ISSUE 3: Leaders' commentary on latest crisis developments

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COVID-19

Virtual Roundtable

THE INSURER
Global risk capital intelligence

The current crisis and future solutions...

In this edition:

- TRIA for pandemic?
- BI property exclusions
- Litigation snowball begins
- Critics: fair or opportunism?
- Infrastructure challenges

The present and the future...

Our third virtual Covid-19 roundtable highlights how the industry's smarter leaders are approaching the crisis.

There is dealing with all the immediate challenges now and then there is the pressing need to create solutions in partnership with governments for the future.

They are of course interlinked but there are concerns that the industry initially appeared too defensive by focusing on exclusions rather than also finding solutions.

It's an understandable reaction considering the snowball of litigation that is careering down the mountain but it can also fuel opportunistic criticism of the industry. A vicious circle, in other words.

Convex founder Stephen Catlin is certainly in that camp – he calls for the industry to get on the front foot in this week's edition.

On that note, he praises the initiative last week by Marsh's John Doyle to lobby for a TRIA pandemic equivalent and speculates whether similar could occur in the UK with Pool Re.

“There is dealing with all the immediate challenges now and then there is the pressing need to create solutions in partnership with governments for the future”

It's a fascinating debate and arguably also an existential one. This is because the great unknown for the industry is exclusions and how the courts will treat them. In particular, with regard to BI losses on commercial property programmes.

It's also a real time, critical dilemma because (re)insurers have to decide now whether they ought to toughen their exclusions on renewal. If they do, opportunistic plaintiff bar lawyers will argue that it's proof they weren't applicable for the existing policies.

Insurers and brokers are having to deal with these issues against a backdrop of huge infrastructure challenges posed by the lock-down.

Our panellists explore all these issues and more in another fascinating roundtable...

Christopher Munro
Associate Editor

THIS WEEK'S PARTICIPANTS

Lisa Bartlett, President, UK & Ireland, Crawford & Company

Stephen Catlin, Chairman and Chief Executive, Convex Group

Joe Cellura, President, North American Casualty Division, Allied World

Neil Kessler, COO, CRC Group

Herbie Lloyd, CIO, Securis Investment Partners

David Priebe, Chairman, Guy Carpenter

Joel Wood, Senior Vice President, Government Affairs, CIAB

With a global recession looming, what impact will this have on the health of the P&C industry?

David Priebe: In times of economic distress, (re)insurance is typically considered by investors to be a defensive sector. This view is well merited: it has less exposure to economic cycles than other industries and has a strong track record in navigating macroeconomic and capital crises.

This is not to say the sector will be unaffected by the Covid-19 crisis. Access to capital has reduced while carriers' assets have clearly been hit by lower interest rates, wider credit spreads and an equity crash. A fall back into recession will also hinder growth opportunities, given the long-standing correlation between economic output and premium growth.

It is nevertheless important to point out that most carriers' investment portfolios are invested conservatively, with a predominance of (high-grade) fixed income securities and low equity gearings. Whilst investment returns are likely to drop to new lows, such conservative allocations are likely to insulate property and casualty insurance carriers from significant investment portfolio risks. The sector also remains well capitalised. Ultimately, the fundamentals of the (re)insurance market remain strong.

Stephen Catlin: If you take an extreme view then this crisis could take the industry out – but only if governments try to legislate retroactive cover. As it stands, the potential aggregation of loss is way ahead of the total market capital of the P&C industry worldwide. That is why we need government backstops in place, as we have with terrorism risk.

In the medium term, raising capital will be very challenging over the next 12 to 18 months. There will certainly be a capital shortage and it will be meaningful.

Neil Kessler: I think a recession is now the base case for any broker or carrier's planning purposes. At this point, the impact will depend on the depth and length of the recession. For a broker in a best case scenario, the next quarter or two will likely be negatively impacted with certain lines and industries seeing larger declines than others.

