

High Inflation and slow growth: Impact on the Insurance business

Dario Focarelli
Director General, ANIA

*Actuarial Association of Europe
Hotel Flora, Roma
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Agenda

Financial Markets reaction to the war

Inflation and Growth

Impact on Insurance Business

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Inflation and Growth

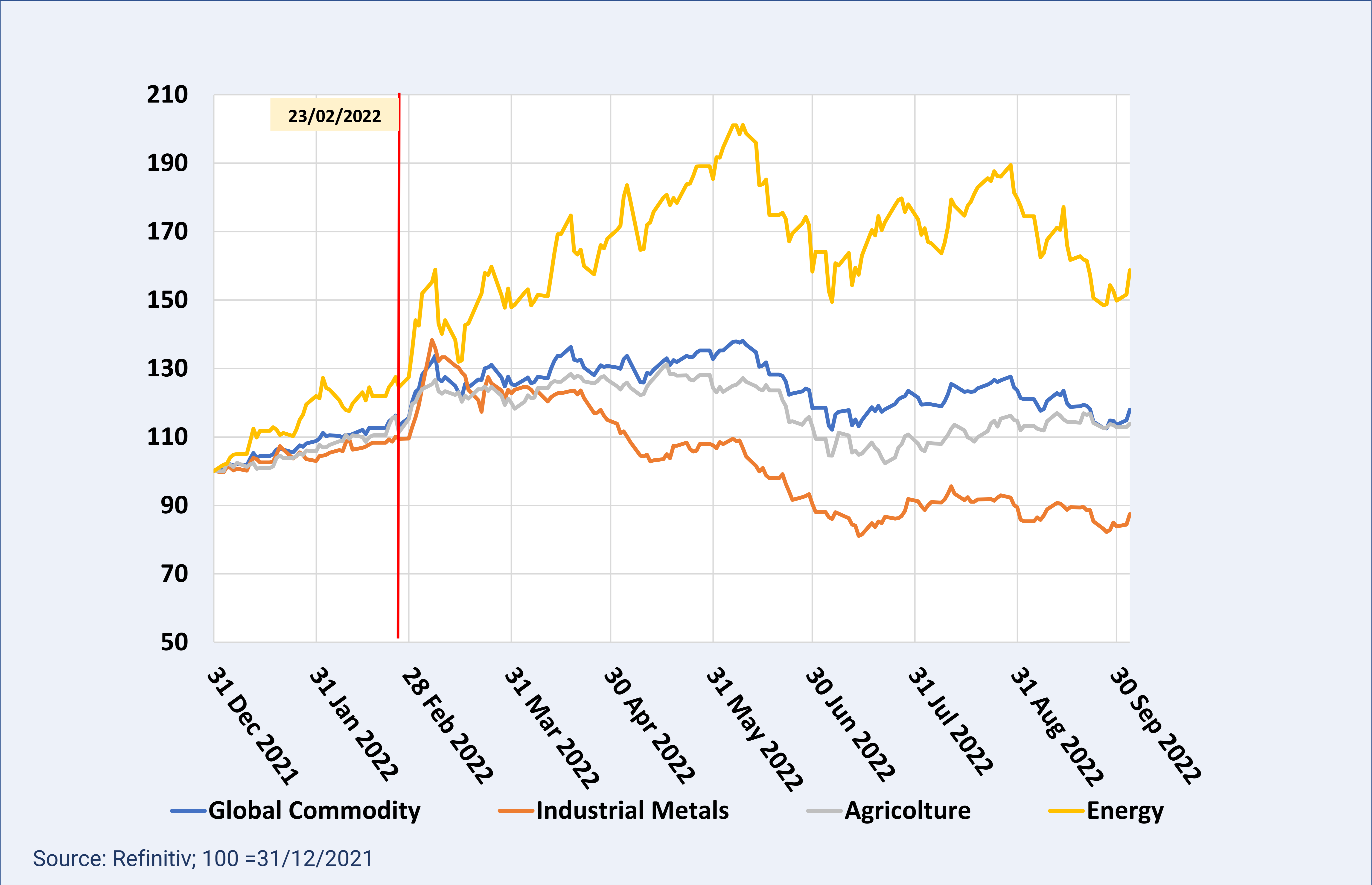
Impact on Insurance Business

Commodities

Δ %

	w.r.t the beginning of the conflict	w.r.t 01/01/2022
Global Commodity	2,2%	17,9%
Industrial Metals	-19,4%	-12,5%
Agriculture	-1,4%	13,9%
Energy	26,2%	58,7%

