

WEBINAR SERIES



Ripple Effects: Concentric Impacts of the Pandemic

Presented by **RGIA**

November 12, 2020 | 2:00 - 3:00 PM ET

RGA

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Ripple Effects

Concentric Impacts of the Pandemic

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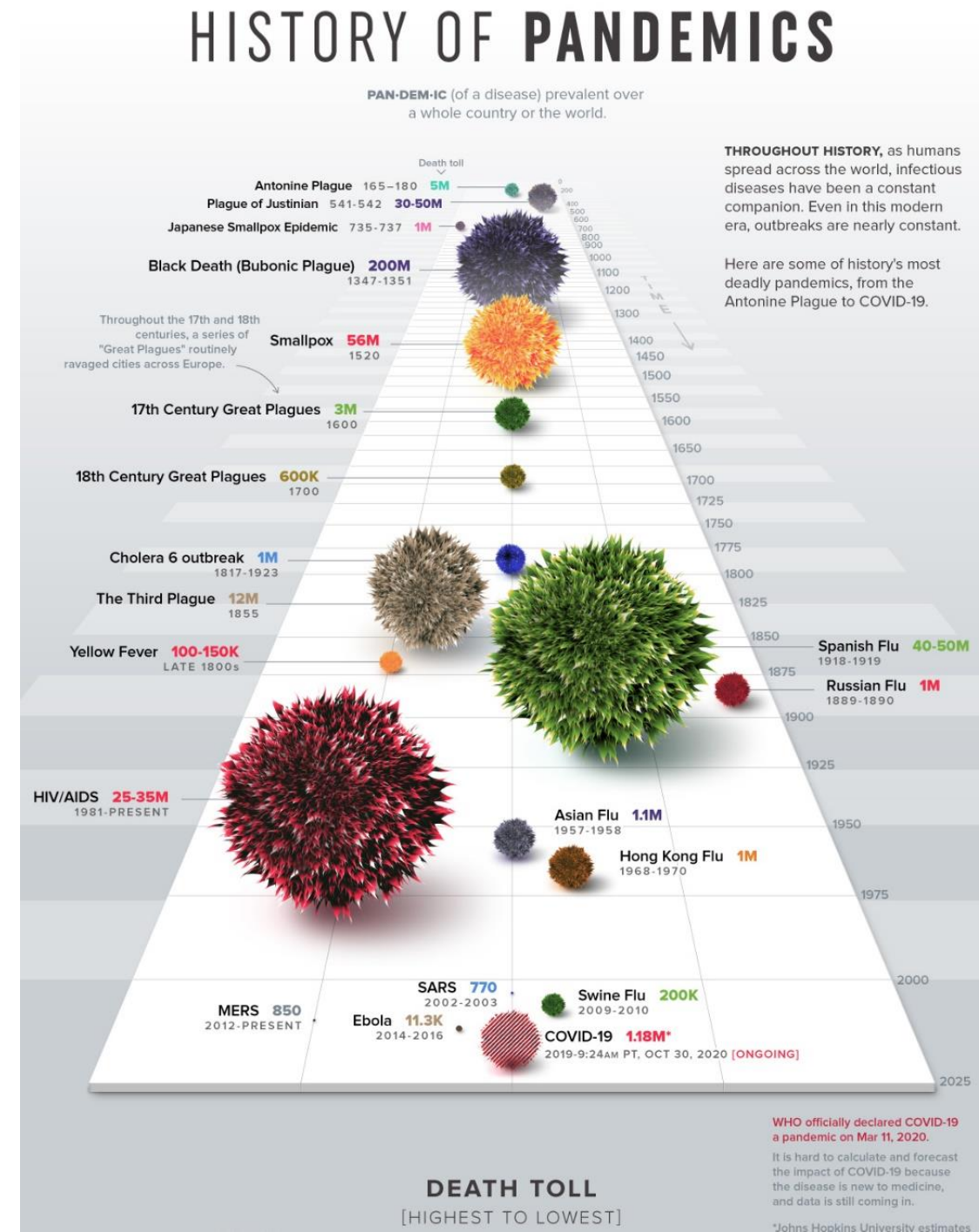
November 12, 2020



Looking Backward to Look Forward

If you've seen one, you've seen...one

- Limited data points to analyze
- Every situation unique
 - Epidemiology
 - External influences
 - Response capabilities
- The “ripple effects” can be surprising and far-reaching