> "The potential aggregation of loss is way ahead of the total market capital of the P&C industry worldwide"
> **Stephen Catlin**

The rising rate environment will help offset declines in exposure and possible business closures. There are more qualified people to opine on the carrier perspective, but clearly there will be diminishing investment yields and possibly worsening claims trends coupled with declines in exposures.

Overall though, the health of the industry will remain strong based on established players and a long history of delivering value to clients in all market environments.

Herbie Lloyd: The manner in which the P&C industry navigates the impending global recession depends in part on the nature of the initial shock the industry faces from the COVID-19 crisis. The overall claims impact remains very uncertain [across multiple lines of business] as events continue to unfold but it is clear that the asset side of balance sheets will be significantly impaired, consequently leading to mismatched assets and liabilities. Inevitably, the pressure to deliver strong underwriting performance with reduced solvency capital will increase significantly.

Continued innovation will be vital; the development of new products could become key to mitigate the natural loss of premium income a recession is likely to induce. Likewise, pressure on expenses and underwriting performance will increase and so advancements in technology to support improved and more cost-effective distribution, underwriting and claims handling are likely to prove critical. This situation may prove to be a real catalyst for the InsurTech industry.

Lisa Bartlett: Covid-19 will have substantial and long-lasting business impacts, though the

insurance industry impact is difficult to measure.

Historically, business interruption (BI) policies require a physical damage trigger, although recent endorsements have become available for BI resulting from notifiable diseases. However, these usually apply a narrow definition for notifiable diseases, including lists of diseases covered, so 2019-nCoV is unlikely to be included.

Infectious diseases are not usually covered by workers compensation policies, so we don't foresee large-scale WC claims. However, there may be exceptions for occupations where the exposure can be considered an 'occupational' disease, particularly in the medical profession. For general liability, the opportunity for claims expands greatly. A company may, for example, make a claim if it can prove its employee was infected by an employee from another company or supplier. Looking ahead, it is likely businesses will closely consider coverage and insurers will re-examine the extent and nature of cover they offer.

Is a public-private insurance initiative along the lines of TRIA or Pool Re the only way to provide coverage for pandemic exposure going forward?

Stephen Catlin: I believe so. There is certainly an argument for putting Pool Re and a Pandemic Re solution together.
Pool Re has a pre-existing fund of vast proportion and a pre-existing structure which has been proven to work.

The reality is that it may be difficult to get the same carriers to participate at the same levels for pandemic risk as they do for terrorism. The Pool Re structure can be used as a template without any doubt although I would imagine that it may prove difficult for the details to come together.

Neil Kessler: A public-private partnership for pandemic risks could work well. The basic principles of risk pooling break down when such a large segment of the economy is impacted nearly simultaneously. The insurance market alone does not have sufficient capacity to respond to pandemics. A partnership of this type could be structured to provide "skin in the game" for the insured, insurance companies, and ultimately a federal backstop. The insurance industry is and should be seen as a way to distribute government funds and cover policyholder business interruption claims swiftly using existing infrastructure. Additionally, parametric insurance could be part of the solution as it would provide quicker payments after a loss. Not unlike the time after 9/11, the insurance industry can and should play a pivotal role in the development and creation of the ultimate solution.

> "You would have to dedicate 20 years of premiums to pay for this loss"
> **Joel Wood**

Herbie Lloyd: For pandemic specific risks it is likely that public-private initiatives are the only viable solutions. Given the magnitude and the systemic nature of the risk, it is difficult to see how the private market in isolation could tackle the problem.

Historically, the most successful public-private ventures have been those where the private involvement has extended beyond administrative or distribution support to active risk taking either at a policy level or through dedicated reinsurance programs where risk can be spread to numerous balance sheets or ILS capital providers. That said, these initiatives have focussed on low frequency, high severity events with relatively narrow geographic (and therefore diversifiable) impacts, for example CEA, Flood Re, state wind pools etc.

