NUMBER 12, NOVEMBER 2023

Economics & INSURANCE

MAPFRE
Economics

Posts

Introduction

When you check out the latest edition of Economics and Insurance, our half-yearly magazine, you'll discover that our website has a fresh new look. We have redesigned our platform with a more attractive and up-to-date format to improve the reading experience.

In issue number 12 of our magazine, you'll find five carefully selected articles on a range of topics, including the performance of the insurance markets in Spain and Latin America in 2022, a preview of 2023, and global forecasts for economic growth and the insurance markets. We cover a variety of aspects that MAPFRE Economics highlights in its latest reports. Furthermore, we offer detailed information on the investment portfolios of insurance companies in the main markets around the world.

The first article summarizes the report *The Spanish Insurance Market in 2022*, providing an overview of the Spanish insurance industry and details on the performance of the main lines of business and their behavior during the first nine months of 2023. We highlight the market's resilience and adaptation to the new economic scenarios.

The second article, which recaps *The Latin American Insurance Market in 2022* (Spanish), explores the main structural trends across the region, from penetration and density to an estimation of the Insurance Protection Gap. It also looks at key topics like profitability and economic growth of the insurance industry in 2022.

The next two articles, **"Global Economic Outlook"** and **"Industry Outlook for the Insurance Market,"** summarize the report *2023 Economic and Industry Outlook: Fourth-Quarter Perspectives*, published by MAPFRE Economics in November of this year. The former evaluates the status of the global economy, exploring baseline and stressed scenarios for economic growth in 2023 and 2024. The latter analyzes the prospects of the insurance markets, highlighting the adjustment of premiums to keep up with inflation and the impact of financial income due to interest rate increases.

Finally, the fifth article, **"Investment Allocation in the Insurance Industry,"** explores the composition of insurance companies' investment portfolios and how it has evolved during monetary normalization in the main global markets. More information on this topic can be found in the publication *Global Savings and Insurance Industry Investments*.

We hope that our readers enjoy this new edition of our magazine, along with our redesigned website, and find it to be a source of helpful, up-to-date information on the topics covered.

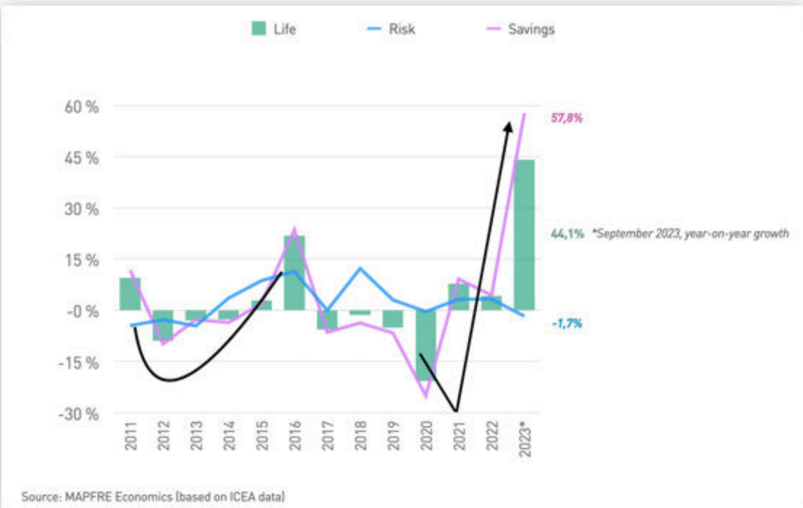
The Spanish insurance market in 2022

Author: MAPFRE Economics

Summary of report's conclusions:
MAPFRE Economics
The Spanish insurance market in 2022
Madrid, Fundación MAPFRE, July 2023

So far in 2023, the Spanish insurance industry is seeing positive growth above inflation in all the major business segments, particularly in the Life savings insurance business, which had premium growth of 57.8% up to the end of September. This is with the help of interest rate rises and the delay in remunerating deposits by banks, which continues to open up business opportunities in attracting savings, but which may decline as banks adapt their deposit remuneration policies to the new interest rate environment (see Chart 1).

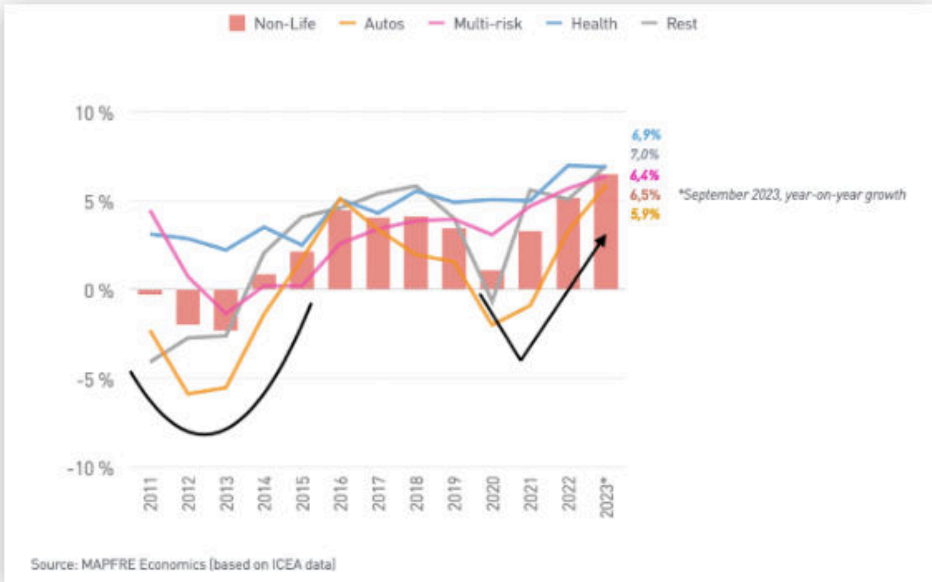
Chart 1. Trends in direct Life insurance
(annual variation, %)



Economic growth, which is higher than initially expected, is also supporting this good performance of the insurance business, particularly in the Non-Life business (see Chart 2), although the prospects of a slowdown in the coming year could affect the more cyclical businesses linked to credit performance, such as Motors and Life protection.

Chart 2. Trends in Non-Life insurance

(annual variation, %)



The environment for insurance activity in 2022 was challenging in many respects. The global economy again performed better than initially forecast, with aggregate growth of 3.4%, a slowdown from 6.3% in 2021, a year of atypical growth after the pandemic-induced decrease. However, it was a year marked by a sharp upturn in inflation following the extensive monetary and fiscal support packages implemented in the previous two years, and which was fueled by supply bottlenecks following the process of economic reopening and by the invasion of Ukraine. For its part, the performance of the Spanish insurance market was marked by the economic recovery. At the end of the year, it was still below pre-pandemic GDP levels, with an increase in the volume of total insurance premiums of 4.8% (4.9% in 2021), to 64,775 million euros, against a backdrop of high inflation, which rose to levels not seen in decades (8.4% in 2022).

Despite the uncertainty experienced in 2022, Life insurance in Spain showed its strength, with written premiums of 24,535 million euros, 4.2% more than the previous year. Both life protection and life savings performed well during the year, with growth rates of 3.4% and 4.4%, respectively. Non-Life lines, for their part, earned a premium volume of 40,239 million euros, which represents an increase of 5.2% compared to 2021 and is two percentage points higher than in the previous year.

Automobile insurance recovered the growth path in 2022, reaching a premium volume of 11,353 million euros, 3.3% more than in 2021 and above the premiums written in 2019, before the start of the pandemic. This increase in business was influenced by the rise in the average premium, which stood at 345.2 euros, 2.3% more than in 2021, as well as the increase in insured vehicles which, with 32.9 million vehicles, was up 0.9%. In addition, the combined ratio of the business line increased again in 2022, to 98.0%, (94.1% in 2021), due, in addition to the increase in the frequency and severity of claims, to the rise in inflation and the higher costs of suppliers, such as repair shops, spare parts, etc. In the first six months of 2023 the combined ratio continued to worsen and stood at 100.7%, an increase of 4.3 pp compared to the June 2022 ratio. Nevertheless, an improvement in both technical and financial profitability is expected, as upward revisions to insurance premiums materialize to adapt them to inflation, cost growth eases and financial income from investment portfolios begins to increase due to interest rate increases.

