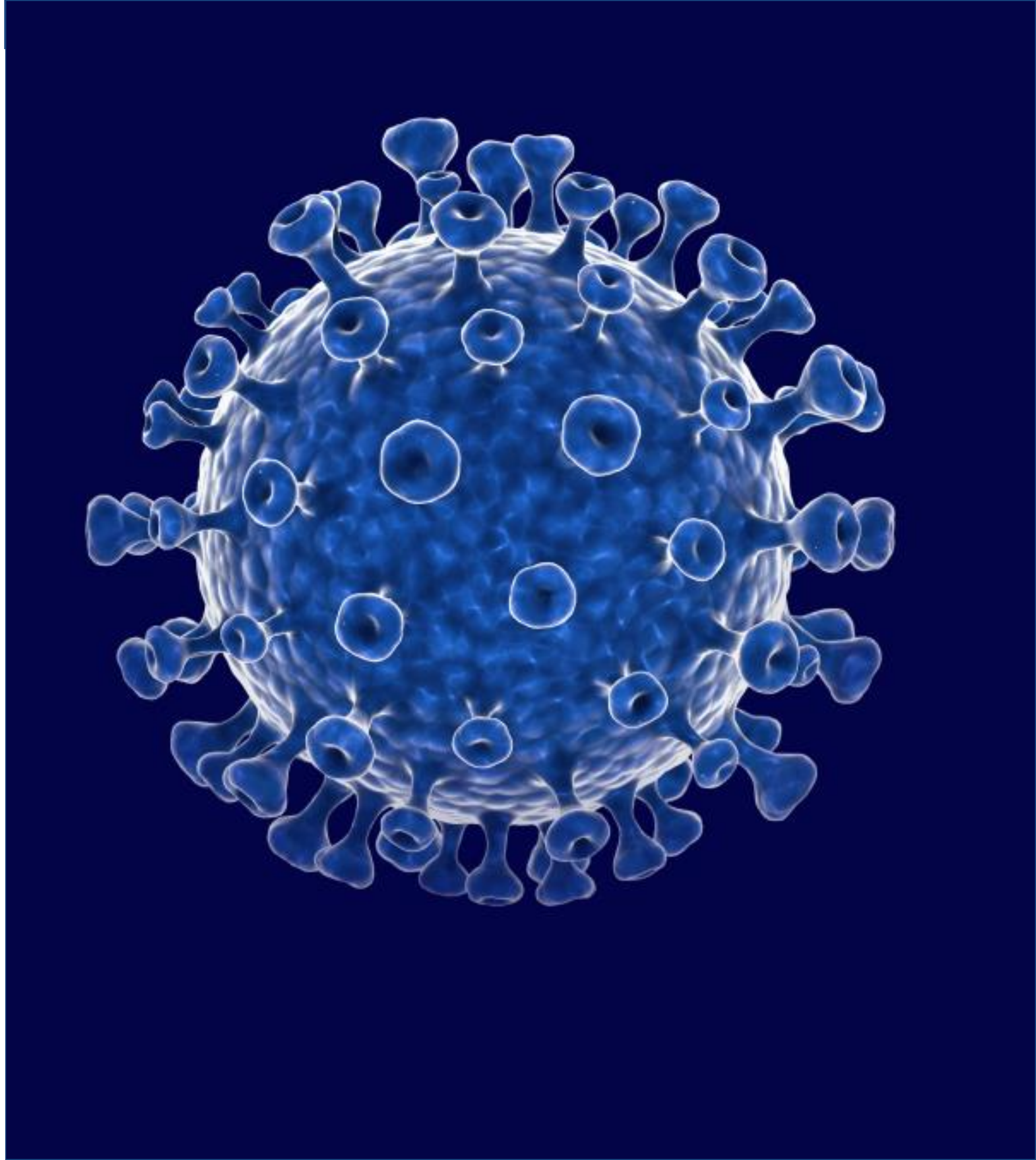
# COVID-19 update

John Neal, Chief Executive Officer
Burkhard Keese, Chief Financial Officer

Analyst Briefing
14 May 2020



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