The obvious challenge for insurers' risk-taking involvement in the case of pandemic exposure is that these key characteristics do not apply, the exposures carry very high levels of systemic tail risk which would limit the scale of available capacity and increase its cost, perhaps prohibitively so. As we have seen with Covid-19, these extreme events also have the potential to impact re/insurer's asset portfolios which further suggests that any private involvement in these initiatives could be limited from a risk-taking

perspective.

Some encouraging progress has been made in transferring pandemic risk to the substantially larger capital markets though. The World Bank issued the Pandemic Emergency Facility bond in 2017 with note proceeds specifically funding pandemic recovery efforts in regions with weaker healthcare systems.

Initiatives of this nature could potentially gain momentum given both the severity of the current crisis and the clear and increasing appetite from investors to access ESG-positive risks.

Joel Wood: Many of our members are clamouring for a public/private partnership and some have suggested the TRIA model. But the lost business here is in the trillions. To size that, the total 9/11 insurance losses were around $40bn (in 2001 dollars). The TRIA program that was put into place has a total liability cap for government and insurer losses of $100bn. If losses exceed that amount, then everyone gets paid pro rata. So, if there are $1trn in losses, everyone would get ten cents on the dollar.

Total commercial insurance premiums in the US are somewhere in the $250bn to $300bn per year range. Current projections are that we are really going to need $5trn in federal relief. You would have to dedicate 20 years of premiums to pay for this loss. The industry already runs on a loss ratio that does not leave much in profit after all of the normal course claims are paid. So how do you fashion an industry "skin in the game" programme with all of that in play?

Our proposal is the Business and Employee Continuity Recovery Fund, wherein the insurance and broader policyholder/business community are coming together to advance the creation of a massively funded federal facility in whatever "Phase 4" legislation emerges. It's a work in progress, and doesn't hinge on existing insurance mechanisms, but we expect a great many of our brokerage firms will want to serve as contractors for the delivery of liquidity relief to clients.

> "The scale of this exposure is immense and far beyond the financial capabilities of the insurance industry
> **David Priebe**"

Lisa Bartlett: Painful lessons from Covid-19 should make Western governments better prepared to mitigate the financial impact of the next pandemic. Asia learnt from MERS and SARS and so proactive measures in some Asian countries are presently helping reduce the economic impact of the virus.

Whether a public-private insurance backstop will play a role in protecting economies against future outbreaks remains to be seen, though it is certainly an option.

We would need to consider the fundamental purpose of an insurance contract and whether what consumers want is what the market wants to offer. Is the buyer sophisticated enough to understand the full extent of cover, and are they seeking cover for all scenarios or are they aware they will retain some level of risk? This is particularly pertinent for SMEs given the impact of the current lockdown.

David Priebe: The insurance industry, policyholders and governments throughout the world must come together on an approach that offers relief to those who need it now and develop a plan to implement mitigation strategies and a response mechanism for future pandemic events. The scale of this exposure is immense and far beyond the financial capabilities of the insurance industry alone. A public-private solution is necessary to address this risk.

The public-private partnership model is one that has worked particularly well to date for other risks that are capable of causing systemic economic shocks, such as terrorism. TRIA and Pool Re are two fine examples where the security of backing from central governments has allowed private carriers to offer comprehensive terrorism policies at affordable costs. Whatever model is pursued for pandemics, Covid-19 has shown that any viable, long-term solution requires government participation.

Is the industry doing enough at the moment or could it do more?

Joe Cellura: The industry has done a tremendous job in a very short period of time in unprecedented conditions. Converting an entire industry to a remote working environment almost overnight has been miraculous. From my vantage point, risk managers, brokers and carriers have carried on through the very busy 4/1 renewal cycle with limited interruption. Claims teams have continued delivering service on difficult matters and risk management offerings have been made available as they relate to Covid-19. Our industry has always shown tremendous resiliency in the face of calamity. In the last 20 years alone, the NYC insurance community has overcome the attacks on the World Trade Center, the 2008 global financial crisis, Superstorm Sandy and now this current Covid-19 pandemic. Our history should give us confidence.

