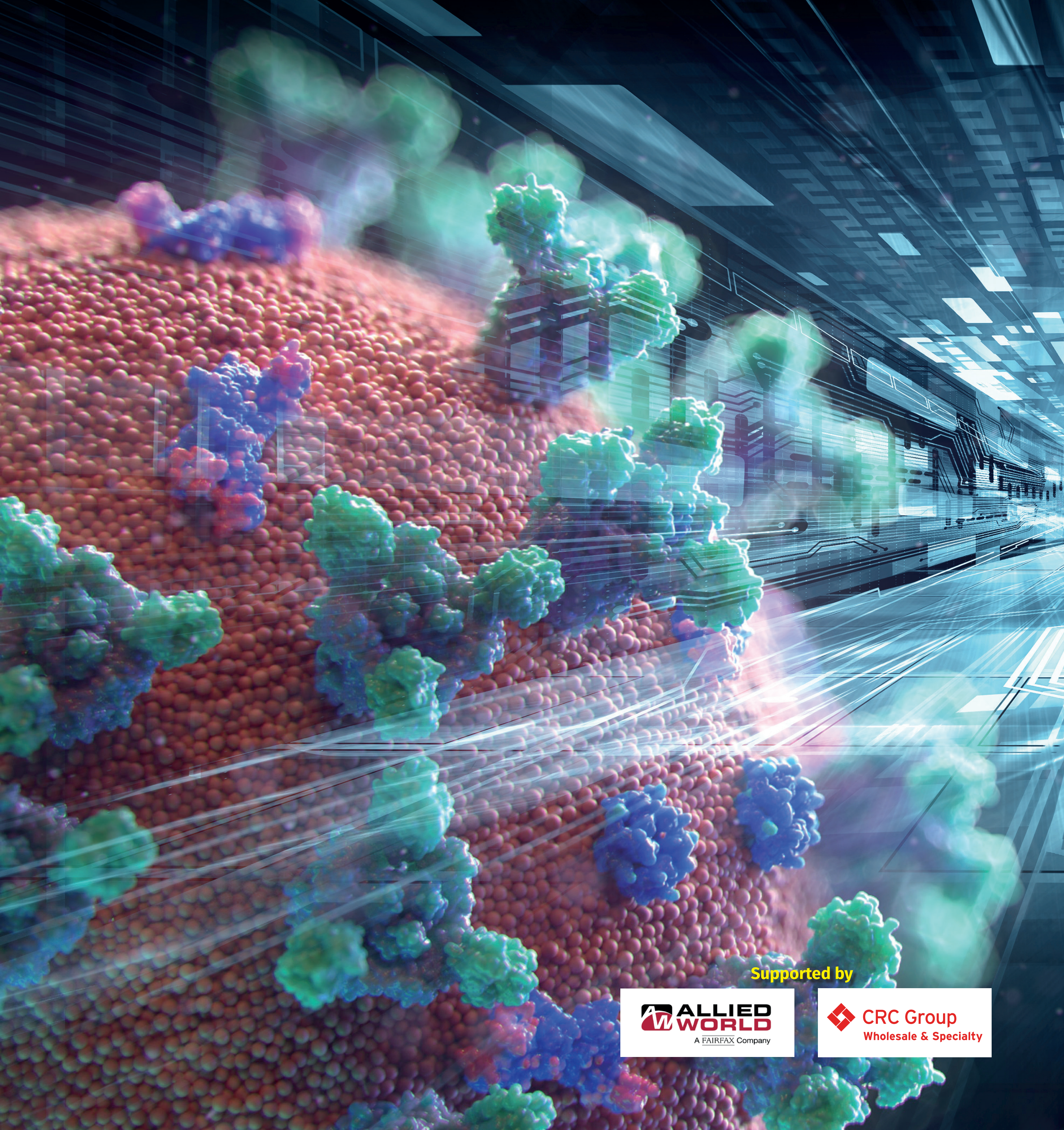
ISSUE 1: Leaders' commentary on latest crisis developments