cut-off date 04/10/2022

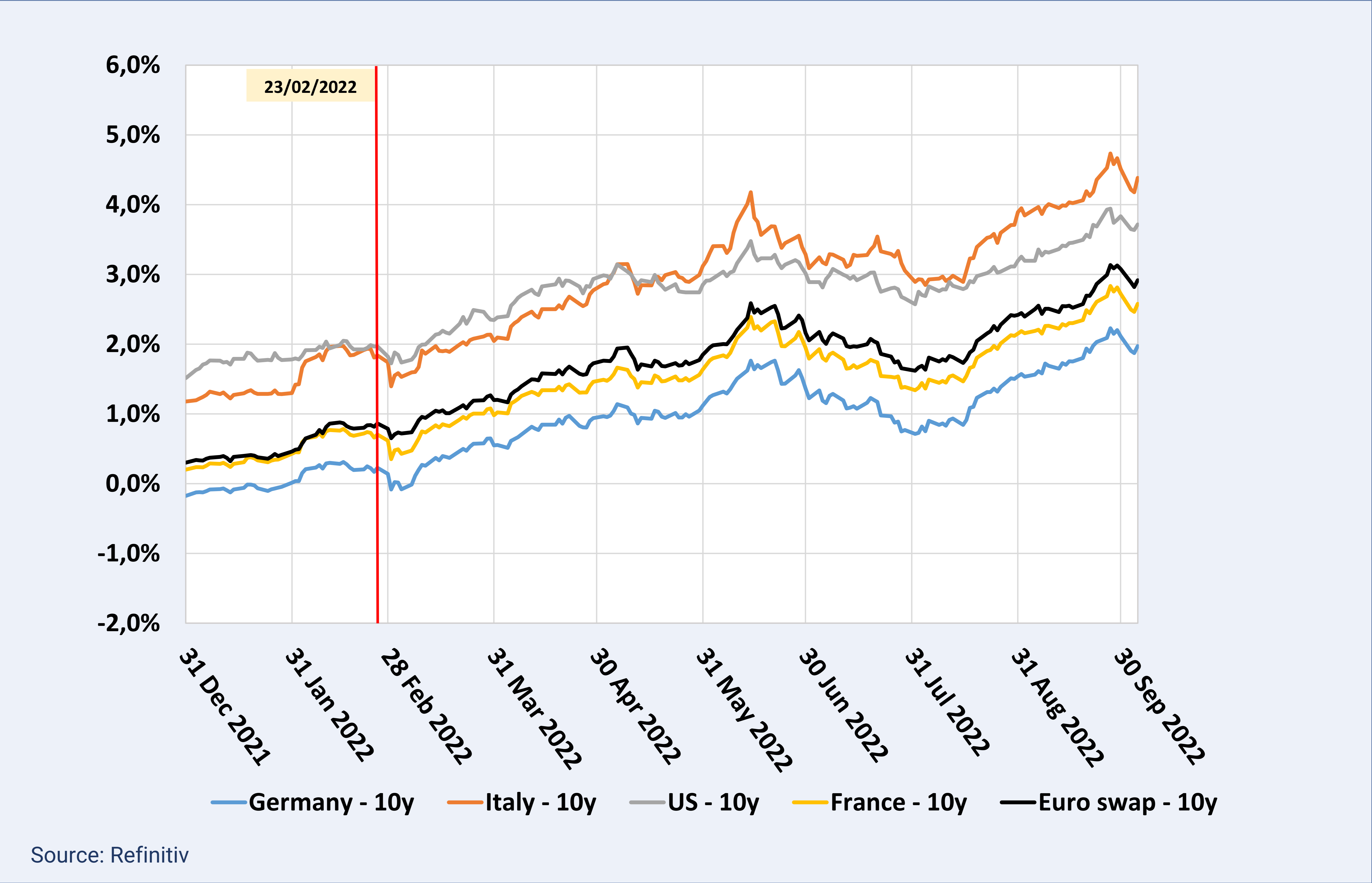


Interest rates

Δ bps

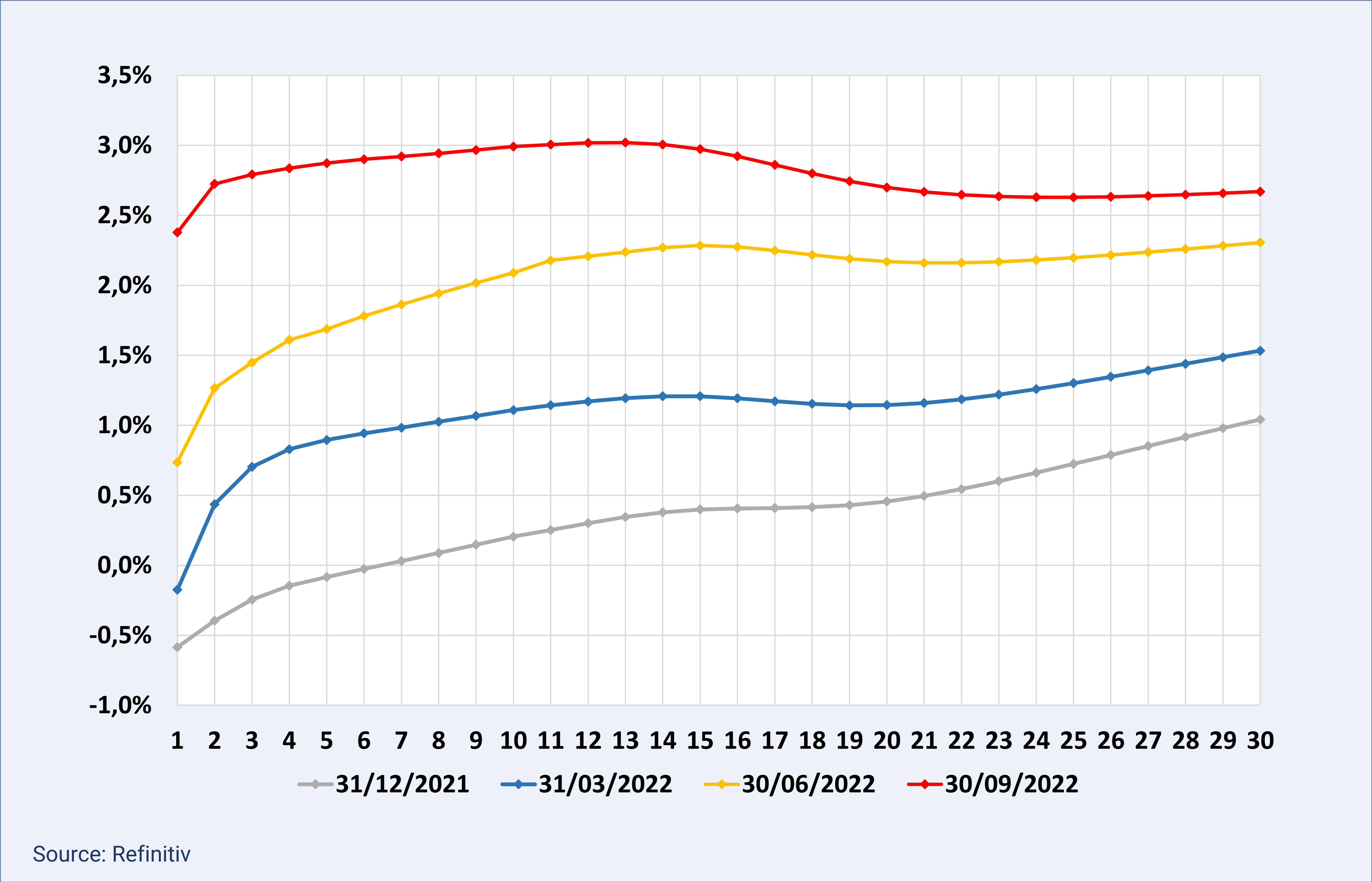
	w.r.t the beginning of the conflict	w.r.t 01/01/2022
US 10y	165	212
DE 10Y	165	205
FR 10Y	173	226
IT 10y	225	300
Euro swap 10y	198	252

cut-off date 04/10/2022



RFR curve in Solvency II

	RFR 10y	Δ bps w.r.t 31/12/2021
31/12/2021	0,2%	-
31/03/2022	1,1%	90
30/06/2022	2,1%	188
30/09/2022	3,0%	279