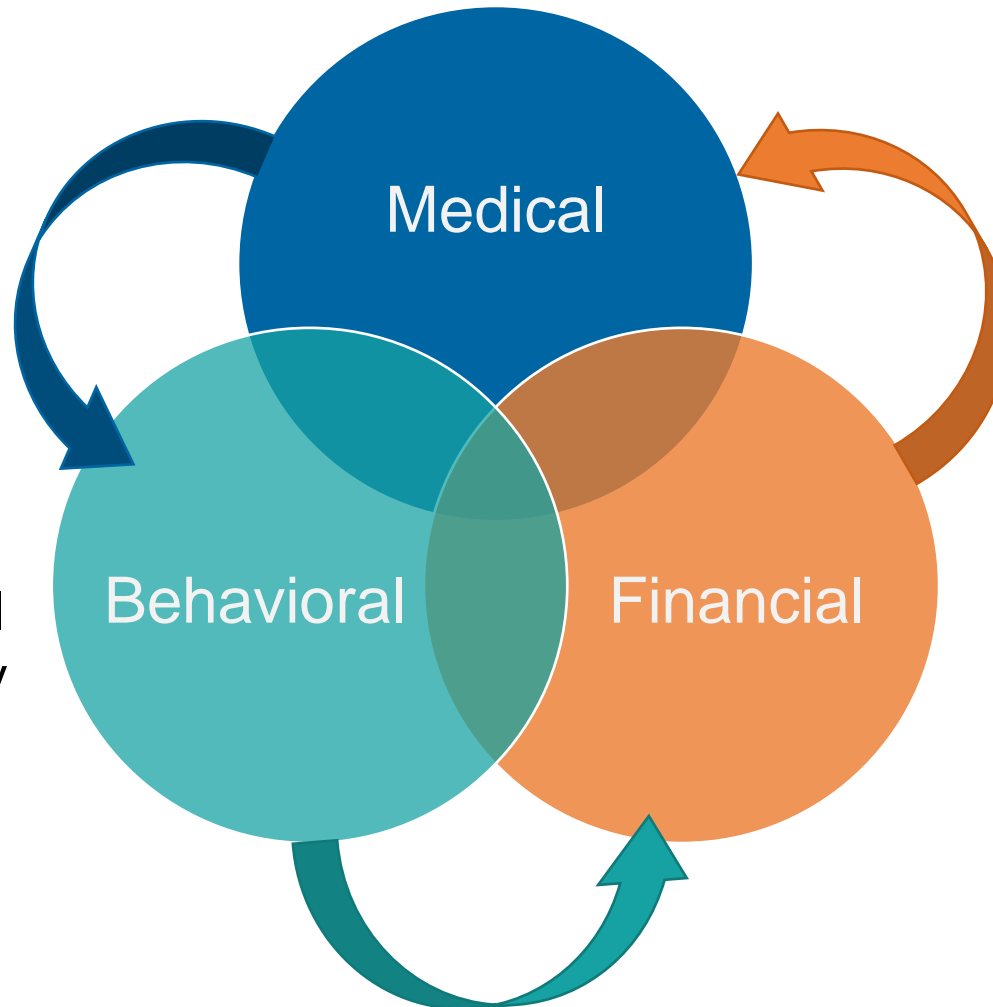


Ripple Effects: Interdependent Impacts

Behavioral



- Mitigation actions
- Consumer/intermediary trends
- Government, central bank, and regulatory actions
- Adverse selection



Medical



- Disease characteristics
- Healthcare delivery capacity
- Therapeutics & vaccines
- Secondary ripple effects
 - e.g., motor vehicle accidents, cancer screening, flu

Financial



- Impact of mitigation
- Balance sheet resilience
- Macro-economic conditions

Potential Long-Term Impact on Insurance Industry

Medical

- Long-term impact on COVID-19 survivors
- Mortality improvement trends
 - Short-term vs. longer-term
 - Research and medical advances
 - Behavioral changes
- Evolution of risk assessment
- Investment in expertise

Financial

- Balance sheet impacts
 - Asset portfolios
 - Recalibration of capital models
- Strategic business analysis
- Longer-term impact of interventions
- Consumer impacts
 - Unemployment
 - Disability
 - Disposable income

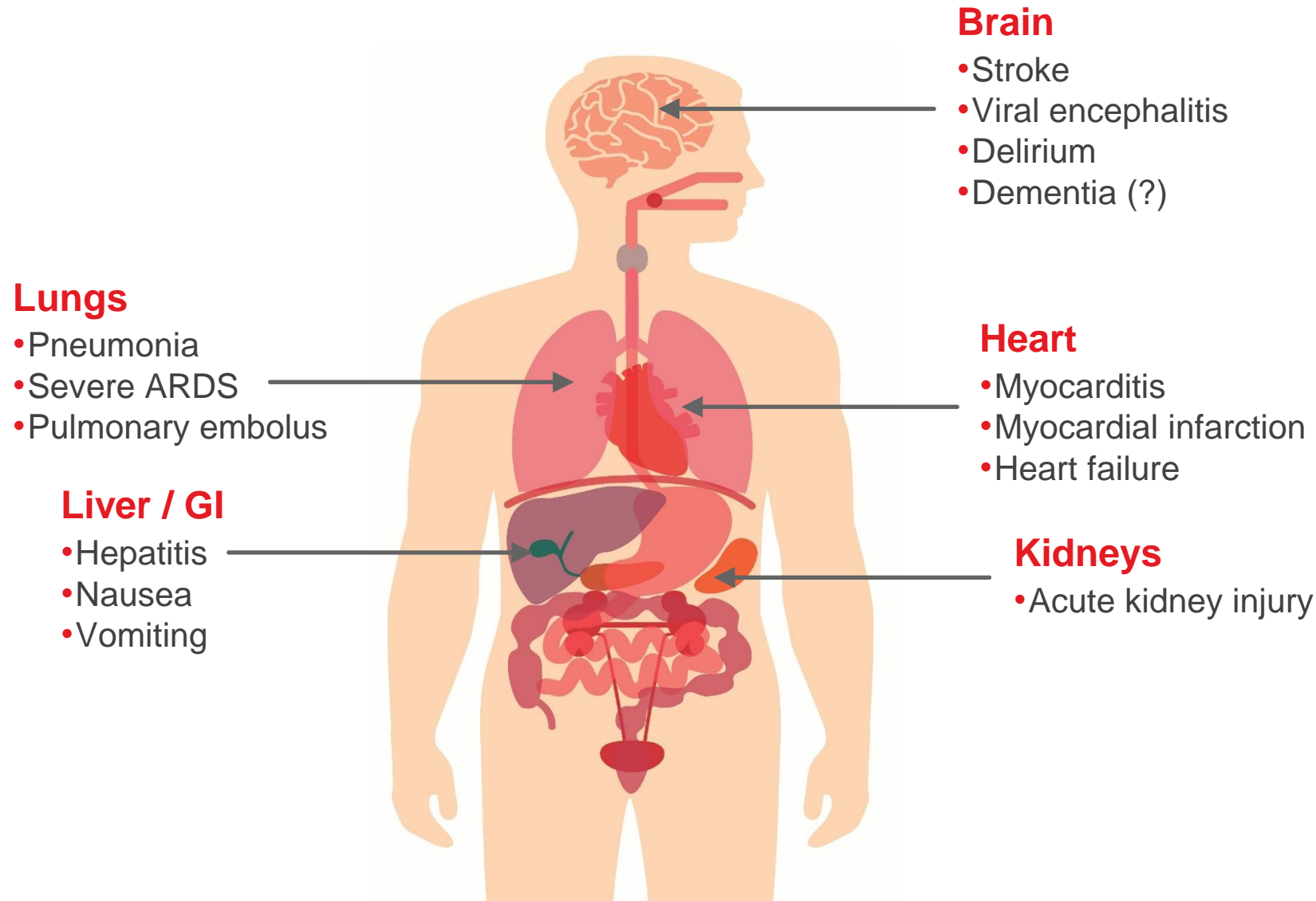
Behavioral

- Demand dynamics
 - Perception of value of insurance/reinsurance
 - Distribution channels
 - Risk transfer by companies
- Optionality, adverse selection, and fraud
- Regulatory/ratings
 - Coverage requirements
 - Extended grace periods
 - Capital ratios
- Trust
 - Models, financial strength, social responsibility