> Preparation has been key in ensuring a smooth transition to the WFH environment
> **Joe Cellura**

David Priebe: The (re)insurance industry delivers significant value for communities and businesses around the world. Regions (and risks) with high levels of insurance penetration recover much more quickly economically from major events (while also limiting the burden on taxpayers), as (re)insurance dollars flow in from around the world.

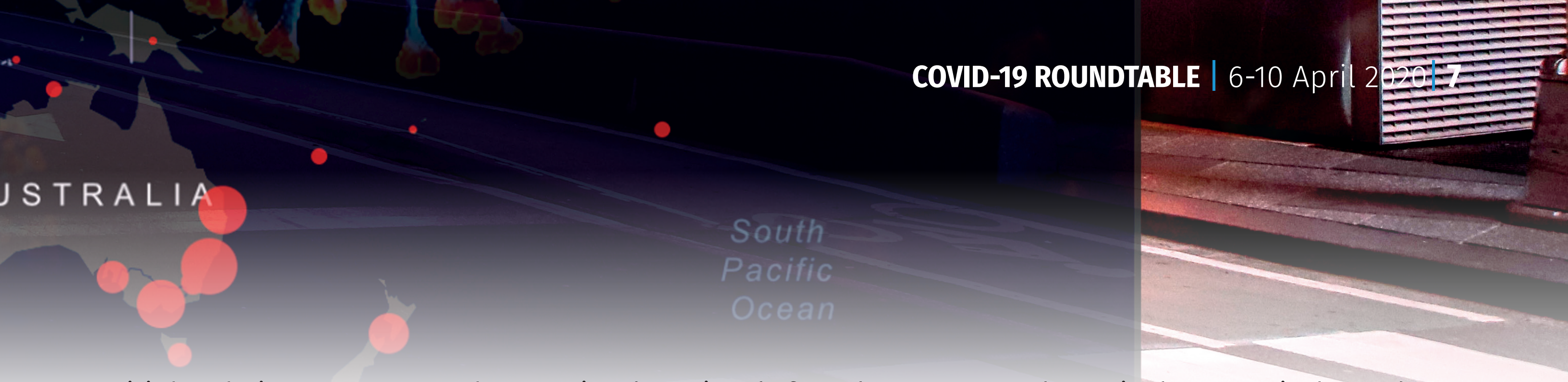
By paying (legitimate) claims over the coming weeks and months, the insurance industry will play a crucial role in helping societies and businesses recover financially from Covid-19. The industry has undertaken substantial investment to ensure an efficient market response necessary to support economic activity, prompt claims payments, the introduction of flexible payment schedules and coverage for new risks. The majority of health insurers in the United States have also waived cost sharing for Covid-19 testing and treatment. This is without regulatory intervention and is a powerful statement by that part of the industry. But more can (and needs to) be done. Covid-19 has highlighted important coverage gaps for pandemic risk. Developing solutions to close these gaps is now one of the highest priorities for the (re)insurance sector. This will take some time and, as indicated in my previous answer, require partnership with governments.

Stephen Catlin: There is some concern that the industry has appeared flat-footed in recent weeks and that public proclamations have been somewhat defensive. As is often the case it's not what you say but how you say it that counts. The 'how' needs to be prioritised and not neglected.

If we can get on the front foot, start being considerate, thoughtful, structured and helpful to governments then quite quickly we can turn this situation around to the benefit of all. If we do not do that then more fool us.

Neil Kessler: There is a tremendous amount of leadership happening across the industry, but we can always do more. I think there are going to be difficult times ahead in terms of claims denials and litigation. Ultimately I believe we must rely on the terms of the contract to govern the outcomes of claims disputes and not see legislative or judicial revisions that erode basic principles of contract certainty. If we can use our trade associations and leaders across the industry to move the conversation toward a longer-term public-private partnership solution, that might help shift the national conversation in a positive way. That should be our focus.

