NUMBER 5, MAY 2020

Economics & INSURANCE

MAPFRE Economics

Posts

Introduction

Issue five of the Economics and Insurance magazine by MAPFRE Economics has been released with the world mired in the COVID-19 pandemic. While the economic and social costs of the pandemic may be difficult to gauge, our post-COVID future will likely bring about major changes in the economy, politics and social relations in general. As always, the articles in this issue analyze four current topics linked to the economy and insurance, and the impact of the pandemic on those areas.

The global pandemic has put many countries' health systems to the test, but evaluating the effectiveness of those systems should take into account a range of other factors and measures that have been implemented to stop the spread of the disease. In this respect, the article entitled "Pandemics and the effectiveness of healthcare systems" examines certain data regarding the impact of the pandemic in a number of countries, drawing comparisons with the respective ranking of each country's health system according to the Indicator of Effectiveness of Health Systems (IEHS), which was developed by MAPFRE Economics and published in its "Health systems: a global analysis" report.

Two further articles discuss the impact on the economy and the insurance industry as a result of the lockdown and social distancing measures adopted by governments in tackling the health crisis. The article focusing on the economy outlines the key measures that have been put in place to stem the effects of the crisis and establish a path toward recovery. It also includes information on MAPFRE Economics' global growth forecasts. The subsequent article on the outlook of the insurance sector analyzes the impact on one of the most serious economic crises on the insurance industry in a number of countries, highlighting the potential ramifications of the current situation for the sector as a whole.

The final article in this issue looks at the topic of insurance companies and their investment portfolios. Based on a study conducted by MAPFRE Economics, this is a particularly relevant article given that analyzing investment structures is key to predicting the impact of the pandemic on insurance companies and their balance sheets.

Readers can also explore each of the above topics further by clicking the links at the end of each article to access the reports

MAPFRE Economics

Composition of Insurance Companies' Investment Portfolios in the wake of Covid-19

Author: MAPFRE Economics

Summary of the report's conclusions:
MAPFRE Economics
Insurance industry investment
Madrid, Fundación MAPFRE, February 2020

The measures taken to address the health crisis caused by the COVID-19 pandemic (now colloquially known as 'the Great Lockdown'), have triggered a sharp global economic recession. 'Collateral damage' from this includes increased financial market volatility and one of the effects of this is falling asset valuations; a situation that can have a significant impact on insurance companies' balance sheets. The composition of these companies' investment portfolios is of particular importance in estimating the impact of this phenomenon. A comparative analysis of the major global insurance markets, shows that the main item in their investment portfolios is fixed income securities (see Table 1).

Table 1:
Structural breakdown of traditional business investment portfolios, 2018 (%)

Asset type	Eurozone	United States	Japan	United Kingdom	Spain
Corporate fixed income	31.4%	51.5%	7.1%	36.5%	21.8%
Sovereign fixed income	34.5%	13.6%	39.1%	20.9%	56.9%
Equity	13.9%	13.1%	6.8%	12.9%	6.0%
Loans	5.2%	10.6%	7.9%	9.1%	1.0%
Cash and deposits	4.6%	3.9%	3.1%	10.1%	7.8%
Real estate	2.3%	0.6%	1.7%	2.7%	2.5%
Other investments	8.2%	6.7%	34.3%	7.7%	4.0%

Source: MAPFRE Economic Research (with information from EIOPA, NAIC, LIAJ and GIAJ)

Fixed income securities are characterized by a sharp rise in risk premiums having a direct impact on their valuation, which also falls sharply, with the most severe declines for portfolios containing bonds of longer duration. Risk premiums can be affected by various factors, but the two main ones are: (i) the liquidity conditions of financial markets and, related to this, (ii) the perception of credit or insolvency risk of the counterparties of those bonds in which the investments are made.

The measures taken by the major central banks worldwide are largely helping to solve the problems of liquidity shortages in bond markets, allowing these markets to continue to function properly. Issuing companies and states can thus continue to place their issued products in order to gain access to the liquidity needed to deal with the situation they face and, most importantly, to be able to refinance their debts at a reasonable cost. For insurance companies, the application of these measures greatly aids bailouts of both traditional Life insurance policies and of Life products in which the policyholder assumes the risk of the investment, which increase sharply when faced with the uncertainty created by these situations.

The quantitative easing programs adopted so far by central banks have been generous, thereby avoiding excessive tensions in bond spreads (in terms of risk premiums), particularly with regard to sovereign debt, but for corporate debt too. Even the US Federal Reserve, for the first time in its history, included debt issued by companies in its asset purchases program, extending these to cover corporate bonds that have lost their investment grade rating as a result of the pandemic crisis.