Medical Ripple Effects

COVID-19 Tropism for Multiple Organs



COVID-19 Ripple Effects and Insurance Impact



Headwinds

- Substance abuse
- Reduced cancer screenings
- Reduction in elective and non-elective procedures
- Mental health effects of social isolation and economic deprivation
- Effect of sedentary lifestyle



Tailwinds

- Compression of morbidity
- Reduced cancer screenings
- Reduction in elective procedures and wellness benefits
- NH and maternity deferral
- Reduced traffic fatalities and occupational injuries
- ? Reduced influenza impact
- New COVID-19 consumer needs



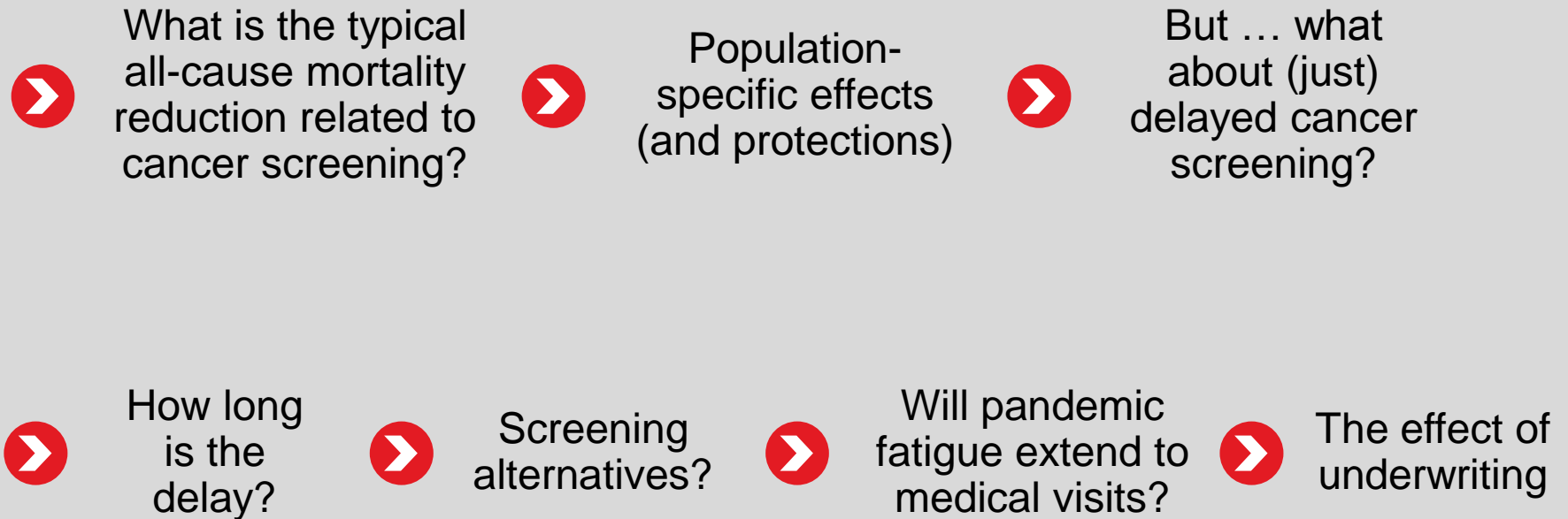
1 Million

Estimated number of U.K. smokers who have quit the habit since the onset of the pandemic

