

## COVID-19's impact on global growth and the insurance industry is likely deeper and wider than the current consensus, and could last well into Q3 and beyond

### GLOBAL MACRO OUTLOOK

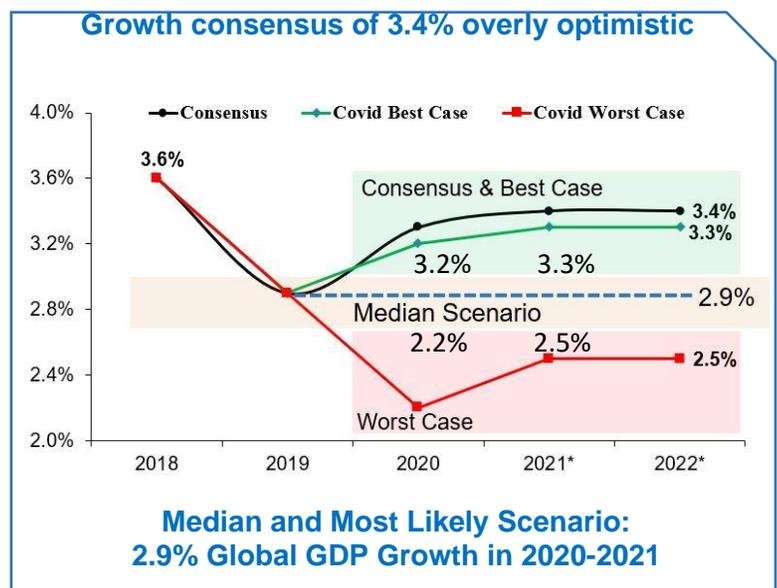
#### KEY POINTS:

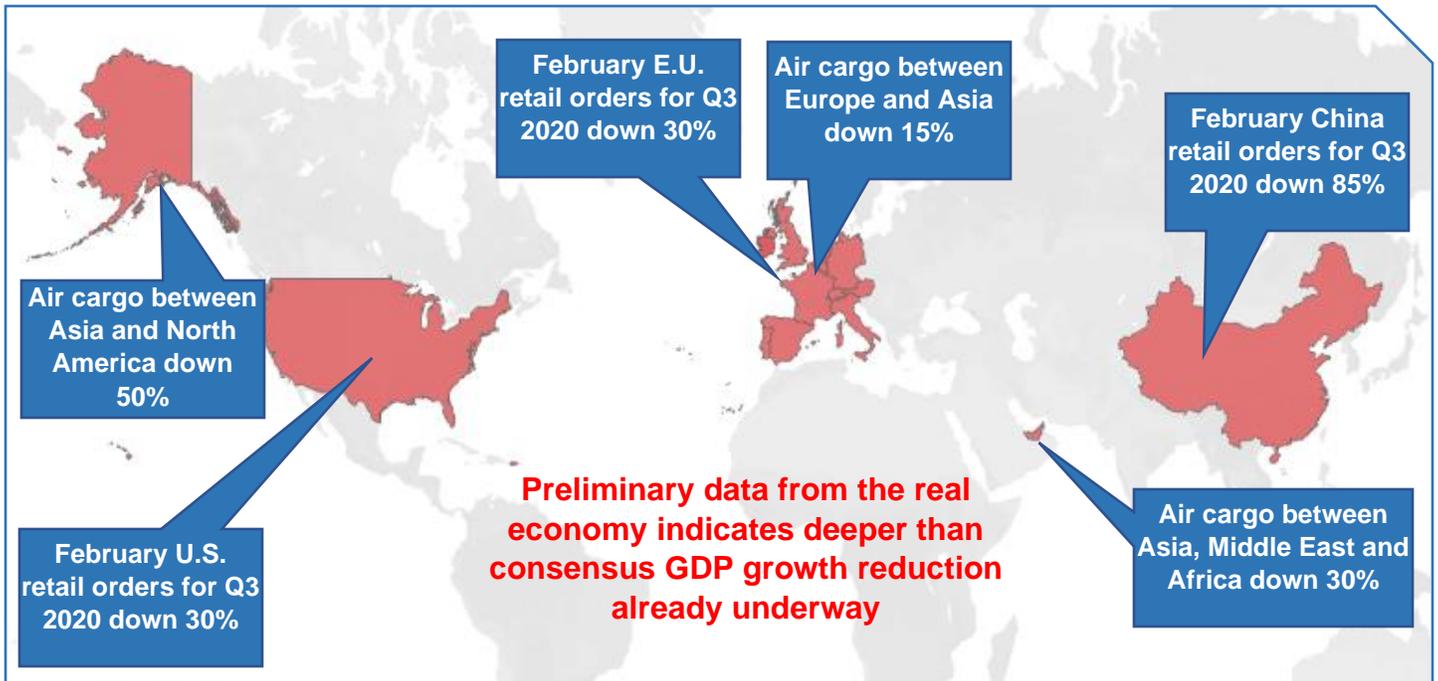
- ▲ Economic impact likely to continue into Q3/Q4 2020 and 2021
- ▲ Could reduce global GDP growth from 3.3% to 2.3% and delay recovery by up to 12 months
- ▲ Fiscal and monetary policy, rate cuts, unlikely to be effective

As of March 3, the World Health Organization's (WHO) situation [dashboard](#) reports 93,166 cases of COVID-19 (12,744 outside China) and 3,199 deaths (166 outside China), across 77 countries. The organization's situation reports show the pace of new cases outside China is accelerating. Notwithstanding WHO [statements](#), COVID-19 is a pandemic, and the **peak infection period started in the Western Hemisphere in the third week of February and will continue until at least the end of March**. In the Southern Hemisphere, the peak infection period will be strengthened by declining temperatures starting in May. Across the world, the beginning of the sports season and mass [gatherings](#) will likely either extend or hasten contagion into April and May.

