Swiss Re Institute

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Economic Insights
Health protection gaps after the pandemic: an upward path?

Key takeaways

- Global health resilience looks set to weaken in 2020 as incomes fall and health expenditure rises.
- COVID-19 has triggered the deepest recession in modern history and we expect global real GDP to fall by 4% this year, potentially widening health protection gaps.
- The global health protection gap reached a new record high of USD 588 billion in 2019.
- Emerging markets accounted for almost two thirds of the health protection gap in 2019 and their health resilience score was 16ppt lower than advanced economies.
- Closing the health protection gap calls for partnerships between insurers, governments, public policymakers, healthcare and medical service providers that maximise financing efficiency by sharing healthcare risks.

About Economic Insights
Analysis of key economic developments and their implications for the global re/insurance industry.

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In a nutshell

If history is a guide, global health resilience is likely to deteriorate following the COVID-19-driven recession. The pandemic is pushing households into financial stress, particularly in emerging markets. This is expected to widen the global health protection gap to well above the record-high USD 588 billion in 2019. Stronger health insurance can help to alleviate this stress and increase societal resilience to future crises.

The COVID-19 crisis has put global health resilience in the spotlight. We expect our annual Swiss Re Institute Health Resilience Index (Health I-RI) to weaken in 2020 as falling incomes and high healthcare expenses increase households' exposure to stressful health spending. [1] This will likely widen the global health protection gap – the funding shortfall needed to meet households' heathcare needs – to well above the record-high USD 588 billion in 2019. The pandemic highlights the importance of health infrastructure in enabling countries to cope in a crisis, and the role of insurance in alleviating financial stress.[2] COVID-19 has triggered the sharpest and deepest global recession in modern history and we expect global real GDP to fall by 4% this year, more than double the 1.8% contraction in 2009 during the global financial crisis (GFC). If history is a guide, global health resilience is likely to deteriorate following this recession.

Our data show that economic downturns hurt health resilience. After the GFC, Health I-RI scores were 9.5 percentage points (ppt) down in emerging Europe, 1.4 ppt lower in advanced Europe and 1.3 ppt reduced in advanced Asia Pacific (see Figure 1). This was primarily due to rising healthcare costs and ageing populations in most advanced Asian markets, and strained government budgets in European countries. While health resilience in Latin America and emerging Asia Pacific improved after the GFC, the pace of improvement also slowed.

We expect emerging markets' health resilience to be harder-hit than advanced economies' by the current crisis, due to their weaker health infratructure and lower health resilience scores. The emerging market average Health IR-I score was 80.6%, 16 percentage points (ppt) lower than the advanced economy average of 97%, in 2019. By region, North America was the most resilient globally with a Health I-RI of 97.4%, while emerging Asia-Pacific was the least resilient region with a score of 75.9%. Health resilience declined slightly in all regions except North America in 2019.

[1] The SRI Health Resilience Index ranges from 0-100%. The higher the score, the more resilient. *sigma* Resilience Index 2020: global resilience put to the pandemic test, Swiss Re, August 2020.
[2] We define health infrastructure as health-related physical capital (hospitals, distribution networks, IT systems) and human capital (doctors and nurses).

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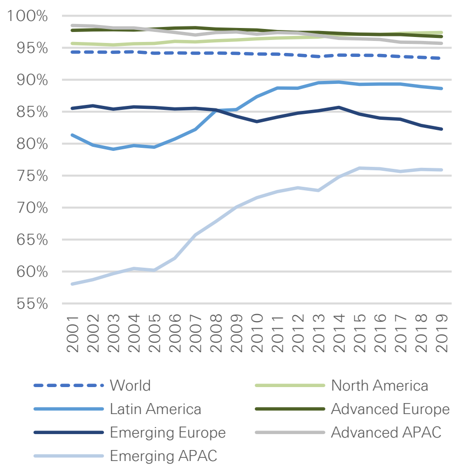
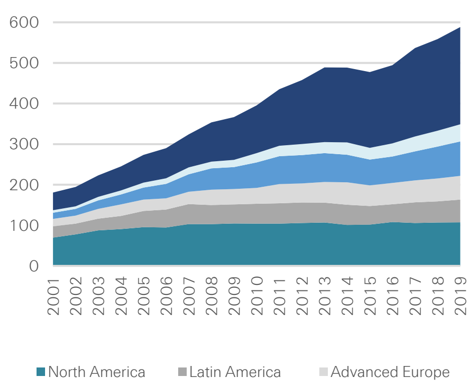
Figure 1
Swiss Re Institute Health Resilience Index



Source: Swiss Re Institute

Figure 2
Health protection gap (USD billion)



Source: Swiss Re Institute

The provisions of public healthcare systems and insurance schemes matter. The less protection is available from governments and private insurance schemes, the more exposed (or less resilient) a household is to stressful healthcare spending. Emerging markets accounted for 65% of the global health protection gap in 2019, and emerging Asia-Pacific alone represented 41% of the total global gap (see Figure 2). Households tend to be more vulnerable to health emergencies when out-of-pocket expenditure on healthcare is high. This disproportionately affects low-income countries, where out-of-pocket expenditure typically represents more than 40% of all household healthcare spending, compared with only 24% in advanced economies.[3] Households with lower resilience may be forced to sell off productive assets, put the accumulation of retirement assets on hold, fail to maintain their health, or forego education (among others) in order to cope.

Insurers are a key stakeholder in the healthcare ecosystem and many governments recognise the role a strong private health insurance sector plays in addressing the health protection gap. The traditional reliance on public budgets and household savings to fund healthcare will become increasingly difficult given rising concern over fiscal sustainability, higher treatment costs, greater incidence of chronic diseases and rising consumer expectations. Closing the health protection gap calls for a multi-stakeholder approach involving insurers, governments, public policymakers, healthcare and medical service providers. These can explore new partnerships that maximise efficiency by sharing healthcare risks, while supporting market development with solutions that deliver value and choice for consumers.

The health protection gap represents a global opportunity for insurers worth hundreds of billions of dollars in annual premiums. It is also an opportunity to innovate. Insurance products customised to local markets can offer cost-effective, customer-centric, technology-enabled healthcare solutions that improve societal access to healthcare. As well as improve policyholder health, these services enable insurers to differentiate. COVID-19 is also accelerating changes in consumer behaviour, particularly towards digitalisation. Swiss Re's COVID-19 survey in April found consumers interested in value-added services and most respondents in favour of fully online processing of insurance policies.[4] Finally, by investing in big data capabilities, insurers can improve underwriting and help consumers make informed decisions. Together all of these can increase societal resilience to future crises such as pandemics.

[3] *Global Spending on Health: A World in Transition*, WHO, 2019. The WHO defines catastrophic health expenditure as out-of-pocket payment of 10% to 25% of total household consumption or income.
[4] *Swiss Re COVID-19 Consumer Survey: Financial anxiety, demand for insurance products accelerates across APAC*, Swiss Re, April 2020.