90%

Reduction in breast, colon, and cervical cancer screenings at pandemic's peak

A Case Study in Missed Screenings

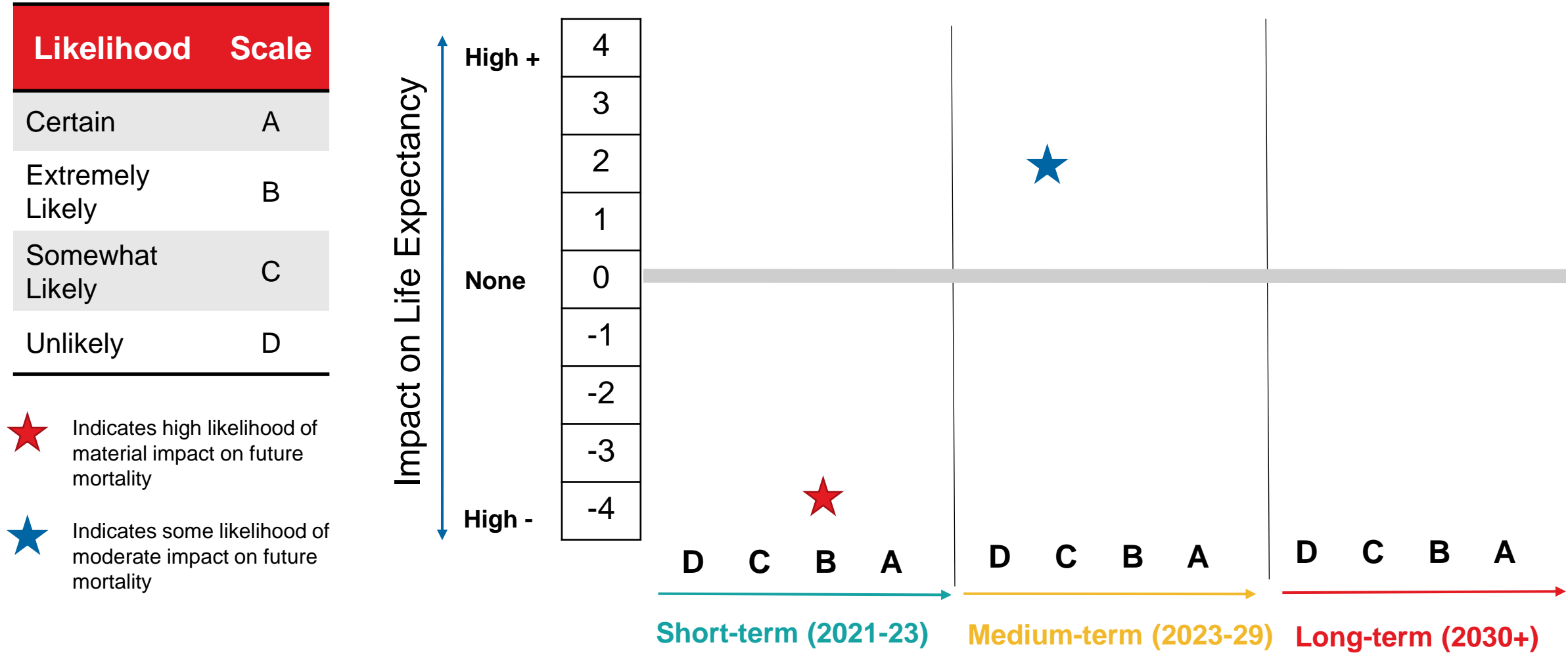


COVID-19 Mortality Drivers: A Framework for Assessing the Evidence

- Headwind or tailwind?
- Body system or process
- COVID-19 disease severity
- Impact assessment
- Direct vs. indirect
- Mortality vs. morbidity (vs. both)
- All-cause vs. cause-specific
- Time to impact
- Product line affected



Framework for Assessing Impact of COVID-19 on Future Mortality



COVID-19 Ripple Effects and Insurance Impact



Therapeutics

- Patient populations (mild, moderate, or severe)
- Mortality vs. morbidity reduction
- Production and distribution
- Cost



Vaccines

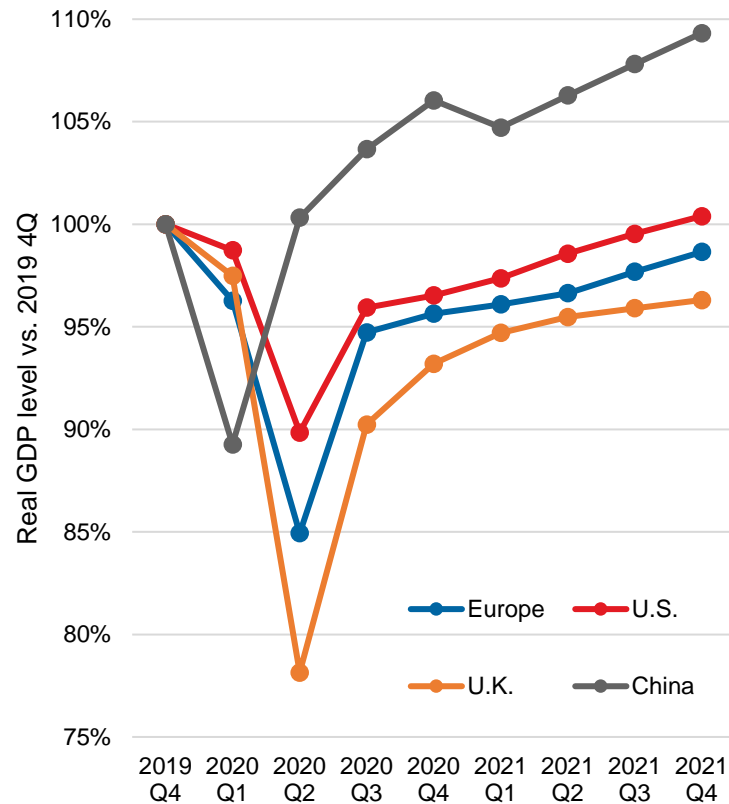
- Efficacy, efficacy, efficacy
- Data in older individuals
- Vaccine hesitancy
- Production and distribution
- Critical mass for mortality reduction?
- Public policy
- Underwriting policy