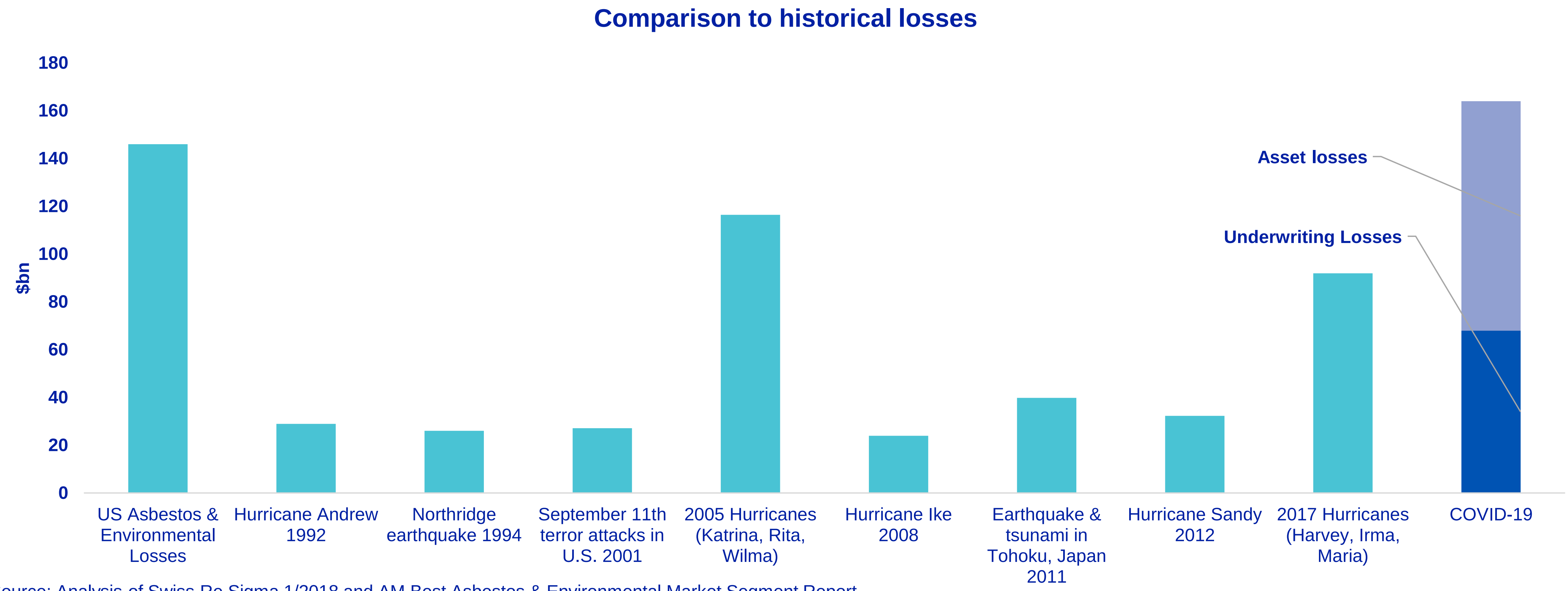
# Agenda

- Economic assessment for COVID-19 losses for the non-life insurance industry
- Lloyd’s COVID-19 loss estimates as at June 2020
- Our priorities