Table 1. Contribution to Life and Non-Life insurance market growth
(percentage points, pp)

Year	Contribution of Life to market growth (pp)	Contribution to growth (pp)		Contribution of Non-Life to market growth (pp)	Contribution to growth (pp)			
		Life Risk	Life Savings		Automobile	Multirisk	Health	Other
2012	-4.3	-0.2	-4.1	-1.0	-1.1	0.1	0.3	-0.3
2013	-1.4	-0.3	-1.1	-1.2	-1.0	-0.2	0.3	-0.3
2014	-1.2	0.2	-1.4	0.5	-0.2	0.0	0.4	0.3
2015	1.3	0.5	0.8	1.2	0.3	0.0	0.3	0.5
2016	9.8	0.8	9.0	2.5	0.9	0.3	0.7	0.6
2017	-2.7	0.0	-2.7	2.1	0.6	0.4	0.5	0.6
2018	-0.6	0.8	-1.5	2.2	0.3	0.4	0.7	0.7
2019	-2.3	0.2	-2.5	1.9	0.3	0.4	0.7	0.5
2020	-8.9	0.0	-8.8	0.6	-0.4	0.4	0.7	-0.1
2021	2.9	0.3	2.6	2.0	-0.2	0.6	0.8	0.8
2022	1.6	0.3	1.3	3.2	0.6	0.7	1.1	0.8

Source: MAPFRE Economics (based on ICEA data)

Health insurance again showed great momentum in 2022, with a 7.0% rise in the volume of written premiums, to 10,543 million euros, as it was the line that contributed most to the growth of the Non-Life segment, with 1.1 pp (see Table 1). This growth in premiums has been accompanied by an increase in the number of policyholders, which reached 13.8 million, which is 3.7% more than in 2021. In 2022, the upward trend in the claims ratio already noted in the previous year was confirmed, influenced by: (i) the consolidation of the increase in inflation, which has had a direct impact on the increase in hospital costs; (ii) the continued high frequency of use of health care services by insured parties; and (iii) the increases in the health care fee scales agreed with the insurance companies by the large private hospital chains. In the first nine months of 2023 the industry's revenues continued the upward trend of recent years, with a 6.9%

increase in premiums owing to the momentum of Expense Reimbursement, which grew by 9.4%, and Health Care, which grew by 7.0%.

Multirisk Insurance also performed well in 2022, with 5.7% premium growth, which is one percentage point higher than in the previous year. Industrial Multirisk insurance has sustained an uninterrupted growth trend over the last five years and increased by 8.8% in 2022. Home and Condominiums also had growth above the previous year, exceeding 2021 premiums by 5.5% and 4.9%, respectively. Commerce, however, grew below the rates seen in previous years, to 1.2%. Fortunately, 2022 was not a year of intense atmospheric phenomena. Hence, despite the existing inflationary process, it was possible to close the year with a reduction of -0.7 pp in the combined ratio, which ended at 96.4%.

Lastly, the **Life business** in 2022 reached a total premium volume of 24,535 million euros, with a 4.2% increase over the previous year and -10.9% below the aggregate figure of 2019. In addition, with respect to managed savings, technical provisions in the life insurance business decreased by -1.1% to 193,613 million euros. Life protection and Long-Term Care insurance grew and all savings/retirement products, with the exception of unit-linked insurance, showed decreases in assets, with an aggregate rate of -1.2%.

The rise in interest rates that began in 2022 is being reflected in guaranteed Savings insurance, which is gaining an appeal that it previously lacked. The statistics for the first nine months of 2023 confirm this change of trend in Life Savings insurance, which has become the driving force behind the growth of Spanish insurance during the year, increasing by 57.8%, with the rate of increase of this line of business standing at 44.1%. Savings managed by Life insurance also grew, reaching a volume of 200,723 million euros, with year-on-year growth of 4.9%.

As regards **technical profitability**, the combined ratio for the Non-Life insurance segment in 2022 was 93.8%, which is 0.9 pp more than the level of 2021 (92.9%), due to a worsening of the claims ratio by 1.3 pp, which was 70.6% (69.2% in 2021). Conversely, the administration and acquisition expense ratios showed a slight improvement over the previous year, at 5.2% (-0.1 pp) and 18% (-0.3 pp), respectively (see Chart 3).

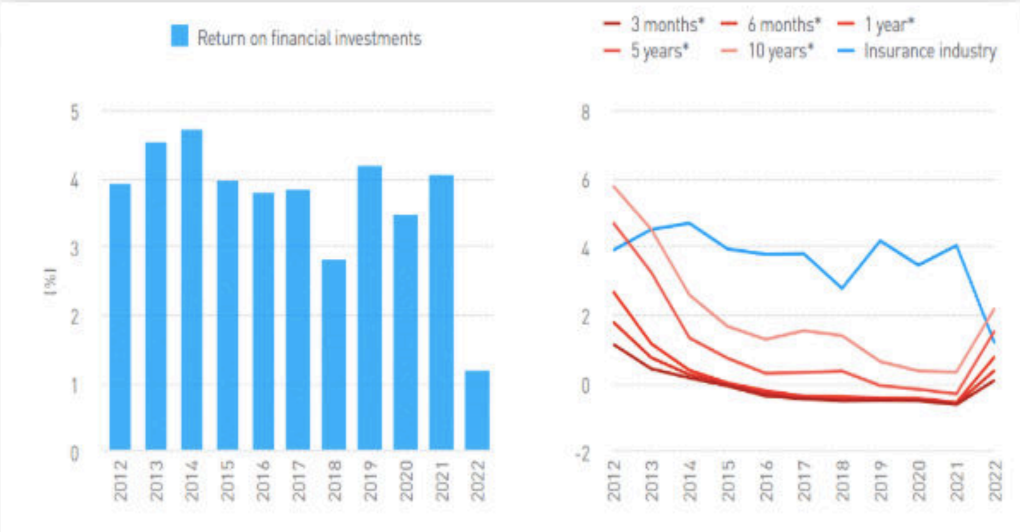
The **profitability of financial investments** in the insurance industry was 1.2% in 2022 (2.9 pp below that of the previous year), as it was hurt by the normalization of the European Central Bank's monetary policy (see Chart 4). However, the most recent dynamics show some stability in 2023, as interest rates approach a terminal rate and volatility is easing in tandem with more stable expectations. **The total volume of investment** by Spanish insurance companies decreased to 280,619 million euros in 2022, representing a -15.0% decrease compared to the previous year.

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

Source: MAPFRE Economics (based on ICEA data)

In terms of aggregate profitability indicators, **the earnings of the Spanish insurance industry** came to 5,526 million euros in 2022, an increase of 9.0%, thus partially recovering from the fall suffered in the previous year (of -12.5%) owing to the good profitability performance of the Life insurance segment. The industry's profitability also improved in relative terms, with a return on equity (ROE) of 12.5%, 2.1 pp above the previous year, and a return on average total assets (ROA) of 1.7%, an improvement of 0.3 pp.

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

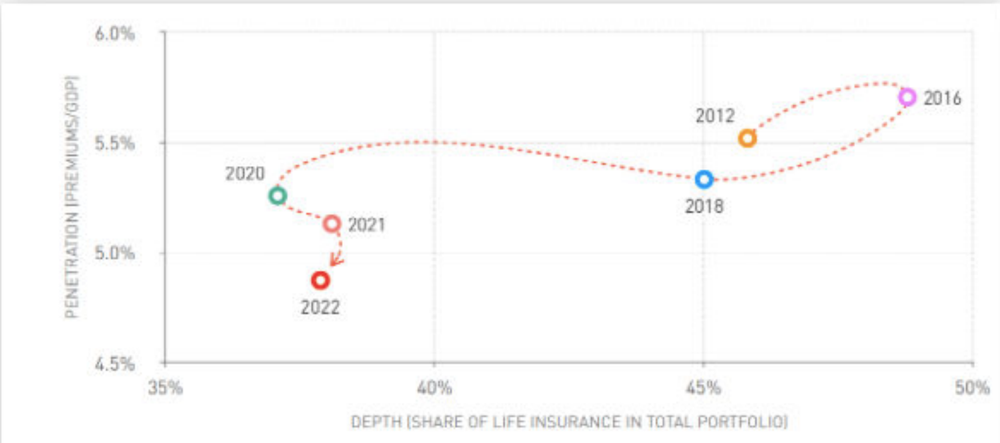


Source: MAPFRE Economics (with DGSFP data)

* Average annual Spanish Government bond yield of specified tenor.

In terms of structural market trends in 2022, the **penetration** of Spanish insurance (ratio of premiums to GDP) was 4.9% at the end of 2022 (5.12% in 2021). As was the case in 2021, a strong rise in GDP at current prices (10.1%) in 2022, together with more moderate growth in premium revenue in the insurance sector (4.8%), contributed to another small setback by the sector in this indicator. Conversely, the **density** of insurance in Spain (premiums per capita) stood at 1,347.8 euros in 2022, an increase of 46.6 euros compared to 2021. Lastly, the growth recorded by the Life line in 2022 proved insufficient to boost the depth level of insurance compared to the previous year, which stood at 37.9%, down from 38.1% the previous year and a far cry from the 48.8% achieved in 2016 (see Chart 5).