The Bank of Japan was the pioneer in such purchases, followed by the European Central Bank (ECB), which approved new programs that include acquiring both sovereign and corporate bonds, and relaxing rules on the volumes of assets that can be acquired from the various Member States. These programs are already being implemented and have led to the biggest bond purchases in the history of the ECB.

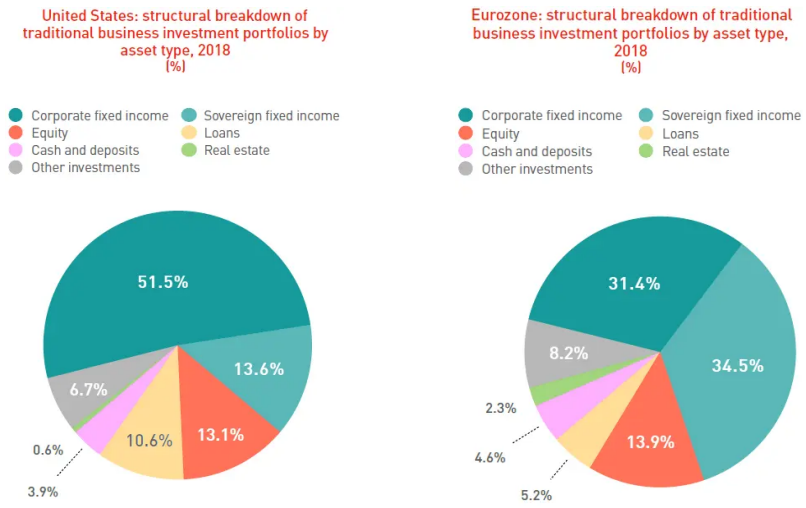
In addition, some central banks like the Fed and the Bank of England decided to reduce interest rates, seeking to stimulate the economy and offset the negative impact on both sovereign and corporate bond values, resulting from their increased risk premiums. However, though these rate cuts are an important measure to revive the economy, they damage traditional savings and annuity Life insurance business, until such time as economic agents accept the new levels as being permanent and decide to invest in savings instruments at lower rates, or choose to acquire risk products in which the policyholder assumes the risk of the investment.

In jurisdictions with a risk-based solvency regulation system, such as the European Union (Solvency II), there are mechanisms to correct the effects of occasional bouts of market volatility on insurance companies, given their character as long-term investors. These mechanisms seek to prevent them from having to make forced sales in times of financial market turbulence, with

their consequent pro-cyclical effects. The business model of insurance companies leads to the maturities of their investment portfolios being largely aligned with the estimated payment path. This path comes from the commitments assumed in their insurance contracts, so that these assets can be conserved until they reach maturity.

However, if the problem persists and bond counterparties begin to suffer a deterioration in their credit quality, the situation may translate to the insurance companies' balance sheets. In this respect, the composition of investment portfolios is of particular importance. Those markets where the majority of investment is in sovereign bonds, backed by the asset-acquisition programs of their respective central banks, have a more limited risk. However, insurance companies or markets where the majority of investment is in corporate bonds are most exposed to risk, because the credit ratings of these types of bonds often change quicker in such situations, which can lead to them losing their investment grade status and even falling into default. Notably, in the US market, insurance companies' aggregate rate of investment in corporate bonds at the close of 2018 was 51.5 percent, compared to 31.4 percent on average in the eurozone (see Chart 1).

The insurance industry in Spain is traditionally very conservative in its investments, with the majority of its investment (56.9 percent) being in eurozone sovereign bonds. This puts it in a better position to tackle this crisis, because this kind of bond is backed by extensive ECB asset acquisition programs. The weighting of corporate bonds in the aggregate portfolio is just 21.8 percent, so exposure is lower. The same is true of equity investments, which have suffered widespread declines in valuations due to the pandemic crisis. Once again, the United States and eurozone markets (with over 13 percent of the total portfolio in both cases) hold a higher proportion of aggregate equity investments than Spanish insurance companies, where these account for around 6 percent of the total portfolio.



Source: MAPFRE Economics (with information from NAIC and EIOPA)

The following link takes you to the MAPFRE Economics' study "Insurance industry investment", which provides a detailed analysis of the aggregate investment portfolios of insurance companies in the eurozone, the United States, Japan, the United Kingdom, Spain, Brazil and Mexico. It also contains an analysis of the credit profile of the investment portfolios of the major European insurance groups.

Pandemics and the Effectiveness of Healthcare Systems

Author: MAPFRE Economics

Summary of the report's conclusions:
MAPFRE Economics
Health systems: a global analysis
Madrid, Fundación MAPFRE, December 2018

Assessing the effectiveness of a healthcare system based on what happens during a pandemic is not entirely accurate. For the rate at which the illness spreads would saturate any healthcare system unless other steps are taken to limit the spread. As an analogy, it's like trying to assess the effectiveness of a dam in a port by imagining what might happen if there were a catastrophic event like a tsunami, when the dam had not been designed for that.

