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Economics & INSURANCE

MAPFRE
Economics

Posts

Introduction

Issue six of the *Economics and Insurance* magazine features a whole new design. This more modern, dynamic and intuitive format was born from a desire to simplify navigation for readers. In addition, readers now have the option to download previous issues in PDF format. These changes to the magazine's format make it an even more effective communication space for MAPFRE Economics to disseminate its research and reports more widely.

The latest issue includes a summary of two recent insurance market studies produced by MAPFRE Economics. The first, *The Spanish insurance market in 2019*, includes an analysis of the Spanish insurance industry's growth over the course of 2019 along with an update on developments up to Q3 of 2020. The second is titled *The Latin American insurance market in 2019* and provides an overview of the industry's performance in the region. In both cases, the reader can also access the full reports for more detail on the markets discussed.

Elsewhere in the issue, two articles have been drawn from the report *2020 Economic and industry outlook: fourth quarter perspectives*. One of them outlines the global macroeconomic outlook, and the other describes the outlook of the insurance industry. Both these articles feature revised 2020 economic growth forecasts and discuss the impact of these on the insurance industry.

Finally, the article titled *Life insurance* sets out the key elements, in terms of coverage, that are commonly considered when structuring a Life insurance product. Readers can also find out more about the different Life insurance products available across a range of selected insurance markets. Further information on these can be found in the MAPFRE Economics report *Elements for the development of Life insurance.*

We hope you enjoy the magazine's new look and the content featured in the latest issue.

MAPFRE Economics

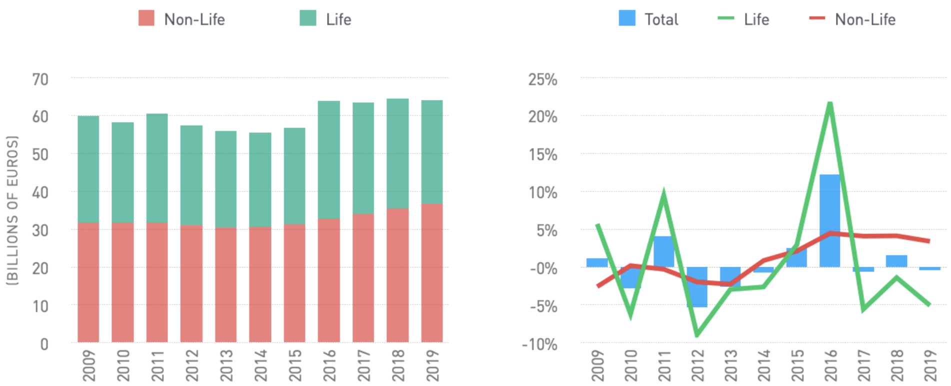
The Spanish Insurance Market in 2019

Author: MAPFRE Economics

Summary of the report's conclusions:
MAPFRE Economics
The Spanish Insurance Market in 2019
Madrid, Fundación MAPFRE, July 2020

In 2019, prior to the deep recession brought about by the pandemic, Spain's economy was showing a gradual slowdown, which was impacting the growth of the insurance industry. As a result, economic growth in that year was 2 percent (compared to 2.4 percent in 2018), while total insurance premiums fell 0.4 percent, compared to 1.5 percent growth in the previous year *(see Chart 1)*. The premium volume in 2019 was 64.5 billion euros, representing 5.15 percent of GDP that year (compared to 5.33 percent of GDP in 2018).

Chart 1
Trends in direct insurance in Spain, 2009-2019
(earned direct insurance premiums, billions of euros; annual variation, %)



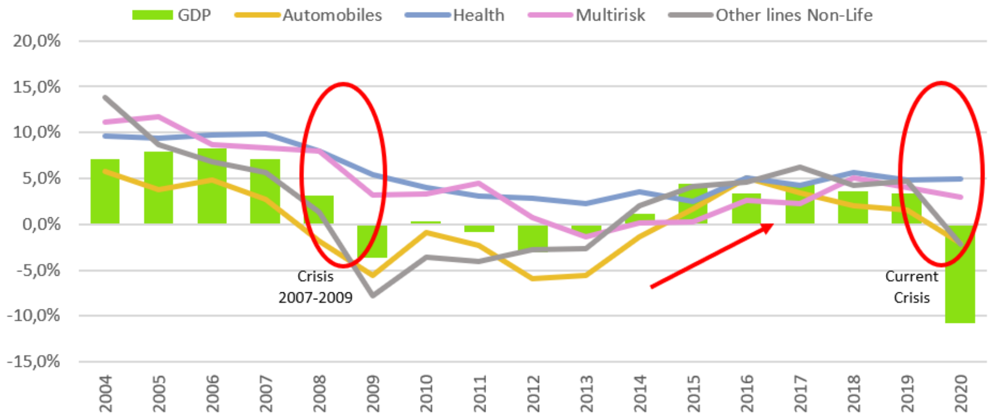
Source: MAPFRE Economics (based on ICEA data)

The main reason for the decline in the insurance industry in 2019 stemmed from the poorer performance of Life insurance, which fell 5.1 percent. By contrast, growth in Non-life insurance slowed but remained positive at 3.4 percent (compared to 4 percent in 2018). For another year running, Life insurance was negatively impacted by the backdrop of low interest rates as well as the economic slowdown, which negatively affected Life savings product premiums. However, despite the fall in premiums, the volume of managed savings stemming from Life insurance did not decline, instead growing 3.4 percent.

As **2020 progresses**, the latest data from ICEA (*Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones* – the research arm of the Spanish insurance industry) for the first nine months of the year reflect the impact experienced by the insurance industry as a result of the sharp economic downturn brought about by the pandemic. This includes a drastic fall in Life insurance premiums (down 25.8 percent) along with a marked slowdown in the Non-life business, which nonetheless experienced aggregate growth of 0.65 percent. Conversely, managed savings in the Life business continue to show resilience, reaching 192.9 billion euros, which represents a slight downturn of 1 percent.

