Life and Health Reinsurers Only Moderately Affected by Coronavirus Pandemic

Mortality Claims Highest in the US; Region Has Higher Rate of Cover

> "The quick roll-out of vaccines in the US is the key chance for life and health reinsurers to report lower pandemic-related mortality claims in 2021."
>
> Robert Mazzuoli, Director, Fitch Ratings

Despite more than 2.8 million coronavirus pandemic-related deaths globally so far, the world's five largest life and health (L&H) reinsurers – Hannover Rueck SE, Munich Reinsurance Company, Reinsurance Group of America, Incorporated, SCOR SE and Swiss Reinsurance Company Ltd – have only been moderately affected by heightened mortality losses and remained profitable in 2020.

Fitch Ratings expects pandemic-related mortality claims to decline in 2021 due to the global rollout of vaccines. This assumes that virus variants will not diminish the effectiveness of the vaccines.

L&H Reinsurers Remained Profitable in 2020

The five largest L&H reinsurers reported declines in net earnings in 2020 from 2019 due to pandemic-related mortality claims. However, they remained profitable despite the high number of deaths globally.

The key reason for this is the very low penetration rate of mortality covers amongst the older age cohorts globally, with very few exceptions such as the US, Canada or the UK. People aged 75 or higher have been most affected by the pandemic.

Mortality Claims Will Decline in 2021

Fitch believes that the global rollout of vaccines will prove successful, leading to a lower number of deaths linked to the pandemic in 2021 and 2022, and bases its credit analysis on this assumption. Virus variants pose the largest risk to this scenario as they may render vaccines less powerful or even useless.

Majority of Claims Are from US

The US business of the L&H reinsurers has contributed the vast majority of reported mortality claims and claims reserves so far. The US is unique as life policies with mortality covers are quite popular amongst older age cohorts for tax reasons. Against this backdrop, this report focuses on the situation in the US.

Insured Population Has Lower Mortality

In the US, L&H reinsurers have reported mortality claims and claims reserves that are below the level one would expect simply looking at general excess mortality linked to the pandemic. This observation lends itself to the conclusion that excess mortality is lower in the insured population than in the total population.

Longevity Risk Provides Some Hedging

Those L&H reinsurers with a substantial longevity book reported some degree of a natural hedge for their mortality losses. This is in particular true for countries such as the UK where longevity risk covers are an established product offering of the reinsurance industry.

Related Research

European Reinsurers Expecting A Better 2021 (March 2021)
COVID-19 Mortality Assumptions (October 2020)

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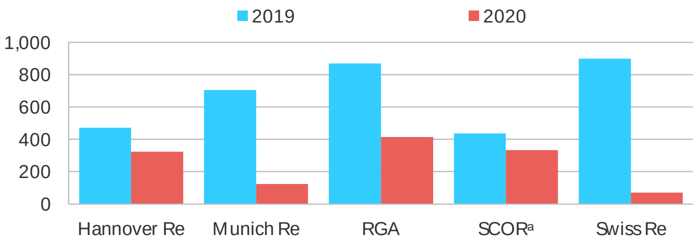
2020 Earnings Affected by Mortality Losses

The five leading L&H reinsurers reported a decline in net earnings for 2020 compared to the year before. The major drivers were morbidity and mortality claims linked to the coronavirus pandemic. Most of these losses were caused by an increase in mortality in the US.

Net Income Life & Health Reinsurance



[a] Operating result before impact of acquisitions
Note: RGA and Swiss Re figures in USDm
Source: Fitch Ratings, corporate accounts

Hannover Re provided a split of all pandemic-related claims in L&H. Out of the EUR261 million of net claims booked in 2020, 85% were linked to increased mortality, mainly in the US, and 15% to increased morbidity, mainly in Australia.

SCOR published a geographical split of its EUR314 million pandemic-related booked L&H claims, net of reinsurance, in 2020 – 90% were from the US mortality portfolio, and the other 10% from all other markets.

Varying Exposures to Coronavirus Claims

Differences in the relationship between pandemic-related claims and net earned premiums in L&H reinsurance highlight the varying exposures of the five leading L&H reinsurers to US mortality risk (see graph below). Fitch believes this mirrors relative market shares in the US rather than different underwriting or reserving standards.

Covid-19 Claims Relative to Net Premiums Earned

Life & health reinsurance 2020

Source: Fitch Ratings, Corporate accounts

Longevity Benefits a Small Offset

In 2020, L&H reinsurers benefitted from lower longevity claims in countries such as the US, UK or Australia, where longevity risk covers are an established product category. Their longevity business provided some diversification against the backdrop of the pandemic and helped to mitigate higher mortality claims.

RGA, for instance, estimates that in 2020 pandemic-related mortality and morbidity claims of USD720 million pre-tax were partially offset by a favourable longevity claims experience of USD33 million.

L&H reinsurers may also have slightly benefitted from lower morbidity and mortality claims due to two side-effects of the coronavirus pandemic. The first was a decline in other infectious diseases such as influenza due to the lockdown measures and the second was a – potentially only temporary – fall in health treatments such as surgeries that were postponed to free up capacity in hospitals. Fitch estimates these benefits to be small in comparison to the costs caused by the pandemic.

