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# Insurance Webinar Series:

# 2022 Life Insurance Forecast

1pm | 21 September 2021

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# Agenda

- The macro-economic outlook
  Kieran McQuinn | Economist | ESRI

- Sustainability
  Greg Lowe | Director of Sustainable Finance | Deloitte UK
  Marc Aboud | Director | Deloitte Ireland

- Panel Discussion: The potential long-term impacts of the pandemic
  Matthew Foley| Partner| Deloitte Ireland
  Ciara Regan| Partner| Deloitte Ireland
  Valarie Daunt| Partner| Deloitte Ireland
  Yvonne Byrne| Partner| Deloitte Ireland

# The Irish Macro-Economic Outlook

AUTHOR
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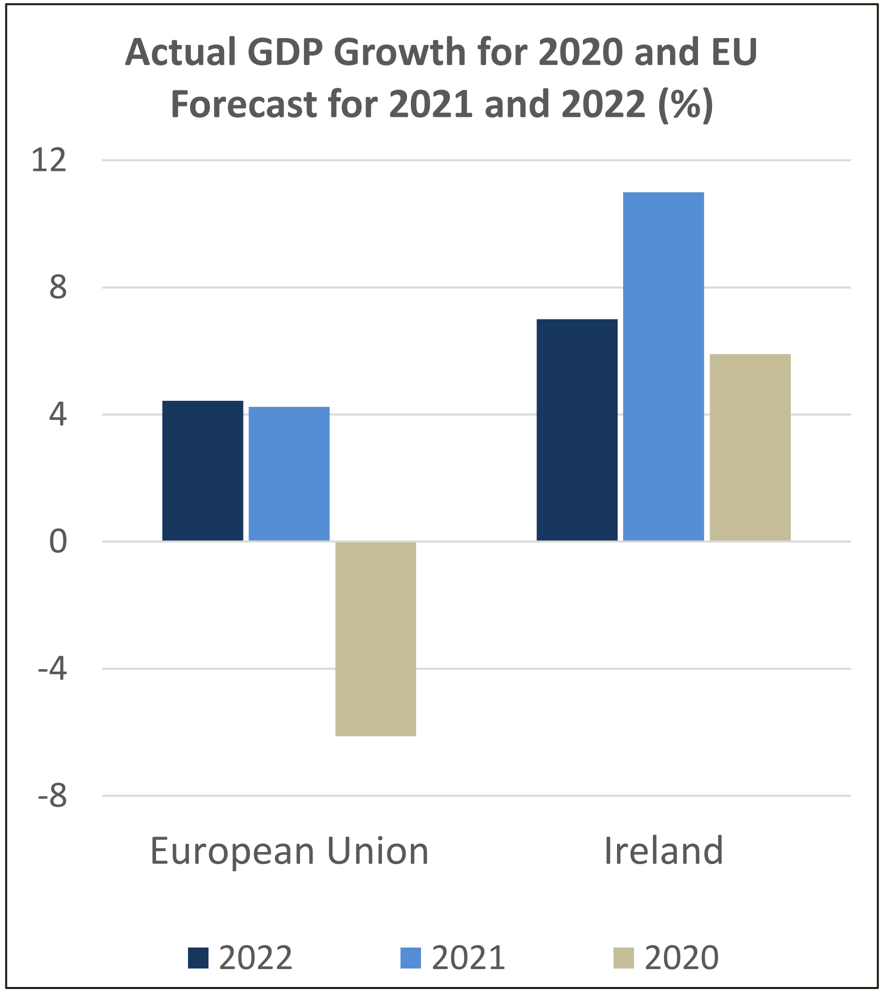
# Ireland: the outlier