As a result, the patterns of behavior currently being seen in the insurance industry are beginning to show marked similarities to those observed during the 2007–2009 crisis. During that time, GDP fell 3.8 percent (in 2009), which drove a decline in premiums in the insurance industry of 7.8 percent and 10 percent in the Non-life and Life businesses respectively in real terms in 2010. Amid the current crisis, Life is the most affected business line to date (down 27.8 percent in premiums and down 0.75 percent in managed savings). However, some insurance lines within the Non-life segment, such as health insurance and multirisk (especially for homeowners) have shown great resilience, much as they did during the 2007–2009 crisis. The 2007–2009 crisis continued for several years, being linked to the eurozone sovereign debt crisis. Once economic recovery began, all Non-life business lines experienced significant growth *(see Chart 2)*.

Chart 2
Non-Life premiums: crisis 2007-2009 versus crisis 2020
(annual variation,%)



Source: MAPFRE Economics (using ICEA data)

Automobile insurance remains the line with the largest premium volume in the Non-life insurance segment, accounting for 30.9 percent at the close of 2019 *(See Table 1 for details)*. The data up to September 2020 shows a 2 percent downturn in automobile insurance premiums compared to the same period in the previous year.

Table 1
Trends in average Automobile insurance premium, 2009-2019
(millions of euros; annual variation, %)

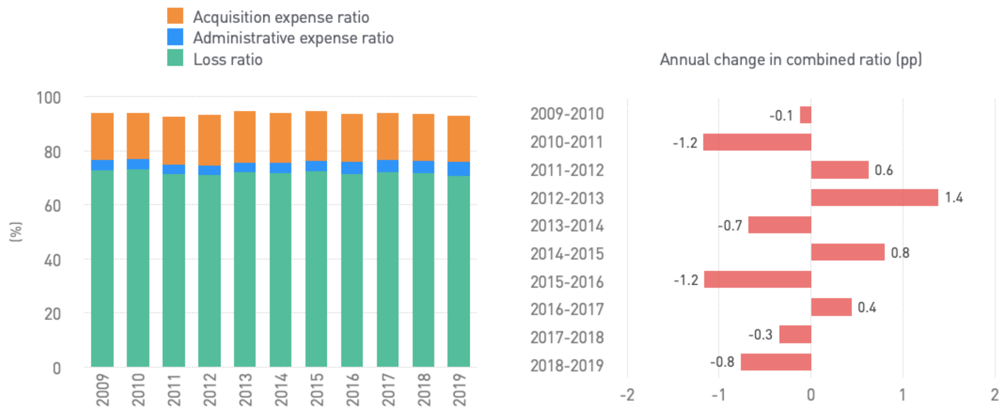
Year	Insured vehicles[1]		Direct insurance premiums[2]		Average premium		
					In euros	% variation	
	(millions of euros)	% variation	(millions of euros)	% variation		Nominal	Real
2009	28.8	-0.2 %	11.662	-5.6 %	405	-5.4 %	-6.2 %
2010	28.7	-0.3 %	11.553	-0.9 %	403	-0.6 %	-3.5 %
2011	28.9	0.8 %	11.285	-2.3 %	390	-3.1 %	-5.4 %
2012	28.7	-0.7 %	10.622	-5.9 %	370	-5.2 %	-7.9 %
2013	28.6	-0.4 %	10.033	-5.5 %	351	-5.1 %	-5.4 %
2014	28.8	0.7 %	9.891	-1.4 %	343	-2.1 %	-1.1 %
2015	29.1	1.1 %	10.061	1.7 %	345	0.6 %	0.6 %
2016	29.8	2.4 %	10.574	5.1 %	354	2.6 %	1.0 %
2017	30.6	2.6 %	10.932	3.4 %	357	0.8 %	-0.3 %
2018	31.5	2.7 %	11.146	2.0 %	354	-0.8 %	-1.9 %
2019	31.8	1.0 %	11.315	1.5 %	356	0.5 %	-0.3 %

Source: MAPFRE Economics (based on FIVA, ICEA and Insurance Compensation Consortium data)

[1] *Fichero Informativo de Vehículos Asegurados* (FIVA - Information Database for Insured Vehicles)
[2] Direct insurance premiums for insurance companies and the Insurance Compensation Consortium

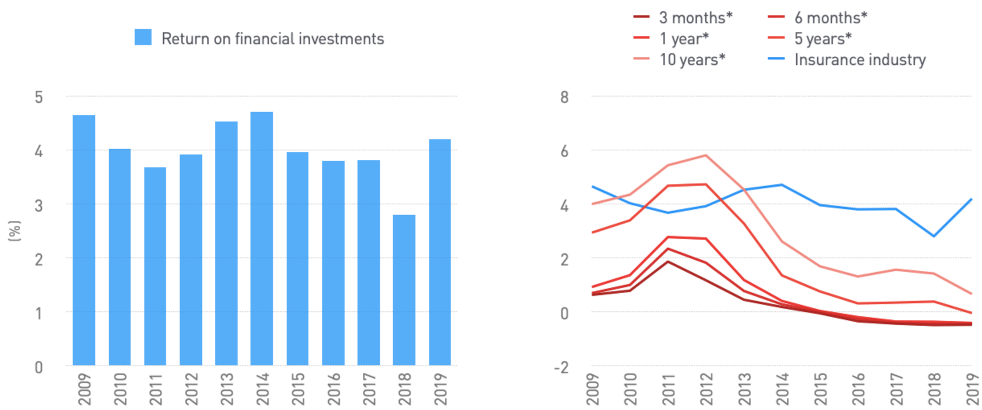
In terms of profitability, the combined ratio for the Non-life insurance segment in 2019 continued to improve, as seen in recent years, standing at 92.9 percent *(see Chart 3)*. This great improvement in technical profitability continues to allow the Spanish insurance industry to largely compensate for the profit losses experienced by investment portfolios in recent years given the backdrop of low interest rates. 2019 even saw a positive rebound in the profitability of investment portfolios at sector level, as a result of market spreads in fixed income portfolios being relaxed. This had an impact on the valuation of these portfolios, although the trend remains downward *(see Chart 4)*.

