

## 13th Global Insurance Symposium

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# The Effect of Covid-19 on the Insurance Industry and Insurance Companies' Strategic Consequences

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# The International Center for Insurance Regulation (ICIR)

Located at the Goethe University Frankfurt, Germany, the ICIR is an **independent research center** with an **international and interdisciplinary** approach for **INSURANCE ECONOMICS** and **INSURANCE REGULATION** with its three missions: **Research, (Executive) Education and Policy Platform**



# Covid-19 Pandemic Mega-Topic of 2020

- Nearly 1 million **deaths** by 19 September 2020
- **Economic downturn**
- But also **chances**:  
digitalization, home office, less business trips
- Covid-19 pandemic **affecting the insurance industry**
- Try to **derive strategic consequences**
- Structure my presentation (in principle) according to an **insurer's balance sheet**:
  - Liability side
  - Asset side



# Allianz Group: Key Figures for the First Half Year 2020 (by 5 August 2020)

	6M 2020	6M 2019	Delta	
<b>Total revenues</b>	<b>73.5</b>	<b>73.5</b>	<b>0.0%</b>	
- Property-Casualty <sup>1</sup>	33.8	32.9	2.6%	
- Life/Health	36.4	37.4	-2.8%	
- Asset Management	3.5	3.3	5.2%	
- Corporate and Other	0.1	0.1	-6.0%	
- Consolidation	-0.3	-0.3	-8.9%	
<b>Operating profit / loss</b>	<b>4,869</b>	<b>6,121</b>	<b>-20.5%</b>	
- Property-Casualty	2,175	2,838	-23.4%	
- Life/Health	1,810	2,327	-22.2%	
- Asset Management	1,319	1,251	5.4%	
- Corporate and Other	-432	-296	45.9%	
- Consolidation	-3	1	n.m.	
<b>Net income</b>	<b>3,101</b>	<b>4,316</b>	<b>-28.1%</b>	
- attributable to non-controlling interests	174	207	-16.0%	
- attributable to shareholders	2,927	4,109	-28.8%	
<b>Basic earnings per share</b>	<b>7.07</b>	<b>9.76</b>	<b>-27.6%</b>	
<b>Diluted earnings per share</b>	<b>6.94</b>	<b>9.75</b>	<b>-28.8%</b>	
<b>Additional KPIs</b>				
- Group	Return on equity <sup>2, 3</sup>	10.0%	13.6%	-3.5% -p
- Property-Casualty	Combined ratio	96.7%	94.0%	2.7% -p
- Life/Health	New business margin	2.9%	3.5%	-0.6% -p
- Life/Health	Value of new business	851	1,153	-26.2%
- Asset Management	Cost-income ratio	62.2%	62.3%	-0.1% -p
	06/30/2020	12/31/2019		
<b>Shareholders' equity<sup>3</sup></b>	<b>72.1</b>	<b>74.0</b>	<b>-2.5%</b>	
<b>Solvency II capitalization ratio<sup>4</sup></b>	<b>187%</b>	<b>212%</b>	<b>-26% -p</b>	
<b>Third-party assets under management</b>	<b>1,658</b>	<b>1,686</b>	<b>-1.7%</b>	

## Oliver Bäte Chief Executive Officer of Allianz SE



“The pandemic continues to be a challenge for all industries. Nevertheless, Allianz has achieved robust results and shown a remarkable resilience in the first six months of 2020. It makes us confident that we will see a solid financial performance also in the second half of 2020.”

# Munich Re: Key Figures for the Second Quarter 2020 (by 6 August 2020)



## Joachim Wenning

Chief Executive Officer of Munich Re

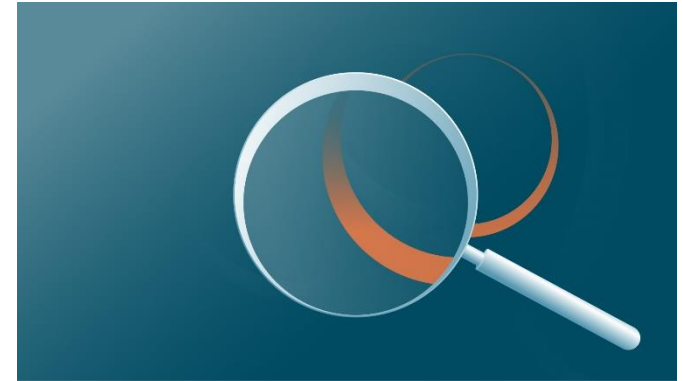


“Munich Re will emerge from this crisis economically stronger. We are growing profitably, while taking steps to benefit from the significantly improved market conditions for reinsurers. ...

Prices have risen in nine consecutive renewal rounds, and premium income has grown correspondingly. With our high-quality portfolio, we expect to post a premium volume of €54bn in 2020 – which would set a new record in the 140-year history of Munich Re.”