Chart 5. Trends in the Spanish insurance market
(penetration vs. depth)



Source: MAPFRE Economics

A detailed analysis of the different business lines and structural trends in the last decade can be found in the report The Spanish Insurance Market 2022, prepared by MAPFRE Economics.

The Latin American insurance market in 2022

Author: MAPFRE Economics

Summary of report's conclusions:
MAPFRE Economics
The Latin American insurance market in 2022
Madrid, Fundación MAPFRE, September 2023

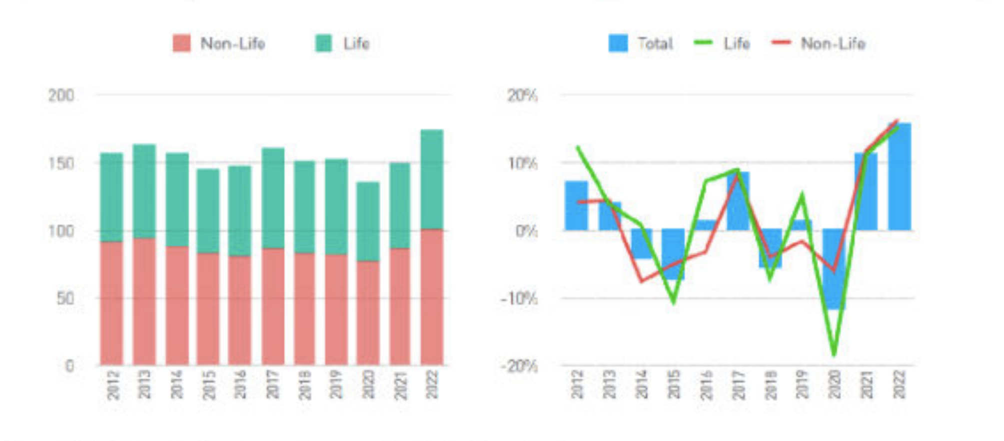
The latest available data continue to show a trend towards economic slowdown in the Latin American and Caribbean region in 2023. This has occurred under the influence of the restrictive monetary policy applied virtually across the board by their respective central banks, a policy some of them have begun to reverse, as in the case of Brazil, Chile and Peru. The economic slowdown is affecting the volume of insurance business, which is beginning to grow at a slower rate than in the previous year in some of the main markets. It is noteworthy that the Latin American insurance sector was one of the best performers worldwide in 2022, with significant growth in written premiums both in the Non-Life and Life insurance segments. It has been helped by better-than-expected economic growth and the quick response of Latin American central banks to the upturn in inflation, with interest rate hikes anticipating those in developed markets (see Chart 1).

These interest rate hikes allowed higher returns to be offered on life savings products and annuities, acting as a hedge against the loss of purchasing power and offering positive real returns in some markets. In addition, higher interest rates helped to improve the profitability of the insurance industry and led to generally favorable trends in exchange rates, which then influenced the volume of insurance business, which benefited from the greater stability of their respective currencies. Some of the large markets (particularly Brazil) also benefited from an appreciation of the exchange rate against the dollar, which in turn had a positive effect on the profitability by helping to curb inflation.

The Latin American insurance market in 2022 reached an aggregate premium volume of 173.7 billion dollars, representing growth of 15.9% (11.5% in 2021), above the previous year's growth and exceeding the pre-pandemic level. This good performance of the insurance industry in Latin America meant that the region's insurance market share in the world total remained on track to recovery, amounting to 2.6% of global premiums in 2022. However, this is still a small

Chart 1. Latin America: Growth Developments in the Insurance Market

(premiums, billions of USD; annual nominal growth rates in USD, %)



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

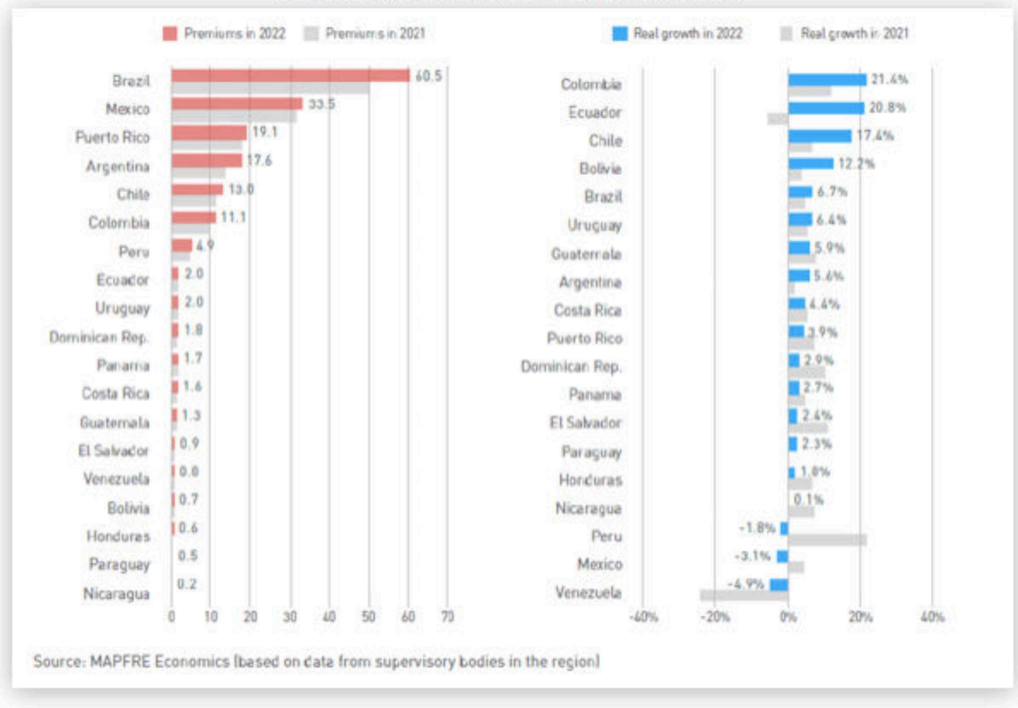
percentage considering the size of the region's economy, which currently represents around 6% of global GDP and 8.3% of the world's population.

Premiums in the Life insurance segment in Latin America and the Caribbean again showed significant growth, higher than in the previous year, at 15.3% measured in dollars (11.2% in 2021), as did Non-Life insurance premiums, which grew by 16.4% (compared to 11.7% in 2021). The main driver of growth in Non-Life insurance was the Motors line, which had suffered at the worst moments of the pandemic. Health insurance, for its part, grew significantly, but less than in the previous year. In the Life business, the Colombian market made a significant contribution to the growth of the Life insurance segment at the regional level, which combined with the healthy performance of the Brazilian market (the main market in the region) and other markets with significant weight such as Argentina and Chile.

An individualized analysis of insurance activity in local currency for each of the markets shows that the strong upturn in inflation in 2022 caused some markets, which had shown positive real growth the previous year, to see decreases in their business volume when correcting their nominal growth in local currency for the effect of inflation, thus revealing slowdowns in their real growth. This was the case of Mexico and Peru, although both markets showed a good performance in terms of profitability (see Chart 2). Otherwise, with the exception of Venezuela, which continued the downturn it had seen the previous year, the year saw growth in real terms virtually across the board in the region, with the largest increases seen in the insurance markets of Colombia (21.4%), Ecuador (20.8%), Chile (17.4%), Bolivia (12.2%) and Brazil (6.7%).

In profitability, the aggregate net result of the Latin American insurance market in 2022 came to 9,909.4 million dollars, representing growth of 49.8% compared to the aggregate result of the previous year. However, despite this growth, the regional aggregate result was still below the levels reached in the years prior to the

Chart 2. Latin America: Insurance Market Premiums and Real Growth
(billions of USD; real growth in local currency, %)



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

outbreak of the pandemic. In general, profitability indicators recovered from the significant decline suffered in the previous year due to the generalized increase in claims in lines of business such as Automobiles or Health after the economic reopening process, together with excess mortality as a result of the pandemic, which was substantially higher in the Latin American region, which affected the profitability of Life insurance risk. Most of the region's markets reported positive aggregate net results, with significant growth in the results of the two largest markets, Brazil and Mexico, as well as other markets with a significant weight in business volume, such as Colombia and Peru.