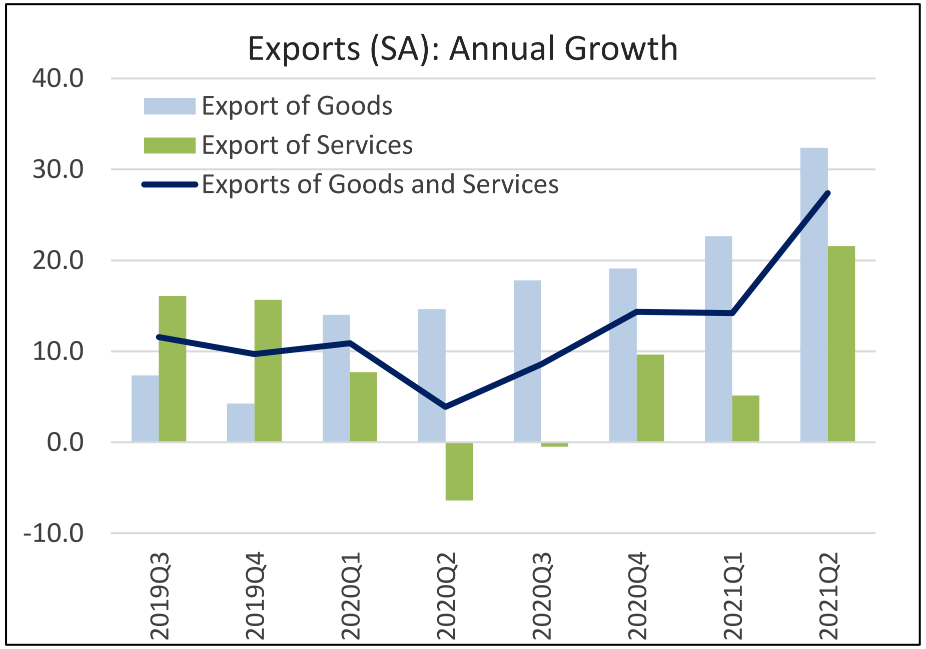
- Despite unprecedented disruptions to the economy from Covid-19, Ireland was the only economy in the EU to register positive growth and is expected to have one of the most robust recoveries in 2021 and 2022.
- As public health restrictions have eased throughout the year, the boost in consumption, decline in the unemployment rate, and strong taxation receipts have all contributed to strong growth in GDP and modified domestic demand in 2021.

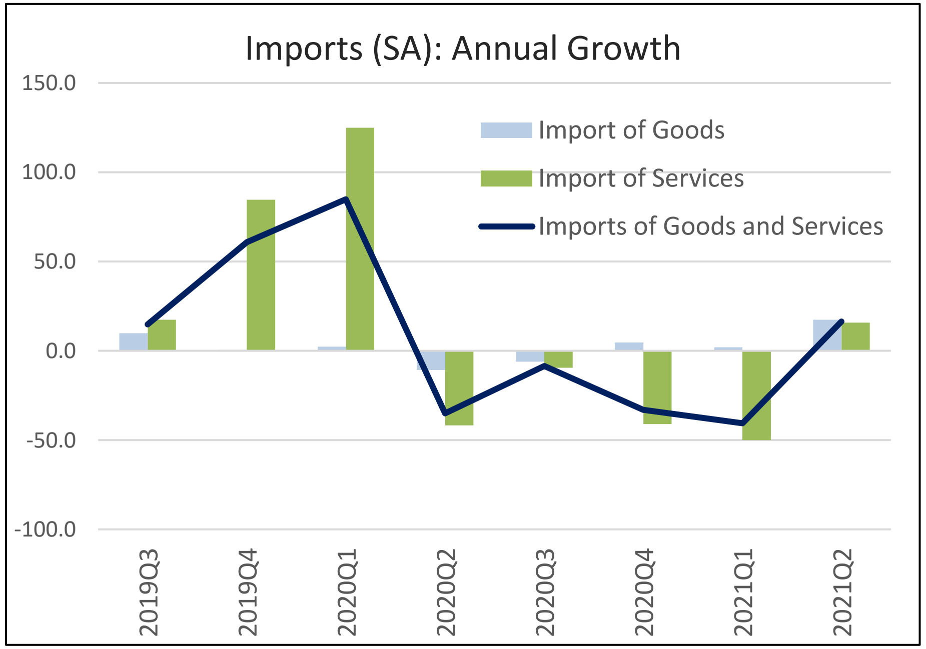



*Source: ESRI calculations and EU Commission*

# Trade: Exports driving growth

- After the significant declines in trade in Q2 2020, exports have increased each quarter since, growing 5.4% between Q1 and Q2 2021.
- Imports also increased in Q2 2021 for the first time since Q1 2020.
- Ireland is also benefitting from asymmetries in Customs checks between the UK and EU, registering a trade surplus of €4.26 bn in Q2 2021.