Herbie Lloyd: Finding a solution to the pandemic coverage issue will be a long-term industry challenge but the insurance market has a long history of structuring risk transfer solutions for those who need them – flood, earthquake, wind pools and terrorism being clear examples. The same might be true in the specific case of pandemic coverage but the significant challenges outlined in the previous question would need to be overcome. There has been pressure on insurers to respond to the current Covid-19



crisis by relaxing coverage terms but, given the sheer scale of the problem, this could affect the solvency of the re/insurance sector. Likewise, forced retrospective inclusions of non-contractual risks would likely cause long-term damage to the industry. The priority today for the insurance market is to show continued resilience and to demonstrate continuity of service for its existing policyholders.

Will all brokers and underwriters cope as well from WFH or is there a danger that some companies (and their customers) could suffer through a lack of preparation or joined up infrastructure?

David Priebe: The industry response has been impressive. The transition to working from home has gone incredibly smoothly overall, enabling seamless communication between brokers, cedants and reinsurers. Despite considerable readjustments to working practices, 1 April renewals were completed on time, with relatively few issues arising from these new arrangements. Attentions have already switched to mid-year, with renewal meetings being conducted over video conferences. These have so far proved a successful medium for our brokers and clients to communicate their renewal messaging. There have, of course, been challenges, particularly around online bandwidth, as virtually our entire world converted to working from home simultaneously. IT providers have nevertheless responded well to the unprecedented situation, even if some were more prepared than others.

Virtual meeting platforms have not experienced any significant compatibility or accessibility issues, in the main. People are being creative and working around any issues that do arise, and the industry continues to operate in a business as usual manner.

Joe Cellura: Preparation has been key in ensuring a smooth transition to the WFH environment. Companies that have the proper infrastructure will be able to better execute within this new normal. The bigger challenge will be the fatigue that can come from isolation and uncertainty. Industry leaders will need to step up and work together within our community to support employees and clients.

> “An outcome of this crisis will be an increased focus on BCPs and overall emergency readiness
> **Neil Kessler**”

Lisa Bartlett: So far, remote working is encouraging greater market collaboration. The London Market came together very well, for example, to run stress-test scenarios ahead of the enforced remote working measures, and we have seen fantastic collaboration by the International Underwriting Association, Lloyds Market Association and Corporation of Lloyd’s to ensure the continued smooth running of the market and its systems. The temporary cessation of face-to-face transacting is likely to increase the usage of electronic placements in the London Market, so one positive outcome may be an acceleration of the market’s digital transformation.

Neil Kessler: This is a concern. While many of the larger players in the industry, like CRC Group, have robust business continuity plans, I’m sure that others have struggled to enable remote work at scale this quickly. It is our hope that as an industry we are able to be ready and willing to respond broadly for insureds that need us. I think an outcome of this crisis will be an increased focus on BCPs and overall emergency readiness. While teams are working from home, we must also keep a watchful eye on the emerging cyber risks associated with WFH arrangements.

Stephen Catlin: The world will not be the same once we get through this, there will be changes that occur which will stay for good; the way we work and our use of technology will be one of those.

The current situation is an example of why it is important for the industry to deal with the issues going forward and adapt quickly.

Herbie Lloyd: We should expect that some businesses will be better prepared for these circumstances than others and those broking or risk-taking entities that can adapt fastest will be those who best service their respective client’s needs. Efforts to maintain communication channels, both internally and externally, will ensure that insurers, brokers and reinsurers can continue to work effectively together. In our experience

so far, the brokers and cedants we transact with have managed to navigate the recent 1 April renewal with little or no observable interference which is a credit to everyone's level of preparedness.

We are encouraged by this of course and, whilst we fully anticipate this will continue into the key June/July renewals, the industry could be further challenged if a major natural catastrophe were to occur during a prolonged period of lockdown.