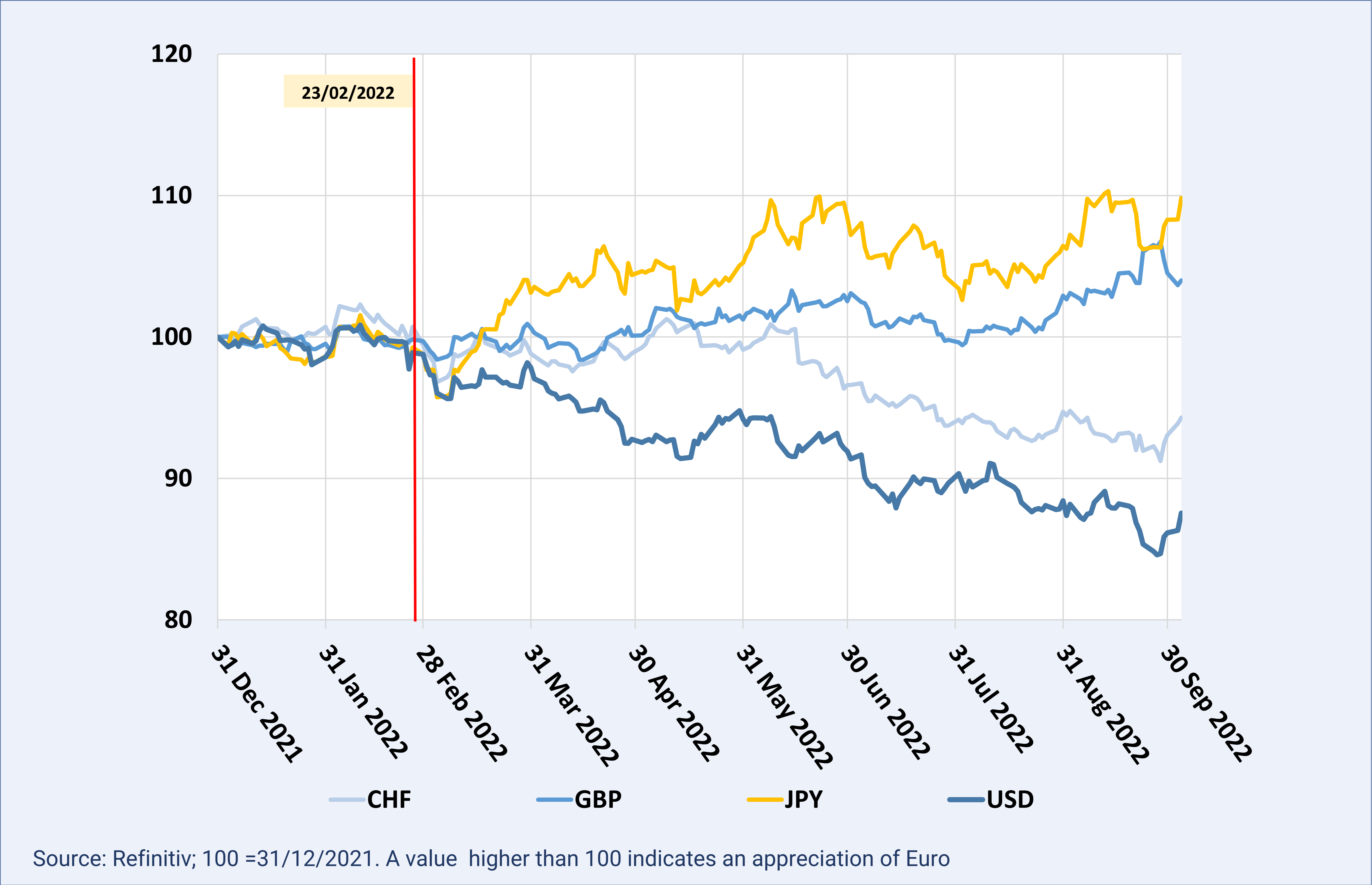


Foreign Exchange rates

Δ %

	w.r.t the beginning of the conflict	w.r.t 01/01/2022
CHF	-5,7%	-5,9%
GBP	4,0%	4,5%
JPY	9,8%	10,4%
USD	-12,4%	-12,1%