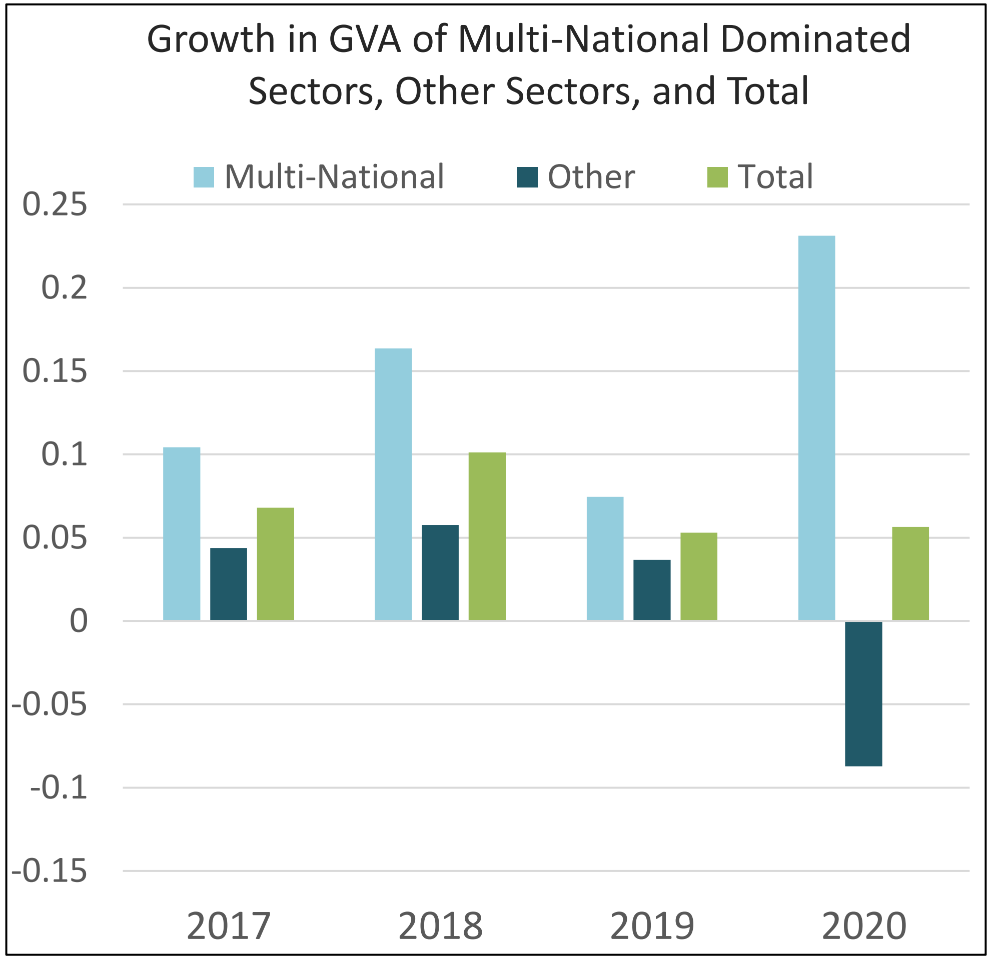



*Source: Central Statistics Office*

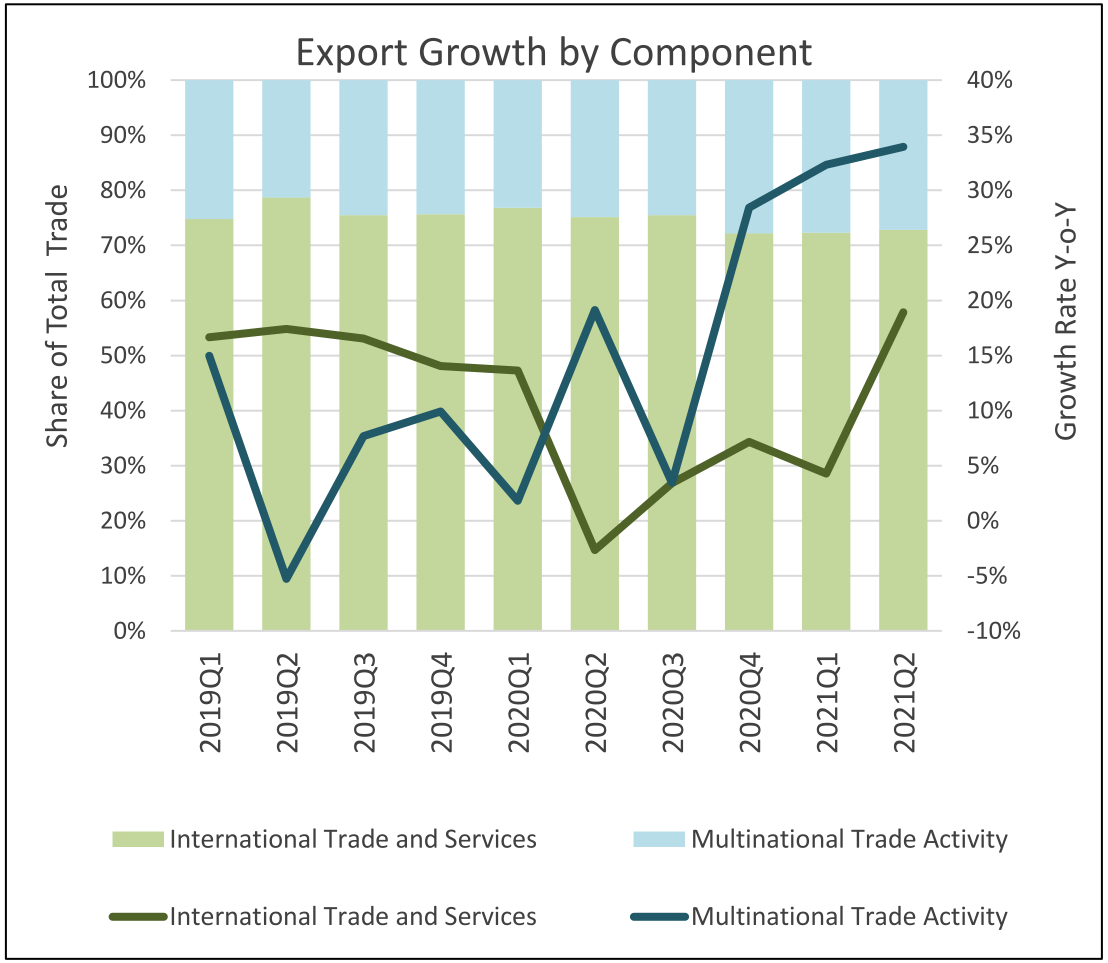
# Domestic and Multinational Sources Contributing to Overall Growth