It took COVID-19 less than one month to infect 8,000—the total number of cases during the nine months of the SARS 2003 epidemic. Based on the deaths and infections as reported on WHO's dashboard, so far **the fatality rate from COVID-19 is 3.4%, significantly below SARS's 7%**. Because of dynamic factors such as changes in global demographics, trade patterns and reporting standards, public health experts are not using SARS as a benchmark to forecast the spread of COVID-19. That said, a [review](#) of current forecasts from credible sources provides estimates ranging from **400,000 to 4,000,000 cases** worldwide by the time COVID-19 runs its course.

The current consensus amongst economists and central bankers is that COVID-19 will cause a short-term (Q1/Q2) reduction in global GDP growth. In February the [IMF](#) cut its **GDP growth forecast for China in 2020 by 0.4% from 6.0% to 5.6%** and its **global GDP growth forecast for 2020 by 0.1% from 3.3% to 3.2%**, changes within the forecasts' margins of error. Financial market participants are slightly more [bearish](#), with consensus estimates of a 0.2% decrease in global GDP growth in 2020, mostly on the back of a larger drag on GDP growth outside of China. Based on our model, **the best estimate is a median forecast averaging 2.9% global GDP growth in 2020 and 2021**.





Based on feedback we received from executives at U.S. companies, **the drag on global trade may be much deeper and wider than consensus from financial market participants.** For example, current air cargo out of China is reportedly at half capacity while February purchase orders from retailers dropped 15% in North America, 30% in Europe and the Middle East, and 85% in China. If these estimates are wider trends, **global GDP growth in 2020 could slow down by as much 1% from 3.3% to 2.3%**, making a 2021 recovery unlikely. Even under best case scenarios, COVID-19's impact on the global economy is unlikely to be mitigated by fiscal or monetary policy, regardless of more rate cuts, for example the U.S. Fed's [March 3 cut](#), or any short-term markets froth.

## GLOBAL INSURANCE OUTLOOK

### Key Points:

- ▲ **Decrease in global GDP growth to cause lower premium growth**
- ▲ **Global infection *and* death rates to determine scale of increases in claims**
- ▲ **Lower interest rates *and* equity returns will drive industry's RoI and RoE down**

In Triple-I's analysis, increases in line-specific claims will likely be significant enough to impact overall industry trends, though not on the scale of claims from natural disasters in 2017. While profitability may decrease in 2020, premium increases in 2020 and beyond will compensate for any short-term decreases in liquidity. The industry remains well capitalized and concerns over solvency are low. Healthcare providers are normally large carriers with significant capital basis, especially in the U.S., and governments have a vested interest to provide stabilizing measures, which could benefit workers, companies and carriers (for example: [Mnuchin, Congress](#)). For a related discussion of what previous pandemics tell up about COVID-19's impact on public health and the industry, see Triple-I's Chief Economist Dr. Steven Weisbart's recent [blog](#). Also visit NAIC's new Coronavirus Resource [Center](#). Below is Triple-I's preliminary assessment of how the virus may affect different insurance lines, based on the median global growth scenario of 2.9% discussed above.

## HIGHER IMPACT



**Health:** The largest and direct impact will be on health insurers due to increases in hospitalization and scarcity pricing for services, equipment and drugs (example: [Italy](#)). Impact will depend on each country's healthcare system and relative participation of government and private insurers. Carriers that provide supplemental health coverage on top of government-provided healthcare will experience less stress, while those providing primary coverage, especially with large exposure to the [elderly](#), will experience more stress.



**Workers compensation:** The largest impact will be on insurers providing workers compensation coverage to [first responders](#) (hospitals, police, fire, EMT) and workers in high-risk sectors (entertainment, manufacturing, transportation and retail). This will be mitigated by the relative share of public-private sector participation. The extent of government actions such as quarantines, shutting down at-risk activities, or the use of public safety employees as first responders would reduce the scale of increases in claims.

## MODERATE IMPACT



**Life:** The primary impact will be on life insurers focused on mortality risk. Insurer-specific exposure will depend on how Covid-19's overall death rate affects demographics subsets and each insurer's exposure to those groups. So far, COVID-19's infection and death rate has been highest amongst the elderly and those with pre-existing conditions but there is no certainty that this pattern will continue. One should note that life insurers tend to use significant reinsurance, reducing exposure by transferring it to very well capitalized global reinsurers.



**General liability:** Insurers providing general liability and directors and officers coverage, not only for the pharmaceutical and healthcare sectors but also those with large workforce in at-risk operations, such as entertainment, manufacturing, transportation and retail, are likely to experience the bulk of increases in claims. The extent of any increases will be shaped by how favorable a country's legal system is to litigation and class actions, with U.S. insurers having higher exposures than their international counterparts. To reduce liability exposure and ensure policy compliance, insureds might consider adjusting [WHO](#) or [CDC](#) guidelines to their own risk profile, for example type of business, employee travel and commuting.

## LOWER IMPACT



**Supply chain:** Insurers providing supply chain coverages such as business interruption, political risk, and trade finance are likely to experience increase in event frequency but the extent to which this will translate in higher claims is uncertain. For the first two, policies generally have significant waiting periods and deductibles so that coverage would typically kick-in only under worst-case pandemic scenarios. As for trade finance, premiums are normally based on preset coverage capacity, regardless of the underlying extent of utilization linked to economic activity, and as such unlikely to be affected in 2020, while any surge in claims would likely be mitigated by flexible repayment schedules in underlying transactions.



**Auto:** Insurers providing auto coverage, both commercial and for consumers and across vehicle types are likely to see fewer claims due to the reduction in transport associated with lower economic activity.

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