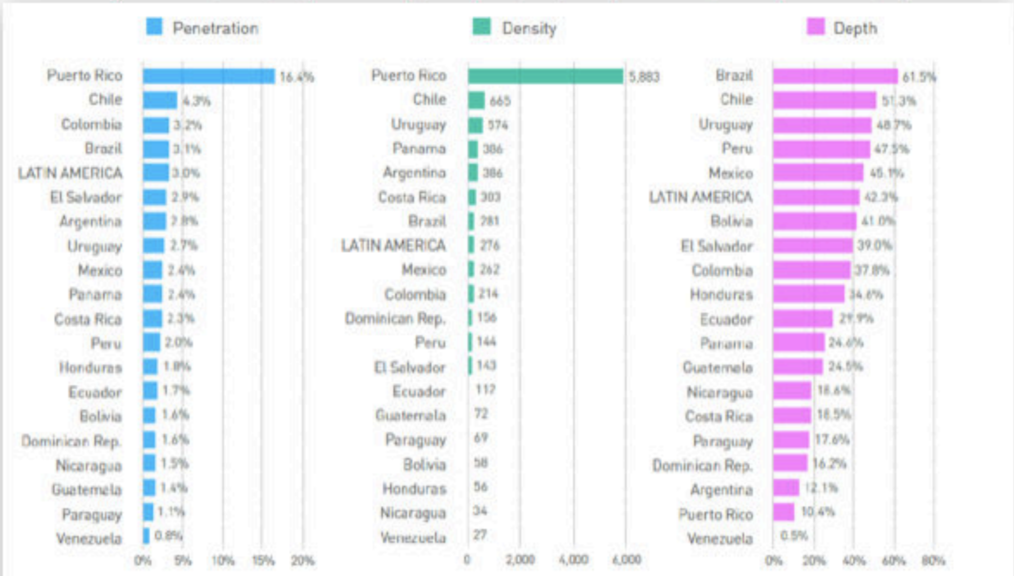
In structural trends, the average penetration rate (premiums/GDP) of the region stood at 3.01% in 2022, 0.05 percentage points (pp) higher than the previous year's rate. This indicator improved in the Non-Life Insurance segment (1.74% versus 1.70% the previous year) and, to a lesser degree, in the Life Insurance segment (1.27% versus 1.26% the previous year). From a medium-term perspective (2012-2022), it can be seen that there was an increase in penetration in the region of 0.4 pp (in terms of GDP). Apart from the one-off event caused by the sharp contraction in GDP due to the pandemic, which led to an atypical increase in penetration, an upward trend in insurance penetration in the region continued throughout the decade, to which the growth of Life insurance and, to a lesser extent, Non-Life insurance mainly contributed. Nevertheless, the good performance of Health insurance as a result of the pandemic was also a factor in the shortening of the gap with Life insurance over the decade as a whole. Puerto

Rico continues to report the highest penetration index in the region, amounting to 16.4% of GDP, due to the significant role played by insurance companies in its health system, similarly to the United States. After Puerto Rico, Chile (4.3%), Colombia (3.2%) and Brazil (3.1%), were the countries that reported the highest penetration rates in 2022, above the regional average of 3.01%.

The density indicator (premiums per capita) were 276.4 dollars, which is a 15.2% increase over the level of the previous year. The significant growth in premiums in the insurance industry in 2022 and the improved performance of exchange rates against the dollar explain this improvement in the level of density compared to the previous year, which already exceeded the pre-pandemic level. A large portion of insurance spending per person in a majority of countries in the region remains focused on the Non-Life segment (159.5 dollars), which was up by 15.6% compared to the previous year. Life insurance density amounted to 116.9 dollars, 14.5% above that of 2021. Between 2012 and 2022, density (measured in dollars) shows a slightly higher level than a decade ago, increasing by 1.0% in that period, after overcoming a downward trend since 2013 this year.

Chart 3. Latin America: Penetration, Density and Depth Indexes, 2022

(premiums / GDP, %; premiums per capita, USD; Life premiums / total premiums, %)



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

And the insurance depth index in the region (the ratio between Life insurance premiums and total premiums) was 42.3% in 2022, -0.2 pp below the level of 2021. The decline in this indicator in 2022 was due to the better performance of the Non-Life segment, having grown more than the Life segment, which also performed well, despite showing lower growth than the Non-Life business. A country-by-country analysis shows that Argentina, Brazil, El Salvador, Honduras, Mexico, Nicaragua, Panama and Peru showed declines in the indicator in 2021 and 2022. In the medium-term analysis (2012-2022), the indicator for the region shows improvement over the last decade, with a cumulative increase of 0.1 pp in that period.

Chart 3 shows the comparison of the different countries in the region, based on penetration, density and deepening, indicators that measure the level of development of the respective insurance markets.

With regard to the Insurance Protection Gap estimate (the difference between insurance coverage that is economically necessary and beneficial to society, and the amount of that coverage effectively acquired) the estimate of this indicator for the Latin American insurance market in 2022 is 267.2 billion dollars, some 5.8% (14.5 billion dollars) more than the estimate in 2021. Because it is a structural measurement, there were no major changes in the composition of the IPG over the last decade compared to our previous report, confirming that the bulk of the gap lies in Life insurance.

The potential insurance market in Latin America in 2022 (measured as the sum of the actual insurance market and the insurance gap in that year) was 440.9 billion dollars, meaning 2.5 times the current market in the region (see Chart 4).

Chart 4. Latin America: Insurance Protection Gap and Potential Market
(billions of USD)

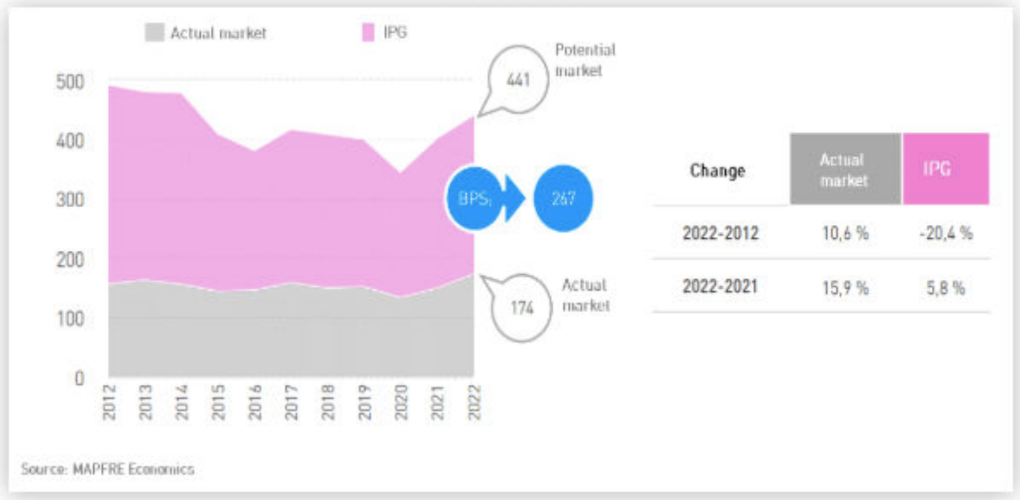
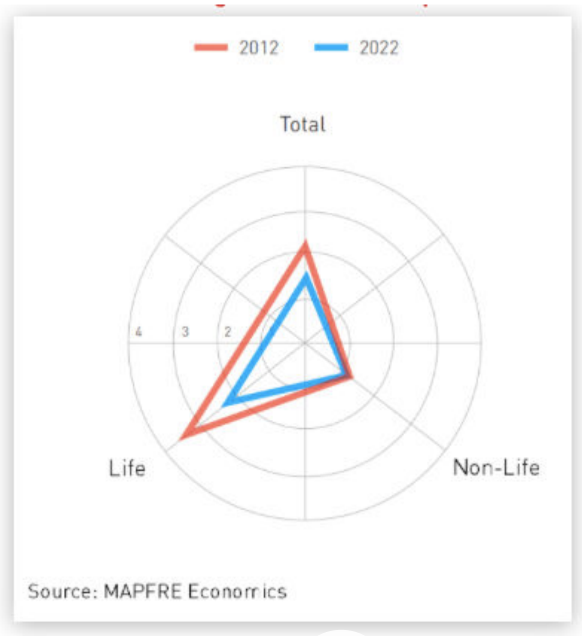


Chart 5 summarizes changes in the IPG as a multiple of the actual market for the Life and Non-Life segments and for the total Latin American insurance market between 2012 and 2022. Throughout this period, there was a reduction in the total insurance gap in the region, measured as a multiple of the real market, especially driven by the decrease in the IPG of the Life segment (the segment with the lowest relative development in the region and, therefore, the highest relative growth). At the same time, the gap of Non-Life insurance showed a smaller reduction in this period.

Chart 5. Latin America: Change in IPG as a multiple of the Actual Market



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 2022, prepared by MAPFRE Economics.