- In 2020, the foreign owned sector more than compensated for the decline in the domestic economy, contributing to the overall growth of the economy in 2020.
- Yet 2021 has made clear that foreign-owned sectors and other sectors are on track to generate substantial growth.
- Underlying investment and consumption have performed well in 2021, leading to a forecast of 7.2% growth in modified total domestic demand.



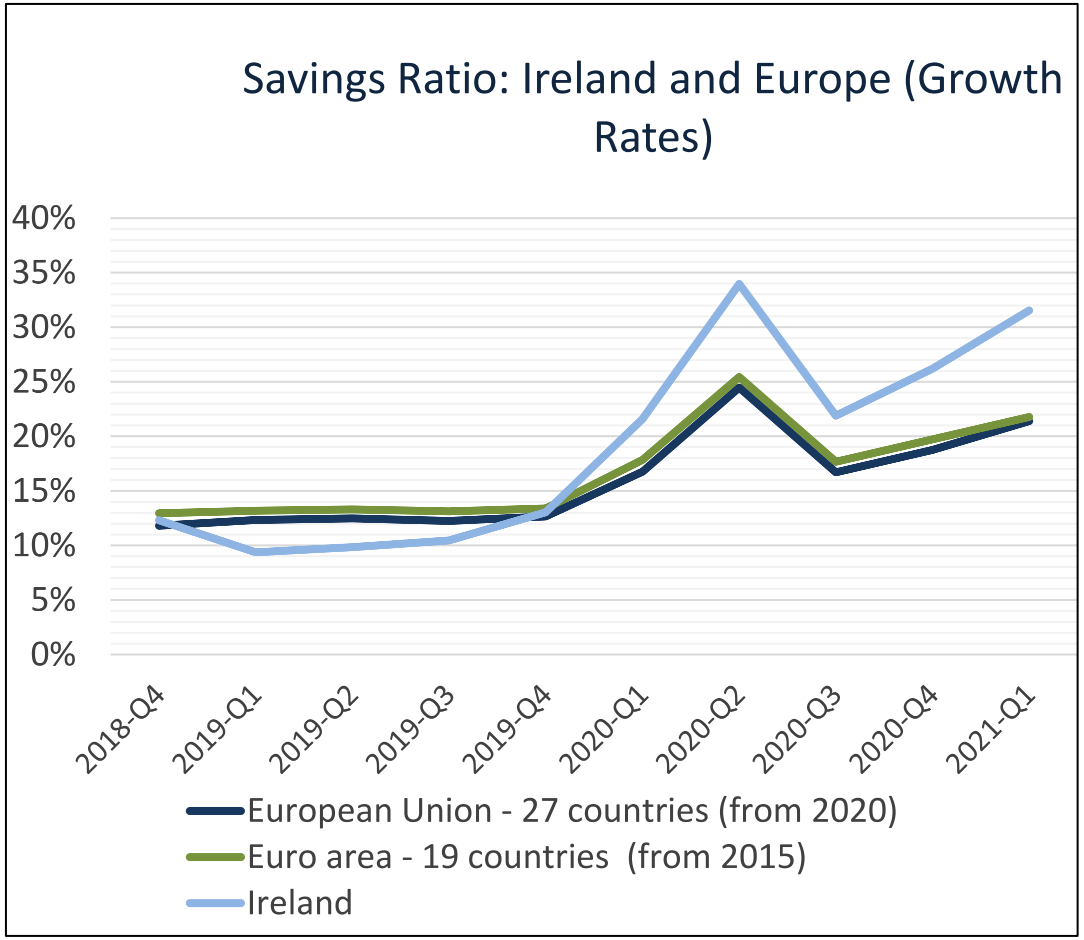
# Domestic and Multinational Sources Contributing to Overall Growth