The Indicator of Effectiveness of Health Systems (IEHS), developed by MAPFRE Economics, aims to assess the effectiveness of healthcare systems under normal conditions, rather than a pandemic situation, for a total of 180 countries. This indicator has been constructed using data on life expectancy at birth, infant mortality and mortality due to non-communicable illnesses among people between the ages of 30 and 70 years.

The top three locations on the list (organized according to the IEHS) are the healthcare systems in Japan, Switzerland and South Korea (see Table 1). However, these countries are performing differently in response to the COVID-19 pandemic. According to data from May 4, 2020 (provided by the CSSE at Johns Hopkins University), the lowest death rate per 100,000 inhabitants was in Japan with 0.42, followed by South Korea with 0.49. However, South Korea, presented a lower deaths to diagnosed cases ratio (2.4 percent in South Korea compared to 3.6 percent in Japan). It is still too early to draw any definitive conclusions, as new data is received by the day and there is a lack of homogeneity in the information as a result of the differences in the system for counting both deaths and the number of tests being carried out, which forms the basis for estimating the number of diagnosed cases. However, in the case of Switzerland, which has a higher

IEHS ranking than South Korea, the indicators are significantly worse in relation to the pandemic, with 20.95 deaths per 100,000 inhabitants and a 6 percent death rate among diagnosed cases.

Another remarkable case is the experience in Germany, where there were 8.43 deaths per 100,000 inhabitants, despite this country having one of the oldest populations in the world. This data is in contrast with the considerably higher figures of the United Kingdom (43.33 deaths per 100,000 inhabitants) and France (37.63). Germany was swift to react and proved that it was capable of testing its population (in its own hospitals), making use of the country's wide network of laboratories. This meant the country could detect and isolate more diagnosed cases in order to prevent infection as well as alert people who may have been infected so that they could be tested. The experience of northern Italy had served as an early warning sign, which Germany understood.

The cases of Greece and Portugal were also noteworthy, with 1.36 and 10.34 deaths per 100,000 inhabitants, respectively, in contrast to the data from Italy (48.12) and Spain (54.42). However, the healthcare systems of the two latter countries have a significantly higher effectiveness rating according to the IEHS (among the ten best in the world). In these cases, Greece and Portugal's ability to react, understand the extent of the problem and take appropriate lockdown and social distancing measures should be noted. This had a significant impact on controlling the pandemic.

There are therefore several factors, in addition to the degree of effectiveness of the healthcare systems, that influence the development of the pandemic. These include the population's demographic profile, the speed at which distancing and lockdown measures were taken, in addition to research, capacity of medical equipment production and supply, the presence of urban hubs with large population centers, whether or not the country is a focal point

	Country	IEHS
1	Japan	100.00
2	Switzerland	99.45
3	South Korea	99.37
4	Singapore	99.16
5	Iceland	99.11
6	Italy	99.08
7	Sweden	99.05
8	Norway	99.05
9	Spain	99.00
10	Australia	98.99
11	Canada	98.67
12	Luxembourg	98.60
13	Israel	98.49
14	France	98.47
15	Finland	98.43
16	New Zealand	98.22
17	Ireland	98.13

	Country	IEHS
18	Malta	98.05
19	Netherlands	97.96
20	Portugal	97.91
21	United Kingdom	97.83
22	Austria	97.73
23	Belgium	97.68
24	Denmark	97.59
25	Greece	97.39
26	Cyprus	97.39
27	Germany	97.37
28	Slovenia	97.16
29	Chile	96.20
30	Costa Rica	96.11
31	United States	95.45
32	Czech Republic	95.39
33	Croatia	94.56
34	Estonia	94.34

Source: MAPFRE Economics

with international airports, among other factors, which are affecting the different levels of severity of the situation in the different countries.

Whatever the case, the situation will potentially give rise to a review of the weaknesses that may have surfaced within healthcare systems. Capacity indicators (hospital beds, ICU beds, number of physicians, nurses, other medical personnel, among others) are particularly relevant in this regard.

In the European Union, part of the fiscal measures to support the economy being discussed in order to overcome the great economic impact that the pandemic is causing, are aimed at the healthcare systems of its member states. In the United States, on the other hand, it is expected that there will be an unprecedented increase in Medicaid program registrations and the use of electronic markets called exchanges by people who have been left without the healthcare coverage provided by their company.

The following link leads to the study "Health systems: a global analysis" prepared by MAPFRE Economics, which provides a detailed examination of healthcare systems in the United States, Mexico, Brazil, Chile, Australia, Japan, Singapore, Spain, France, the Netherlands and the United Kingdom. It also contains the complete ranking of healthcare systems in 180 countries according to the IEHS.