cut-off date 04/10/2022



World Stock Markets

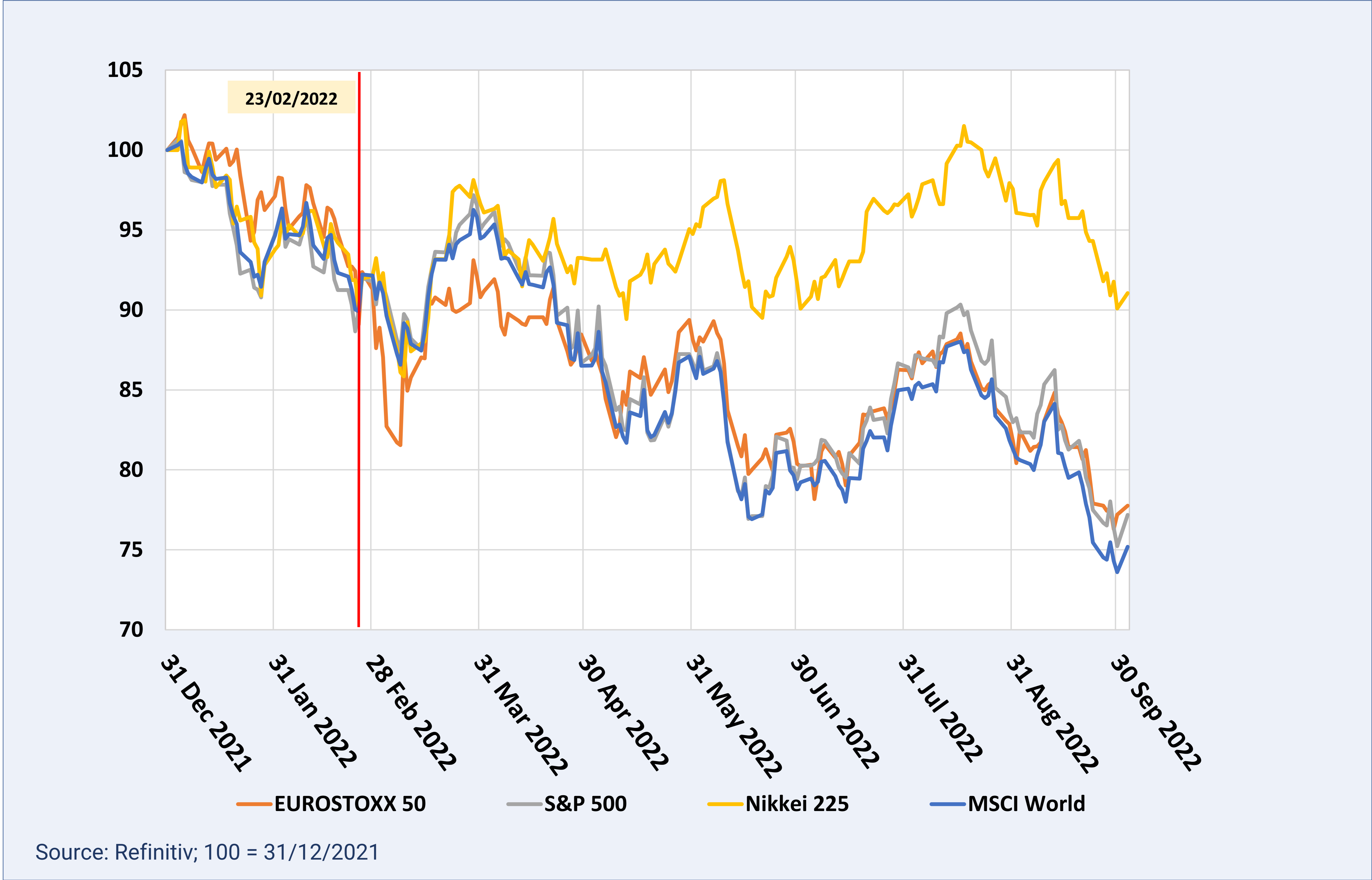
(local currencies)

Δ %

	w.r.t the beginning of the conflict	w.r.t 01/01/2022
Eurostoxx 50	-12,3%	-18,9%
S&P 500	-10,3%	-20,5%
MSCI World	-13,7%	-22,3%
Nikkei	2,0%	-6,3%

cut-off date

04/10/2022

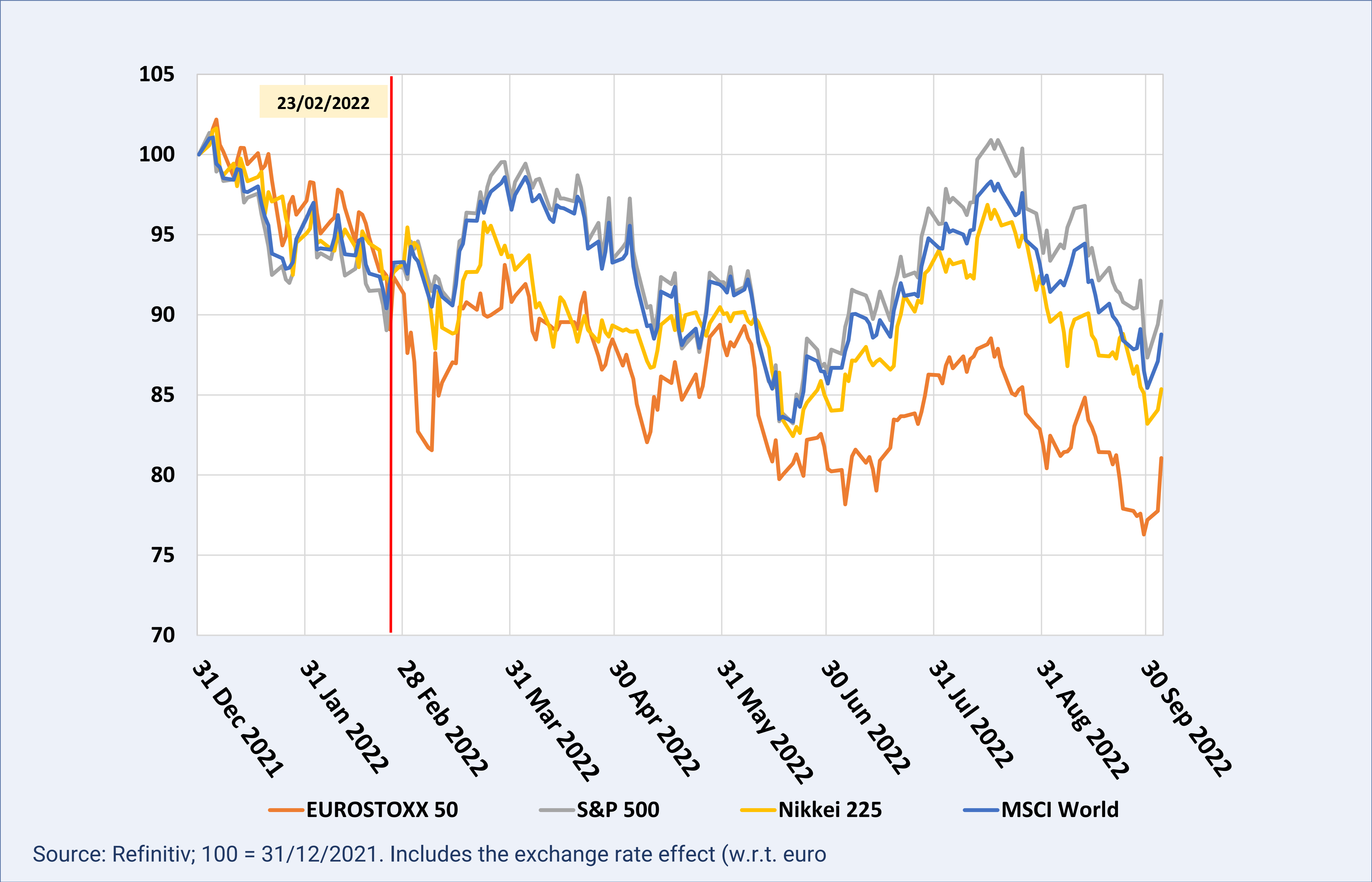


World Stock Markets (euros)

