Market context

As a leading global reinsurer, Swiss Re aims to stay one step ahead of emerging risks around the world. This section breaks down key insurance market trends of 2023, assessing the impact of ongoing economic and social inflation, damaging natural disasters and climate change, and expected mortality improvements in today's risk landscape.

Swiss Re's Group Chief Investment Officer Velina Peneva also shares her perspective on the global economic outlook and what this means for investors.

Velina Peneva
Group Chief Investment Officer

"Asset Management will continue to deliver on plan"

Group Chief Investment Officer Velina Peneva looks back on the volatile but surprisingly resilient economy of 2023, outlines Asset Management's priorities for 2024 and shares what inspires her most about working at Swiss Re.

Velina Peneva joined Swiss Re in 2017 as Head Private Equity and developed and executed the investment strategy for the Private Equity portfolio. She became Co-Head Client Solutions & Analytics in 2019 and was responsible for implementing Asset Management's investment portfolio strategy. She was appointed Group Chief Investment Officer and member of the Group Executive Committee in April 2023.

Last year was characterised by market uncertainty and volatility – what surprised you most in 2023?
Probably the biggest surprise for most of us in 2023 was the resilience of the global economy. At the start of the year, a significant economic contraction was widely expected given the sharp jump in interest rates. It was believed that the US Federal Reserve would succeed in its efforts to combat inflation, but at the cost of a US labour market softening.

What we actually witnessed was inflation slowing and economies generally remaining resilient as Central Banks ensured liquidity and stability. While European economies fared relatively well, stagnating but not experiencing a recession, the US economy was most notable for remaining buoyant. This was driven by government stimulus packages and continued strong consumer spending, as well as optimism around the promise of significant future AI-based productivity benefits.

And let's not forget that in 2023, there were dislocations that would have previously shaken the confidence of markets to the core. In March, we saw the collapse of a number of US regional banks, and the denouement of the Credit Suisse story.

I am proud to say that we in Asset Management navigated through these challenges successfully with limited impact on our portfolio.

As Swiss Re's Group CIO, what are your top priorities for 2024?
My priorities for Asset Management for this year are clear – to continue to deliver on plan, and remain a sustainable contributor to Swiss Re's profitability and return on equity. In short, this means delivering on investment targets and prudently managing exposures, with a laser focus on the quality of the portfolio. We will also continue to build out our private market assets, in particular our private infrastructure debt investments, a platform which we started over ten years ago and something that truly differentiates us.

How will emerging trends, AI in particular, impact or reshape your approach to investing?
Generative AI has many implications for all organisations, especially for knowledge-based firms like ours. In Asset Management, we are actively assessing how the technology can best support the work we do – for instance, how it can help us identify opportunities – but just as importantly, how we can use generative AI to flag risks before they manifest. Overall, technologies such as AI should be viewed less as a threat and more as something to be harnessed and used to improve decision-making and productivity – and to make better investments.

Can you tell us a bit about yourself, your career path and how those experiences fit with your current role?
I have had a very international upbringing and have lived and worked across three continents. I have always been open to exploring new opportunities and do not shy away from the unknown, factors that have shaped my career so far. This mindset has served me well and led me from a career in consulting to taking the role of Head of Private Equity at Swiss Re, expanding my scope as Co-Head of Client Solutions & Analytics and, of course, recently taking the Swiss Re Group CIO role. Throughout that journey, I have constantly challenged myself to learn and evolve.

I have learned that regardless of your role, the value of developing a strategic mindset should never be underestimated – and that, ultimately, all successful organisations are built on their people. In any leadership position, it comes down to how you empower your teams, how you inspire them, how well you understand their needs and how you communicate to get maximum buy-in.

What attracted you to Swiss Re in the first place?
I had long been intrigued by the history of the firm as a knowledge-based organisation. In fact, I had already worked with Swiss Re Asset Management in an advisory capacity, so I knew firsthand that the expertise and know-how of the organisation were, in my opinion, second to none. People here are driven, super smart and willing to make the right decision – even when it is a difficult one. This focus on what I call "True North" is inspirational and made the decision to come to Swiss Re relatively easy. Last but not least, Swiss Re's vision to make the world more resilient is something that resonates deeply with me on a personal level.

What advice would you give someone starting out or looking to advance their career?
Anybody starting their career should have an open mind. This is super important as a career spans many decades, and you don't know at the start what you will enjoy or even where your true skills lie. Indeed, I always make a point of advising new joiners at Swiss Re to avoid a myopic view of where their career will take them.

Instead, I urge them to be open to new opportunities and challenges, and to always look to expand their horizons even if that means straying outside of their comfort zone. They should always ask themselves what more they can learn and how they can best contribute. The people you work with also make a huge difference and this is an important factor to consider when joining an organisation. Working life is so much more fun if you can have a great time with your colleagues – which is what I have been experiencing here at Swiss Re since I joined.