- Export trade is a clear indicator of the split between the performance of multinationals and the domestic economy.
- Again we can see that in 2021, both sides of the economy are set to grow significantly.
- Exports related to the domestic economy grew 18.9% per annum in Q2 2021, compared to a growth of 34.0% by multinational activity in the same period.



# Consumption set to grow as savings unwind

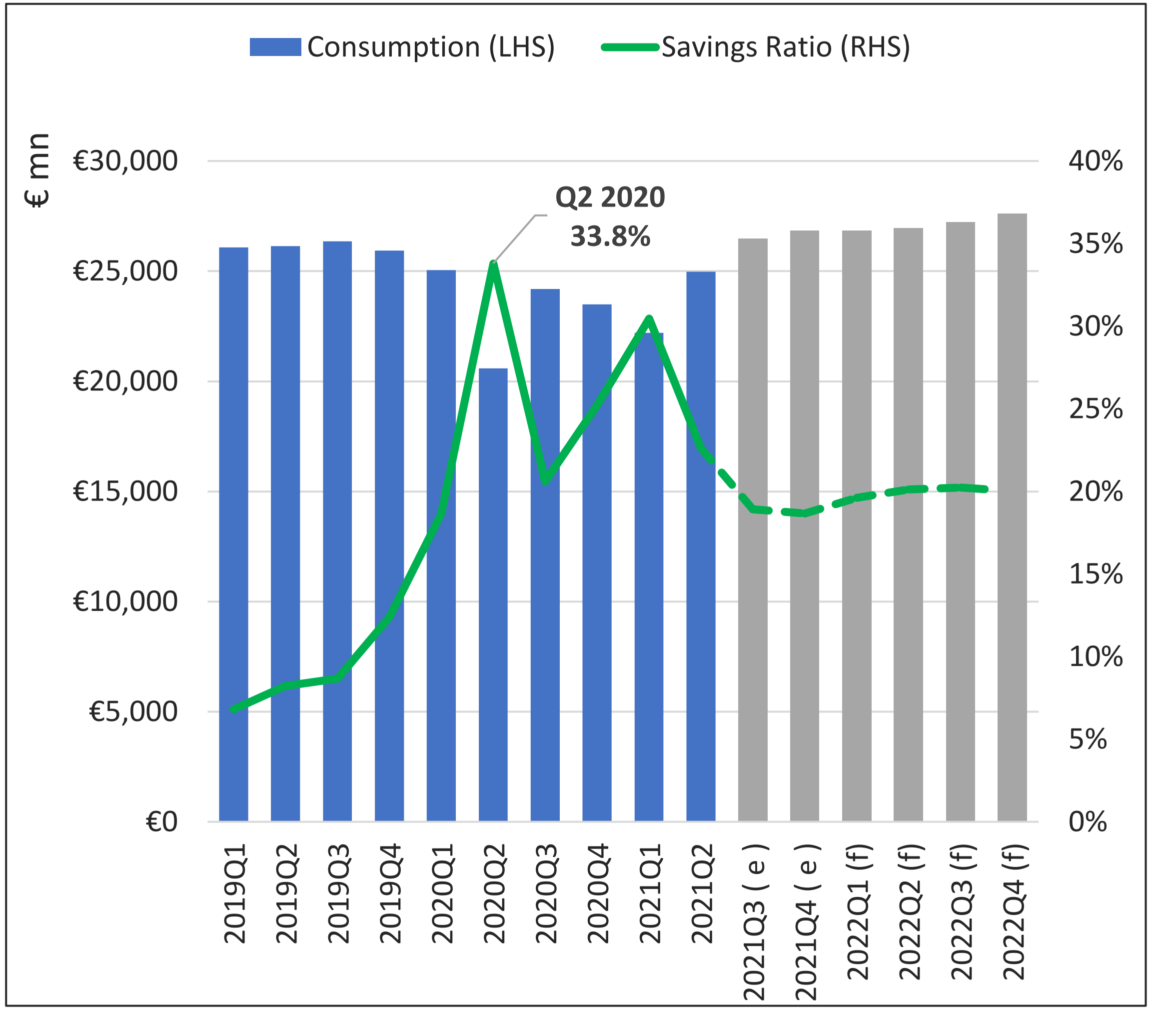
- In Ireland, the share of disposable income diverted to savings has risen markedly during Covid-19.
- We expect to see strong recovery in consumption, accompanied by a rise in consumption across all goods and services as savings rates begin to lower back to pre-pandemic levels.