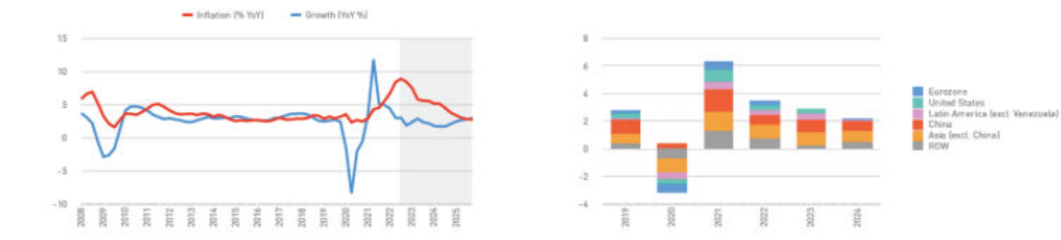
Global Economic Outlook (Q4 2023)

Author: MAPFRE Economics

Summary of the conclusions of the
MAPFRE Economics report
2023 Economic and Industry Outlook: Fourth-Quarter Perspectives
Madrid, Fundación MAPFRE, November 2023

In the last quarter of the year, the global environment is still dominated by a dynamic that combines falling inflation and more widespread resilience in economic activity than initially expected. This has brought about a more balanced scenario between economic activity and prices for the rest of 2023, to the detriment of a year 2024 that presents lower odds of a new inflationary upturn, although a greater likelihood of worse economic growth and with fewer anchors. In this environment, the differences between the various economies and regions are getting wider. This is unfolding against a challenging geopolitical backdrop, especially with Hamas' attack on Israel and the accompanying risk of a wider reaction in the Middle East. Supply disruptions from this situation could even pose a new macroeconomic challenge worldwide.

Chart 1. Global: growth and inflation outlook and contribution by region



Source: MAPFRE Economics

Inflation has continued to trend lower, though the reduction has not yet reached the desired level, both in terms of the current rate and expected inflation. Both of these measures exceed the targets of various central banks.

This confirms that economic policy still needs to act as a counterweight to a multitude of both circumstantial and structural factors that arose from the pandemic, such as the energy transition, deglobalization, labor shortages, resource protectionism, and the greater role of fiscal policy.

Also, in terms of economic activity, the probability of a **demand shock** remains significant due to the high levels of monetary tightening, as well as uncertainty regarding the actual impact of the lags in transmitting monetary policy. Manufacturing is expected to remain depressed, as industrial activity is still far from stable, and there is less ability to pass on price increases to end customers. The service industry is pointing downward recently, losing momentum and moving toward greater synchrony with manufacturing.

As for monetary policy, the determination to reach the cyclical peak remains imprecise and inconclusive due to uncertainty with respect to the aforementioned variables. Added to this is the potential crisis on the energy side that might arise from an escalation of the conflict in the Middle East.

Table 1. Baseline and stressed Scenarios: gross domestic product

(annual growth, %)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2019	2020	2021	2022	2023(f)	2024(f)	2019	2020	2021	2022	2023(f)	2024(f)
United States	2.5	-2.2	5.8	1.9	2.3	0.6	2.5	-2.2	5.8	1.9	2.2	0.1
Eurozone	1.6	-6.3	5.6	3.4	0.5	0.7	1.6	-6.3	5.6	3.4	0.5	0.5
Germany	1.1	-4.2	3.1	1.9	-0.5	0.3	1.1	-4.2	3.1	1.9	-0.6	0.0
France	1.9	-7.7	6.4	2.5	0.9	0.7	1.9	-7.7	6.4	2.5	0.8	0.5
Italy	0.5	-9.0	8.3	3.9	0.6	0.4	0.5	-9.0	8.3	3.9	0.6	0.0
Spain	2.0	-11.2	6.4	5.8	2.5	1.3	2.0	-11.2	6.4	5.8	2.4	1.0
United Kingdom	1.6	-10.4	8.7	4.3	0.5	0.3	1.6	-10.4	8.7	4.3	0.4	0.0
Japan	-0.4	-4.3	2.3	1.0	1.6	1.1	-0.4	-4.3	2.3	1.0	1.5	0.8
Emerging markets	3.6	-1.8	6.9	4.1	4.3	3.7	3.6	-1.8	6.9	4.1	4.3	3.4
Latin America	0.2	-7.0	7.4	4.1	1.9	1.6	0.2	-7.0	7.4	4.1	1.8	1.1
Mexico	-0.3	-8.8	6.1	3.9	2.9	1.8	-0.3	-8.8	6.1	3.9	2.9	1.3
Brazil	1.2	-3.6	5.3	3.0	3.1	1.5	1.2	-3.6	5.3	3.0	3.0	1.0
Argentina	-2.0	-9.9	10.7	5.0	-2.2	0.2	-2.0	-9.9	10.7	5.0	-2.5	-0.4
Colombia	3.2	-7.3	11.0	7.3	1.0	1.9	3.2	-7.3	11.0	7.3	0.9	1.7
Chile	0.7	-6.4	11.9	2.5	-0.4	1.9	0.7	-6.4	11.9	2.5	-0.7	1.6
Peru	2.3	-11.0	13.4	2.7	1.1	2.9	2.3	-11.0	13.4	2.7	0.8	2.9
Emerging markets, Europe[1]	2.5	-1.6	7.3	0.8	2.4	2.2	2.5	-1.6	7.3	0.8	2.3	2.0
Turkey	0.8	1.9	11.4	5.5	3.7	2.0	0.8	1.9	11.4	5.5	3.6	1.4
Asia Pacific	5.2	-0.5	7.5	4.5	5.1	4.4	5.2	-0.5	7.5	4.5	5.1	4.3
China	6.0	2.2	8.5	3.0	5.1	4.4	6.0	2.2	8.5	3.0	5.1	4.2
Indonesia	5.0	-2.1	3.7	5.3	5.1	4.8	5.0	-2.1	3.7	5.3	5.1	4.3
Philippines	6.1	-9.5	5.7	7.6	5.1	4.9	6.1	-9.5	5.7	7.6	5.0	4.6
Global	2.8	-2.8	6.3	3.5	2.9	2.2	2.8	-2.8	6.3	3.5	2.8	1.8

Source: MAPFRE Economics
(1) Eastern Europe
Forecast closing date: 30 October 2023

Click here to access the interactive version of this information

In conclusion, the outlook for the global economy, looking ahead to 2024, continues to point to stagflationary dynamics, with monetary policy sustaining the tightening of financial conditions, growth slowing and inflation facing a more prolonged and sustainable phase of easing, although still far from target levels. This scenario is compounded by a series of growing regional divergences, different cyclical moments and different ways of applying the economic tools at hand, thus exposing a vulnerability gap and very unequal margins for action. All this is in the context of the uncertainty, persistent or transitory, surrounding a geopolitical situation that is casting a shadow over the outcome of the possible scenarios.

With respect to the forecasts, both for the remainder of 2023 and 2024, the baseline scenario envisaged in the report shows: (i) below-potential growth, with a cyclical downturn later than what was suggested in previous reports and more abrupt for next year; (ii) inflation subject to more sustainable rates, allowing the gradual recovery of real salaries; and (iii) a monetary policy that would remain at current levels, at least until the second half of 2024 in developed countries. It would continue to gradually relax in emerging countries, while taking into account the internal balances between economic activity and prices.

Table 2. Baseline and stressed scenarios: inflation

(% YoY, average)