Δ %

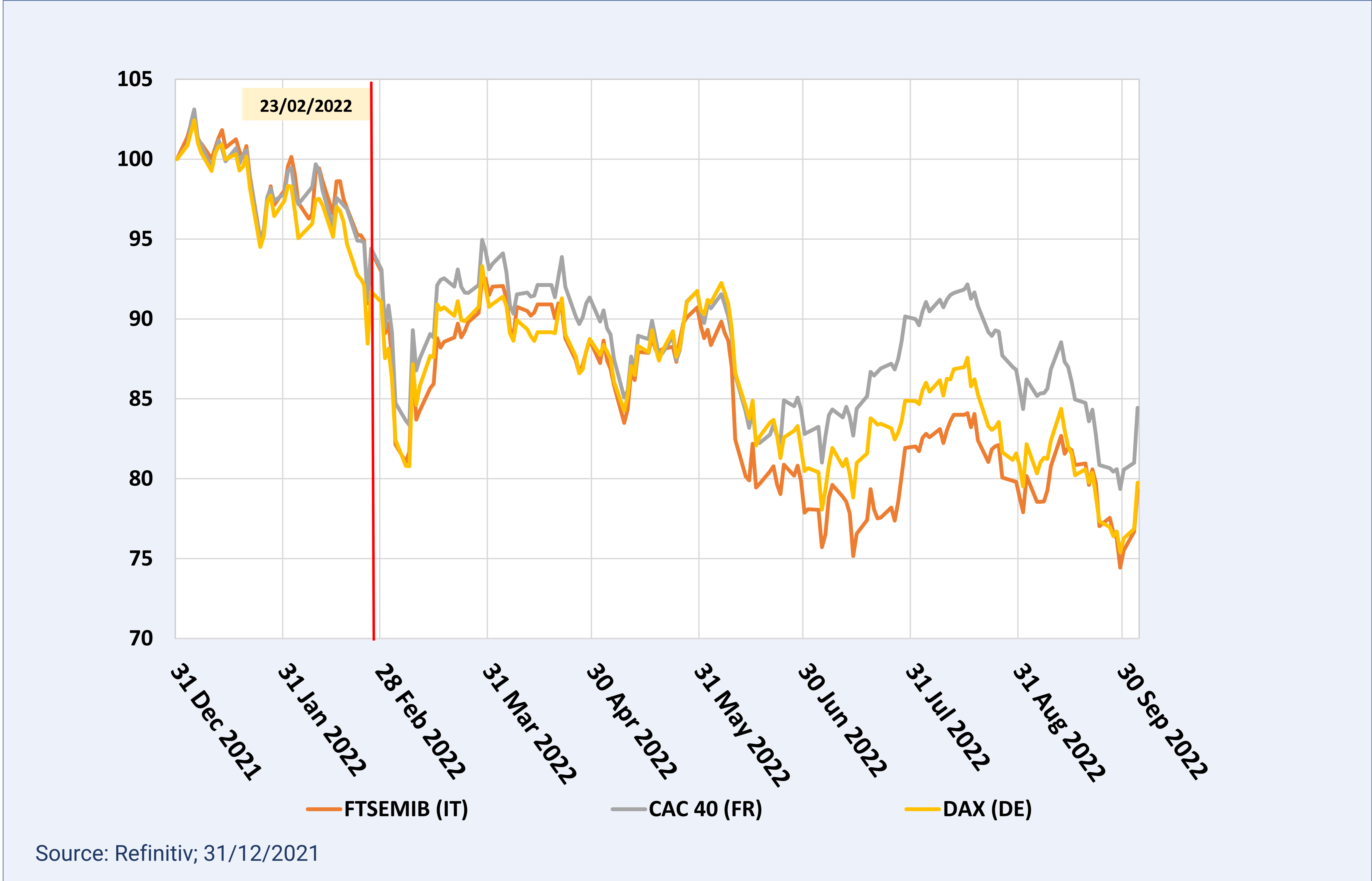
	w.r.t the beginning of the conflict	w.r.t 01/01/2022
Eurostoxx 50	-12,3%	-18,9%
S&P 500	2,0%	-9,2%
MSCI World	-1,8%	-11,2%
Nikkei 225	-7,6%	-14,6%

cut-off date04/10/2022



Euro Area Stock Markets

Δ %		
	w.r.t the beginning of the conflict	w.r.t 01/01/2022
FTSEMIB	-16,4%	-20,7%
CAC 40	-10,9%	-15,6%
DAX	-13,4%	-20,2%
cut-off date	04/10/2022	