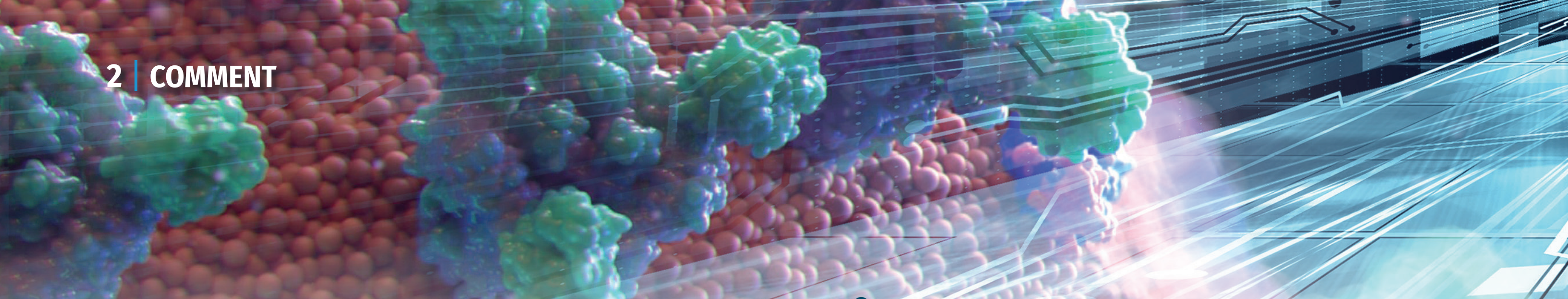
23 March – 30 March 2020

COVID-19

Virtual Roundtable

THE INSURER
Global risk capital intelligence





Welcome to the first issue of our virtual roundtable

In the past few weeks, the world as we know it has been turned on its head as governments and corporations globally respond to the escalating COVID-19 crisis.

Emergency stimulus measures, stock markets plunging, border closures and entire countries on lockdown have very quickly become normalised headlines.

As the death toll continues to rise, the (re)insurance industry and the role it plays in the war against the pandemic has never been more squarely under the microscope.

The way our industry responds to this unprecedented crisis will undoubtedly have far-reaching implications for carriers and brokers alike - especially amid growing political pressure to support businesses and help them navigate uncharted waters.

At such uncertain times, we understand more than ever that our readers need the most up-to-date news, analysis and opinion in order to stay abreast of the key issues affecting the global (re)insurance market.

At *The Insurer*, we have been on the front foot in our coverage of COVID-19, bringing you the latest news as well as the market's response to the evolving situation.

We intend to continue to build upon this, with this – our COVID-19 roundtable – the latest step in our evolution. We recognize how important it is for an industry so used to face-to-face interaction to keep the dialogue going and for brokers and carriers to effectively communicate important insights and messages.

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In this series, we speak to senior executives from across the industry to get their take on how individual organizations and the wider industry are reacting.

In our first issue, we take a look at the primary sources of loss for the industry, how the (re)insurance market can best keep tabs on exposures and aggregation issues, and what steps individual companies have taken to prepare for home working and travel bans. We appreciate the gravitas of this topic, so we are making this series free to our readership and also to the wider (re)insurance community. We will circulate the latest in our virtual roundtable series every week. Feel free to share widely!

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Where are the primary sources of COVID-19 related insured losses expected to come from?

Mike Brennan: While we have barely scraped the surface in respect to the impact of the COVID-19 outbreak, however, the initial impact seems to be most significant in the areas of long-term care and other healthcare-related insureds, hospitality-related business interruption, and D&O.

We deal with hundreds of carriers, so our people must be diligent on every transaction so that we minimize unnecessary changes in terms and conditions that surface due to the COVID-19 outbreak.

Edward Moresco: Claims will emanate from the more obvious areas of insurance based on their nature of cover such as trip cancellation, event cancellation and notifiable disease business interruption coverage extensions to property policies.

Mike Millette: Liability losses are likely to become the largest single category. There have already been multiple shareholder lawsuits and at least one suit against a cruise line.

There will likely be suits against venues at which people contract the virus including employers and other businesses and against companies for failing to take protective measures.

In addition, workers compensation claims are likely to increase, both due to coronavirus, and also as a likely recession takes hold.

There has been and will continue to be a great deal of action directed to accessing policies on the basis of business interruption, including commentary from several government authorities.

> "The fact that this is coinciding with the rapid merger of what were the world's top four intermediaries by revenue is unexpected, and it leaves risk managers and underwriters very exposed indeed"
> **David Flandro**

There will likely be some claims paid but there is also likely to be some testing of policy language in the courts, and the outcome is unclear.

Health insurance claims are likely to be sharply higher for the duration of this crisis.