	Baseline Scenario (BS)						Stressed Scenario (SS)					
	2019	2020	2021	2022	2023(f)	2024(f)	2019	2020	2021	2022	2023(f)	2024(f)
United States	1.8	1.3	4.7	8.0	4.1	2.9	1.8	1.3	4.7	8.0	4.5	3.2
Eurozone	1.2	0.3	2.6	8.4	5.6	2.5	1.2	0.3	2.6	8.4	5.7	3.0
Germany	1.4	0.5	3.1	6.9	6.0	2.0	1.4	0.5	3.1	6.9	6.1	2.5
France	1.1	0.5	1.6	5.2	5.8	2.6	1.1	0.5	1.6	5.2	5.9	2.8
Italy	0.6	-0.1	1.9	8.2	6.0	2.9	0.6	-0.1	1.9	8.2	6.1	3.6
Spain	0.7	-0.3	3.1	8.4	3.5	2.5	0.7	-0.3	3.1	8.4	3.7	2.8
United Kingdom	1.8	0.9	2.6	9.1	7.4	3.4	1.8	0.9	2.6	9.1	7.5	4.0
Japan	0.5	0.0	-0.2	2.5	3.0	2.1	0.5	0.0	-0.2	2.5	3.1	2.4
Emerging markets	5.1	5.2	5.9	9.8	8.6	9.4	5.1	5.2	5.9	9.8	8.8	10.5
Latin America	7.6	6.4	9.8	14.0	21.2	21.8	7.6	6.4	9.8	14.0	21.8	22.2
Mexico	3.6	3.4	5.7	7.9	5.6	4.1	3.6	3.4	5.7	7.9	5.9	4.2
Brazil	3.7	3.2	8.3	9.3	4.7	4.3	3.7	3.2	8.3	9.3	4.7	4.5
Argentina	53.5	42.0	48.4	72.4	132.0	157.0	53.5	42.0	48.4	72.4	136.0	159.0
Colombia	3.5	2.5	3.5	10.2	11.8	5.6	3.5	2.5	3.5	10.2	11.9	5.8
Chile	2.3	3.0	4.5	11.6	7.7	3.3	2.3	3.0	4.5	11.6	7.8	3.5
Peru	2.1	1.8	4.0	7.9	6.6	3.8	2.1	1.8	4.0	7.9	6.7	3.9
Emerging markets, Europe[1]	6.7	5.4	9.6	27.9	18.9	19.9	6.7	5.4	9.6	27.9	19.7	20.8
Turkey	15.2	12.3	19.6	72.3	50.9	51.6	15.2	12.3	19.6	72.3	51.3	63.1
Asia Pacific	3.3	3.2	2.2	3.8	1.0	2.0	3.3	3.2	2.2	3.8	1.0	2.4
China	2.9	2.5	0.9	2.0	0.5	1.9	2.9	2.5	0.9	2.0	0.5	2.3
Indonesia	2.8	2.0	1.6	4.2	3.7	2.4	2.8	2.0	1.6	4.2	3.7	2.7
Philippines	2.4	2.4	3.9	5.8	5.9	3.2	2.4	2.4	3.9	5.8	6.0	3.8
Global	3.5	3.2	4.7	8.7	6.6	6.1	3.5	3.2	4.7	8.7	6.8	6.8

Source: MAPFRE Economics
(1) Eastern Europe
Forecast closing date: 30 October 2023

Click here to access the interactive version of this information

Conversely, the stressed scenario, which is a more pessimistic alternative, poses a harsher outlook of stagflation, with implications both for economic activity and price dynamics. In this scenario, fiscal policy is subject to tighter financial conditions, although remaining in neutral territory, with no signs of fiscal protection mechanisms being reactivated. Monetary policy would remain tighter on a more prolonged basis, with an additional interest rate hike by the Federal Reserve, but not by the European Central Bank. Meanwhile, monetary easing is delayed until the end of 2024 and early 2025. This scenario does not envisage an additional level of tightening in monetary policies in emerging markets, but these markets would undertake an easing process that would be lengthier, and which would lag behind by one quarter.

The complete analysis of economic and industry perspectives can be found in the report 2023 Economic and Industry Outlook: Fourth-Quarter Perspectives, prepared by MAPFRE Economics.

Industry Outlook for the insurance market (Q4 2023)

Author: MAPFRE Economics

Summary of the conclusions of the
MAPFRE Economics report
2023 Economic and Industry Outlook:Fourth-Quarter Perspectives
Madrid. Fundación MAPFRE. November 2023

The improvement in growth estimates for the global economy in 2023 is being reflected in the growth of the insurance business. However, the forecast continues to point to an economic slowdown in 2024, mainly due to the tightening of financial conditions for governments, households, and companies, which is impacting activity levels. Mechanisms for the transmission of monetary policy to the real economy are having stronger effects, with a credit crunch and weaker labor markets, while on the positive side, there are clear signs that inflation is easing.

This economic outlook poses a scenario for insurance of lower growth in business volume, which will affect its more cyclical and credit-linked lines of business, such as **Motor and Life protection**. Still, profitability is expected to improve as insurance premiums are revised upwards to adjust for inflation, cost growth eases, and financial income continues to be supported by interest rate increases. In a more structural sense, higher interest rates are encouraging the growth of Life insurance business linked to savings and annuities.

On the financial markets, the rise in the returns of longer-term sovereign and corporate bonds is again leading to corrections in their downward valuations. These changes join the sharp correction that they were already bringing over from the previous year due to the monetary policy tightening.

Equity also experienced corrections in the third quarter, losing a large part of the gains obtained in the first half of the year. These latest corrections, coupled with increased volatility, introduce uncertainty that may affect the development of Life insurance products in which the policyholder assumes the investment risk. Despite this situation, opportunities are emerging for the issuing of new securities, making it possible to expand the composition of the reference assets and give more weight to fixed income in the product mix offered in the market. This follows the sharp correction witnessed in the bond market and expectations that further interest rate hikes could be limited.

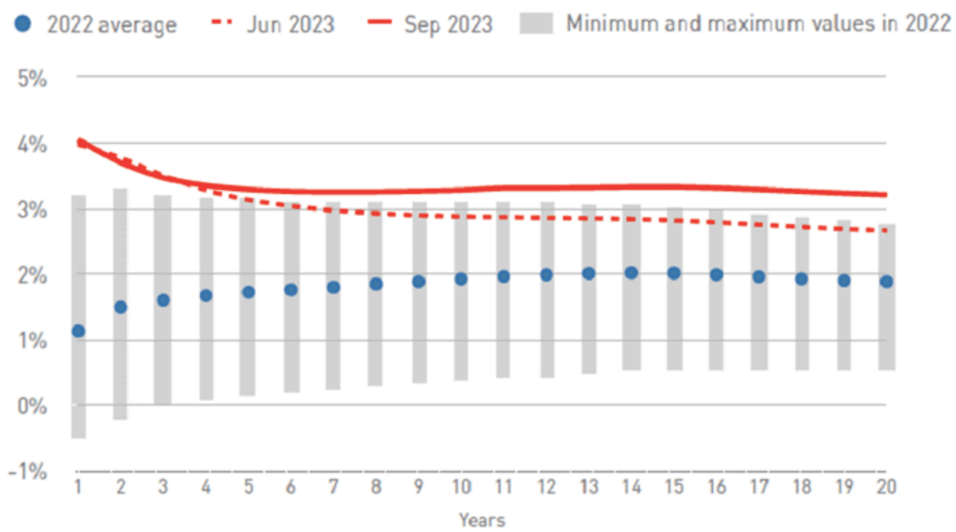
In the Eurozone, 2023 has brought a significant slowdown in economic activity (with a recession in Germany) as the effects of interest rate increases and the credit crunch, associated with the tightening of financing conditions, are transmitted to the real economy. These circumstances could be aggravated by the surge in energy prices as a result of the wars in the Middle East and Ukraine. Slower economic growth continues to pose a challenge to the most cyclical lines of business in the European insurance industry. However, the interest rate hikes will keep favoring Life savings insurance and higher returns from investment portfolios. Meanwhile, the decline in inflation and updated rates applied this year to offset higher costs may help boost the profitability of insurance companies, which are being adversely affected by the inflationary process.

On another note, **after 15 months and 10 consecutive interest rate hikes, the ECB at its October meeting decided to hold rates at 4.5%** for main refinancing operations and 4.0% for the deposit facility, a significant change compared with its previous decisions. However, interest rates are at their highest levels in over two decades, while inflation continues to ease, standing at 2.9% in October (4.3% in September) versus average inflation of 8.4% in 2022. This is closer to, yet still well above the 2% target for the Eurozone on the whole. At the same time, the ECB remains on track with the gradual reduction of its balance sheet, while risk premiums have increased in the countries with the highest debt levels, which could continue to rise as governments are forced to turn to the market for refinancing as their issued securities reach maturity and in order to cover fiscal deficits.

In the risk-free yield curves prepared by the European Insurance and Occupational Pensions Authority (EIOPA) at the end of September, stability is seen in interest rates in the shortest tranches (which still slope downward), while the rest of the curve slopes upward, reflecting a scenario in which interest rates could remain high for a longer period of time (see Chart 1).

Thus, risk-free interest rates continue to point to a favorable environment for the Life savings business, improving the outlook for products with longer durations, such as life annuities, due to the rise in interest rates in the longer maturity tranches. However, the inversion of the curve for shorter terms (in which the term premium is negative) also favors the development of products with shorter durations and periodic renewals. Meanwhile, the correction in the Euro Stoxx 50 and other international indexes, along with the drop in fixed-income value, is paving the way for the development of Life insurance products in which the policyholder assumes the investment risk. This will make it possible to expand the composition of the reference assets, giving more weight to fixed income after the sharp corrections in the bond market in 2022 and so far this year.