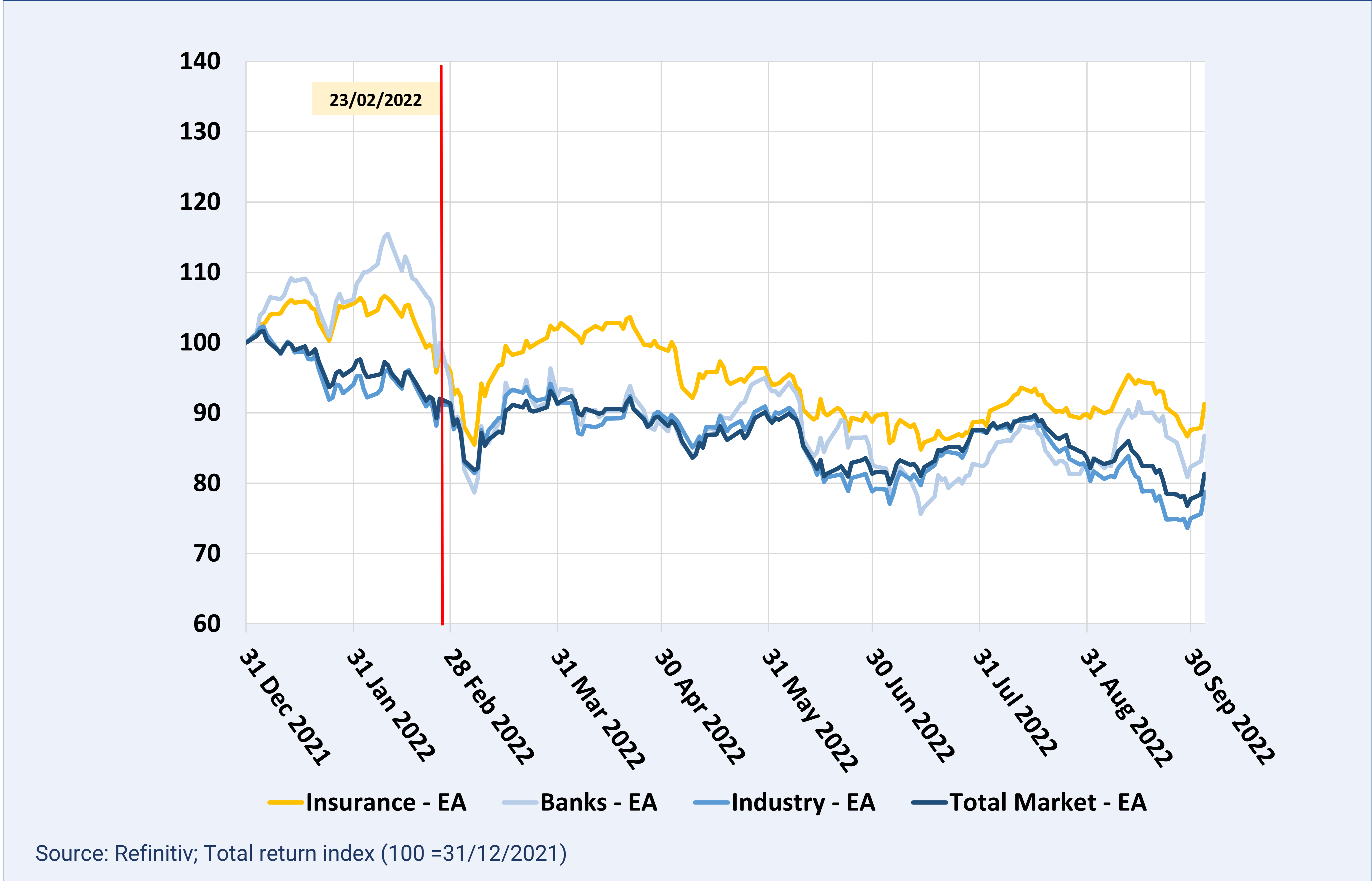


Euro Area Stock Markets (Sectors)

Δ %

	w.r.t the beginning of the conflict	w.r.t 01/01/2022
Insurance	-8,1%	-8,7%
Banks	-17,3%	-13,2%
Industry	-13,3%	-21,3%

cut-off date 04/10/2022

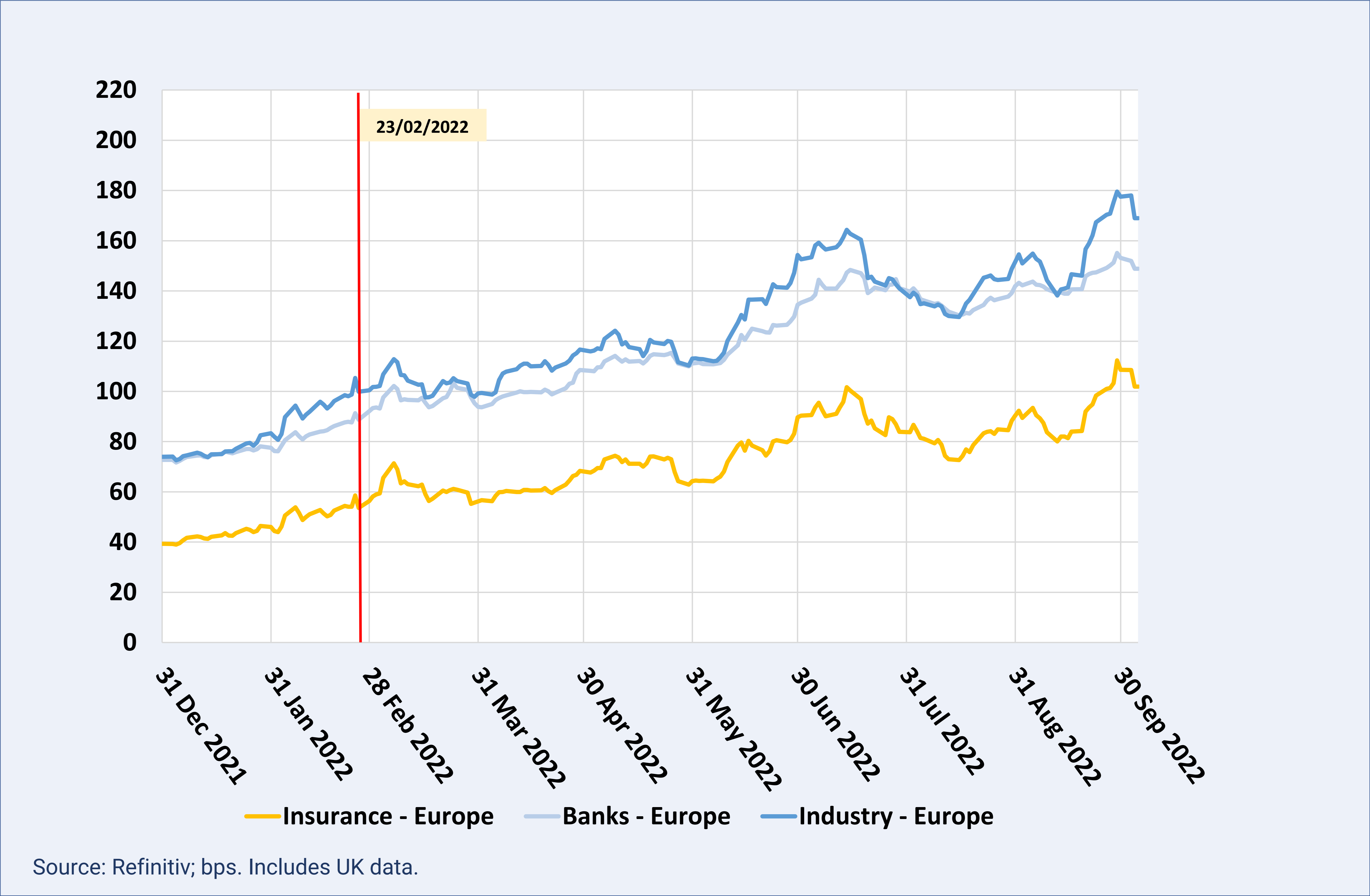


Credit Default Swaps (Sectors)