# Covid-19 and the Insurance Industry

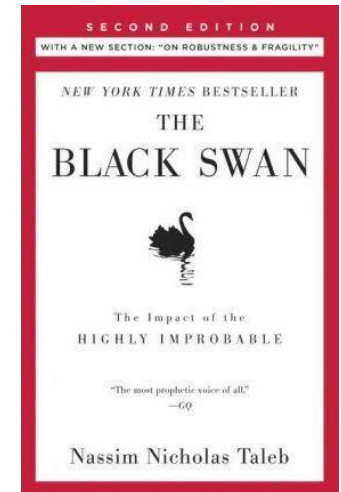
- Insurers and reinsurers **hit hard** by the crisis
- Payment **obligations not ultimately clarified**
- **Indirect consequences** hard to predict
- But, seemingly, **no existential threat** through Covid-19
- Reasons?





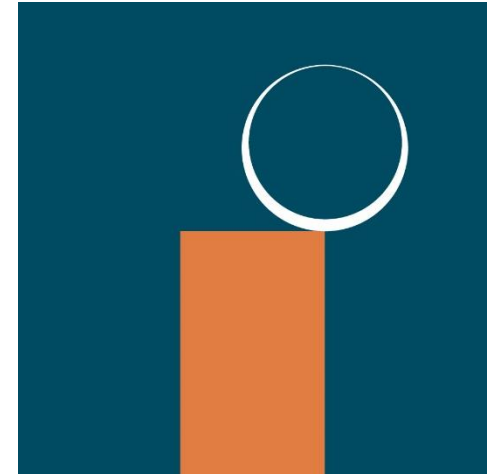
# Covid-19 and the Insurance Industry

- Insurance industry **well prepared** for pandemic outbreak
- Covid-19 no „**Black Swan**“
- **Pandemic risks** often **excluded** especially from business interruption insurance contracts
- Reasons?



# Reasons for not offering pandemic insurance

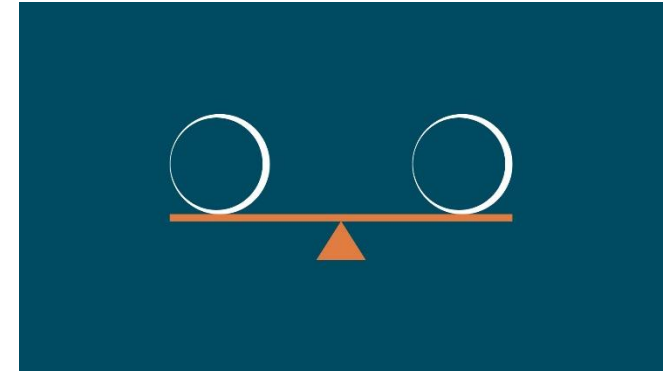
- **High individual losses**
- Losses affect many policyholders at the same time
- Therefore, **risk pooling** as a risk management tool of insurers **hardly effective**
- Therefore possibly **existentially threatening aggregate losses**
- **Risk of “double hit”**: Also losses on the investment side
- **Meltdown of equity capital**





# Market for pandemic insurance?

- **Insurance premiums** would have to cover
  - Cumulative risk
  - Systematic risk  
(simultaneous insurance and investment losses)
  - Financial distress risk
- **Demand** for pandemic risk insurance given risk adequate premiums?
- Insurance solutions provide **equity capital**
  - Through ordinary insurance contracts
  - Through capital market-oriented solutions



# Strategic Consequences

**Strategic Consequence #1:**  
**Build up Public-Private Partnerships**  
**for Offering Pandemic Insurance**



# Strategic Consequences

## Strategic Consequence #1:

**Build up Public-Private Partnerships  
for Offering Pandemic Insurance**

## Strategic Consequence #2 (for policymakers):

**Prepare for a new pandemic by setting up  
or supporting insurance solutions.**

**These can be private insurance solutions  
offered by the insurance industry and  
financially supported by governments,  
or insurance solutions offered by governments  
through issuing catastrophe bonds.**



# Strategic Consequences

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## Pandemic Insurance through Pandemic Partnership Bonds: A Fully Funded Insurance Solution in a Public Private Partnership

Policy Letter No. 86


**Authors:** [Helmut Gründl](#),  
[Fabian Regele](#)

**Research Area:** Financial Markets

**Date:** May 2020

**Keywords:** Covid-19-Crisis, catastrophe bond, public private partnership, pandemic insurance

**Abstract:** This Policy Letter outlines a pandemic insurance solution through a pandemic-related "Insurance Linked Bond". It would be originated by governments, with a principal amount to cover significant costs resulting from a pandemic. These bonds, which would be traded on a secondary market, generate a risk-adequate return for private and institutional investors that is financed through the insurance premiums paid by the public domain. In case of a pre-defined pandemic trigger event, the principal of the bond becomes available for the originating governments to cover pandemic-related costs. Through this approach, governments can insure themselves against future pandemic-related risks, while funding comes primarily from private and institutional investors.