Rollout of Vaccines to Help in 2021

The quick rollout of vaccines around the world, and in the US in particular, is the key chance for the L&H reinsurance industry to limit new mortality losses in 2021 and 2022. Fitch expects a successive decline of reported mortality claims starting in 2Q21.

In contrast to property and casualty reinsurance, the back-book cannot easily be repriced in L&H reinsurance, nor can terms and conditions be changed to exclude pandemic coverage. Mortality and morbidity risk is the key product offering of the L&H reinsurance industry.

For this reason, new claims will arise as long as the pandemic is ongoing. Some of the leading L&H reinsurers have provided guidance on how much they believe additional pandemic-related deaths in the US will cost (see table below).

Claims per Additional 10,000 US Population Deaths

Munich Re[a]	EUR7 million–8 million
RGA	USD15 million–25 million
SCOR	EUR7 million–8 million
Swiss Re	USD20 million

[a] Fitch estimate
Source: Fitch Ratings, Corporate accounts

RGA also published guidance for the UK (claims of USD4 million–6 million per 10,000 additional deaths) and Canada (claims of USD10 million–15 million per 10,000 additional deaths).

Hannover Re has a two-year index pandemic retro-coverage of EUR255 million in place that will kick in at an observed mortality rate of 110%–120% of the long-term average death rate. Fitch believes this protection will limit additional mortality claims for Hannover Re in 2021.

Virus Variants Are Key Risk to Vaccination Success

Fitch considers the appearance of virus variants that reduce the effectiveness of the vaccination campaign the key risk for L&H reinsurers in 2021 and 2022.

Medium-Term Impact Is Limited

Fitch believes the medium-term effects of the pandemic and the related economic downturn on L&H reinsurance is limited. Mortality and morbidity claims could remain high in the immediate aftermath of the crisis due to increased suicides or higher disability claims. Demand for L&H reinsurance could rise as cedants look for ways to reduce balance-sheet risk. However, this could be counterbalanced by the weak macroeconomic backdrop.

Fitch does not expect any significant changes to the pricing or terms and conditions of new L&H reinsurance business as the pandemic-related mortality claims have remained within modelled scenarios for pandemic risk and most likely will not affect long-term mortality rates.

Focus on Excess Mortality in the US

There are three key reasons why most of the reported pandemic-related claims in L&H reinsurance come from US mortality.

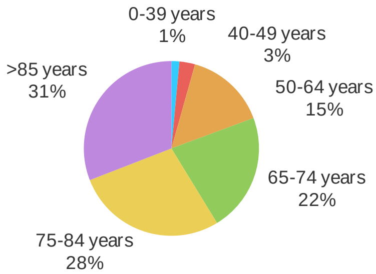
Firstly, the US L&H market is by far the largest globally. Fitch estimates that it contributes close to 40% to global premiums.

Secondly, excess mortality has hit the older age cohorts, affecting countries with an older population such as the US more severely than those with a younger population. In the US, close to 530,000 people had died from causes linked to Covid-19 by the end of March 2021. Almost 60% of all coronavirus victims were at least 75 years old (see pie chart below).

Thirdly, life insurance policies that include mortality covers are widely held by older age cohorts in the US, whereas mortality covers are hardly sold to older age groups in other regions. The key reason for this popularity is the tax treatment of financial income in the US, which favours life policies with mortality covers over those without.

Provisional US Covid-19 Deaths by Age

As of end of March 2021



Source: Fitch Ratings, Centers for Disease Control and Prevention

Insured Population Less Affected

All five leading L&H reinsurers reported excess mortality rates in their respective books that were below those rates of the general population in the US in 2020. There are strong indications that the insured population finds it easier to protect themselves from the virus by social distancing, is less vulnerable to the Covid-19 disease due to fewer comorbidities and has better healthcare treatment in case of infection.

Vaccine Roll-Out Is Gathering Speed

According to the Centers for Disease Control and Prevention, at the beginning of April 2021 almost 20% of the US population had been fully vaccinated, while a rate of 70% is expected for the beginning of August. Scientists believe that an immunity of more than 70% of the population is needed to stop the pandemic spreading. If all goes to plan, excess mortality linked to the pandemic should decline in 2021 to reach very low levels by the end of this year.

In February 2021, Fitch Ratings presented a guidance update on expected excess mortality due to the coronavirus pandemic. The assumptions are now based on projections from the Institute for Health Metrics and Evaluation. For the US, Fitch expects 2,011 general population deaths per one million inhabitants.

Insurer Financial Strength Ratings

Hannover Rueck SE (Hannover Re)	AA-/Stable
Munich Reinsurance Company (Munich Re)	AA/Stable
Reinsurance Group of America, Incorporated (RGA)	A/Stable
SCOR SE (SCOR)	AA-/Stable
Swiss Reinsurance Company Ltd (Swiss Re)	A+/Stable

Source: Fitch Ratings