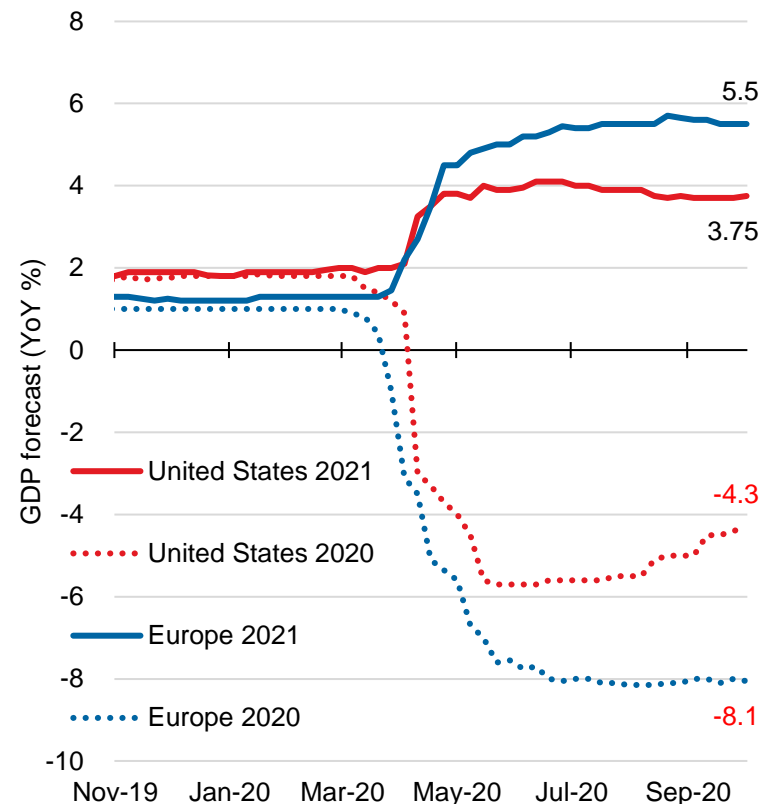


Financial Ripple Effects

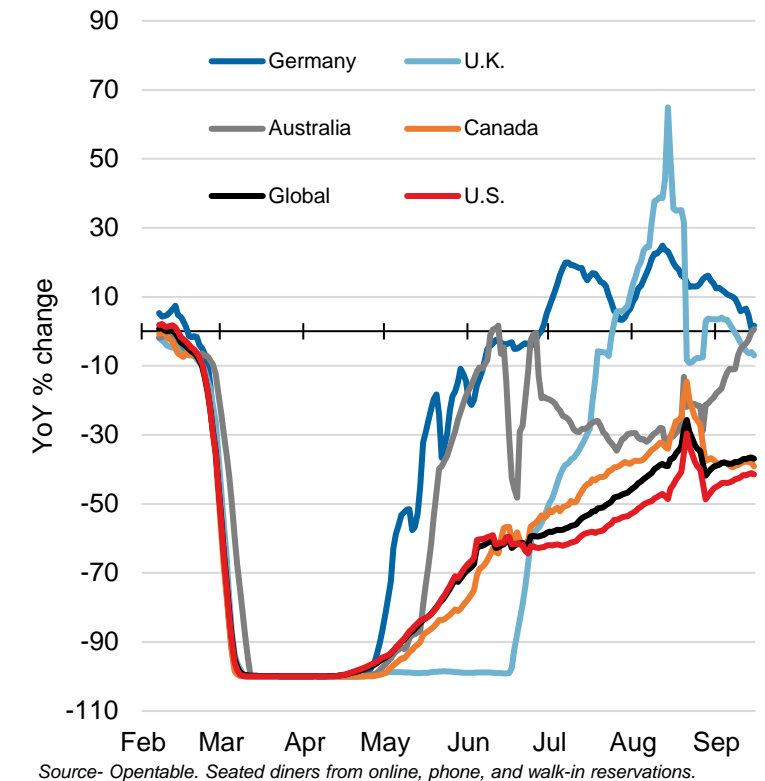
Broad Financial Impact: Depth of Economic Growth Interruption



- U.S. GDP forecast to recover to pre-crisis levels by the end of 2021
- Europe is one to two quarters behind
- U.K. outlook tainted by Brexit



- There has been a faster-than-expected recovery in the U.S., leading to forecast revisions being higher



Source- Opentable. Seated diners from online, phone, and walk-in reservations.

- However, high-frequency economic data (open table diners displayed) is losing momentum and will likely remain subdued until there is a widely distributed vaccine

Broad Financial Impact: Breadth of Consequences

- A sampling of the drivers (example list focus is economic winners/losers, financial impacts)
- Medical: Resource demand shifts and opportunities
 - Equipment, development of COVID-19 treatments and vaccines
 - Masks (and fashion ...?)
- Economic shutdowns or demand plunge
 - Extended impact on airlines and travel
 - Permanent small business closures
- Policy responses to fill the economic activity divot driving debt up and yields down
 - Lower forever (lower for way too long) interest rate environment
 - What are the implications of zero rates? Negative rates?
- Reevaluation of living, working, shopping, and recreation/entertainment in crowded spaces
 - Some trends accelerated: pain for retail, joy for online giants, further embracing of technology
 - Some trends stalling or reversing: Densification; rent vs. own; driving; airline pilot shortages

Financial Impacts: Exploring Three Changing Landscapes

Dedensification

- Work from anywhere
- Risk of being shut in
- What amount and type of space is needed, at home and in the office?
- Risk of proximity?
- Effective limit to the size or density of a city?
 - Mass transit
 - Skyscraper occupancy

Real Estate Risk & Value

Higher Debt & Lower Rates

- Fiscal policy response to cushion shutdowns
spiked government deficits and debt across countries
- Monetary policy response to aid the economy and stabilize markets
drove yields lower
 - cut target interest rates
 - increased asset purchases

Low / No / Negative Yields

Investments

- Shutdown risk premium
- Supply and demand shifts
- Low total yield (or zero or negative)
- Incentive shifts
- Uncertainty on commercial real estate valuations
- ESG / responsible

Market Impacts

Dedensification: City, Office, Housing Impacts

Net Migration		
City	2019	2020
New York	-0.7%	-4.4%
Los Angeles	-0.8%	-3.5%
San Francisco	-0.6%	-2.6%
Seattle	0.2%	-3.7%
Dallas	-0.9%	-4.6%
Miami	-2.0%	-3.0%

Source: Barclays

- Net “out migration” has picked up for some cities

Office/Home
– How many people work remote? Home needs?
– Office space needs?
– Who bears the cost?
– Who reaps the reward?

- Uncertainty over net impact on office space demand in the future

Average Home Price Growth (YTD 2020 Cumulative through August)	
Urban	3.3%
Suburban	3.7%
Rural	2.4%

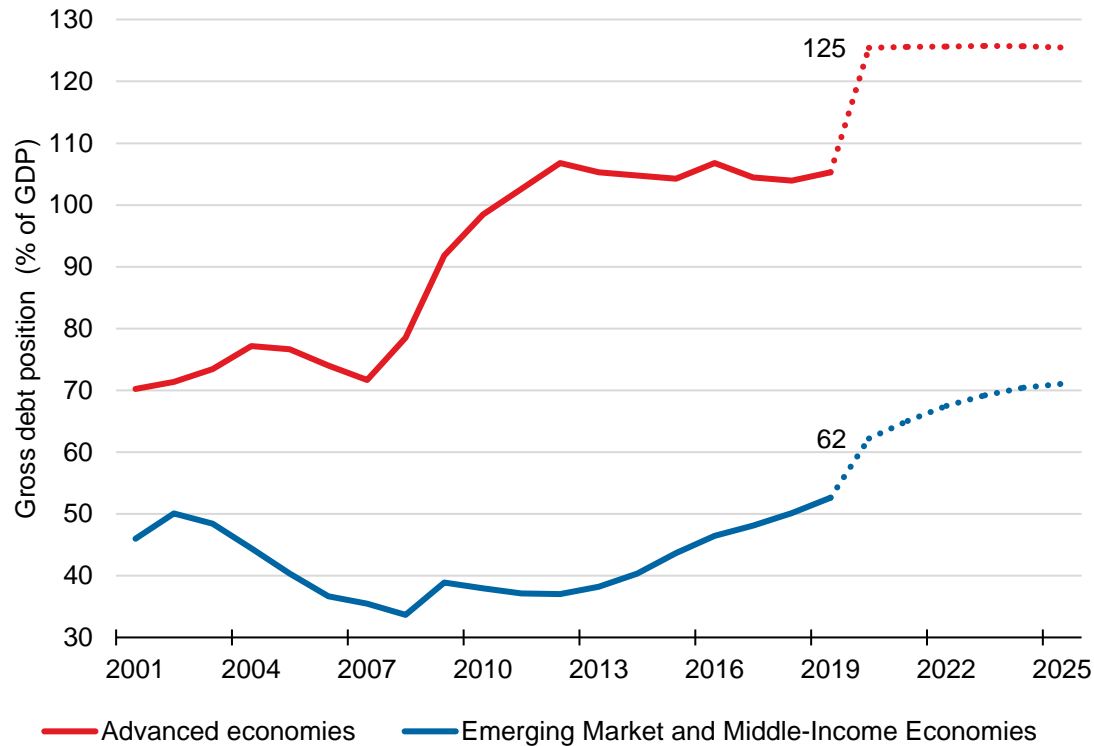
Major U.S. Cities – Negative Price (Avg. Change in Price Feb – June 2020)	
New York	-2.5%
San Francisco	-1.5%