Global Economic Outlook

Author: MAPFRE Economics

Summary of the report's conclusions:
MAPFRE Economics
2020 Economic and Industry Outlook: Second Quarter Perspectives
Madrid, Fundación MAPFRE, April 2020

The arrival of the COVID-19 pandemic has radically altered the world's socio-economic and political landscape. Transmission, coupled with the suppression measures imposed across the world (social distancing and lockdown), has produced supply and demand shocks of unprecedented dimensions. In addition, the oil market has tightened up, putting additional pressure on certain economic sectors, in both developed and emerging countries.

MAPFRE Economics' new global growth forecasts have dropped from 3.1 percent at the start of the year to a global GDP contraction of between –3.0 percent (baseline scenario) and -8.2 percent (adverse scenario). These scenarios may vary depending on the impact of the virus and the suppression or containment measures taken (see Table A-1).

A particular set of circumstances have been taken into account for the baseline scenario. These include the fact that Chinese activity has been recovering in the second quarter, primarily benefiting Asian economies. The crisis is not creating a solvency problem in the developed world, nor is it leading to any unexpected risk. Under this scenario, liquidity is restored, solvency remains intact and there are no large asset depreciations. Oil will return to around USD 40/barrel by the end of 2021. The value of the US dollar remains below 1.1 USD/EUR.

A different set of circumstances have been taken as a reference for the adverse scenario. These include the virus affecting more countries for longer and much more severely, hitting the finance sector in countries such as emerging Asia and Latin America; global trade contracting by 15 percent

Table A-1
Minimum and stressed baseline scenarios: gross domestic product
(annual growth, %)

	Minimum baseline scenario (MBS)						Stressed baseline scenario (SBS)					
	2016	2017	2018	2019(e)	2020(f)	2021(f)	2016	2017	2018	2019(e)	2020(f)	2021(f)
United States	1.6	2.4	2.9	2.3	-4.1	7.8	1.6	2.4	2.9	2.3	-10.8	5.4
Eurozone	1.9	2.7	1.9	1.2	-5.1	4.7	1.9	2.7	1.9	1.2	-12.4	1.6
Germany	2.1	2.8	1.6	0.6	-3.9	4.9	2.1	2.8	1.6	0.6	-12.1	2.1
France	1.1	2.3	1.7	1.2	-7.2	4.5	1.1	2.3	1.7	1.2	-12.5	2.4
Italy	1.4	1.7	0.7	0.3	-7.6	3.9	1.4	1.7	0.7	0.3	-14.9	-0.6
Spain	3.0	2.9	2.4	2.0	-5.6	4.4	3.0	2.9	2.4	2.0	-10.7	-1.0
United Kingdom	1.9	1.9	1.3	1.4	-5.1	6.1	1.9	1.9	1.3	1.4	-10.1	3.3
Japan	0.5	2.2	0.3	0.7	-4.8	3.9	0.5	2.2	0.3	0.7	-13.9	1.2
Emerging markets	4.6	4.8	4.5	3.9	-2.7	4.3	4.6	4.8	4.5	3.9	-7.4	4.6
Latin America[1]	-0.6	1.2	1.0	0.2	-5.2	3.4	-0.6	1.2	1.0	0.2	-7.6	1.4
Mexico	2.6	2.4	2.1	-0.1	-3.9	3.2	2.6	2.4	2.1	-0.1	-12.5	5.0
Brazil	-3.3	1.3	1.3	1.1	-2.7	4.3	-3.3	1.3	1.3	1.1	-9.9	-0.6
Argentina	-2.0	2.7	-2.4	-2.2	-5.7	3.2	-2.0	2.7	-2.4	-2.2	-13.3	5.6
Emerging European[2]	4.8	3.3	6.0	3.6	-5.2	4.2	4.8	3.3	6.0	3.6	-6.7	3.2
Turkey	3.3	7.4	3.1	0.8	-1.2	5.8	3.3	7.4	3.1	0.8	-8.7	2.8
Asia Pacific[3]	6.3	6.2	6.1	5.7	-0.3	9.6	6.3	6.2	6.1	5.7	-8.1	6.4
China	6.9	6.9	6.8	6.2	-0.6	9.8	6.9	6.9	6.8	6.2	-6.0	5.5
Indonesia	5.0	5.1	5.2	5.0	-0.0	9.1	5.0	5.1	5.2	5.0	-10.0	1.7
Philippines	6.9	6.7	6.2	5.9	-0.3	10.0	6.9	6.7	6.2	5.9	-8.2	12.1
World	3.4	3.8	3.6	3.0	-3.0	5.8	3.4	3.8	3.6	3.0	-8.2	2.3

Source: MAPFRE Economics

[1]Argentina, Brazil, Chile, Colombia, Mexico and Peru; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: April 13, 2020.

in 2020; the price of oil remaining below USD 15/barrel; and a collapse in capital earnings, leading to sharp changes in the market valuation of many assets on the balance sheet. The role of safe havens would increase, accumulating liquidity and pushing down interest rates, further damaging the financial system.