David Flandro: Lines of business which will clearly be under the microscope include almost all areas of business interruption, especially where public liability and/or civil authority covers are included, environmental liability lines, permanent health insurance (termination of employment), med mal, worker's comp, including communicable disease exceptions, event cancellation, travel, aviation – especially airline, D&O, professional indemnity, energy lines, not to mention credit & surety – this is all before one reviews traditional life, accident & health policies which are often the focus of pandemic risk.

But please note, claims are not the whole story here.

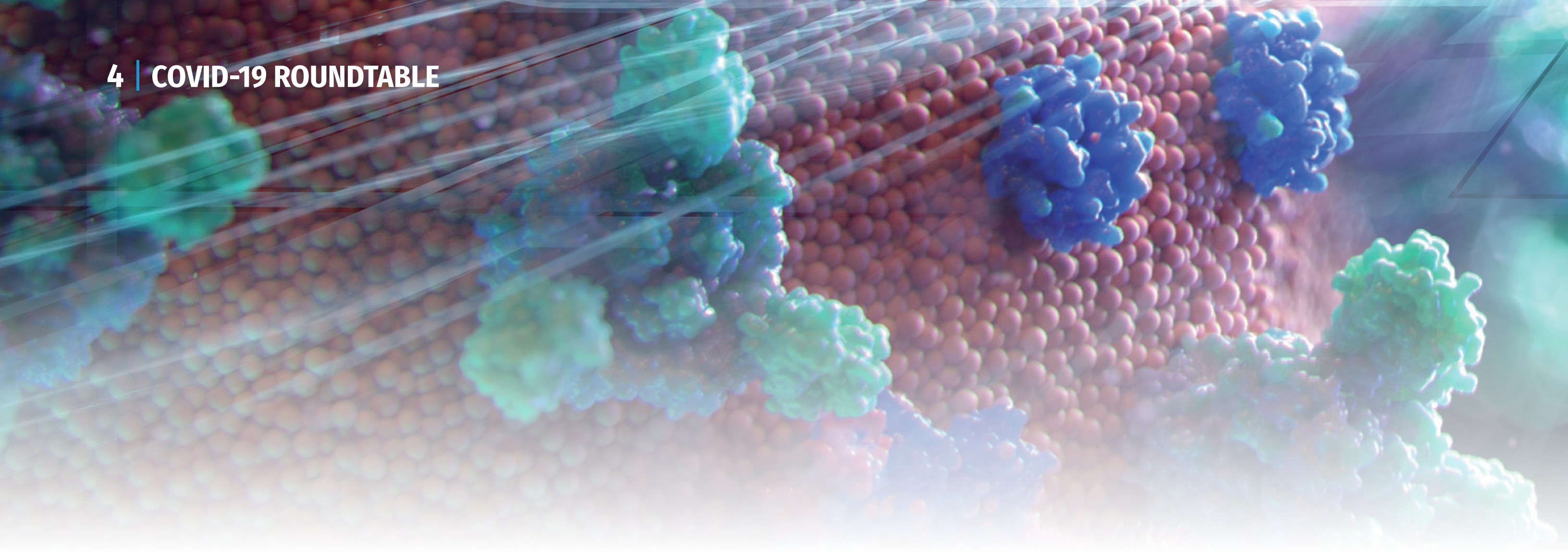
I say this because we are witnessing something of a perfect storm on certain balance sheets.

With interest rates having been so low for so long, many carriers were stretching for yield prior to the crisis, moving back into equities and riskier assets.

Rating agencies are now reacting to resulting short-term asset price movements, causing issues for many.

Add to this volatile premium growth expectations, fluctuating costs of capital, and refinancing risk, combined with potential actions from state, national and supra-national governments in regard of share buybacks, broadening coverage, and claims management, and you have a situation which is very difficult to navigate.

In my view, this will be more acute for carriers than the actual claims emanating from this situation.



What unexpected areas of exposure are most concerning for the market?

EM: This question is more difficult to answer and provides the greatest risk to the insurance industry. Today, we see the US Federal and State governments looking to extract cover from the business interruption coverage extensions to property policies that do not and are not intended to cover events such as COVID-19.

> Companies will emerge from this crisis with a clear desire for much better defined and more broadly available business interruption coverage
> **Mike Millette**

An industry that has seen hits to their capital base over the last few years will struggle to absorb this type of systemic unaggregated exposure. The D&O market, which is already experiencing record litigation rates, is about to face more challenges with securities litigation arising from COVID-19 and a 30 percent drop in the US stock market over the last 30 days. Lines of business that do not immediately come to mind but may come front and center are cargo and professional indemnity. Simply stated, the unknown is our biggest risk and concern.