Chart 3
Trends in the Non-Life combined ratio, 2009-2019
(total combined ratio, %; annual change in combined ratio, pp)



Source: MAPFRE Economics (based on ICEA data)

Chart 4
Return on the insurance industry's financial investments, 2009-2019
(financial income/average investment, %; risk-free interest rate, %)



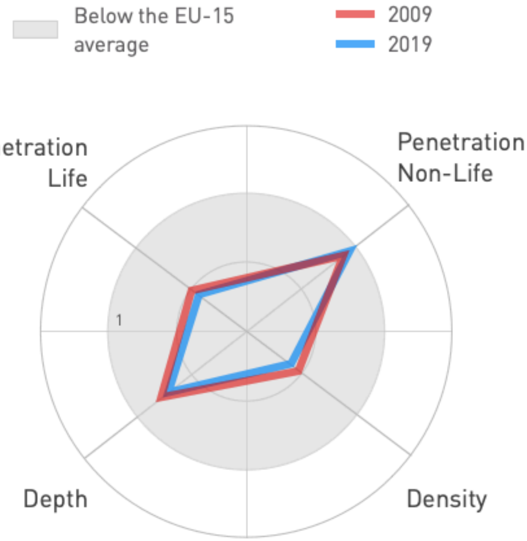
Source: MAPFRE Economics (based on DGSFP data)
* Average annual Spanish Government bond yield of specified tenor.

When considering relative profitability in terms of return on equity (ROE) and return on assets (ROA), 2019 saw a slight downturn compared to the previous year with ROE at 10.9 percent (compared to 11.4 percent in 2018) and ROA at 1.4 percent (compared to 1.5 percent in 2018).

Conversely, the insurance industry recorded slight falls in penetration, density and depth indices compared to the previous year. Non-life insurance saw a slight increase in penetration and density, however this was not sufficient to compensate for the downturns in the Life business and these indicators remain below their corresponding averages for the 15 major European Union economies *(see Chart 5)*.

Chart 5
Spain: elements of structural market performance, 2009 and 2019

COMPARATIVE INDEX OF STRUCTURAL COEFFICIENTS* VS EU-15 AVERAGE



Source: MAPFRE Economics

* Indices calculated as the quotient between country values for the structural coefficient in question, and average values for the overall EU-15 market during the year indicated. The unit represents a performance equivalent to the EU-15 average.

A detailed breakdown of the different business lines and structural trends over the last decade can be found in the report on The Spanish Insurance Market in 2019, compiled by MAPFRE Economics.

The Latin American Insurance Market in 2019

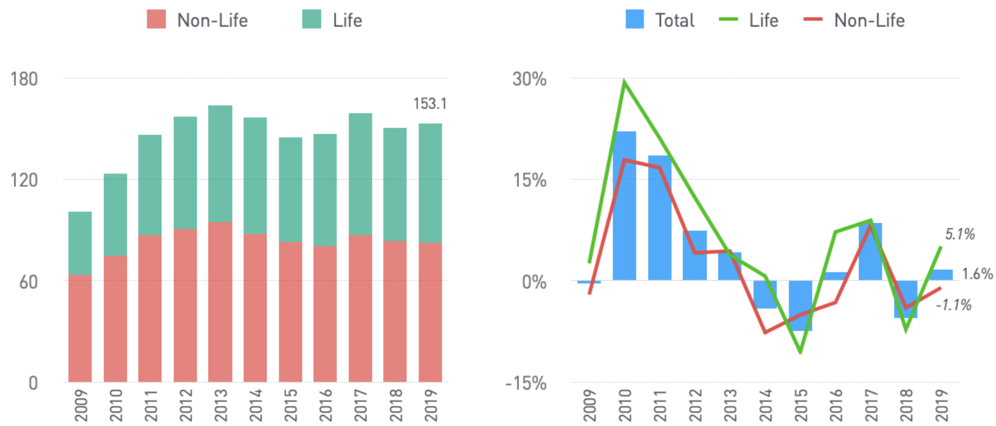
Author: MAPFRE Economics

Summary of the report's conclusions:
MAPFRE Economics
The Latin American Insurance Market in 2019
Madrid, Fundación MAPFRE, September 2020

In 2019, the Latin American and Caribbean economy grew 0.1 percent, compared to real GDP growth of 1 percent in the previous year. The region's economic activity therefore continued to suffer the weak growth momentum of the previous five years, making the revival of economic growth both more urgent and more fraught with difficulty. It was in this challenging context that the crisis began at the start of 2020 as a result of the lockdown and social distancing measures implemented to tackle the COVID-19 pandemic. This was accompanied by the fall in the price of oil, other raw materials and commodities, in addition to significant turbulence in the foreign exchange markets and foreign investment flows, making the economic outlook extremely complex in 2020.

In 2019, total insurance premiums in Latin America and the Caribbean amounted to 153.05 billion US dollars, of which 54 percent came from Non-Life insurance and the remaining 46 percent from Life insurance. Insurance market performance in the region has seen a year of increased contrast in which the economic climate has affected the two major insurance business segments differently. The region's relatively stagnant economic situation continues to impact the performance of the Non-Life segment, which saw a drop in premiums of -1.1 percent at the aggregate level. The Life business, however, performed exceptionally well, with growth of 5.1 percent *(see Chart 1),* aided by a favorable interest rate environment that offset the negative impact of the economic cycle on its development.