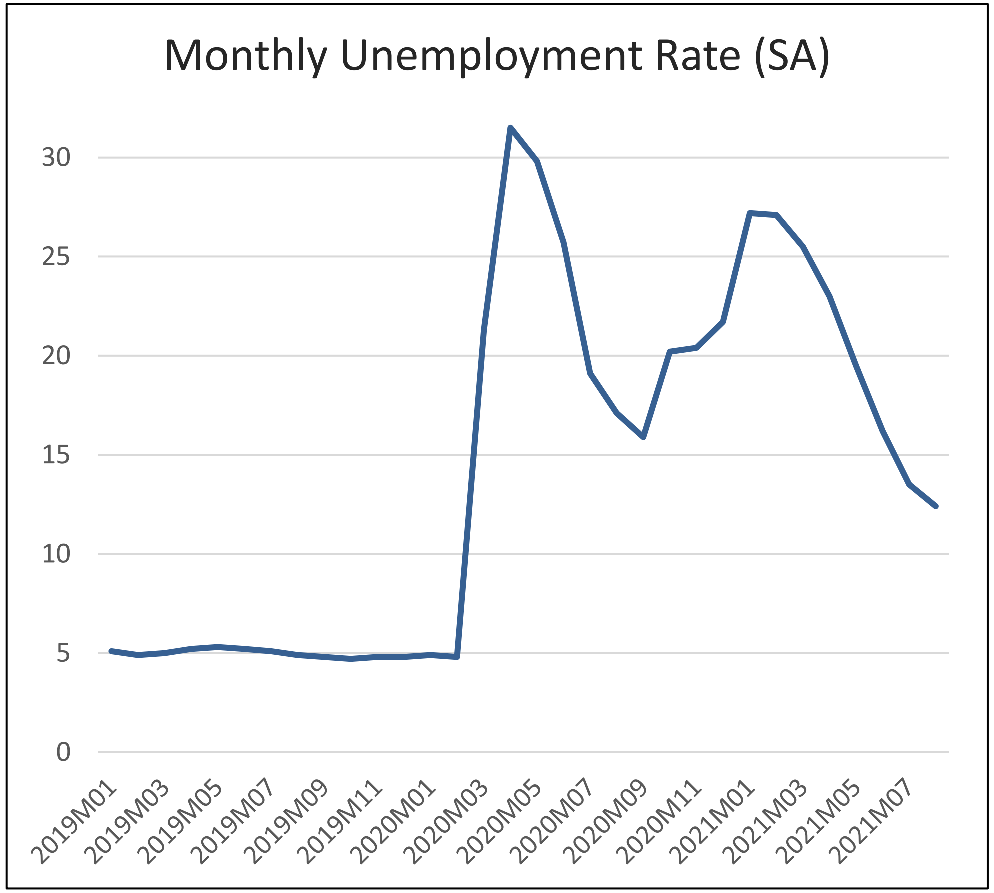

*Source: Central Statistics Office*

# Savings Ratio Forecast

- Savings Ratio has increased substantially during the Covid-19 pandemic, from 6.8% in Q1 2019 to its peak of 34% in Q2 2020
- Consumption in through 2022 will depend largely on the unwinding of accumulated savings.
- We estimate the savings rate to fall back to 20% by Q4 2022



# Labour Market Improvements




- From its peak of 31.5% in April 2020, the Covid-adjusted unemployment rate has since declined to 12.4% in August 2021.
- As of 1st September, 2020, approximately 143,600 people were in receipt of the PUP.
- Accommodation and food services and wholesale and retail trade continue to be the two sectors with the largest share of PUP recipients (19.8% and 16.0% of total recipients respectively).
- Unemployment will continue to fall as all sectors of the economy reopen.

# Inflation

- Much attention has understandably been focused on the recent rise in inflation.
- Some of the increase in prices has been related to reopening of the economy – transport costs, for example, grew 9.7% per annum in Q3 2021.
- Additionally, much of the increase seen this year is driven by the period of deflation that occurred in 2020.
- Inflation is likely to peak in Q4 2021 as consumption continues to surge and then weaken considerably throughout 2022 as savings rates return to their long-term averages.

