Swiss Re Institute

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Economic Insights

COVID-19 knocks emerging market insurers but China resilient

Key takeaways

- COVID-19 will reduce emerging markets' insurance premium growth by 3.6 ppt on average in 2020 and 2021, we estimate.
- Regions differ significantly with emerging Asia, led by China, expected to recover most quickly.
- China will outperform with 7% average premium growth this year and next due to greater economic resilience, government policy support, and insurers' success in leveraging higher risk awareness.
- We continue to be confident of the fundamental attractiveness of emerging insurance markets.
- The pandemic is accelerating trends including digitalisation that can increase insurance penetration in emerging markets.

About Economic Insights
Analysis of key economic developments and their implications for the global re/insurance industry.

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In a nutshell

Emerging market insurers will be the hardest-hit globally by COVID-19, with a 3.6 percentage point impact on premium growth in each of 2020 and 2021. China's insurance market is the exception, with average premium growth of 7% over 2020-2021, supported by a swift economic recovery, government policies, rising risk awareness and active customer engagement by insurers. We expect the shift in the global insurance opportunity to emerging Asia, and particularly China, to continue.

We expect the shock of COVID-19 to lower emerging markets' insurance premium growth by 3.6 percentage points (ppt) in 2020 and 2021 (see Figure 1). This is a sharper premium fall than in advanced markets (-2.5 ppt) and deepens further to 4.5 ppt when China is excluded, primarily due to steep declines in emerging Europe, Latin America, the Middle East and Africa. Overall, we expect premium volumes to recover to pre-pandemic levels in 2021, with emerging Asia led by China rebounding fastest (see Figure 2).

China's insurance market strength is the exception among emerging markets. Premium growth is expected to average 7% this year and next due to a fast-recovering economy and supportive government policies. Insurers have also stepped up customer engagement and promotion activity through digital distribution channels to leverage rising risk awareness. A recent Swiss Re survey[1] found that more than 75% of Chinese consumers had been contacted by their insurers by April 2020, compared to 17% in Australia, 34% in Singapore, and 50% in Hong Kong. More than half (59%) of Chinese consumers also expressed interest in buying more insurance, higher than in the other markets surveyed.

Life business lines will be more affected than non-life business in emerging markets during this crisis. Emerging markets' life premium growth is expected to stagnate in 2020 before recovering to grow by 7% in 2021. While emerging Asia including China is expected to be resilient, in the other regions we expect deep recessions and labour market deterioration to affect demand for life insurance, resulting in large declines in premiums even in major economies such as Brazil, Mexico, Turkey and South Africa. In non-life, we forecast overall premium growth of 3% in 2020 and of around 7% in 2021, again on the back of robust growth in China, where government policies including large-scale investment in rural infrastructure[2] and a strong push on compulsory liability insurance should support demand. Non-life premiums in emerging Europe and central Asia will decline strongly this year due to their proximity to and trade dependence on western Europe, where growth is

[1] Consumer survey by Swiss Re in Australia, Singapore, Hong Kong, and mainland China in April 2020 to gauge sentiment towards insurers.
[2] Rural revitalization in China: a "Blue Ocean" opportunity for insurers, *Economic Insights* 18/2020, Swiss Re Institute 25 June 2020.

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expected to be weak, as well as recessions in Russia and Turkey. Latin America, the Middle East and Africa will also contract, as economic weakness prior to the outbreak of COVID-19 is coupled with falls in commodity prices and external revenues. In all lines, the direct impact on claims should be manageable since most policies would have excluded infectious diseases, and insurance penetration is still low in emerging markets. While emerging market insurers' investment returns are under pressure from low yields, equity market rallies in countries such as Brazil, Russia and China may cushion this impact.

Figure 1: COVID-19 impact on annual average premium growth in 2020 and 2021

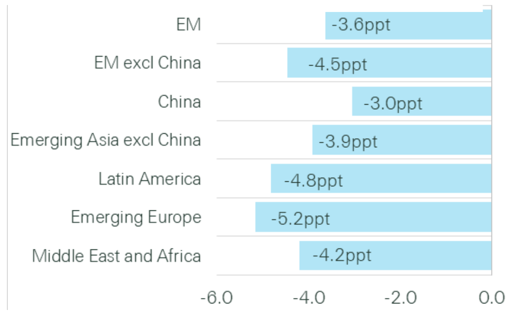
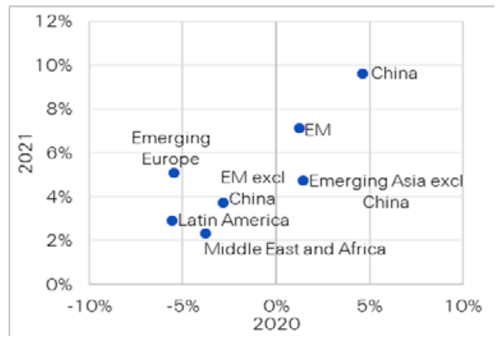


Figure 2: Real premium growth in 2020 and 2021



Source: Swiss Re Institute

Despite the near-term challenges, we remain confident that emerging markets will be the growth engine of global insurance in the long term as their fundamental growth drivers, including urbanisation, growth of the middle class and rising consumer risk awareness, are still intact. The experience of COVID-19 has if anything reinforced current trends such as the shift from savings to protection-type life products, accelerated government investment in healthcare to enable better value creation of medical insurance, and greater adoption of digital solutions that offer growth opportunities for insurers.

Economic resilience is also a key determinant of the outlook. China's insurance market strength is closely linked to its greater economic resilience,[3] whereas in other emerging markets weaker resilience will make the downturn deeper and the recovery more protracted, in turn weighing on insurance demand. We expect the ongoing shift in the global insurance opportunity towards emerging Asia, and China in particular, to continue. We forecast that, excluding medical premiums[4], China remains on track to be the world's largest insurance market by the mid-2030s.

[3] See also *sigma 5/2019* – Indexing resilience: a primer for insurance markets and economies, Swiss Re Institute.
4 We exclude medical premiums from all markets due to the large contribution that accident and health business written by US health insurers makes to the US insurance market.

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