Chart 1
Latin America: growth developments in the insurance market, 2009-2019
(premiums, billions of USD; nominal annual growth rates (%))

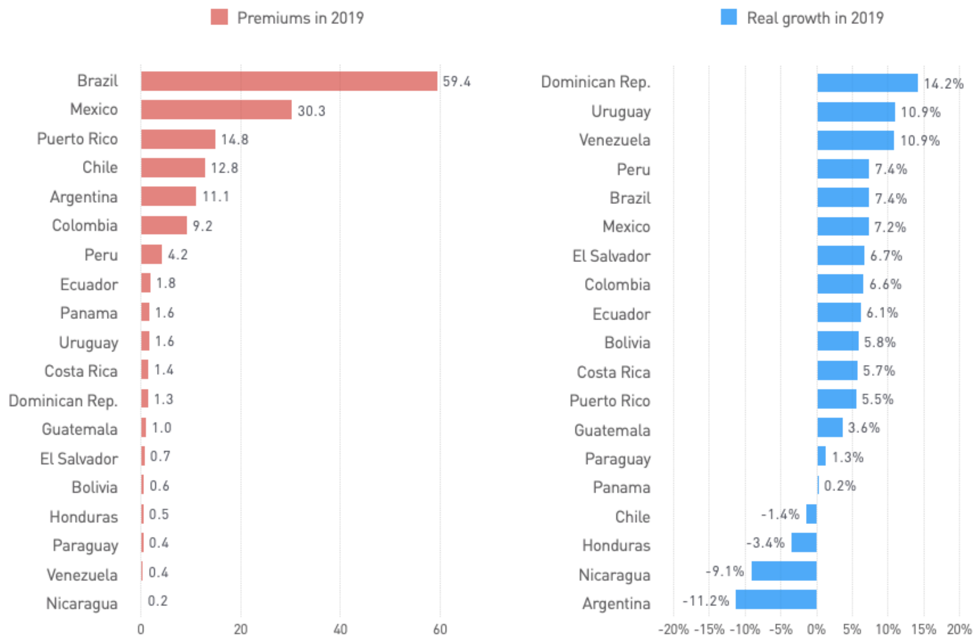


Source: MAPFRE Economics (based on data from supervisory bodies)

The widespread application of expansionary, accommodative monetary policies by virtually every country in the region is starting to leave the time when interest rates were high in the rearview, by producing sharp falls in short-term risk-free interest rates, with rate curves beginning to show positive slopes, in some very significant markets, such as in Brazil. Expectations of further declines in interest rates and the possibility of offering medium- and long-term interest rates higher than short-term rates (term premiums) have created a favorable environment in the region's main markets for marketing Life annuity and Life savings insurance at guaranteed interest rates, which has been reflected in the good performance of their respective markets, despite the environment of low economic growth.

Given this context, with the exception of the insurance markets in Argentina and Chile, the region's major markets by premium volume performed well in 2019 *(see Chart 2)*.

Chart 2
Latin America: premiums and real insurance market growth, 2019
(billions of USD; real growth in local currency, %)



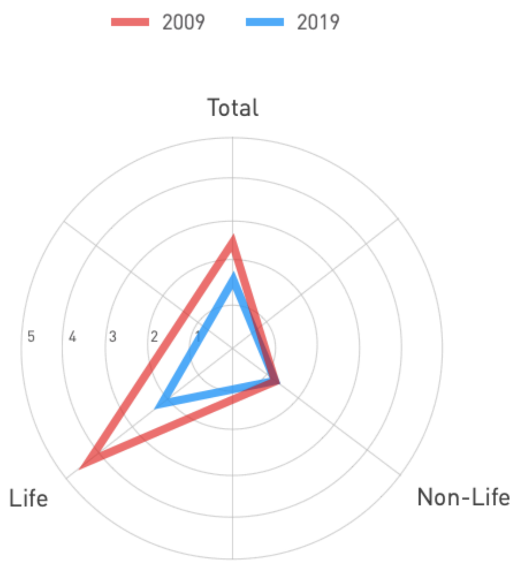
Source: MAPFRE Economics (with data from supervisory bodies in the region)

The markets in Mexico and Peru stand out in particular – they experienced exceptional growth measured in real terms both in their local currency (7.2 percent and 7.4 percent, respectively) and in US dollars (11 percent and 8 percent, respectively), with balanced growth in the Life and Non-Life segments. The Brazilian and Colombian markets also showed considerable real growth in their respective currencies (7.4 percent and 6.6 percent, respectively), although these figures were significantly lower when measured in US dollars (3.1 percent and -0.6 percent respectively). The growth in the Brazilian insurance market was thanks to the positive performance of the Life business, given that the Non-Life business experienced a slight decline in real terms. Among the other countries considered, Central American and Caribbean markets—with the exception of Nicaragua, Honduras and, to a lesser extent, Panama—also stood out for their good performance. Among the Andean states, the markets of Bolivia and Ecuador also stood out for their good performance.

As in other years, a positive note in 2019 for the region is the aggregate net result for the insurance industry, which experienced a growth of 13.5 percent compared to the previous year, amounting to 13.46 billion US dollars. Profits in US dollars were down year on year in the insurance markets of Argentina (-6.5 percent), Chile (-28.1 percent), Costa Rica (-22.6 percent), El Salvador (-2 percent), Nicaragua (-13.4 percent) and Paraguay (-0.2 percent), while all the other countries in the region reported growth.

Among the structural trend indicators, the average penetration index (premiums/GDP) of the insurance industry in the region stood at 2.9 percent in 2019, which was slightly higher than the previous year's index by 0.08 percentage points (pp). This indicator improved in the Life segment (1.4 percent, compared to 1.3 percent in the previous year) and remained unchanged in the Non-Life segment (1.6 percent). An analysis of the changes in this indicator since 2009 shows that there has been an increase of 0.5 percentage points, again confirming the growing trend we have seen over the last ten years, to which the development of the Life insurance segment contributed almost exclusively and that of the Non-Life insurance segment very slightly *(see Chart 3)*.

