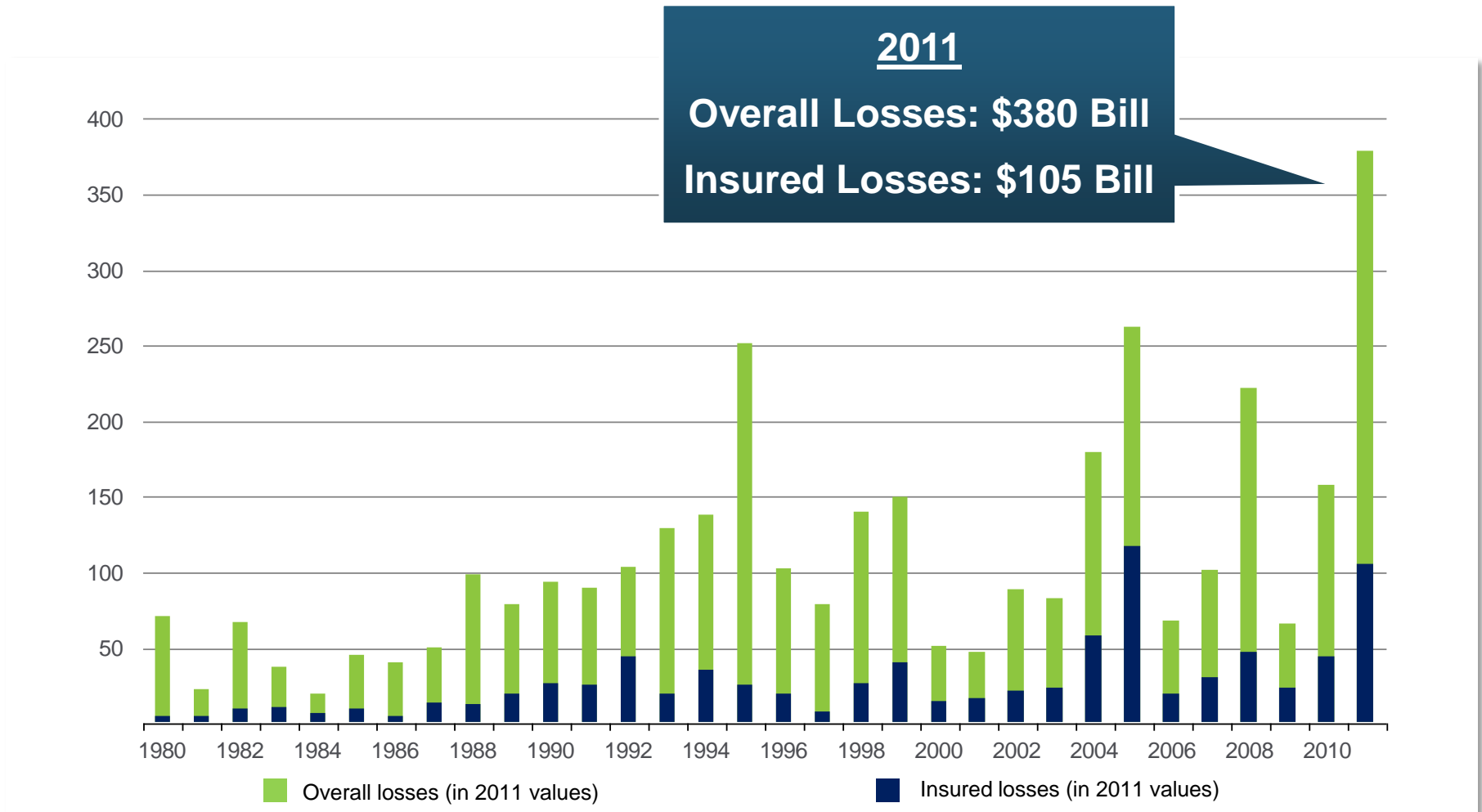


Continent	Insured losses US\$ m
America (North and South America)	566,000
Europe	146,000
Africa	2,000
Asia	115,000
Australia/Oceania	41,000