So far, there has been a global synchronicity in the relaxation of monetary and financial conditions. However, this has been markedly less coordinated and more irregular way in terms of fiscal policy measures. These include direct and indirect stimuli, and guarantees that have ranged from 15 percent of GDP in some countries to 2 percent in others. The report's baseline scenario of economic growth and inflation is therefore very negative for developed countries and even more so for emerging markets. This is due to the vulnerabilities accumulated over the last decade and the sharp contraction in foreign revenue, especially because of the falling oil price.

Based on the healthcare strategies implemented by most countries, economic costs would clearly be much higher if monetary and fiscal support measures had not been adopted, and the (temporary, for now) damage would likely become permanent. These measures have been aimed at preventing the collapse of aggregate demand (liquidity, solvency, employment), returning flexibility to factor markets, and building firewalls between the real and finance sectors to avoid repeated flare-ups that reinforce cyclical deterioration (bankruptcies, sovereign tightening, etc.). The success of these measures will see either a more or less orderly (U-shaped) exit from the current crisis, or a new (L-shaped) equilibrium of lower growth and sustained loss of prosperity. These alternatives represent the two possible scenarios laid out in the MAPFRE Economics report, a central baseline ("U") and an extreme scenario ("L").

Economic policy options to avoid the aforementioned scenarios fall into four categories: (i) institutional and regulatory coordination aimed at boosting the

recovery of the sectors most affected by lockdown measures; (ii) monetary measures aimed at providing liquidity, ensuring the stability of the financial system's balance sheet, and accommodating fiscal policy measures; (iii) fiscal measures aimed at financing the health shock, sustaining incomes and investing in the potential of economic growth by using large-scale existing multipliers; and (iv) searching for funding mechanisms and pooling the cost of the crisis with a view to seeking sufficient fiscal space (domestic, international, or multilateral).

Finally, the current risk map remains similar to the one in the Economic and Industry Outlook 2020 report. However, it is no longer characterized by potential catalysts for recession, rather by factors that may aggravate the current scenario. This would result in the current U-shaped recession entailing a change of equilibrium, characterized by a (L-shaped) depression, from which, given the dislocation of the finance sector after a systemic event, a return to normal is no longer possible.

The complete analysis can be found in the report 2020 Economic and Industry Outlook: Second Quarter Perspectives, prepared by MAPFRE Economics.

Industry Outlook for the Insurance Market

Author: MAPFRE Economics

Summary of the report's conclusions:
MAPFRE Economics
2020 Economic and Industry Outlook: Second Quarter Perspectives
Madrid, Fundación MAPFRE, April 2020

Industry outlook: analysis of the impact of the worst economic crises on the insurance industry

The consequences on the economy and the insurance industry of the social distancing and lockdown measures adopted due to the COVID-19 pandemic could surpass the impact of the most profound crises of recent times. Despite the easing of lockdown measures already being taken in many countries, recovery is not expected until 2021. There is great uncertainty as to the estimates and structural effects that may arise from the present global crisis. In particular, emerging economies have suffered strong outflows of investment and sharp exchange-rate drops, which, coupled with the falls in GDP, will have a marked impact on the turnover and profitability of their respective insurance markets.

The report's analysis of the worst economic crises over the last 40 years shows that sharp declines in GDP lead to significant setbacks in insurance premiums at the aggregate level, in both emerging and developed markets.