How concerned should we be about ensuring that our industry employees have the support, infrastructure and resources to do their job during these unusual times?

Lisa Bartlett: Insurance is a people business so we must look after our people. 100 percent of our UK employees and 90 percent of our global employees are now working remotely. Video meetings are now part of daily work life. But we must also maintain a sense of togetherness and ensure people continue to feel connected. Change can be unsettling, so supportive leadership is essential, as is a constant communication stream with employees. We are using all internal communication tools to keep employees updated and engaged, share ideas and, when appropriate, have fun. One potential positive is that our market will better understand the advantages of more flexible working, and identify gaps and surpluses in technology capability, improving efficiency and agility going forward.

Herbie Lloyd: Robust business continuity provisions are essential to ensure continued stability and confidence during any business interruption event. It is vital therefore that industry employees are equipped with the necessary technology to ensure that they can continue operating with minimal impact on business as usual.

It has also become important for companies to proactively support employees as they navigate additional pressures not only connected with alternative work settings and new technologies, but also with regard to the impacts of personal and professional isolation and the balancing act between work and family pressures. Securis has made efforts to enhance measures aimed at promoting the health and wellbeing of its employees and their families.

> "Our team has seen several new opportunities in the life space as a direct consequence of the current crisis"
> **Herbie Lloyd**

Neil Kessler: The feedback I have received is that many of our retail agent customers and carrier partners have transitioned to WFH successfully. Certain activities will be more challenging in a WFH model. For example, new business production may decline without the ability to make client presentations or sales calls. Clearly, the WFH situation varies by company.

At CRC Group, we have been moving quickly to ensure everyone is productive and supported at home. We have nearly all our teammates working remotely at this point. Additionally, we gave most of our employees coronavirus cash bonuses and increased the pay for employees whose jobs require them to come into the office to work. Ensuring our teammates can support our customers has been and will continue to be a top priority for our leadership team as I'm sure it will be for all in our industry.

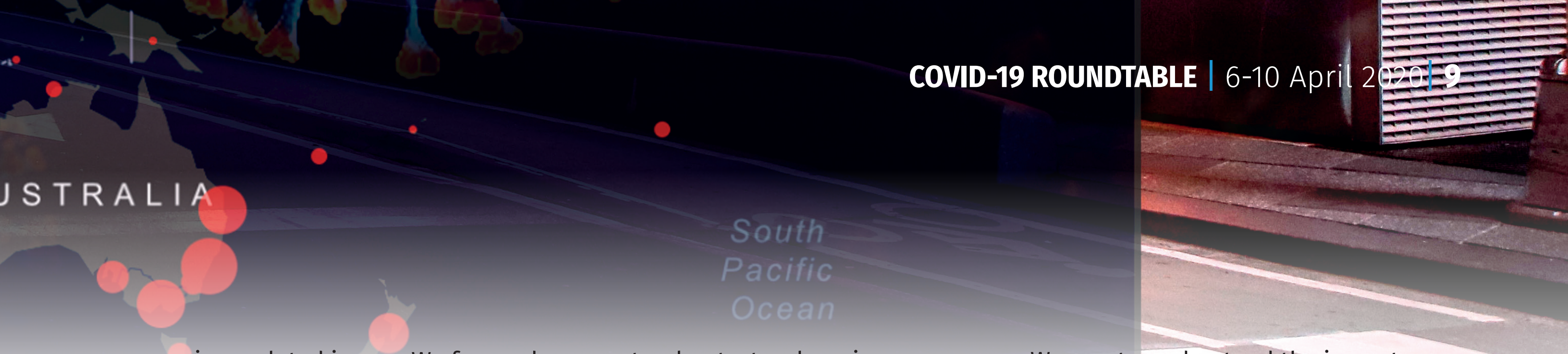
David Priebe: Based on what we have seen so far, there appears to be little cause for concern for colleagues to be able to execute effectively in the current operating environment.