**In 2011, 61% of natural catastrophe losses were in the Asia/Pacific region, nearly 3.5 times the average of 13% over the prior 30 years (1981-2010)**

# Worldwide Natural Disasters 1980–2011, Overall and Insured Losses

(Insured Losses, 2011 Dollars, \$ Billions)

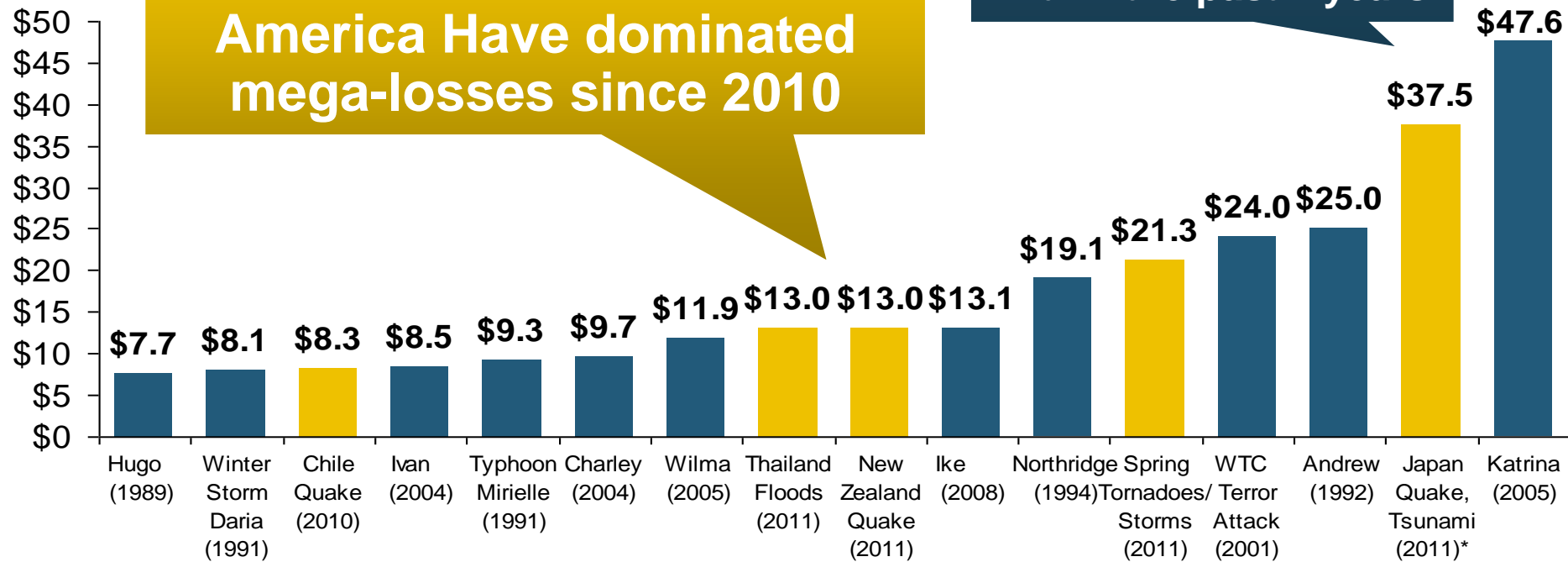


# Top 16 Most Costly World Insurance Losses, 1970-2011\*\*

(Insured Losses, 2011 Dollars, \$ Billions)