Δ bps

	w.r.t the beginning of the conflict	w.r.t 01/01/2022
Banks	61	76
Industry	70	95
Insurance	48	63

cut-off date 04/10/2022

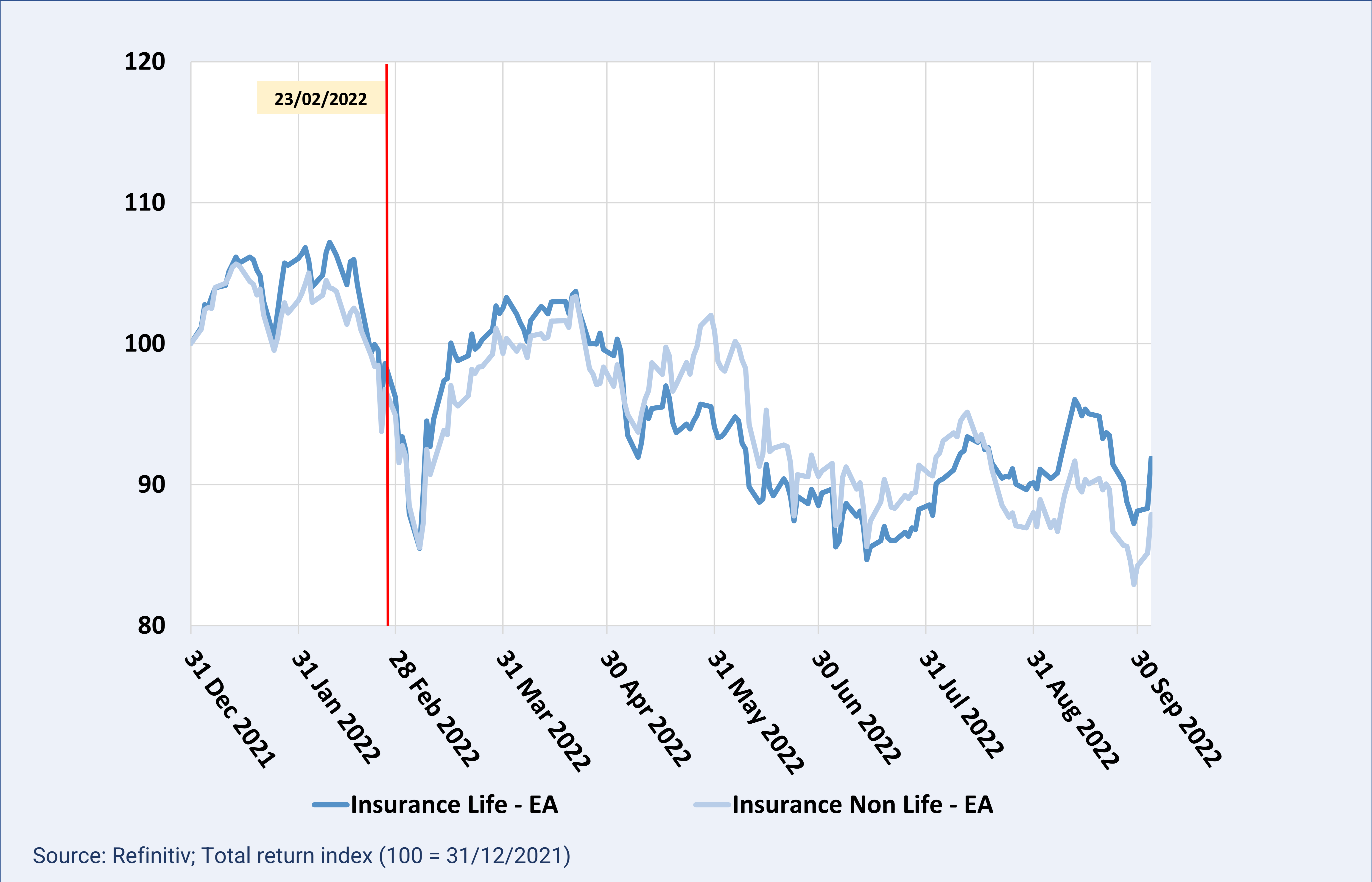


Euro Area Stock Markets (Life, Non-life)

Δ %

	w.r.t the beginning of the conflict	w.r.t 01/01/2022
Life	-10,8%	-12,1%
Non Life	-7,7%	-8,1%