All segments of our business are being affected by current events, and it is critical that companies provide colleagues with the support needed to move forward with their day-to-day activities. The ability of IT, human resources and management to respond so effectively to this unprecedented situation by pivoting almost immediately to virtual workplaces has been massively impressive.

Technological advancement has facilitated this transition but human behaviours are equally important in ensuring colleagues continue to feel "connected" to their co-workers, clients and the overall market. Communication on an ongoing basis will be key to ensure this connectivity is maintained.

What specific actions is your business taking to meet fast-changing client needs around coverage?

Neil Kessler: We have already surveyed our top carrier partners on a number of general



coronavirus-related issues. We focused on things like payment terms, new additional exclusions, and changes in appetites, among many other things.

The responses from our carriers and supporting materials, like new exclusion language, have been catalogued on our intranet and in our REDY system for our brokers and underwriters to access. Our Carrier Distribution and Practice Group Development teams are keeping those lists current with the near constant updates we receive.

Additionally, we have created lists of important coverage considerations for our main practice and industry groups that highlight some of the specific coronavirus related items we want our teams focused on for renewals and new business accounts. We are in the process of sharing these coverage considerations with our key carrier and retail partners as well. Finally, we are publishing thought leadership content through white papers, podcasts, and videos that have been very well received. We have recently published updates around the impacts of the Covid-19 crisis on the healthcare, senior living and long-term care industries, as well as updates on cyber risks of working from home, the general impact on insurance (so far), EPL risks, and more to come this week. All of our content is catalogued at www.crcgroup.com/covid19.

Herbie Lloyd: As an ILS manager with a dedicated life team, we have the analytical and underwriting capability to assess pandemic risk. Our team has seen several new opportunities in the life space as a direct consequence of the current crisis and risk transfer appetites are already beginning to evolve.

On the non-life side of the business, our investors are focussed primarily on natural-catastrophe reinsurance risk and therefore we seek to limit other exposures.

David Priebe: Guy Carpenter has convened a Covid-19 Task Force to help support clients through these extraordinary times. By leveraging the deep expertise within our firm and aggregating information from daily colleague and market interactions, we are able to provide our clients with unique perspectives across all lines of business and geographies.

As reinsurers escalate efforts to introduce Covid-19-related exclusions or wording changes to contracts on upcoming renewals, the Task Force is coordinating responses in a thoughtful manner focused on the best outcome for our clients.

> We are seeing increased demand for our specialist adjusting skills such as forensic accounting, cyber, contingency insurance, business interruption and casualty
> **Lisa Bartlett**

The Task Force is also monitoring closely regulatory activity for all regions and classes of business and disseminating timely and insightful thought leadership on matters such as these to help clients make the most informed decisions.

Guy Carpenter is fortunate to be able to bring the power of Marsh & McLennan Companies to bear through this process by working closing with Marsh and Oliver Wyman to understand the impact on the primary market and wider financial system. Marsh & McLennan Companies is at the forefront of conversations to create a forward-looking (re)insurance solution for pandemic risk in conjunction with policyholders, insurance markets and key policymakers.

Lisa Bartlett: With businesses facing unprecedented levels of risk, Crawford is taking every step to maintain ‘business as usual’ status and continue to service clients effectively. We are seeing increased demand for our specialist adjusting skills such as forensic accounting, cyber, contingency insurance, business interruption and casualty.

Our mobile technologies and the effectiveness of our group-wide IT infrastructure has allowed us to transition to remote working across our global network.

As many employees already have experience in agile working, our infrastructure was well-equipped to support distributed working, collaboration and remote service delivery. We have also boosted VPN bandwidth to ensure systems can support additional activity.

Regular client communication is critical, and we are providing regular updates and developed a coronavirus web page with all relevant information around our response, and have adapted our workflow to create a single point of entry for each business and information is cascaded to ensure full visibility throughout the decision-making process.

Thank you to our panellists and readers. *The Insurer*’s next COVID-19 roundtable will be available to download from 8am BST 14 April