**Large catastrophes in Asia/Pacific and South America Have dominated mega-losses since 2010**

**5 of the top 14 most expensive catastrophes in world history have occurred within the past 2 years**



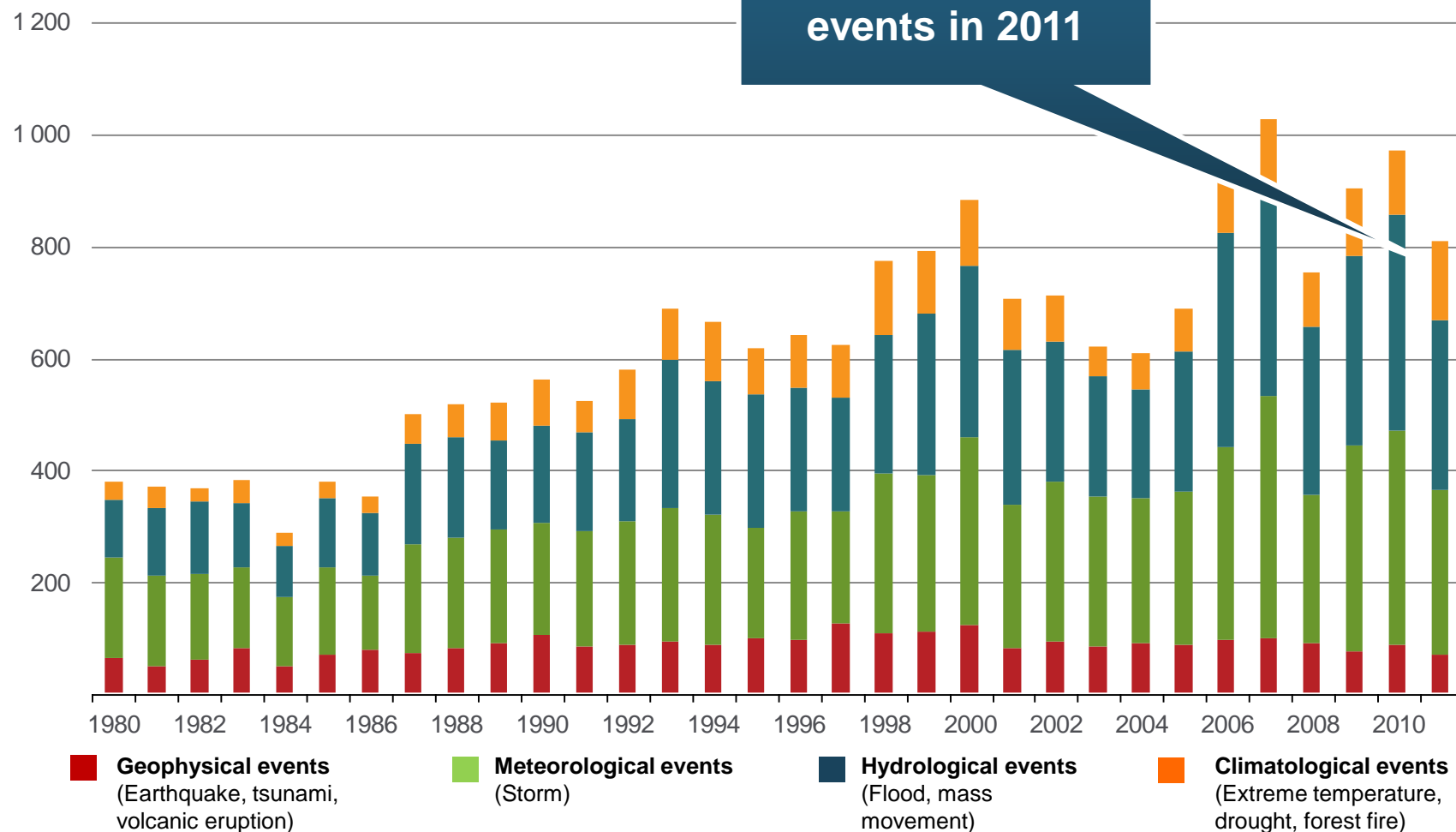
\*Average of range estimates of \$35B - \$40B as of 1/4/12; Privately insured losses only.

\*\*Figures do not include federally insured flood losses.

Sources: Swiss Re *sigma* 1/2011; Munich Re; Insurance Information Institute research.