"People here are driven, super smart and willing to make the right decision – even when it is a difficult one."

Market trends

Swiss Re examines the main trends that influenced the global economy and re/insurance markets in 2023. The following topics will continue to impact global and industry resilience in 2024 and beyond.

Economic outlook: slowing global growth

Global economic growth is set to slow in 2024 as the growth impetuses of 2023 fade and the lagged impact of higher interest rates continue to filter through to the real economy. Swiss Re Institute forecasts global real GDP growth of 2.4% in 2024, down from 2.6% in 2023. Regional discrepancies will persist with Europe's economy continuing to underperform the US and China.

Inflation pressures are also expected to slow further, including underlying core inflation. Nominal wage growth is also subsequently set to slow meaningfully with lower headline inflation, suggesting that significant second-round effects from the past inflation surge are unlikely. However, geopolitical issues or other external shocks could pose upside risks to inflation in 2024.

The widespread progress on achieving disinflation has allowed the focus for 2024 to shift to central bank interest rate cuts. Some emerging market central banks have already started lowering policy interest rates and will continue to do so in 2024. Among advanced markets, the European Central Bank has a higher chance of starting to cut interest rates before the US Federal Reserve given the euro area's weaker economy.

Inflation in 2023: continued progress

Inflation remains a concern for insurers because it leads to higher claims and erodes real premium growth. While the impact of incremental economic inflation on claims is set to ease further over the course of next year, social inflation is likely to remain an issue that needs monitoring for claims, especially in the US.

In 2023, headline inflation rates eased notably after their peak in 2022. The relief came mostly from changes in global energy prices. However, core consumer inflation pressures, which strip out the more volatile energy and food price components, reached new highs in 2023 in the US and Europe. This is largely due to strong labour markets, which have kept wage growth elevated, subsequently filtering through to service prices. Nominal wage inflation, however, now appears to have peaked in developed markets.

According to Swiss Re Institute forecasts, inflation is expected to moderate in advanced economies in 2024 and 2025. However, inflation is expected to remain volatile and be higher in the next decade than in the pre-COVID decade. This is due to structural factors, such as deglobalisation and geopolitics, decarbonisation and climate change, and debt and demographics.

Interest rates in 2023: a higher policy rate regime

The new higher interest rate regime continued to mature in 2023.

Developed market central banks raised policy interest rates further in the first half of 2023, reaching levels seen prior to the Global Financial Crisis of 2007–2008. In the second half of the year, central banks paused rate increases as inflation slowed, keeping interest rates unchanged throughout the rest of the year. By contrast, several central banks in emerging markets already started to cut interest rates in 2023, after being the first movers in the monetary policy tightening cycle.

Longer-dated sovereign bond yields in developed markets moved notably higher in nominal and real terms in 2023 and peaked at multi-year highs in the autumn, before falling again towards the end of the year as a result of disinflation progress and expectations for central bank rate cuts in 2024. Bond market volatility was also elevated throughout the year, with the MOVE index (US bond market volatility index) well above the average for the past decade.

Central bank interest rates are important for insurers, as these constitute a risk-free rate of return for their fixed income investments. With higher levels of interest rates, insurers have a more positive investment outlook, especially compared with the ultra-low interest rate environment of the 2010s. It will take some time for insurers to fully reap the benefits of higher investment yields, as these are contingent on when bond holdings mature and are reinvested.

Social inflation

The term social inflation refers to the increase of insured claims beyond what you would expect from pure economic considerations, such as wages or core consumer price inflation.

Insurers writing third party liability and motor business are impacted most by this trend. Currently, the issue is most prominent in the US, where insured losses from liability claims surged by 16% per year over the past five years. This is well above average rates of economic inflation of around 4%.

Social inflation is being driven by several factors. Social sentiment and jury attitudes reflect beliefs that corporations should be held accountable for damage done towards individuals and society.

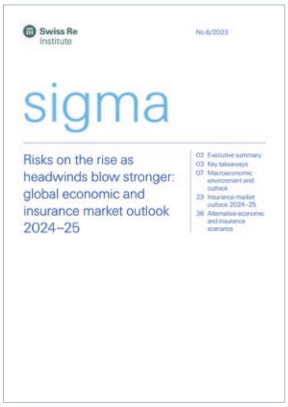
According to Swiss Re research, 71% of the US population thinks that punitive damages are the best way to deter corporations from wrongdoings.

What's more, access to justice is becoming easier. Third-party litigation funding allows for better-funded cases and the number of TV advertisements for legal services in the US has increased by 93% between 2014 and mid-2022.

At the same time, legal concepts are being tested, opening new venues for litigation such as climate change and addictive software design.

Swiss Re addresses the issue of social inflation proactively through a wide range of measures. These include increasing research into understanding the underlying drivers, working with clients to ensure risk-adequate rates and proactive claims handling for increased liability risks, and repositioning the portfolio towards less exposed segments.