 [Link to Publication](#)

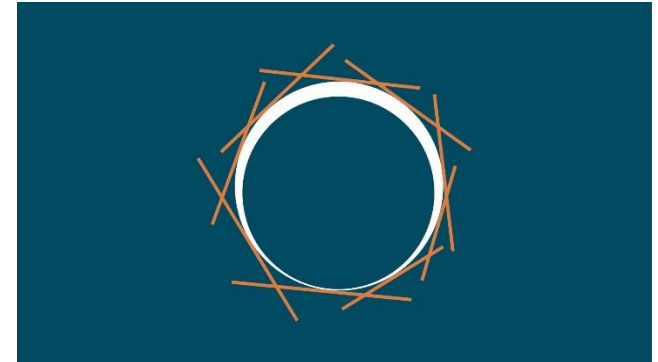
# Strategic Consequences

**Strategic Consequence #3:**  
**Become more transparent and  
improve communication with policyholders  
as to the (pandemic) risks  
covered in insurance contracts.**



# Strategic Consequences

**Strategic Consequence #4:**  
**See the competitive advantages**  
**of building up trust**  
**through generous claims handling.**

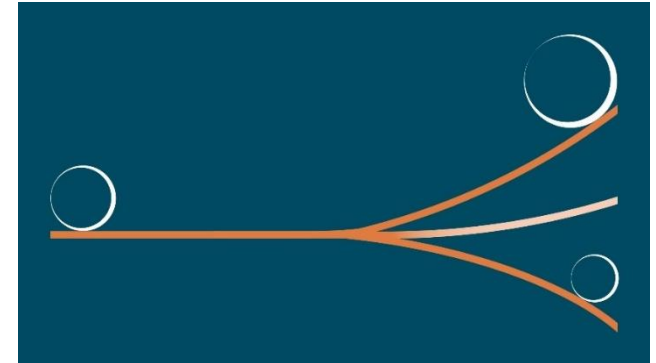


# Strategic Consequences

## Strategic Consequence #5:

**Develop integrated risk management concepts for coping with pandemic risks.**

**This may spread over to other kinds of risks.**





# Consequences for the Asset Side

## MXAP:IND MSCI AC Asia Pacific Index

**173.90** USD +0.83 +0.48% ▲

OPEN  
173.24

PREV CLOSE  
173.07

1 YEAR RETURN  
12.14%

YTD RETURN  
1.90%

DAY RANGE  
172.80 - 174.07

52 WEEK RANGE  
121.18 - 175.90

+ ADD TO WATCHLIST

● MARKET CLOSED  
AS OF 09/18/2020 EDT



## LAPCTRJU:IND Bloomberg Barclays Asian Pacific Aggregate Total Return Index Value Unhedged JPY

**153.91** JPY -0.04 -0.03% ▼

OPEN  
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PREV CLOSE  
153.95

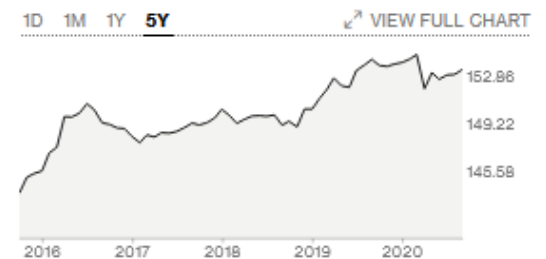
1 YEAR RETURN  
-0.33%

YTD RETURN  
-0.44%

52 WEEK RANGE  
151.60 - 156.29

+ ADD TO WATCHLIST

● MARKET CLOSED  
AS OF 09/18/2020 EDT



# Consequences for the Asset Side

- **Worldwide decline of stock and bond prices in March 2020**
- **Speedy recovery** of capital markets
- **Long-term indirect effects of Covid-19 on assets?**
  - Restructuring of the economy
  - Fundamental change of investment values, e.g. property prices