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

In the United States, the **Federal Reserve has held its monetary policy rates within a 5.25% to 5.5%** range since July and decided to keep them at this level at its last meeting. Therefore, it is maintaining a restrictive monetary policy until it sees clear signs of inflation coming under control and approaching its 2% target. While the data continues to improve, it remains far away from its objective, and the economy remains stronger than expected. In the EIOPA risk-free yield curve for the market in September (see Chart 2), an increase in levels is observed in every tranche of the curve, which become more significant as maturities increase. The curve flattens slightly, but maintains a negative slope while offering positive real interest rates (above the latest inflation data) in every tranche. This suggests a highly favorable environment for the sale of Life savings insurance products with guaranteed short-term rates and rate revisions at each renewal, while products with longer-term interest rate guarantees and life annuities are also gaining appeal.

Meanwhile, after gaining 15.5% until June, the S&P 500 has fallen into correction in recent months, placing its annual gain at 6.9% on October 30. As for the Nasdaq Composite, after rising 30.5% until the end of June, it has trended downward in recent months, and the annual gain stood at 19.7% as of the same date. The latest corrections and increased volatility are introducing some uncertainty that may affect the development of Life insurance products in which the policyholder assumes the investment risk. In particular, it could impact the composition of their assets, with fixed income gaining weight in the product mix offered in the market, considering the high returns currently offered by fixed-income assets in the U.S. market.

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

Source: MAPFRE Economics (based on EIOPA data)

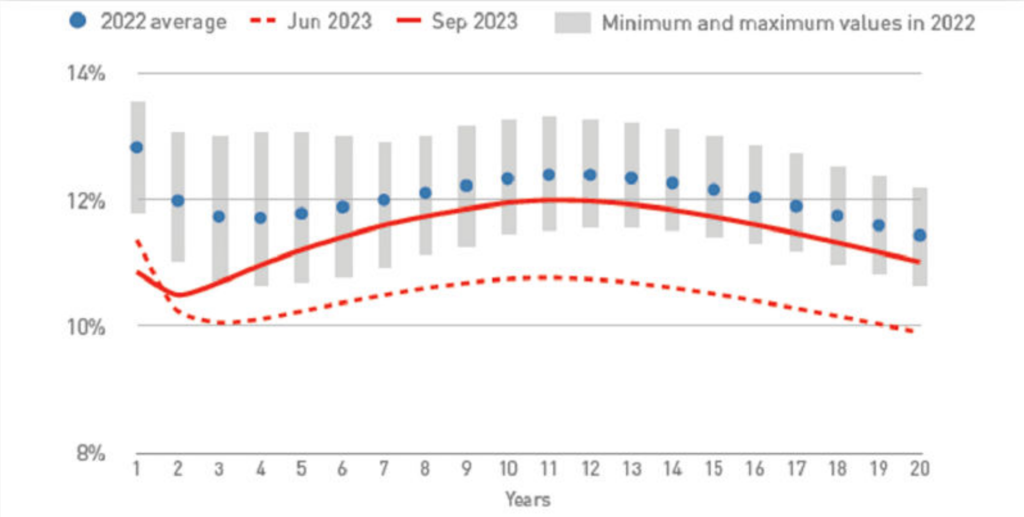
Click here to access the interactive version of this information

In the emerging markets, the Brazilian economy continues to exceed expectations, and the country's GDP growth forecast for 2023 has therefore been revised. However, growth should slow down over the next year as tighter financial conditions impact the real economy, despite the latest cuts in the reference interest rates. In this context, the insurance market continues to perform well, especially in the Non-Life segment, with growth exceeding inflation in nearly all lines of business, although it should be reduced in line with the anticipated economic slowdown. Meanwhile, profitability indicators remain strong, driven by easing inflation and significantly higher financial income due to high interest rates that far exceed the current inflation rate.

The Central Bank of Brazil, which started to raise interest rates a year before the Federal Reserve, began to reduce its monetary policy rates in July. It announced three decreases of 50 bps each in July, September, and October, placing them at 12.25% in response to the improvement in inflation data.

The EIOPA risk-free yield curves at the end of September (see Chart 3) show a decline in the shortest tranche of the curve and a rise in other maturities, with positive term premium and real interest rates, especially in maturities of around 10 years. This continues to provide a highly favorable environment for the development of the Life savings business (VGBL and PGBL) and life annuities, with interest rates that still offer returns that far exceed the latest inflation data. However, the predicted economic slowdown could lead to weaker growth for this line of business over the coming quarters.

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



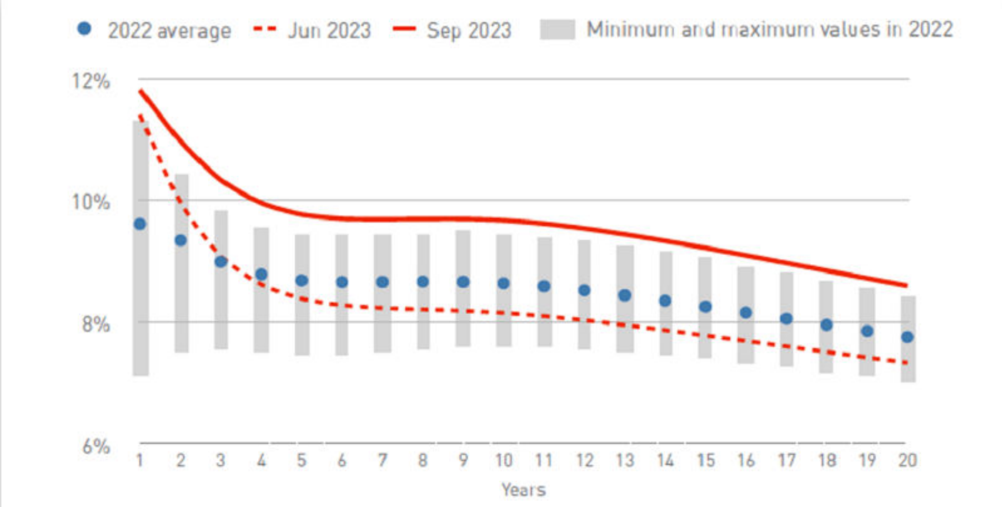
Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

In Mexico, as in Brazil, the economic growth forecast has been revised upward, while a slowdown is anticipated for 2024 in an economy that is withstanding the tightening of financial conditions better than anticipated. Interest rates are high (11.25%), and inflation continues to ease (4.45% and 4.26% in September and October, respectively), surpassing but moving closer to the target range (from 2% to 4%), although core inflation remains stubbornly high. Against this economic backdrop, and amid tightened financial conditions, the insurance market could experience a downturn, especially in the Non-Life segment. At the same time, more moderation in price increases and the high returns of investment portfolios are helping to boost the industry's profitability, which remains affected by the steep rise in inflation over the past two years.

Regarding the interest rate environment, the Bank of Mexico has held the reference monetary policy interest rate at 11.25% since March. In the risk-free yield curves produced by EIOPA (see Chart 4), an increase is noticeable at all tranches of the curve, which remains significantly inverted in its tranches up to five years and flat in its middle tranche. This interest-rate environment remains

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



Source: MAPFRE Economics (based on EIOPA data)

Click here to access the interactive version of this information

suitable for the development of Life savings insurance, with positive real interest rates that could offer significantly higher remuneration than the latest inflation data. The rise in the risk-free yield curve above the highs of the previous year suggests a favorable scenario for the launch of savings products with shorter-term guarantees and periodic revisions of guaranteed rates. Additionally, products with longer terms and life annuities would gain appeal due to the high interest rates offered along all tranches of the curve.

In Spain, the economic growth forecast has been revised upward for 2023, to 2.5% (5.8% in 2022), and downward for 2024, when growth is expected to slow to 1.3% in a context of tighter financial conditions and greater uncertainty from the conflict in the Middle East and war in Ukraine. The Spanish insurance industry continues to experience considerable growth, although it could face a slowdown that would especially impact the most cyclical businesses linked to credit behavior. However, growth would remain significant in Life savings and annuities, with gradual improvement in the profitability outlook due to easing inflation, the adjustment of premiums as policies are renewed, and higher financial income.

Full analysis of the economic and industry perspectives, with additional information and interactive charts on the Eurozone, Germany, Italy, Spain, United Kingdom, United States, Brazil, Mexico, Argentina, Turkey, Japan, China, and the Philippines, can be found in the report entitled Economic and Industry Outlook 2023: Fourth-Quarter Perspectives, prepared by MAPFRE Economics.