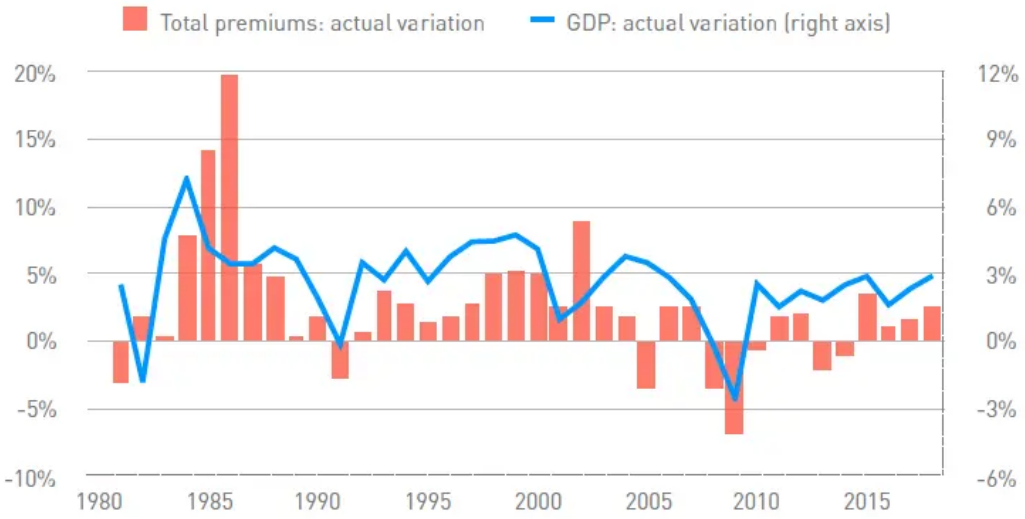
United States

When looking at what has happened in the US insurance market in the most severe crises over the last four decades, it is noted that the crisis that is closest to the current situation is that of 2007-2009, with GDP falling by -2.5%. This led to a decline in insurance industry premiums of -7% in 2009, with no clear signs of recovery since then, unlike the crises of the 1980s and 1990s, which were accompanied by a solid recovery with real growth

exceeding GDP growth once the economy regained its growth path (see Chart 1).

Chart 1

United States: analysis of the impact of economic crises on the insurance market



Source: MAPFRE Economics (with data from Swiss RE and OEF/Haver)

Japan

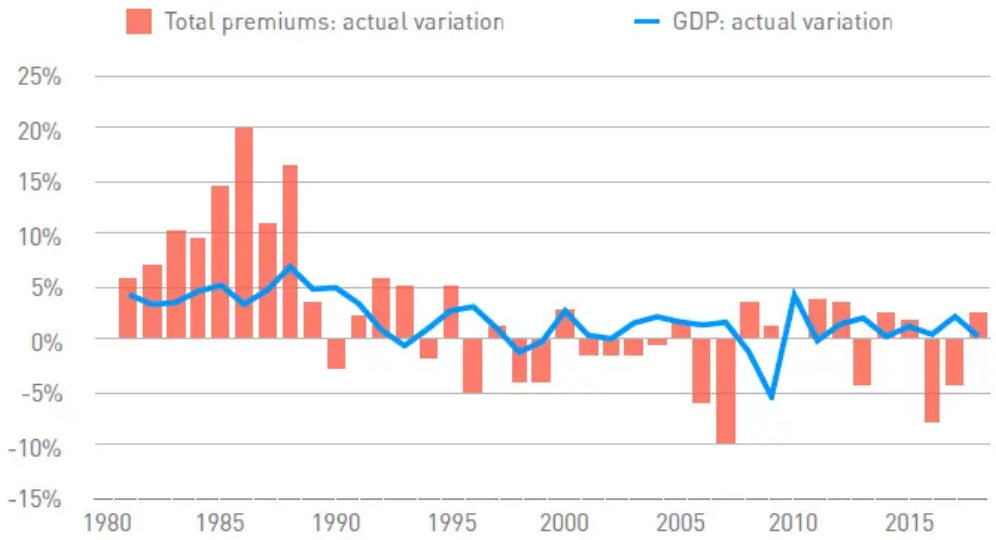
Within developed markets, Japan is particularly interesting. MAPFRE Economics' analysis of the worst economic crises of recent decades shows that the bursting of Japan's housing bubble in the early 1990s marked a turning point both in economic growth and in the development of the country's insurance industry; a structural situation that has not yet fully recovered to date. Thus, in the 1990s (the "lost decade"), solid and sustained growth in the Japanese insurance market does not recover. Since then, its economy and insurance industry have alternated between periods of weak growth with setbacks, some significant, as can be seen in Chart 2.

Spain

If the most recent economic crises in Spain since 1980 are taken as a reference, the time that most closely compares to the current situation in the sector in terms of severity of the expected impact are the two crises of the 2007-2012 period. They were virtually consecutive, which led to sharp drops in GDP and a decline in insurance industry premiums also in single years (see Chart 3).

In that period, GDP fell from -3.8% and -3% in 2009 and 2012, respectively, which led to a decline in insurance industry premiums of -8.8% and -7.4% in 2010 and 2012, particularly affecting the Life business but also automobiles, industrial multirisk, third-party liability, transport (hull and merchandise) and credit insurance. However, health, homeowners and