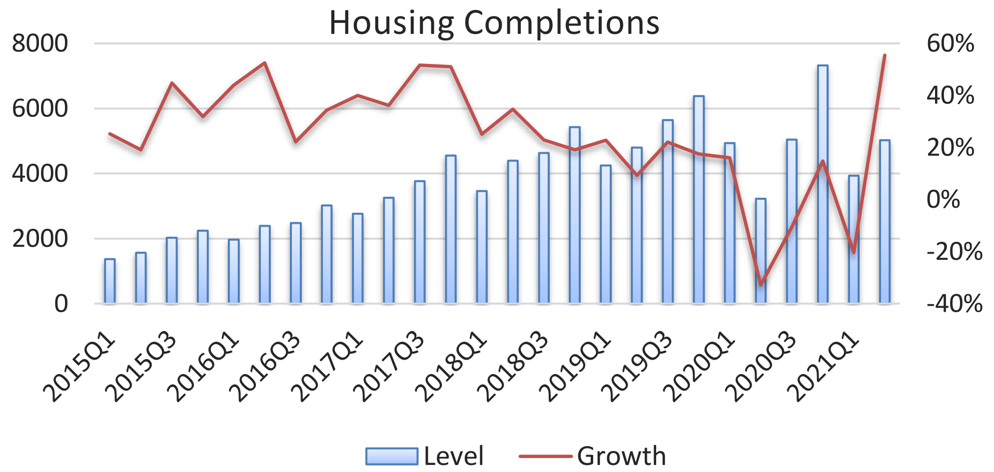
# Ireland: Debt Position Reassessed

- The budgetary situation in 2021 is eased by both an increase in tax receipts and lower than expected expenditure, leading to further declines in debt to GDP and GNI* ratios.
- An alternative measure, the ratio of gross government debt to taxation revenue, suggests that Ireland has experienced a marked decline in its debt burden over the past ten years.
- As such, we argue that sustainable borrowing may be feasible over the medium-term in order to address pressing post-Covid challenges.

# Post-Covid Challenges

## Housing

The pandemic has had negative effects on housing, with construction experiencing significant volatility as a result of public health measures. Considerable investment in housing is needed to increase housing supply and deal with considerable bottlenecks.




## Health Care

Reform of the health care system is also a top priority that will require substantial investment.

## Climate Change

Investment will be needed in order for the government to achieve its commitment to net-zero emissions by 2050.

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# Thank You

# Sustainability

Greg Lowe | Director of Sustainable Finance | Deloitte UK
Marc Aboud | Director | Deloitte Ireland

# The evolving insurance climate landscape

Through the pursuit of net zero strategies, a more connected climate landscape is evolving – one which is demanding nature-based solutions and second-order social impacts be integrated into firms' climate strategies

## Regulatory advances and feedback loops on climate change

The advance of regulatory developments, to both help insurers think about, and understand new risks, continues to develop and will continue to be a priority for regulators and the insurance industry. These are early days for this type of regulation and reporting, so new learnings will continue to inform both how regulators respond and how these regulations impact potential strategy. The response of the Bank of England's PRA to the CBES in the UK should be carefully watched as it will show where the regulator sees potential strengths and weaknesses.

## Collaboration, levelling-up and expanding outlooks on climate

The next year will be crucial in understanding the full range of climate risks insurers face and to focus on where the gaps might be. Insurers should be thinking about the role they play in the wider financial system as well, given that banks are subject to stress testing also, and starting to consider the role risk transfer capital plays. Industry collaboration will be crucial to navigate the years ahead – the industry needs to think outwards, through collaborative iniatives such as ClimateWise.

## Net zero strategies begin to permeate the entirety of insurers

Behind all of this, we now have over two thirds of the global economy committed to some kind of net-zero goal – insurers that haven't considered transition risk when planning investment in future lines of business need to do so now, or likely fail. A growing number of insurers are starting to align to their own net-zero targets, often from an operations or investment angle, but the Net Zero Insurance Alliance demonstrates this is beginning to permeate the entirety of an insurer.

## Emerging systematic environmental risks and climate overlaps

As insurers continue their TCFD exercises, focus should be on the strategic insights the process gives you, rather than the reporting itself, which will become a requirement across much of the world in coming years. Insurers should seize the opportunities the energy transition and resilience brings to business. Further, there are other systemic environmental risks lapping at our shores – biodiversity and natural capital have significant overlap with climate risk and are getting the same kind of attention climate change was getting several years ago.