Source: Barclays, Zillow, U.S. Census

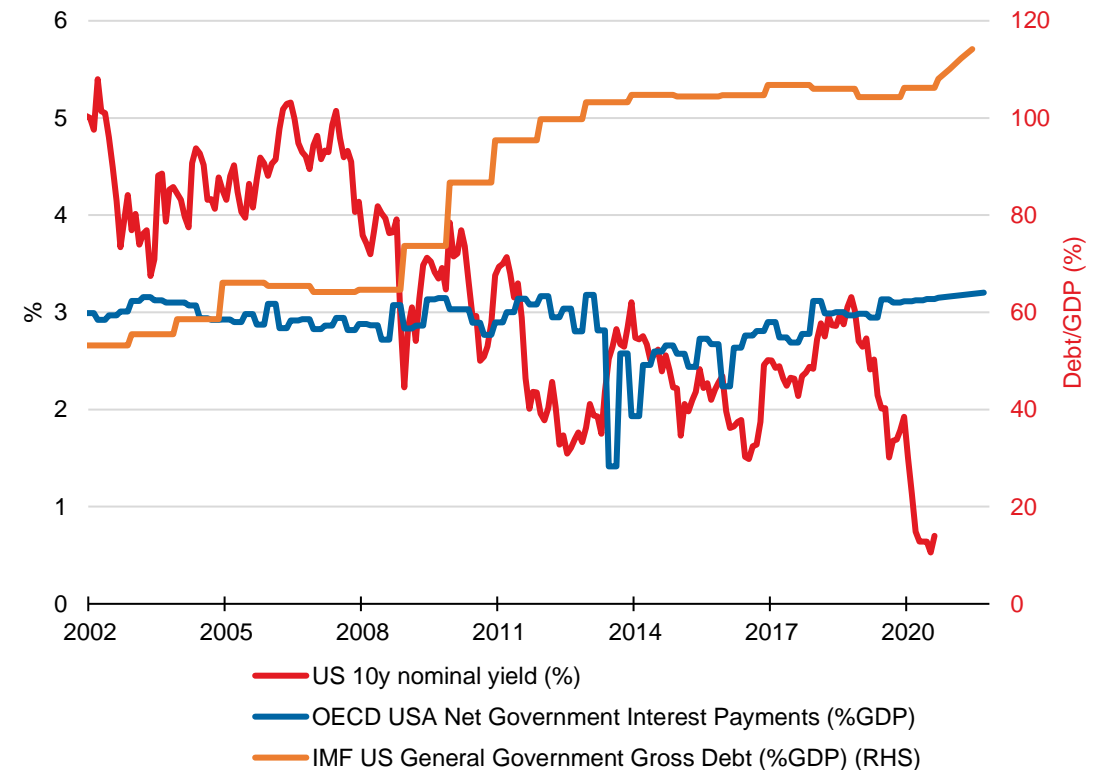
- Home prices higher across urban, suburban, and rural
- Prices down in two major cities

Shifting demand trends impact real estate property values

Higher Debt: Impact of Fiscal Policy Response



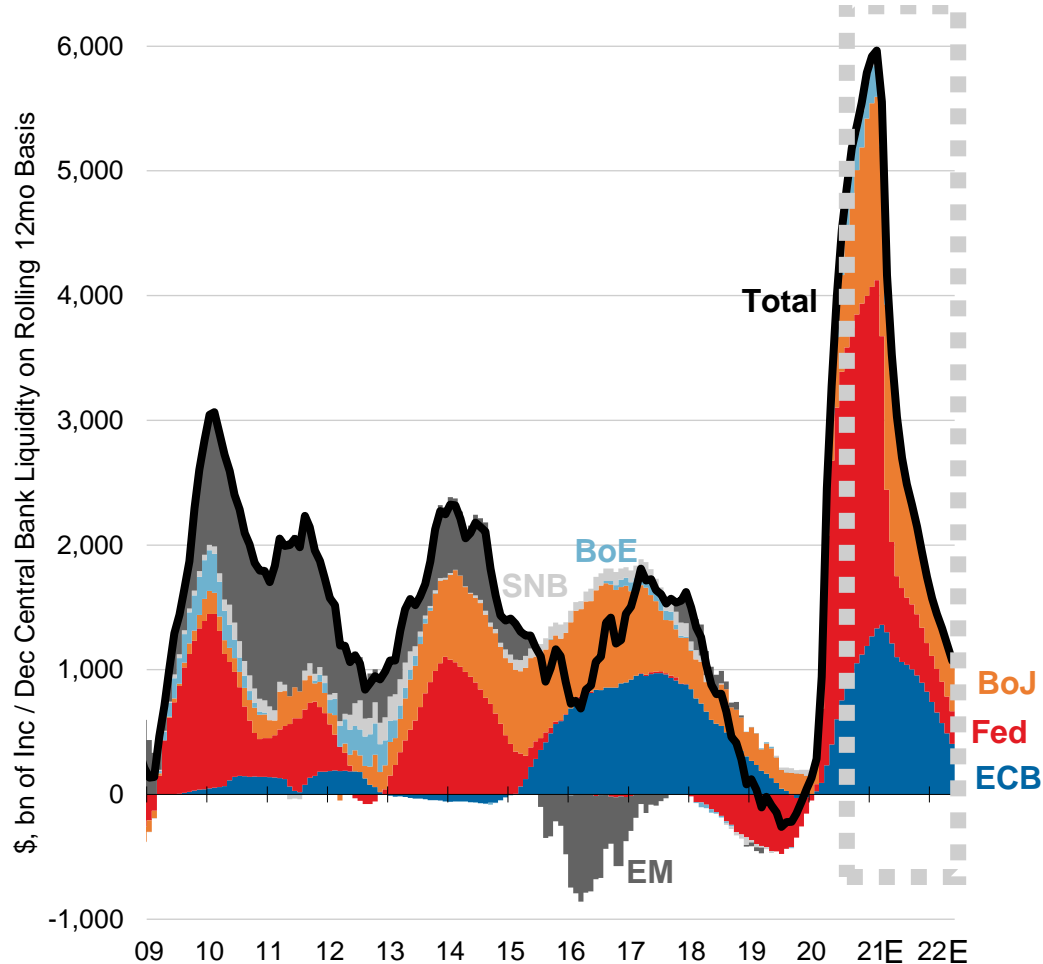
- Government debt ratios across the globe are experiencing jumps in 2020 as governments battle the COVID-19 crisis