Chart 2
Japan: analysis of the impact of economic crises on the insurance market

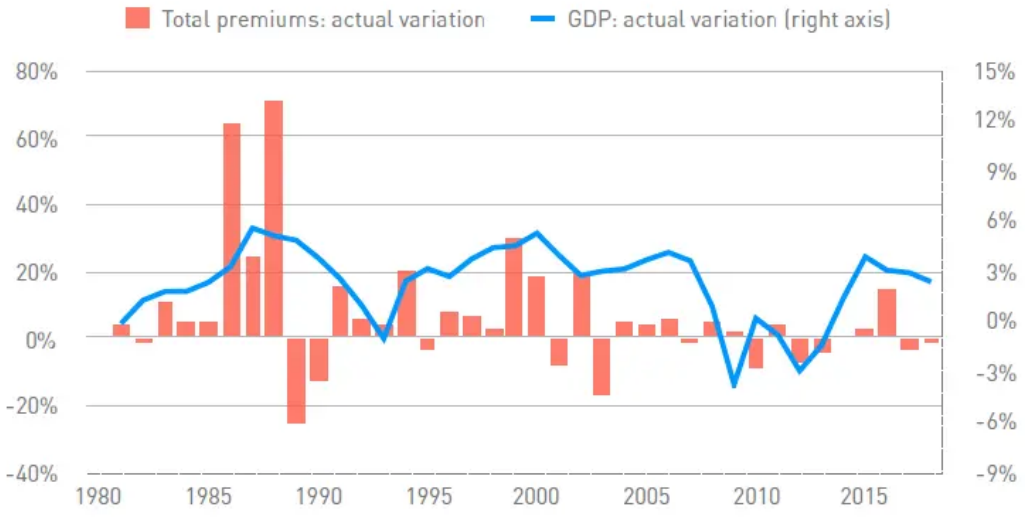


Source: MAPFRE Economics (with data from Swiss RE and OEF/Haver)

condominium insurance lines were resistant at the worst moments of those crises and only slowed down.

Once these moments passed, the aftermath of the European Central Bank's (ECB) stimulus measures at the time, with interest rate declines to negative levels (which remain in place today and are going to continue for a long time), led to the growth of insurance premiums in subsequent years

Chart 3
Spain: analysis of the impact of economic crises on the insurance market



Source: MAPFRE Economics (with data from Swiss RE and OEF/Haver)

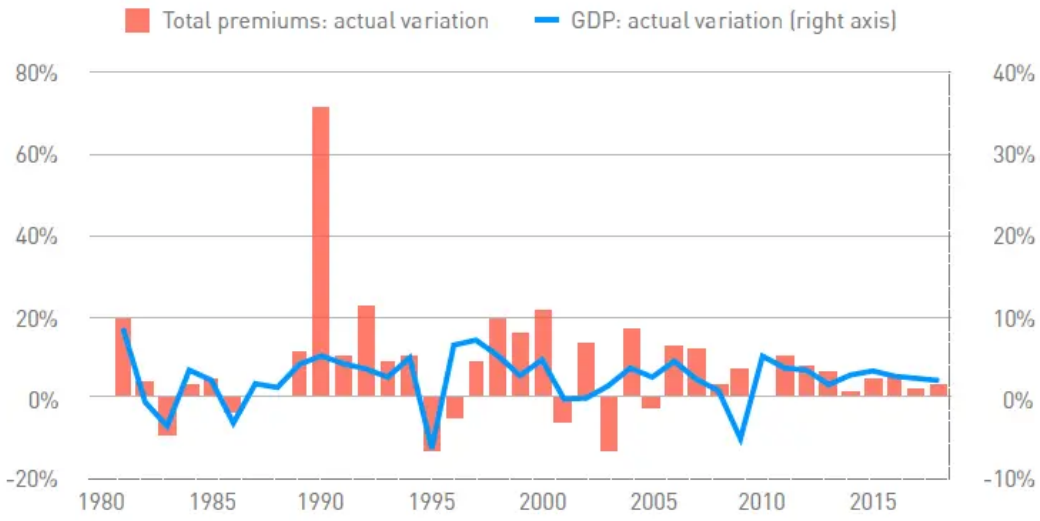
anchored at low, even negative, levels that were below GDP growth. This was essentially because of the effect of the low interest rate environment on the traditional life annuity and Life savings insurance business. However, it should be noted that the Non-Life business lines again experienced significant growth after the crisis, and health insurance premiums even showed a countercyclical behavior. One of the drivers of growth of the sector in this period was the Non-Life business. However, it should be noted that the slowdown and subsequent recession of the late 1980s and early 1990s are not representative of the distortion in the growth of insurance premiums, which involved the process of externalizing companies' pension commitments to their workers that took place at that time.

With regard to the effects of the current crisis on the balance sheets and solvency of insurance companies, it is worth mentioning the fact that the Spanish insurance industry has traditionally had a markedly conservative nature in its investments, in which Spanish and other eurozone sovereign bonds are the main investment, which, having been backed by the ECB's broad asset acquisition programs, have a more limited risk. This feature, which was starting to be questioned due to reasons of profitability (as is often the case in periods of low interest rates and good stock market behavior), has proved to be an appropriate policy that is allowing the sector to deal with the current complex situation with solvency.