cut-off date 04/10/2022



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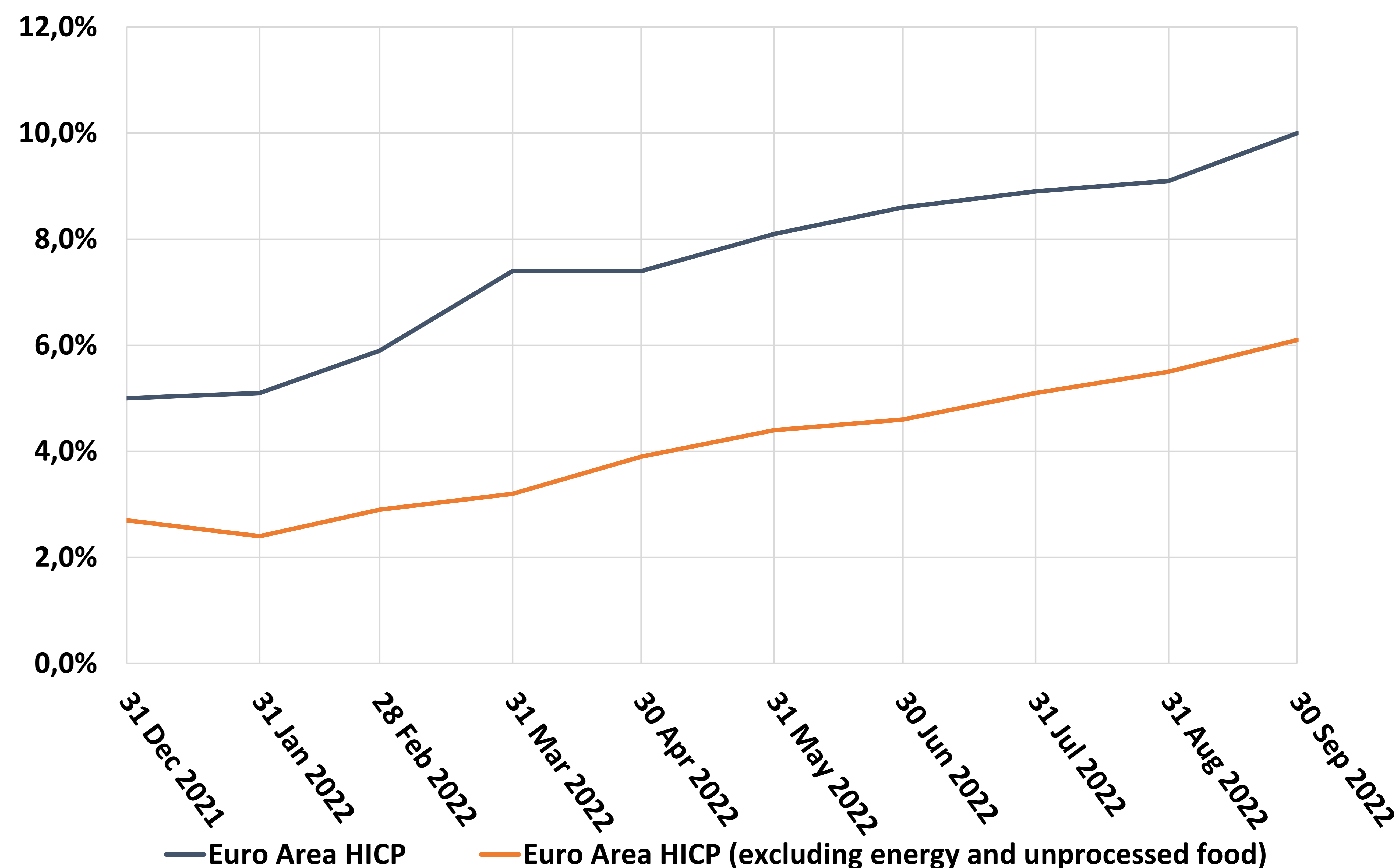
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Current inflation

Inflation reached 10% yoy in September (6.1% excluding energy and food). Soaring energy and food prices, demand pressures in some sectors owing to the reopening of the economy, and supply bottlenecks are still driving up inflation.



Source: Refinitiv

Euro Inflation expectations

In the ECB Survey of Professional Forecasters (SPF) for the third quarter of 2022, HICP inflation expectations were revised up across all horizons

	Survey horizon			
	2022	2023	2024	Longer term ¹⁾
HICP inflation				
Q3 2022 SPF	7.3	3.6	2.1	2.2
Previous SPF (Q2 2022)	6.0	2.4	1.9	2.1
Eurosystem staff macroeconomic projections (June 2022)	6.8	3.5	2.1	-
Consensus Economics (June 2022)	7.2	3.2	-	1.9
Euro Zone Barometer (June 2022)	6.8	2.9	-	2.2
Memo: HICP inflation excluding energy, food, alcohol and tobacco				
Q3 2022 SPF	3.6	2.9	2.3	2.2
Previous SPF (Q2 2022)	2.9	2.3	2.0	1.9
Eurosystem staff macroeconomic projections (June 2022)	3.3	2.8	2.3	-
Consensus Economics (June 2022)	3.6	2.9	-	-

Source: [ECB Survey of professional forecaster](#) – July 2022

Euro real GDP growth Forecast

Real GDP growth expectations were revised down for 2022 (from the second quarter onwards) and 2023 but remained unchanged for 2024

	Survey horizon			
	2022	2023	2024	Longer term ¹⁾
Real GDP growth				
Q3 2022 SPF	2.8	1.5	1.8	1.5
Previous SPF (Q2 2022)	2.9	2.3	1.8	1.4
Eurosystem staff macroeconomic projections (June 2022)	2.8	2.1	2.1	-
Consensus Economics (June 2022)	2.8	2.0	-	1.3
Euro Zone Barometer (June 2022)	2.6	1.8	-	1.5

Source: [ECB Survey of professional forecaster](#) – July 2022

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General view

Slowing growth/recession and high inflation lead to relevant challenges for the industry

Slowing growth/recession leads to lower demand for insurance

The main inflation impact will show in rising claims costs, mostly in non-life business

In the life business there is an increased lapse risk for both guaranteed products and unit linked business

Time horizon is relevant

While in the short- and medium terms we can expect a strong pressure on both business and profitability, it is reasonable to expect positive developments in medium - and long terms

The speed of adjustments is key

Headwinds in the short- and medium terms

- The conflict will impact consumer sentiment and **curb demand for insurance**.
- The impact of the conflict will be felt primarily through additional price pressures that **increase the level of claims**. Property, casualty and health insurers are most exposed.
- Weaker equity markets this year and widening credit spreads will likely lead to **mark-to-market valuation losses on assets and capital**. *(This is even more true when using historical cost in local GAAPs of various countries.)*

Tailwinds in the medium- and long terms

- **Rising interest rates** will boost insurers' investment returns. *(But with a significant lag)*
- **Heightened risk awareness post pandemic**. There is higher demand for life insurance products (mortality protection, health) as consumers' risk awareness has increased during the pandemic. *(But be careful on possible increase of lapse risk in life business)*
- **Rate hardening**. We expect claims inflation to feed through into rate hardening in non-life commercial and personal lines this year and next. *(but for the moment we have seen very little action)*

Source: Swiss Re – <https://www.swissre.com/institute/research/sigma-research/sigma-2022-04.html> June 2022

Mitigating inflation risks

Actuarial profession will play a key role in helping the industry to mitigate inflation risks in terms of both underwriting and reserving

Underwriting

- Re-price insurance risks to reflect elevated claims costs, especially for more persistent inflation pressures
- Diversify and steer new business towards products with lower risk profiles
- Index covers (in particular, sums insured in property) and deductibles to CPI to stabilise and avoid onerous re-pricing

Reserving

- Review reserves regularly, on a best-estimate basis
- Identify claims inflation trends
- Plan a special review of reserves to respond to the projected or observed inflation spike

Asset liability management (ALM)

- Replicate portfolios that contain directly hedgeable financial market exposure
- Translate the replicated portfolios into investable financial market positions
- Reassess asset allocation strategy

Source: Swiss Re – <https://www.swissre.com/institute/research/sigma-research/sigma-2022-04.html> June 2022

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