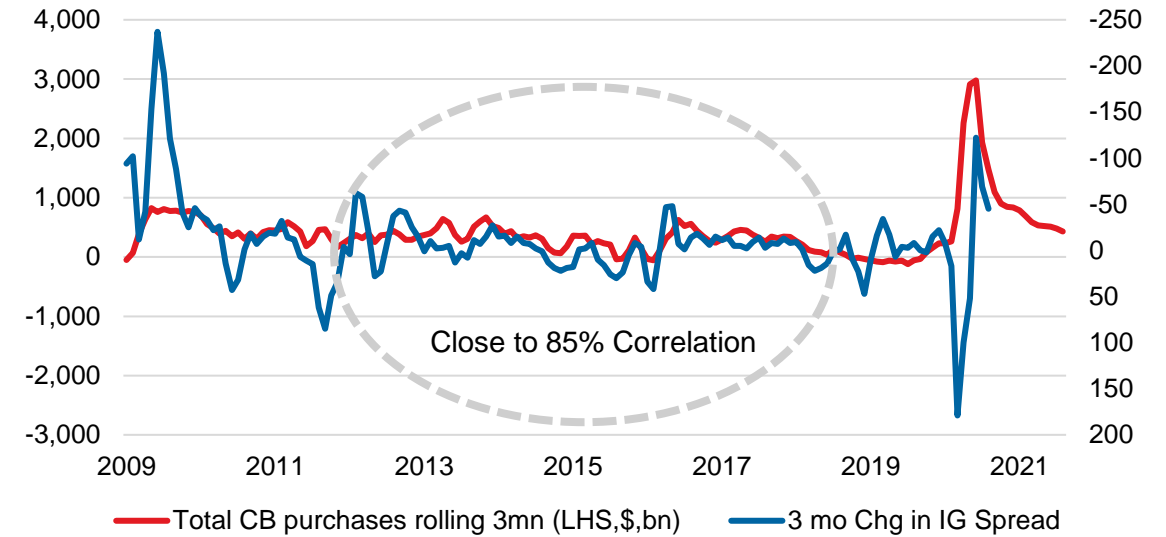
- The cost of the total debt has barely moved due to falling rates. Are governments willing and able to take the pain of higher rates?
- Will this incentivize **financial repression**?

Lower Yields: Monetary Policy Response Lowered Spreads / Yields

Major Central Bank Bond-Buying Programs



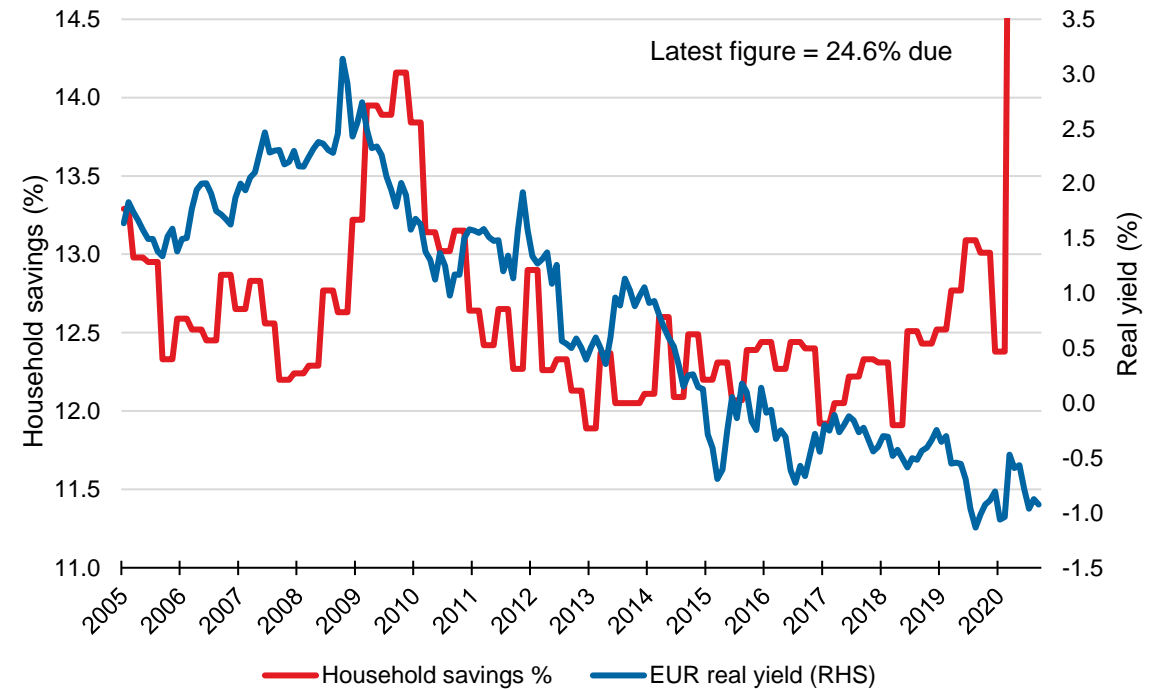
Central Bank Flows and Historical Correlations



- The size and speed of the **monetary policy response** surpassed actions during the Great Financial Crisis: rates, asset purchases, programs
- Central bank actions **succeeded in** stabilizing financial markets and **lowering financing rates**
- Historical analysis indicates central bank flows are a strong driver of credit spreads and asset prices

