

Coronavirus Insurance Implications

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The 2019 novel coronavirus (“2019-nCoV”) was first identified in Wuhan, Hubei Province, China. At the time of this writing, there have been over 20,000 confirmed cases with a death toll in the hundreds. This low single-digit death rate per total confirmed cases is significantly lower than the near double-digit and higher death rates for SARS, MERS and the Avian Flu (see below). Additional cases of 2019-nCoV have spread to outside of China (including several in the US), though the death toll has been more limited. The economic impact is hard to quantify at present, though disruption, *e.g.*, due to travel restrictions, varies by sector/region. *Above all, we keep those affected in our thoughts.*

Exposure to China for most US and European insurers is minor, though indirect exposure for some in Hong Kong can be more significant. Hong Kong travel advisories (including those due to ongoing social unrest) have hurt sales of certain life & health products, commonly bought by mainland China customers. However, profits should be insulated in the near term. P&C companies may be exposed to 2019-nCoV via claims through travel insurance, surety and business interruption policies, among others. Such claims, though, may be limited as certain policies contain exclusions for communicable diseases.

Normal variability around death (mortality) rates has an impact on life re/insurers’ earnings, though the long-term trend of improving life expectancy has been more important to fundamentals. Mortality rates tend to be lower for insureds vs. the general population, and thus increases in overall fatalities (*e.g.*, opioid epidemic) can be less consequential for insurers. While heart disease and cancer remain leading causes of death, so do seasonal influenza and pneumonia, which can be a source of annual variability. Compared to 2019-nCoV thus far, health emergencies such as SARS, MERS and Avian Flu infected fewer people but had higher death rates. While these health emergencies each took hundreds of lives, seasonal influenza/pneumonia has killed between 12,000 and 61,000 Americans annually since 2010. As such, while the number of 2019-nCoV cases continue to rise, so do recoveries. Clearly, a global pandemic of historic proportions like the Spanish flu of 1918, which by some sources is estimated to have reached 500 million cases and killed 50 million people globally, would have larger macro and societal implications.

Second order effects on the insurance industry are more difficult to measure. Market related exposures (*e.g.*, rates/credit) are meaningful, especially for insurers offering life & savings products. Thus, a protracted period of disruption and uncertainty could put pressure on risk assets and lead to lower rates due to a flight to quality. While such a scenario would be unfavorable, capital remains robust and asset quality is sound. It is also important to note that health care and medicine has advanced meaningfully over the last century. **We do not expect the current situation to have a major impact on our P&C and life re/insurance names.**

| | Outbreak Periods | Confirmed | | |
|-----------|-----------------------|-----------|-------|----------------|
| | | Cases | Death | Mortality Rate |
| SARS | Nov 2002 to July 2003 | 8098 | 774 | 9.6% |
| MERS | 2012 to 2015 | 2494 | 858 | 34.4% |
| Avian Flu | 2013 to 2017 | 1568 | 615 | 39.2% |

Source: WHO, CDC, NetEase, Morgan Stanley Research

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