Global Savings and Insurance Industry Investments

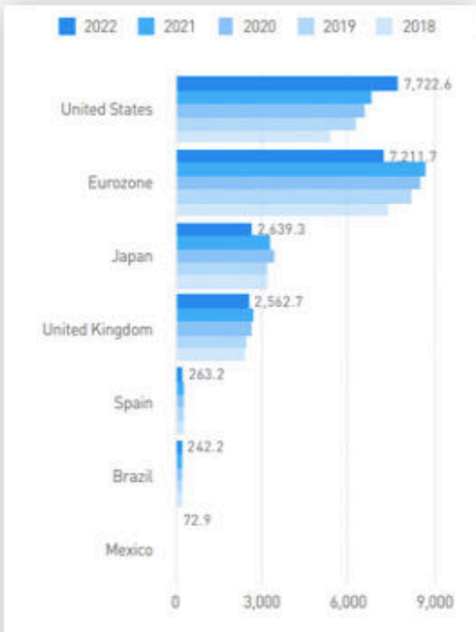
Author: MAPFRE Economics

Summary of the conclusions of the
MAPFRE Economics report
Global Savings and Insurance Industry Investments
Madrid, Fundación MAPFRE, June 2023

Composition of the investment portfolio of insurance companies during monetary normalization

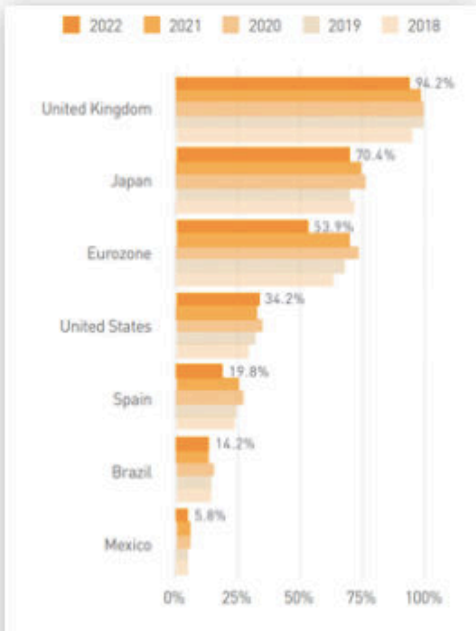
As shown in Charts 1 and 2, the insurance industry registered in 2022 the first aggregate decrease in its investments in recent years, affecting both their volume and proportion with respect to GDP. The decline was caused by steep interest-rate hikes due to the monetary tightening cycle, a response to soaring

Chart 1. Selected markets: investments managed by the insurance industry, 2018-2022 (billions of euros)



Source: MAPFRE Economics (with data from EIOPA, ICEA, BoE, NAIC, LIAJ, SUSEP and CNSF)

Chart 2. Selected markets: investments managed by the insurance industry compared with GDP, 2018-2022 (% of GDP)



Source: MAPFRE Economics (with data from EIOPA, ICEA, BoE, NAIC, LIAJ, SUSEP, CNSF and IMF) inflation and its persistence over time. However, as an exception, in the U.S. insurance market, the dollar's appreciation against the euro had a positive impact, causing the net value of investments to increase when converted to euros.

In previous years, the economic environment caused investment portfolios to show gains with the help of various economic support programs introduced by central banks, which maintained ultra-lax interest rates and implemented asset purchasing programs on the balance sheet side, together with broad fiscal stimulus programs introduced by governments. However, in 2022, the imbalances in the real economy generated by these programs became patently clear, setting the stage for emerging inflation that was initially seen as transitory, but that intensified over time due to the subsequent string of supply-side shocks. Inflation thus became more persistent than anticipated, triggering a change in the orientation of monetary policy towards tightening and prompting central banks to accelerate their interest rate hikes and shrink their balance sheets. As a result, significant impairments were registered in insurance companies' investment portfolios, and particularly in longer-term fixed income portfolios.

A comparative analysis of the major global insurance markets shows the latest dynamics within the investment portfolios in the main economies worldwide (see Table 1). In general, the industry's investments remain concentrated in fixed income (corporate and sovereign) due to the insurance business model, which requires the use of liability-driven investment strategies in order to correctly match terms, currencies, and interest rates between the liabilities assumed and the underlying investment instruments, relying on assets with high credit ratings. This highlights the exceedingly conservative profile of insurance companies when it comes to investing.

Table 1. A structural breakdown of traditional business investment portfolios, 2021–2022
(%)

Asset type	Eurozone		United States		Japan		United Kingdom		Spain	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Corporate fixed income	24.7%	23.5%	40.9%	47.5%	6.9%	6.5%	33.4%	32.9%	19.9%	21.2%
Sovereign fixed income	28.9%	25.6%	20.5%	14.8%	41.2%	43.7%	18.2%	16.6%	52.6%	51.2%
Equities	14.9%	18.6%	15.0%	13.6%	6.1%	5.9%	6.7%	5.9%	6.7%	7.4%
Loans	4.9%	5.1%	10.0%	10.5%	7.1%	7.4%	10.0%	10.0%	0.5%	0.7%
Cash and deposits	1.9%	1.9%	4.6%	4.6%	2.9%	3.0%	9.3%	10.2%	6.0%	5.1%
Properties	1.6%	1.7%	0.5%	0.5%	1.5%	1.6%	1.7%	2.0%	3.5%	4.0%
Mutual Funds	20.5%	20.5%			2.2%	2.4%	20.6%	22.3%	12.7%	12.6%
Other investments	2.6%	3.1%	8.4%	8.5%	32.1%	29.5%	0.1%	0.1%	-1.9%	-2.2%

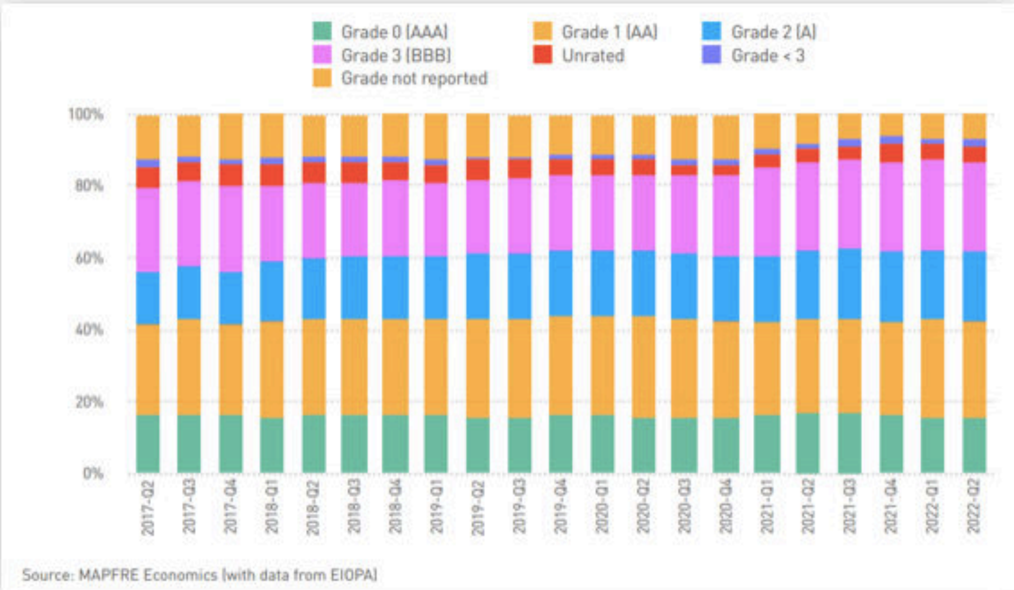
Source: MAPFRE Economics (with data from EIOPA, ICEA, BoE, NAIC and LIAJ)

The pre-pandemic environment was characterized by stagnant growth rates and low inflation, a downward potential growth horizon, and expansive economic policy prescriptions, with monetary policy having a stronger role. In this situation, low nominal yields prevailed, and a high appetite for risk became widespread as a formula to maintain certain levels of profitability As a counterpart, the regulation threshold has been progressively gaining influence, becoming a stronger mechanism for risk management.

In the current environment, characterized by high inflation, accelerated interest rate hikes, and the quantitative easing programs of central banks, risk perception has emerged as a differential element, as reflected by the crises affecting regional banks in the United States, or the defined benefit pension schemes in the United Kingdom. Although the financial environment was adverse throughout 2022, with more episodes of volatility, corrections in the valuation of main asset categories, and a decline in the distribution of returns, the investment structure has remained relatively stable in high-quality assets (see Chart 3). This is reflected in the evolving European composition, which has maintained a strong solvency position with the help of a regulatory framework based on appropriate risk management that has proven effective at times of economic and financial tension in recent years.

Chart 3. Credit quality of the bond portfolio

(%)



The full analysis can be found in the report Global Savings and Insurance Industry Investments, prepared by MAPFRE Economics.