# Worldwide Natural Disasters, 1980 – 2011

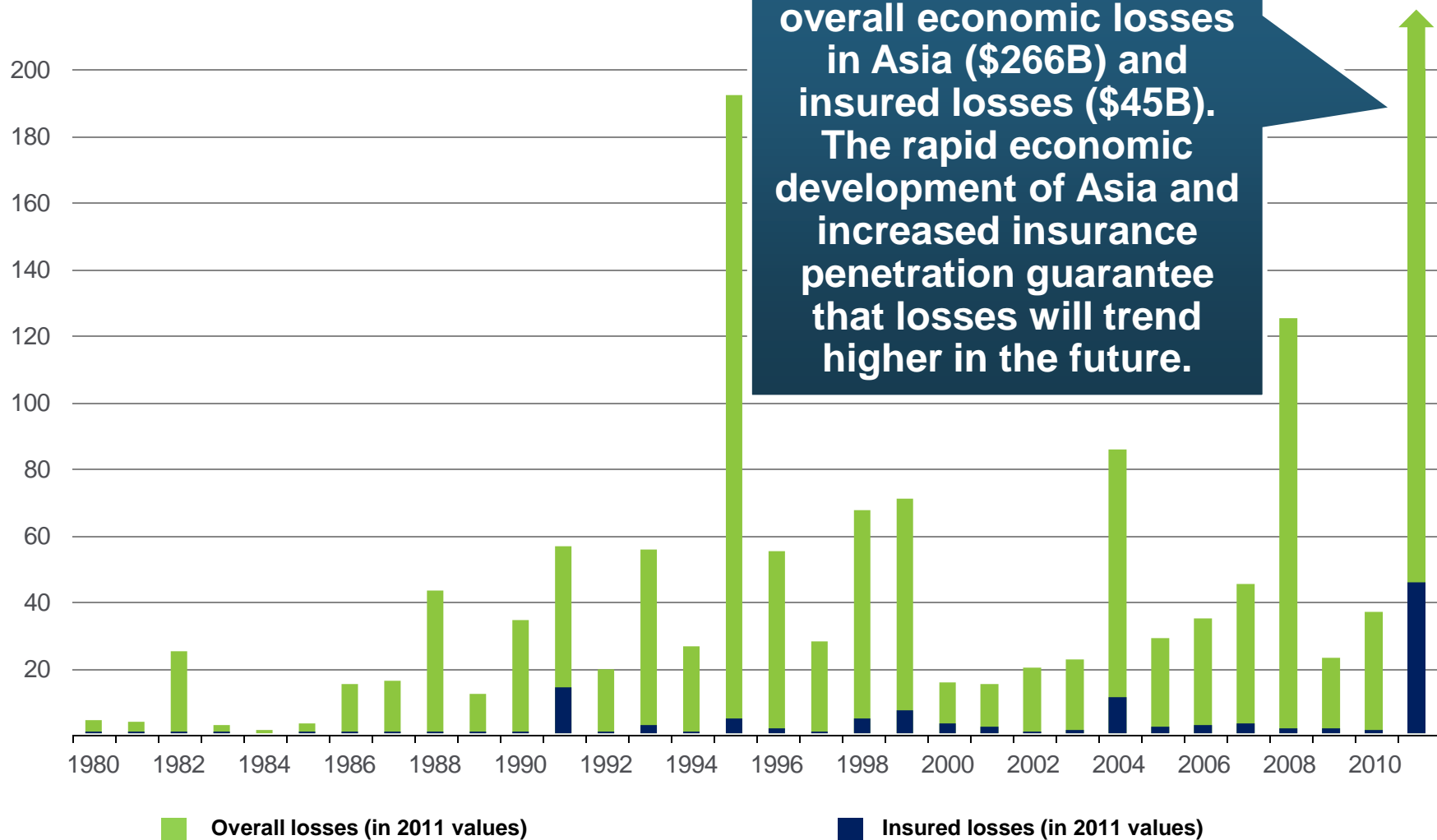
## Number of Events



# Natural Catastrophes in Asia 1980 – 2011

Overall and insured losses in 2011 Dollars

(\$ Billions)



Insurance Information Institute Online:

**[www.iii.org](http://www.iii.org)**

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