# The evolving insurance climate landscape

## Through the pursuit of net zero strategies, a more connected climate landscape is evolving – one which is demanding nature-based solutions and second-order social impacts be integrated into firms' climate strategies

### Nature-based focus – role in net zero and adaptation

Following the Das Gupta Review, firms are increasingly seeking to value and assess impacts and dependencies on nature. Emerging standards exist to support with this valuation (e.g. Partnership for Biodiversity Accounting Financials (PBAF) - this requires updates to measurement, risk assessment and forecasting processes, in line with emerging reporting developments from the Taskforce for Nature-related Financial Disclosures.

### Just transition strategies - connection of ESG 'S' with net zero

The pursuit of net zero generates new social equity challenges as it potentially expands the existing and creates new protection gaps. This leads to new protection opportunities, for example around income protection, in relation to job losses as industries transition. Emergent financing alliances are committing through net zero strategies to the pursuit of a 'just' transition. Place-based financing considerations are emergent as a framework for examining impact.
A just transition seeks to ensure that the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically – be they countries, regions, industries, communities, workers or consumers.

### Increased quantitative focus

As the need for quantitative reporting evolves, insurers are seeking to understand how and when standardised metrics will be introduced across the industry and what that will mean for reporting. Interest is growing on how might the ClimateWise Principles, Guidance and member reporting process similarly develop, and if there a role for expected KPIs or data sheets.

### Building back better post-COVID

The Covid-19 pandemic has shone a light on the role of the industry and opportunities for building back better. Either through due diligence through underwriting and investment decision-making, or through the opportunities to leverage sustainable claims and build adaptative and mitigative capacity.

# Establishing an ESG Journey

ESG best practice is a series of steps

## Governance

Develop new risk structures – or build on existing ones – to equip the organization with ESG oversight.

## Frameworks

Identify which frameworks are best suited for the business.

This can help determine KPIs, metrics and objectives.

## Strategy

Define and bring the sustainability strategy to life.

Integrate ESG issues and consider steering portfolios.

Climate scenario analysis can actively support risk mitigation planning.

## ESG integration

Innovation can be catalysed by adjusting or expanding the product offering.

Counterparty engagement can help reframe business models.

Embedding ESG into operations can enable a more resilient business

Capital can be reallocated to drive greater impact.

# ESG regulatory requirements

Set out below is a summary of the key EU and UK sustainable reporting requirements. There may be additional local reporting requirements and a number of voluntary reporting frameworks that firms can sign up to

| | | What is it? | Status |
|---|---|---|---|
| EU | EU Sustainable Finance Taxonomy Regulation | • A common classification of economic activities significantly contributing to six environmental objectives, using science-based criteria | • **Jan 2022 -** the Delegated Act on the **first two objectives are expected to apply** (remaining 4 expected Jan 2023)<br>• **Jan 2022** - EU to **publish a report** on the taxonomy and **social/non-green issues** |
| EU | Sustainable Finance Disclosure Regulation (SFDR) | • SFDR imposes **mandatory ESG disclosure obligations** for asset managers and other financial markets participants<br>• **March 2021** - Level 1 principle based disclosures required | • **Jan 2022 -** Periodic reporting and taxonomy alignment disclosures (for environmental objectives) to begin for Art 8 & 9 Products that promote a sustainable investment objective.<br>• **July 2022 (originally Jan 2022) –** SFDR "RTS" on more detailed Level 2 requirements for pre contractual and periodic reporting including Principal Adverse Impact (PAI) Reporting |
| EU | Non-financial Reporting Directive (NFRD)/ {NEW} Corporate Sustainability Reporting Directive (CSRD) | • Reporting by large and listed companies on their sustainability risks and impacts<br>• All listed companies or large companies that exceed 2/3 of the following: 1) BS €20M, 2) Rev €40M 3) 250 staff | • **Mid 2022** - CSRD r**eporting standards** become available<br>• **Jan 2023** - Firms apply CSRD standards for the first time to reports published in 2024. **Reporting through annual report, digitisation, mandatory limited assurance** |
| UK | PRA disclosure requirements | • Banks, buildings societies, insurance companies and FCA premium listed aligned towards Task Force for Climate Related Disclosures (TCFD) | • **Jan 2022 -** The PRA will **review the quality of banks and insurers' 2021 TCFD disclosures**. The PRA will review disclosures after this deadline and determine whether additional measures are required. |

# Overview of key supervisory expectations for insurers

As we approach COP26, we expect heightened focus by all stakeholders on the credibility of firms' net zero plans. Climate risk, ESG disclosures, "greenwashing", and ESG data will also remain key priorities for firms

# The potential long-term impacts of the pandemic

## Panel Discussion

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Thank you for attending

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