Chart 3
Latin America: the IPG as a multiple of the actual market

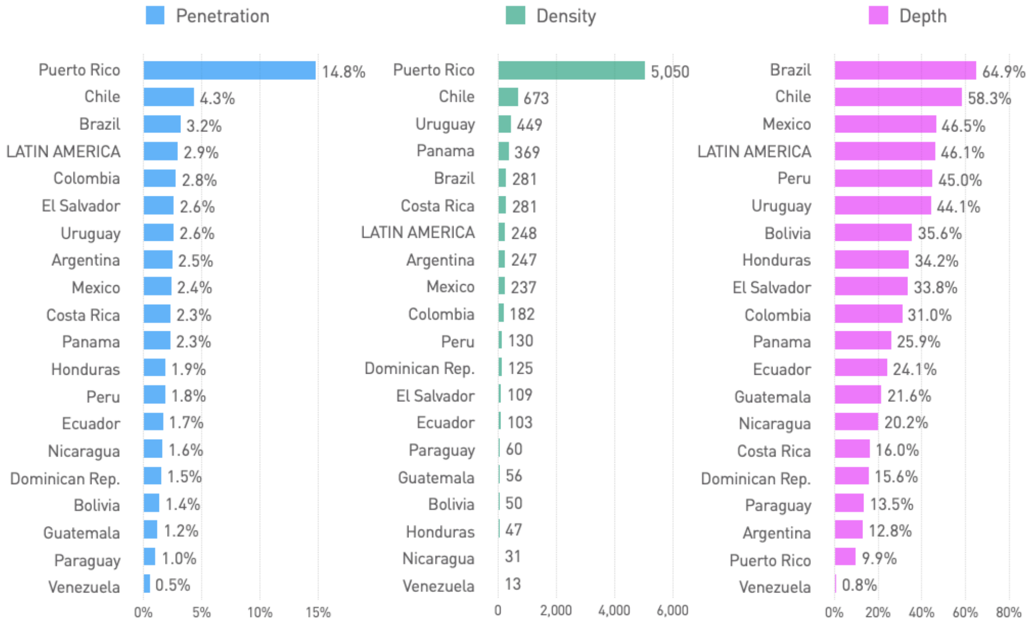


Source: MAPFRE Economics

The Insurance Protection Gap (IPG) for the Latin American insurance market in 2019 is estimated at 246.8 billion US dollars, 3 percent less than the figure estimated for the previous year. The structure of the insurance gap over the last ten years does not show significant changes, confirming the predominance of Life insurance and, therefore, its greater growth potential. The potential insurance market in Latin America (the sum of the actual insurance market plus the IPG) therefore stood at 399.8 billion US dollars, 2.6 times larger than the current regional market.

Finally, the comparison of the different countries in the region, in terms of penetration, density and depth–indicators that measure the level of development of their respective insurance markets–is shown in *Chart 4*.

Chart 4
Latin America: penetration, density and depth indexes, 2019
(premiums / GDP, %; premiums per capita, USD; Life insurance premiums / total premiums, %)



Source: MAPFRE Economics (with data from supervisory bodies in the region)

The full analysis of the structural trends and behaviors of the region's insurance industry can be found in the report The Latin American Insurance Market in 2019, prepared by MAPFRE Economics.

Global Economic Outlook

Author: MAPFRE Economics

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

After a sharp fall in the dynamics of global activity—triggered by a shock unlike any other experienced during the most recent economic crises—we now find ourselves in a phase of stabilization and temporary recovery. However, this recovery will be slow and full of downside risks that will be exacerbated by the trend of the COVID-19 pandemic. In light of this, we have revised our forecasts for economic growth in 2020, considering the positive effects of the fiscal and monetary policy measures and the relatively minor severity of health policy. Despite this, we must not ignore the resilience of the virus and the lack of preparation by many economies, which could mean that the improved dynamic of global economic activity is temporary and that this sluggishness will persist until the end of the year and into the beginning of 2021. For this reason, we have revised this year's forecasts upward. However, this will mean a deterioration in next year's forecasts, which will be weaker and varied at a global level.

Global growth for 2020 is expected to be around -4.4% in 2020 and 5.2% in 2021. It is likely that practically all global economies (with the exception of China) will register a decline in their GDP. Meanwhile, emerging and developing countries will see their sovereign leverage reach levels rarely seen before (over 120% of GDP in 2021) due to the enormous deficit needed to alleviate the consequences of the pandemic. The fiscal space for a greater fiscal stimulus therefore seems to have depleted.

Fiscal policy has been the cornerstone in terms of helping to overcome the initial slump and prevent liquidity problems from becoming solvency problems. The table below summarizes the fiscal efforts undertaken.

		Discretionary spending				Liquidity support			
		Additional expenses or foregone earnings			Accelerated expenses/ deferred revenue		Capital injections, loans, asset purchases and debt assumption	Contingent liabilities	
	Total	Subtotal	Health sector	Non-health sector		Subtotal		Guarantees	Quasi-fiscal operations
United States	14.2	11.8	1.5	10.3	0.1	2.5	0.3	2.2	
United States*	4.8	4.8							
European Union	10.7	3.8	0.0	3.8		6.9	6.3	0.6	
European Union**	5.2	2.6				2.6			
France	21.0	5.2	0.6	4.6	2.5	15.7	0.9	14.8	
Germany	39.2	8.3	0.7	7.7		30.8	6.0	24.8	
Italy	37.9	4.9	0.4	4.5	0.4	33.0	0.2	32.8	
Spain	17.7	3.5	0.5	3.0		14.2	0.1	13.2	0.9
Japan	35.0	11.3	1.0	10.3	4.9	23.7		3.0	20.7
United Kingdom	25.7	9.2	1.5	7.6	0.2	16.6	0.0	16.5	
Turkey	13.8	0.8	0.3	0.5	1.5	13.0	0.4	10.2	2.4
Argentina	6.0	3.9	0.2	3.7	0.0	2.1		2.1	
Brazil	14.6	8.3	0.9	7.4	2.9	6.3	1.0		5.3
Mexico	1.1	0.6	0.2	0.5	0.2	0.5	0.2		0.3
China	5.9	4.6	0.1	4.5	1.6	1.3		0.4	0.9
Indonesia	3.8	2.7	0.5	2.2		1.2	0.2	0.9	
Philippines	3.4	2.3	0.4	2.0		1.1	0.4	0.7	0.0

Source: MAPFRE Economics (based on data from the International Monetary Fund and Bruegel)

* If the 1 trillion US dollars proposed by the Trump administration is approved after the election.
** Corresponds to Next Generation EU (not yet paid in).