Mexico

From the analysis of what has happened in the Mexican insurance market in the economic crises experienced since 1980, it is observed that, during the 1995 crisis, GDP fell by -6.5%. This led to a drop in insurance premiums of -13% during that year and -5% during the following year, despite the economic recovery (see Chart 4). However, during the next four years, the

Chart 4
Mexico: analysis of the impact of economic crises on the insurance market



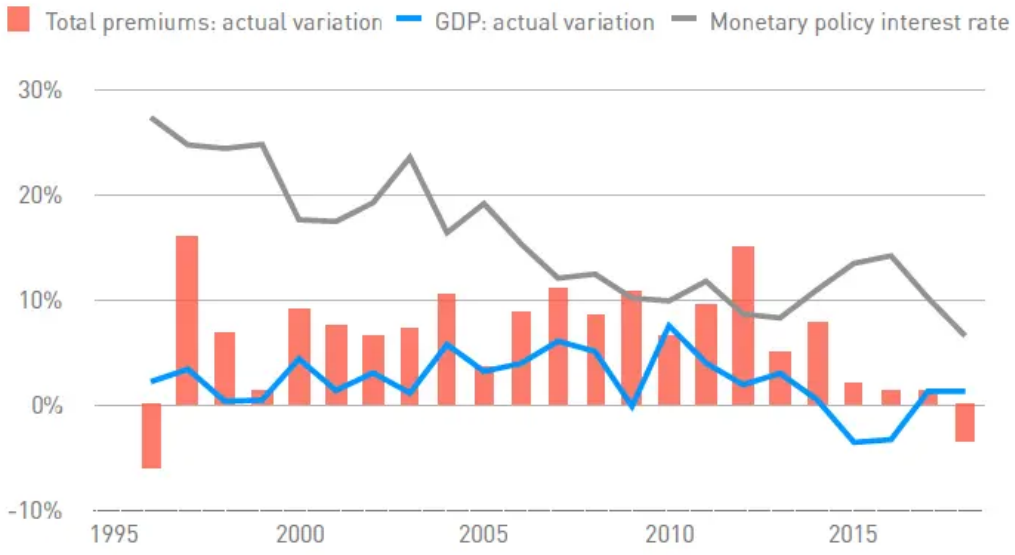
Source: MAPFRE Economics (with data from Swiss RE and OEF/Haver)

insurance industry experienced strong growth, well above GDP growth, with real average growth (once the effect of inflation had been corrected) of 16% per year. During the Great Recession of 2007-2012, the Mexican insurance industry showed great resilience, slowing down but without experiencing setbacks despite the -5% GDP decline in 2009. In this year the insurance industry experienced real growth of 7%, anticipating the subsequent economic recovery. It should be noted that the low level of insurance penetration in the Mexican economy, which results in economic conditions that produce higher growth in the insurance business, also helped in these recoveries, as is often the case in other emerging markets.

Brazil

In Brazil, the previous situation that best compares to the current period would be that of 2015 and 2016, when GDP fell by -6.8% overall (see Chart 5). During that period, the insurance industry experienced a sharp slowdown, but without experiencing setbacks (from 8% growth in 2014 to 2% in 2015 and 2016, in real terms). However, it must be clarified that, at the time, the Brazilian central bank adopted a contractionary monetary policy with strong interest rate rises in order to control inflation. This measure favored the development of Life savings insurance, a major business in the Brazilian insurance market. On this occasion, however, the monetary policy applied is being accommodative (with lower interest rates), and therefore this favorable effect on the Life business cannot be relied upon. In this context, the insurance industry could experience a reduction in total turnover, in real terms, unlike what happened during the previous crisis.

Chart 5
Brazil: analysis of the impact of economic crises on the insurance market



Source: MAPFRE Economics (with data from Swiss RE and OEF/Haver)

In addition to the expected fall in turnover is the negative effect on the shareholders' equity of insurance companies resulting from increased volatility and risk premiums in financial markets. However, in the face of this complex outlook, it is also important to note that the return to recovery planned for 2021 would lead to an intense recovery of the insurance business, as can be seen in the analysis of the series shown in Chart 5. Here, moderate GDP growth is seen to lead to larger growth in the insurance business, characteristic of emerging markets, where the low level of insurance penetration in the economy makes its elasticity in the event of GDP growth higher than in developed markets, where the level of competition and saturation of insurance markets is higher.

Other emerging and developed markets

The following link contains the "2020 Economic and Industry Outlook: Second Quarter Perspectives" report prepared by MAPFRE Economics, which provides a similar analysis for the insurance markets of Argentina, Turkey, the Philippines, China, Germany, Italy and the United Kingdom.

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