Key publication



sigma 6/2023: Risks on the rise as headwinds blow stronger: global economic and insurance market outlook 2024–25

Find more information at
swissre.com

Increasing natural catastrophe losses

According to the European Union's Copernicus Climate Change Service, 2023 was the hottest year on record and climate science predicts that global average temperatures will continue to rise in the future.

Over the long term, the changing climate will translate into changes in frequency and intensity of weather-related natural catastrophes, which could contribute to increasing insured losses for certain perils in some regions in the future. The dominant drivers of rising natural catastrophe losses remain economic development, concentration of assets in exposed areas, urbanisation and changing vulnerabilities. Insured losses from natural disasters in 2023 exceeded USD 100 billion for the fourth consecutive year.

A feature of the large losses for 2023 was the accumulation of low single-digit billion-dollar events. In total, severe convective storms, one of the secondary perils, were the main contributor to losses for the first time. In the US alone, there were 18 individual severe convective storms that exceeded USD 1 billion in insured losses in 2023.

Other secondary perils, such as wildfires or flooding, also contributed to the elevated losses in 2023. Wildfire losses were present in several parts of the world, from Southern Europe to Canada and the US, while flooding affected all regions. Globally, 60% of insured losses have been caused by secondary perils in the past ten years, reinforcing the need to more rigorously consider these perils when assessing and mitigating natural catastrophe risk.

Property catastrophe pricing cycle

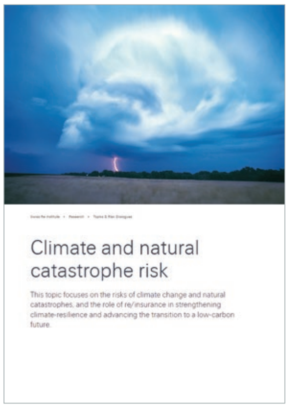
While there is high volatility associated with natural catastrophes, insured losses have been growing by 5–7% per year, a trend expected to continue.

Property nat cat pricing remains a function of a dynamically changing risk landscape, as well as supply and demand dynamics.

Apart from climate change, higher claims costs are also driven by urbanisation in areas exposed to natural catastrophes; economic inflation affecting key claims costs, such as rebuilding expenses; and increasing wealth leading to greater losses when disaster strikes.

According to the Guy Carpenter Property Catastrophe Rate on Line Index, natural catastrophe pricing rose for the sixth consecutive year. The 27.5% increase in 2023 was the largest jump in the current hard market cycle. The underwriting discipline associated with this hard market is expected to continue into 2024, as observed during the 1 January 2024 treaty renewals.

Related research



Explore Swiss Re Institute's extensive research on climate and natural catastrophe risk

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Life expectancy trends

Over the past decade, life expectancies have plateaued in advanced markets. In 2023, landmark research from Swiss Re Institute, *The future of life expectancy*, investigated the reasons for slower mortality improvements.

There are various drivers of this trend. The positive impact of advances in cardiovascular diseases, such as smoking cessation, anti-hypertensives and statins, have already been realised, with minimal additional gains expected in years to come. The impact of obesity and its related health impacts, such as type 2 diabetes, is rising.

Recently, excess mortality has been driven by COVID-19 and poor cardio-metabolic health, with a smaller contribution from opioid addictions and violent deaths in the US. Life expectancy is slowly trending back towards baseline expectations, especially as COVID-19 moved from a pandemic to an endemic status in 2023.

Medical advances that have the potential to drive the next wave of mortality improvements are on the horizon. The earlier detection of conditions such as cancer and Alzheimer's disease is becoming more achievable due to emerging medical technologies or developments such as artificial intelligence.

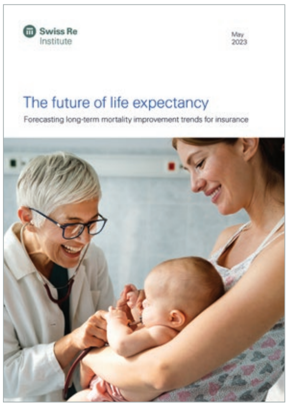
The shift from more general therapies to personalised and precision medicines, such as mRNA vaccines for cancer in conjunction with immunotherapy, are expected to boost survival rates.

Perhaps the greatest advances can come from lifestyle choices. Improving metabolic health through good diets, reduction of smoking and alcohol, keeping active, and getting enough sleep may just be the key to living longer.

In the longer term, a range of positive developments must come to fruition in order to build a strong case for continued mortality improvements. Ongoing investment in medical research is key, supported by public health policies and, increasingly, by individuals taking responsibility for their own health.

Swiss Re's L&H Re business is employing a more balanced and robust portfolio with emphasis on large, global and diversified business lines and embedding long-term analyses of past trends with a forward-looking view of medical advances, societal changes and technological developments.

Key publication



The future of life expectancy: forecasting long-term mortality improvement trends for insurance

Find more information at

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