Monetary policy, for its part, was the key to stabilizing markets and the real economy at the beginning of the crisis. However, efforts in this area are currently focusing on guaranteeing expectations and liquidity with the aim of containing the significant rise in global risk aversion. The latter, exacerbated by each economy's vulnerabilities, is causing stability problems related to the balance of payments, either due to increased sovereign deficits or significant correction in portfolio flows, which has immediate effects on the current account, exchange rate and reserves of many emerging economies.

In short, the world is facing an unprecedented crisis, which is enormously challenging to overcome. In addition, any recovery, apart from being slow and fragile, will lead us to a new normal with its own challenges that societies must learn to face.

Using identical rationales to define our central and stressed scenarios, we have reviewed and adjusted our forecasts from six months ago, substantially improving the outlook for 2020 and adjusting that of 2021. Although the outlook is not as negative as we set out six months ago, it is not free from risks that would lead to a strong downward bias. Therefore, in the light of the second wave, we currently favor a more stressed scenario over a central one. These are the GDP forecasts we are currently managing.

	Baseline scenario (BS)						Stressed scenario (SS)					
	2016	2017	2018	2019	2020(e)	2021(f)	2016	2017	2018	2019	2020(e)	2021(f)
United States	1.7	2.3	3.0	2.2	-4.0	3.3	1.7	2.3	3.0	2.2	-4.5	2.4
Eurozone	1.8	2.7	1.9	1.3	-7.6	5.5	1.8	2.7	1.9	1.3	-8.0	3.8
Germany	2.1	2.9	1.3	0.6	-5.8	4.5	2.1	2.9	1.3	0.6	-6.0	3.7
France	1.1	2.3	1.8	1.5	-9.8	6.0	1.1	2.3	1.8	1.5	-10.1	5.6
Italy	1.4	1.7	0.8	0.3	-9.8	6.3	1.4	1.7	0.8	0.3	-10.2	4.6
Spain	3.0	3.0	2.4	2.0	-11.8	6.7	3.0	3.0	2.4	2.0	-12.1	4.7
United Kingdom	1.7	1.7	1.3	1.3	-9.6	8.1	1.7	1.7	1.3	1.3	-9.8	7.2
Japan	0.5	2.2	0.3	0.7	-5.7	2.6	0.5	2.2	0.3	0.7	-5.9	1.9
Emerging markets	4.6	4.8	4.5	3.7	-3.3	6.0	4.6	4.8	4.5	3.7	-3.5	5.2
Latin America[1]	-0.6	1.2	1.0	0.0	-8.1	3.6	-0.6	1.2	1.0	0.0	-8.3	3.0
Mexico	2.4	2.3	2.2	-0.3	-9.6	3.6	2.4	2.3	2.2	-0.3	-9.8	2.6
Brazil	-3.5	1.6	1.2	1.1	-5.3	3.6	-3.5	1.6	1.2	1.1	-5.6	3.1
Argentina	-2.0	2.8	-2.4	-2.1	-10.4	6.3	-2.0	2.8	-2.4	-2.1	-10.8	4.7
Emerging European[2]	4.8	3.3	6.0	2.1	-4.6	3.9	4.8	3.3	6.0	2.1	-4.8	3.2
Turkey	3.4	7.4	3.3	0.8	-2.7	4.6	3.4	7.4	3.3	0.8	-2.7	3.0
Asia Pacific[3]	6.3	6.3	6.1	5.7	-2.5	6.9	6.3	6.3	6.1	5.7	-2.8	6.1
China	6.9	7.0	6.8	6.1	1.9	7.9	6.9	7.0	6.8	6.1	1.8	6.0
Indonesia	5.0	5.1	5.2	5.0	-1.7	5.2	5.0	5.1	5.2	5.0	-2.0	4.2
Philippines	7.2	6.9	6.3	6.0	-7.8	7.6	7.2	6.9	6.3	6.0	-8.1	6.0
World	3.4	3.8	3.6	2.8	-4.4	5.2	3.4	3.8	3.6	2.8	-4.6	4.0

Source: MAPFRE Economics

[1]Argentina, Brazil, Chile, Colombia, Mexico, Peru; [2]Russia, Turkey, Commonwealth of Independent States (CIS) and Central Europe; [3]Association of Southeast Asian Nations (ASEAN)
Forecast end date: October 16, 2020

Click here to access the interactive version of this information

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

Industry Outlook for the Insurance Market

Author: MAPFRE Economics

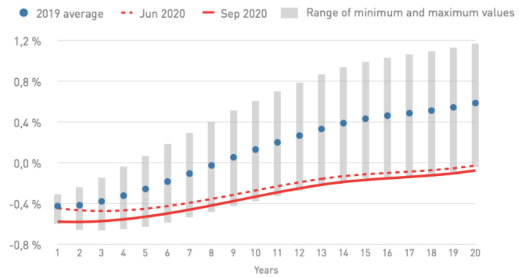
Summary of the report's conclusions:
MAPFRE Economics
2020 Economic and Industry Outlook: Fourth Quarter Perspectives
Madrid, Fundación MAPFRE, October 2020

The world economy continues to be mired in an unprecedented situation, with significant repercussions for the insurance industry. The global economy is experiencing a sharp contraction as a result of the pandemic, although forecasts for the sharp economic downturn estimated for 2020 as a whole have improved slightly. However, future recovery will be slower than forecast and subject to a great deal of uncertainty (due to new outbreaks of the disease, but also progress in terms of vaccines and treatments). It will vary by country and industry, with the insurance industry negatively affected, but to a lesser extent than other sectors that are more vulnerable to the risks caused by the pandemic.