DF: Structurally, the fact that this is coinciding with the rapid merger of what were the world's top four intermediaries by revenue is unexpected, and it leaves risk managers and underwriters very exposed indeed.

It means that just when clients need more options, those offered by brokers and advisers are set to shrink. To make matters more difficult, it is estimated that two brokers could represent more than half of all placed premiums in many business lines, and even more in specific lines of syndicated reinsurance.

The situation is especially acute in the London market. One example of the current disarray has meant some carriers have received blanket requests for extensions without individual review. We can do better. Clients want an alternative for placement and distribution, for advisory, analytics, and business intelligence beyond the 'big two' – especially in light of current events.

MB: The claims scenarios unfold in a way that, while unexpected two months ago, can now be somewhat predictable as one measures the possible impact of COVID-19.

For example, it doesn't take a genius to foresee some of the challenges facing the hospitality industry – but that doesn't minimize the need for us to react in a way that is extremely responsive. In fact, we are working now to come up with creative solutions for our clients as we begin to anticipate their areas of exposure.

I think the most surprising element of the crisis is the depth of impact and the challenge to remain connected to clients across the entire spectrum of insureds. With that challenge is an opportunity for the wholesale community at large to demonstrate our relevance and value.

MM: Based on company and industry group comments, the industry believes that the extent of business interruption claims will be limited. The stock market is discounting a higher level of claims, likely from this source. Resolution will take some time.

How can the industry best keep tabs on potential exposures and aggregation issues?

MB: There must be some level of information sharing. To be sure, we all want our individual organizations to shine during a time like this, but, at the same time, we need to educate each other about how best to respond to customer needs. The industry as a whole needs to show its commitment to insureds. There is no better time than now for the wholesale sector to demonstrate its relevance and value in the insurance chain.

DF: In a word, data – and not just any data, but homogenous, viable, financially consistent data where technology is used to create insights by line-of-business and by region. This is something that is just beginning to emerge in the insurance sector and our business intelligence team, led by Michelle To, is heavily involved every day in requests for data that make a difference. This includes analysis of aggregation and exposures, especially where we can stress-test using data for Coronavirus scenarios.

MM: The industry generally attempts to do this through coverage definitions and exclusions. Its efforts will be tested in the coming weeks and months.

EM: The industry continues to use technology to better understand risk and risk aggregation. The tools we have today are better than at any point in time, but the reality is that some risks cannot be modelled. As the scientific community struggles to model the arc of COVID-19, so too does the insurance industry struggle to model and understand its aggregation exposures. The insurance industry needs to find a way to work in concert with insureds to manage and track risk. Technology has advanced considerably in the last 20 years, but these technological advances have not brought clients and carriers closer together on tracking risk.

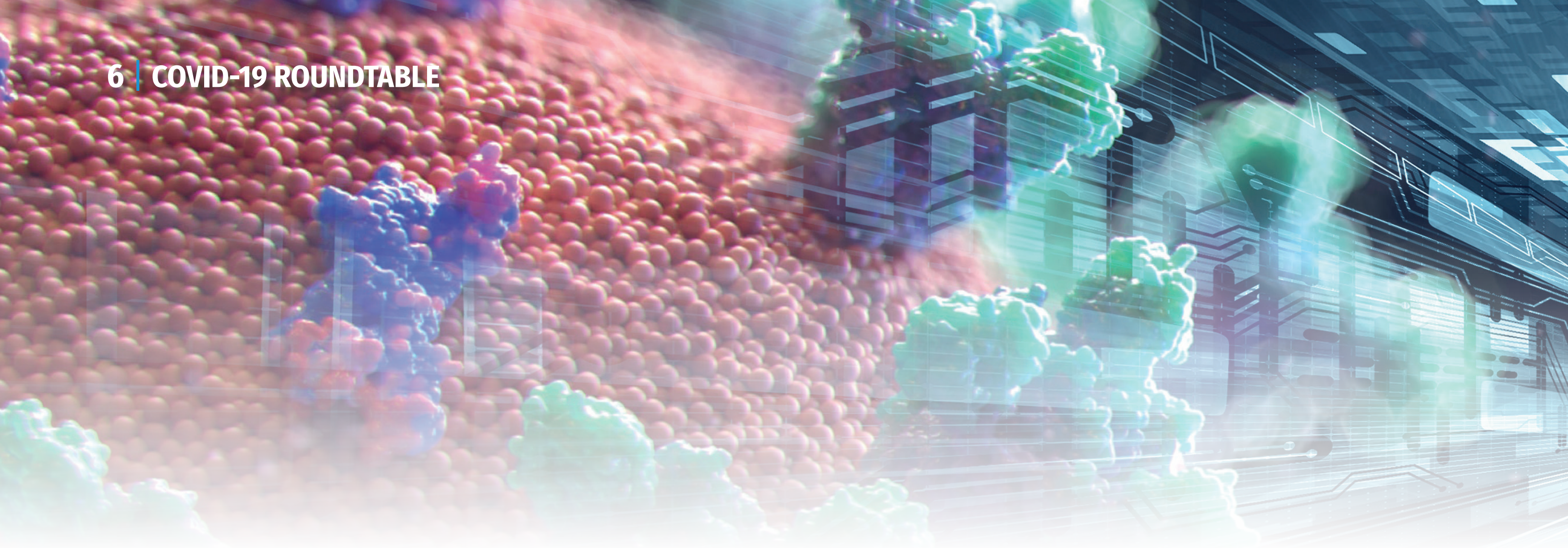
> Simply stated, the unknown is our biggest risk and concern
> **Ed Moresco**