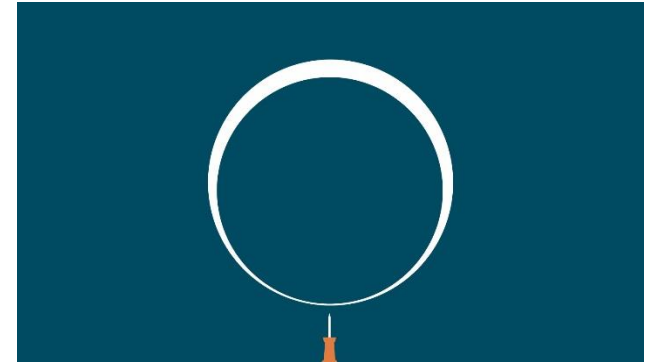


# Strategic Consequences

## Strategic Consequence #6:

**Pay attention to the specific exposure of your investment portfolio to direct and indirect Covid-19 effects.**

**Especially the indirect, long-term effects can induce restructuring of the investment portfolio.**



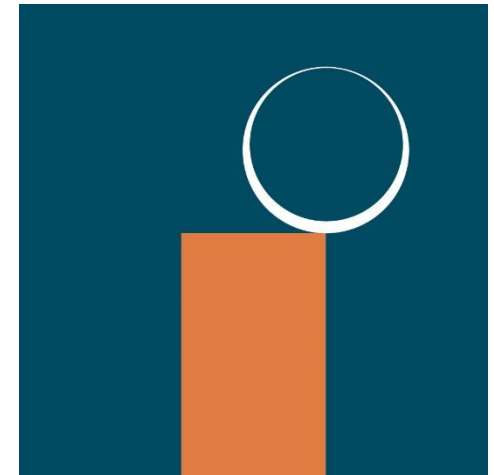
# Strategic Consequences (back to the insurance business)

## Strategic Consequence #7:

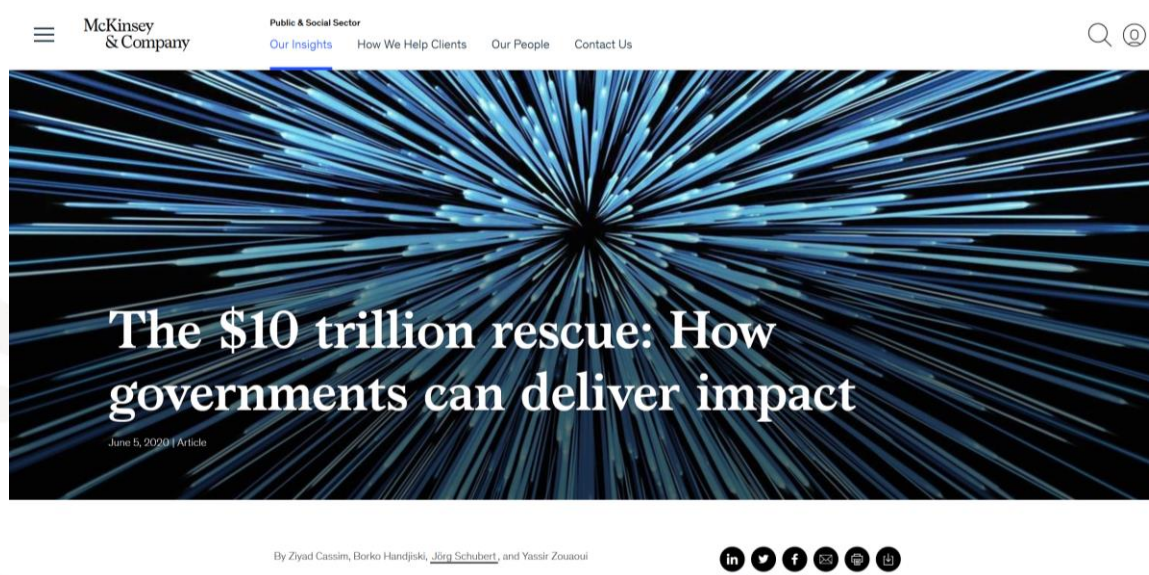
**Pay attention to the specific exposure of your insurance portfolio to indirect and long-term Covid-19 effects.**

**The sources for economic values added may change due to a change of the business structure in the economy.**

**Insurers need to be very close to these developments to avoid wrong investment decisions, especially in long-term investments.**



# Strategic Consequences

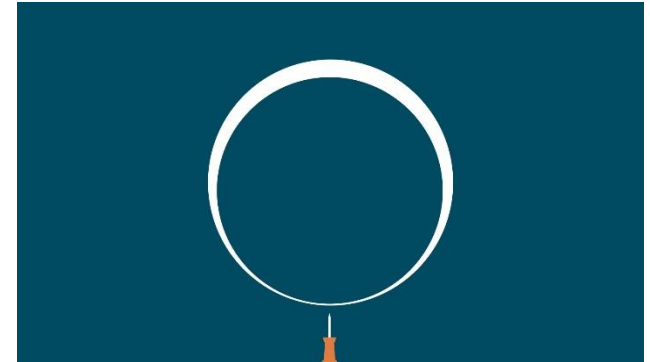


- Public debt-financed rescue packages
- A major risk for insurance companies?
- Downgrading may trigger fire sales

# Strategic Consequences

## Strategic Consequence #8:

**Insurers, especially life insurers, should rethink their investments in government bonds in the light of Covid-19-induced increased public debt and subsequent default risk.**



# Thank you!

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