Unlike other economic crises, the measures being taken by monetary authorities and governments around the world are also unprecedented. The rapid intervention of central banks in the major economies stabilized the financial markets (where the insurance industry is one of the major institutional investors) with quantitative easing measures implemented through extensive asset-acquisition programs. These banks are also pursuing accommodative monetary policies with lower interest rates to support the real economy, along with packages of fiscal expansion measures from governments, depending on each country's capabilities. In that respect, significant differences have been seen from country to country due to the smaller initial room for maneuver in emerging countries and in some developed countries.

All of these measures will be of great help to the insurance industry, which depends largely on the economic cycle's performance and the correct functioning of the financial markets. However, the long-lasting low interest rate environment will have a negative impact on its balance sheets, profitability and the development of the Life Savings business. Chart 1 shows the eurozone's slump in risk-free interest rates throughout the entire curve, while Chart 2, which is especially striking, shows the plunge in interest rates in the United States. However, Life investment insurance products are more common in the US, and these are linked more closely to the performance of the stock markets, which have performed better in that sector during the current crisis.

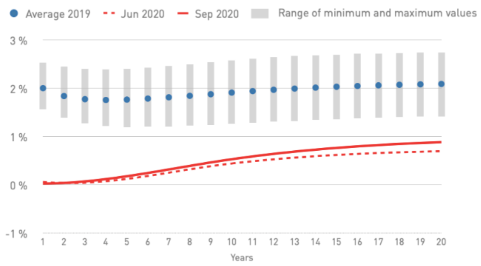
Chart 1
Eurozone: risk-free yield curve
(%)



Source: MAPFRE Economics (with EIOPA data)

Click here to access the interactive version

Chart 2
United States: risk-free yield curve
(%)



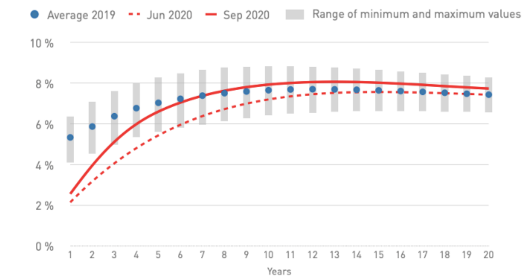
Source: MAPFRE Economics (with EIOPA data)

Click here to access the interactive version

Emerging economies are also facing a decline in their insurance business, as has been the case in the most severe crises experienced over the past few decades. In Brazil, economic expectations for 2020 anticipate a decline in GDP as a consequence of the pandemic, ranging between -5.3% and -5.6%, compared to the estimated real growth of 1.1% in 2019 (1.2% in 2018). In Mexico, economic expectations for 2020 anticipate an economic contraction as a result of the pandemic that could range between -9.6% and -9.8%, following growth of -0.3% in 2019 (2.2% in 2018).

The sharp declines in GDP forecast for this year in emerging markets will be detrimental to the development of their respective insurance industries, particularly the Non-Life business. However, the accommodative monetary policies adopted by the Bank of Brazil and the Bank of Mexico have triggered a sharp upward trend in the short section of the risk-free interest rate curves in their respective markets (see Charts 3 and 4). This is generating a favorable interest-rate environment in both markets by being able to offer medium- and long-term guaranteed rates that are higher than the short-term rates (term premium), which may soften the negative effect of the GDP contraction on their respective Life Savings and annuity insurance businesses.

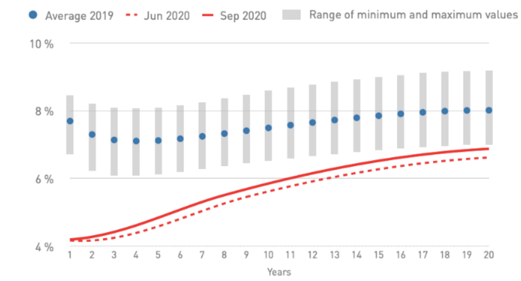
Chart 3
Brazil: risk-free yield curve
(%)



Source: MAPFRE Economics (with EIOPA data)

Click here to access the interactive version

Chart 4
Mexico: risk-free yield curve
(%)



Source: MAPFRE Economics (with EIOPA data)

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In Spain, the performance of the insurance business in the first nine months of 2020 continues to show very similar patterns to those seen in previous economic crises, with a sharp fall in the automobile business and a setback in the multirisks business. The most affected segment continues to be the Life Savings business, which had already been suffering before the pandemic-induced crisis. Health insurance, however, is performing anti-cyclically and continues to grow, bolstered by the very nature of the current crisis. Homeowner and condominium insurance, however, are proving resistant and only slowing, while other less important business lines such as travel assistance insurance are suffering severe setbacks.

On the supervisory side, the Joint Committee of the European Supervisory Authorities in the areas of banking, securities and insurance (EBA, ESMA and EIOPA) published its latest report on the risks and vulnerabilities of the financial system in the European Union. The report highlights that the coronavirus outbreak has brought about significant social disruption and challenges for the economy that will have an inevitable impact on the finance sector, outlining the problems faced by banks, mutual funds, insurance companies and pension funds. Intervention by central banks, as well as messages from fiscal authorities regarding a wide range of economic support measures, both at the national and EU level, has restored stability to the financial markets, which suffered one of the fastest declines in modern history in February and March (close to 40% in a 20-day period for the main indices, even forcing some mutual funds to temporarily suspend reimbursements). This decline was partly driven by investors' dash for cash. However, prolonging the low interest rate environment presents a challenge for banks' profitability, for Life insurance companies and for pension funds. The report also notes that, since May, investors have started to differentiate between issuers and asset classes within a context of deterioration in economic fundamentals, meaning concerns are beginning to materialize regarding credit risk.