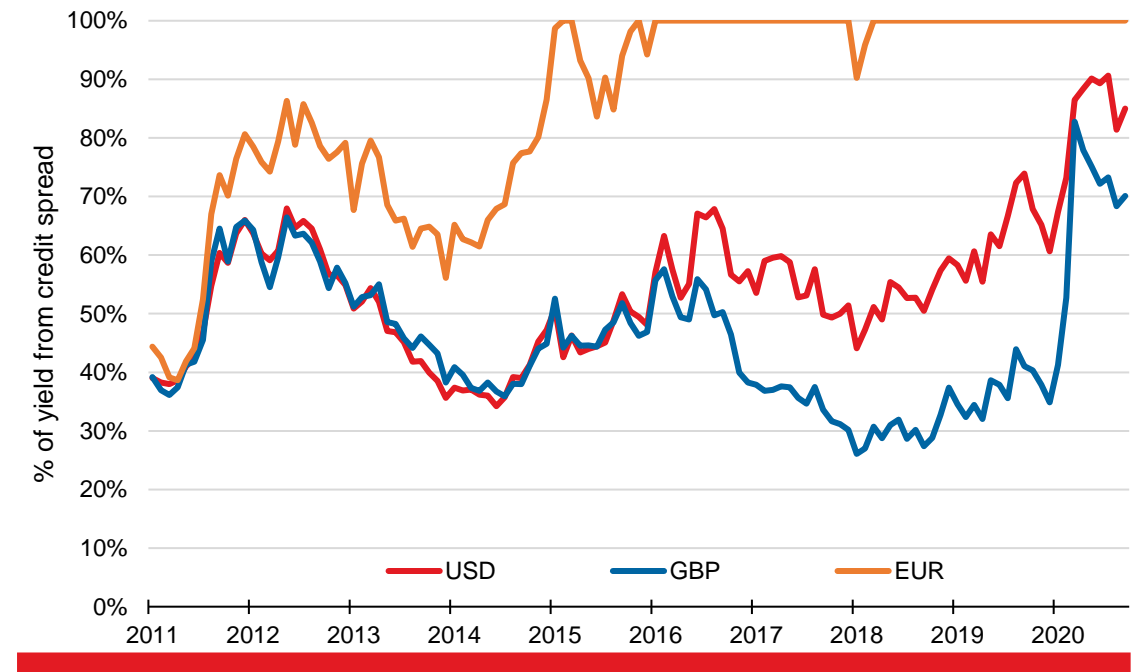
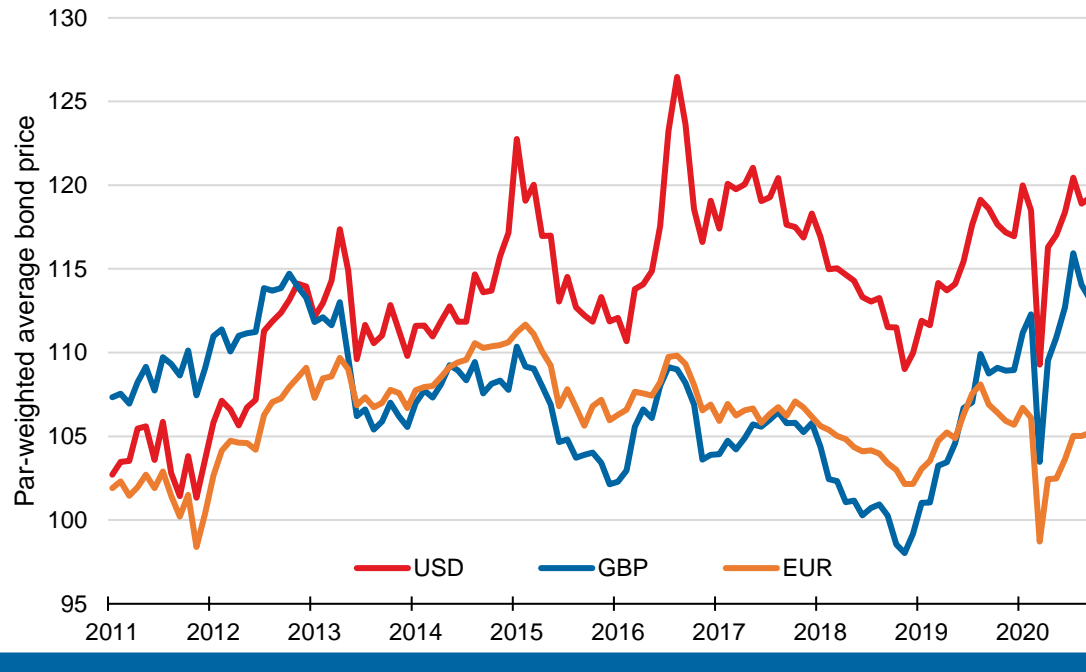
Sustained Lower Yields: Broad Implications

- Psychological implications and incentives of zero or negative rates?
 - Negative rates don't make sense
 - Zero means no time “value” to money
 - Saving and borrowing incentives?
 - Worst of both worlds?
- Business impacts of lower rates
 - Lower investment income
 - More expense pressure
 - Less downside risk cushion for investments
- Market implications



- Unintended consequences – Europe
 - Savings rates headed up after rates went negative
 - Less return on savings → need to save more

Sustained Lower Yields: Credit Market Implications



- Yields down, bond prices up
- + — Good news: portfolio value up
- Bad news: prices well above \$100 risk greater loss severity in a restructuring
- USD \$119, GBP \$113 (Each up ~ \$20 in 2020)

- Less total yield to offset losses
- Remember getting yield “risk-free”?!
- Credit spreads now make up a record percentage of the all-in corporate bond yield

Summary

- Financial ripple effects from COVID-19 and related shutdowns have been broad
- Work/home/city impacts are causing uncertainty about real estate valuation
- Additional factors weighing on yields, again, for the near-to-medium term
- Investment risk/rewards have shifted unfavorably
- Credit costs are absolute, and the risk-free yield “free ride” is over, at least for now
- Less yield continues to put pressure on expenses, business models, stress scenarios



Q&A

Moderated by Kathryn Cox, SVP and Head of Business Development
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Thank You

Questions?

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