How is your business prepared for the challenges of remote working and travel restrictions?

MM: We shifted to a work-from-home basis last week and had a chance to quickly test our systems and team functioning on that basis. We have made a seamless transition, aided by regular all-hands calls to recreate a work community. We expect it to continue to operate in this way for the immediate future. We believe that we gain from physical proximity and dialogue and look forward to resuming at some point.

EM: Business continuity planning has become a critical topic for boards and regulators. By having in place the proper technology and a tried and tested BCP, an organization should be prepared for the type of business disruption that we are currently facing. With the technology available to the industry and the modernisation of how business is conducted at Lloyd’s, we should be able to seamlessly transition to this new reality.

MB: We are ready to go. The strength of our technology and our ability to augment our current depth with any additional needs that surface will allow our teams to fully support our customers while working remotely. We also have an amazing marketing team that continues to gather, collate and disseminate to our clients critically



important information relevant to COVID-19.

We meet daily to assess new challenges and are deploying new solutions as unexpected situations arise. Finally, our teams are collaborating across practices and industry specialties to create solutions to COVID-19 specific issues.

DF: Hyperion is the most technologically advanced firm I have worked for. It has been surprising to me how quickly we have moved to a virtual environment, in which the level of interaction with colleagues and clients is in many ways enhanced through technology. This is enabling us to work closely in partnership with carriers, risk managers, and company managements as they navigate the current situation.

What role could parametric solutions play going forward in addressing pandemic exposures?

EM: At this point the answer is unknown but the future will be governed by two key factors. Firstly, whether an insured will be able to quantify their COVID-19-related damages and can assess the quantum of exposure they have to a similar event in the future. Secondly, whether carriers can identify clearly the drivers of loss in the market from COVID-19 on an insured level and have the confidence in their analysis to price from the cover.

These assessments will be critical to parametric solutions working for a similar event or fact pattern in the future.

MB: That is a great question. I like the idea of a parametric solution to a loss that so clearly affects a broad part of the populace. With the right product, a crisis like this can be addressed quickly and efficiently. We've successfully placed parametric programs in the past, but their value is very specific. COVID-19 is an ideal example of a scenario where a parametric solution should be considered.

MM: Companies will emerge from this crisis with a clear desire for much better defined and more broadly available business interruption coverage.

This has been an imperative bubbling up in any case in connection with the recent growth in cyber insurance. The traditional industry coverage framework has been physical damage with BI as an adjunct and subsidiary cover. In a modern world of operations that are less physical facility intensive and more reliant on smooth functioning of society this could be flipped on its head.

> “We all want our individual organizations to shine during a time like this, but, at the same time, we need to educate each other
> **Mike Brennan**”

DF: They will play a key role, and there will be increased demand for this type of product coming out of this crisis.

Previous sales of these products have been hindered by lack of understanding of the underlying indices, quantification of exposures, and some apathy.

I don't think we need worry about the latter! If I may say so, while parametric will play a significant role, it will be part of a broader answer which has to include whole account solutions for underwriting earnings. Only then can 'black swan' events truly begin to be covered for those most exposed.