The Joint Committee also highlights that European banks had a strong capital position before the crisis. However, it warns that the dispersion of individual solvency positions remains high and some banks that had lower capital levels and greater exposures to risk at the start of the crisis may face significant challenges. As for insurance companies, the report also highlights banks' reasonable solvency position before the shock caused by the pandemic, with an overall solvency ratio of 213% at the close of 2019. Nevertheless, low risk-free interest rates, higher risk premiums (the "double-hit scenario"), the credit impairment of assets and economic uncertainty could negatively impact their solvency and profitability in the medium- and long-term.

Full analysis of the economic and industry perspectives with additional information and interactive charts on the eurozone, Germany, Italy, Spain, the United Kingdom, the United States, Brazil, Mexico, Argentina, Turkey, Japan, China and the Philippines can be found in the report entitled 2020 Economic and Industry Outlook: Fourth Quarter Perspectives, compiled by MAPFRE Economics.

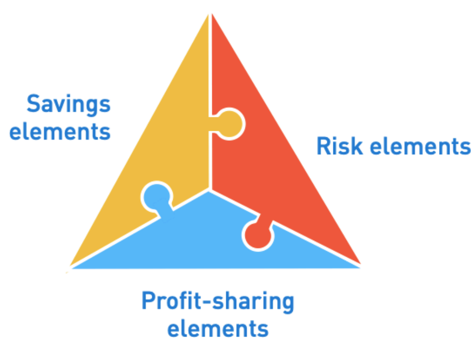
Life insurance

Author: MAPFRE Economics

Summary of the report's conclusions:
MAPFRE Economics
Elements for the development of life insurance
Madrid, Fundación MAPFRE, April 2020

The design of a Life insurance product is a structuring exercise. The process involves market analysis to establish an area of need before deciding on the specific elements to be included in the contract. In terms of coverage, there are a number of key elements that are commonly considered when structuring a Life insurance product. Generally speaking, these elements are classified into three types: risk, savings and profit sharing *(see Chart 1)*.

Chart 1
Elements in the structuring of a Life insurance product



Source: MAPFRE Economics

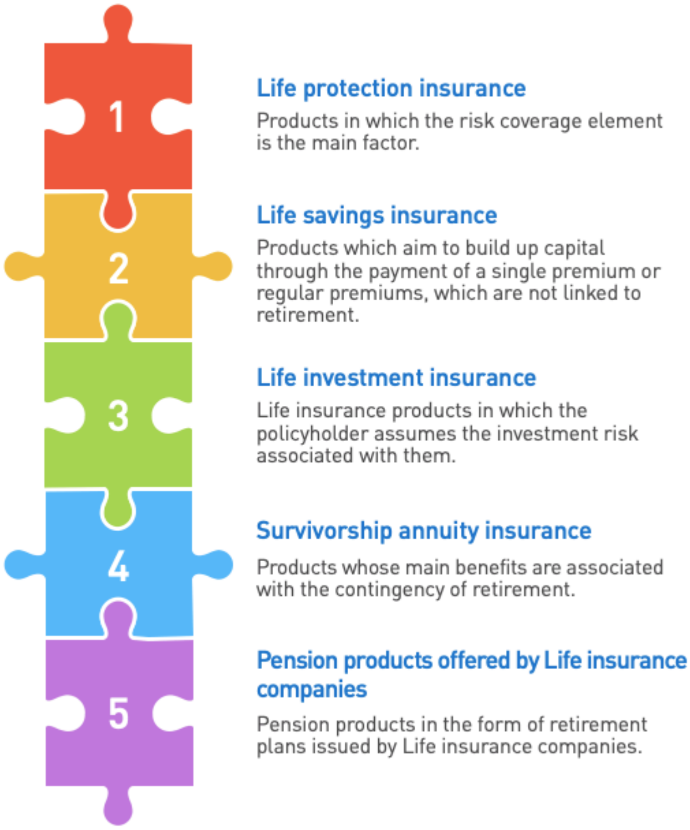
Risk elements comprise the various forms of personal and/or family protection against the risk of death or the contingency of survival of the insured party. It also includes, where applicable, other complementary coverage such as for the risk of incapacity, disability or illness (whether a result of an accident or natural causes), granting protection in the form of capital, income, debt cancelation or financial compensation for the loss of revenue that may be incurred by such events.

Savings elements are those that involve (as a complement to risk protection) the possibility that the insured party or policyholder has access to a mechanism for establishing an amount of savings or income. Savings elements include: (i) deferred capital in the event of survival; (ii) immediate or deferred, fixed-term or whole life contingent income; (iii) financial income; (iv) reversion of income to other persons; (v) reimbursement of premiums; (vi) interest rate guarantees; (vii) redemption or reduction values and options; (viii) other financial guarantees and options; (ix) assumption of investment risk by the policyholder; and (x) loans on the value of the policy.

Profit-sharing elements are those in which, in addition to risk and savings elements, a certain percentage of the aggregate technical result of the insurance contract is established when there has been a surplus on the income statement of the respective policy, in favor of the policyholder. Profit-sharing elements include: (i) technical profits, (ii) financial profits without related accounts and (iii) financial results with related accounts (positive or negative).

The large number of different elements that may be incorporated into the process of structuring a Life insurance contract explains why there is such a wide variety of different products available on the market. However, these products can all be categorized into five groups depending on the weighting of the various elements incorporated into their structure *(see Chart 2)*.

Chart 2
General types of Life insurance products



Source: MAPFRE Economics

For more detail on the different Life insurance products available in the market, see the report compiled by MAPFRE Economics called Elements for the development of life insurance. The report is based on analysis of insurance markets in the United States, Mexico, Brazil, Spain, the United Kingdom, Italy, Japan and Hong Kong.

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