# Economic assessment for COVID-19 losses for the non-life insurance industry

**John Neal**
**Chief Executive Officer**

# COVID-19 is likely to be the largest loss to insurers to date



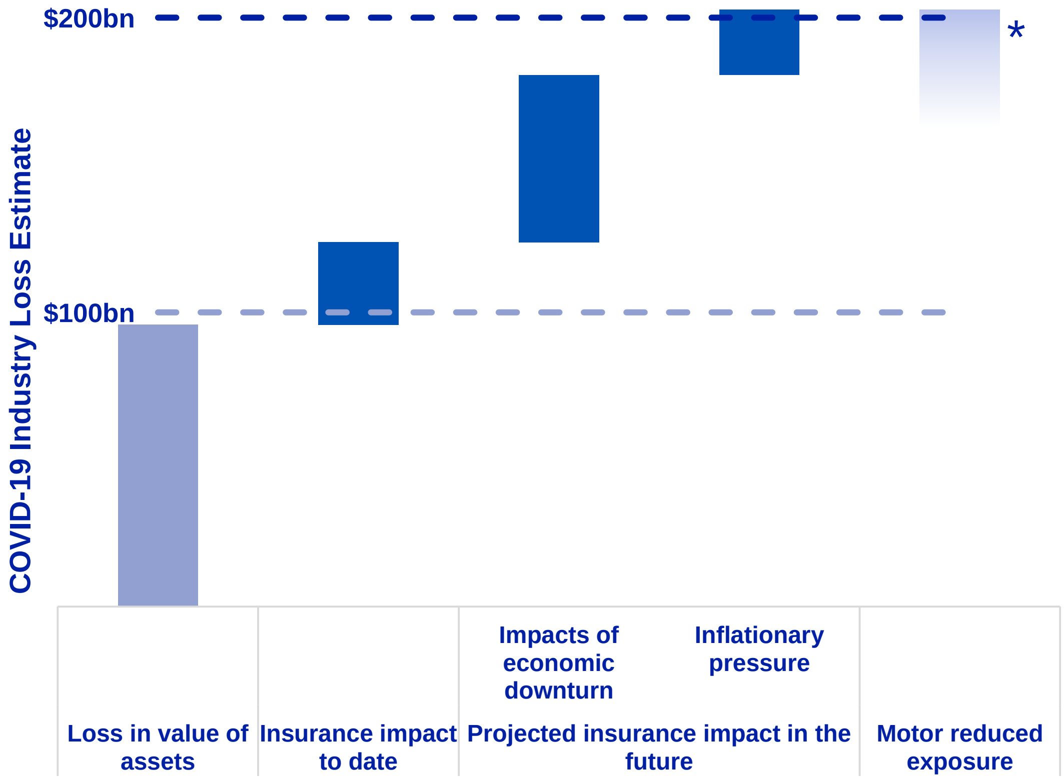

Source: Analysis of Swiss Re Sigma 1/2018 and AM Best Asbestos & Environmental Market Segment Report
Losses are indexed to 2019 values

# Our assessment of the loss reflects the unique circumstances of the current pandemic

- Unlike any other prior event, the pandemic directly drives losses to insurers from major insurance claims and asset losses from a common cause
- Lloyd's have prepared an economic study to derive top-down insurance industry profit impacts of COVID-19 for 2020 calendar year
- Estimates are for the global General Insurance market (excluding Accident & Health) and do not include allowance for claims not anticipated to be covered at the time of underwriting or associated defence costs
- Impacts based on base case epidemiological scenario of extreme social distancing for most of Q2 with gradual relaxation of social distancing in H2 2020, leading to 10% GDP drop in 2020
- Asset falls based on mark to market losses from 31 December 2019 to 31 March 2020

- Modelled underwriting profit impact by estimating:
  - Industry incurred losses to date based on extrapolating reported losses to date
  - Modelling future impacts on premium, claims and expenses by line of business due to ongoing social distancing and economic downturn
  - An increase in claims inflation impacting liabilities in the longer term
- High degree of uncertainty and judgement, particularly:
  - For motor in particular, the balance between reduced exposure and size of premium reductions and rebates
  - The impact of reduced economic activity on loss trends more broadly
  - The unique nature and scale of current economic downturn

# Our assessment of the loss reflects the unique circumstances of the current pandemic




**Impact of reduced motor exposure and resulting premium reductions depends on regulatory and customer actions*

| | |
|---|---|
| **Base Case**<br><br>**10% fall in GDP** | – GDP falls ~18% below trendline in Q2 due to extreme social distancing in force for most of the quarter before recovering.<br>– A combination of ramped-up testing to identify who has the virus, testing and improved treatments of those who are sick, allow gradual relaxation of social distancing in H2 2020 driving recovery |
| **Pessimistic Case**<br><br>**17% fall in GDP** | – Similar initial trend to base case scenario although assumes steeper initial GDP fall due to more pessimistic assumptions around sector level impacts<br>– Social distancing starts to relax in Q3, but medical advances don't materialise, and a second wave of the virus in Q3/Q4 forces the resumption of high impact social distancing |
| **Optimistic Case**<br><br>**4% fall in GDP** | – GDP damage less severe than feared in Q2<br>– More rapid medical advances and sophisticated containment measures allow a more rapid relaxation of social distancing |

*Source: Analysis of various US/UK Economic Forecasts*

# Lloyd's COVID-19 loss estimates as at June 2020

**Burkhard Keese**
**Chief Financial Officer**

# Summary

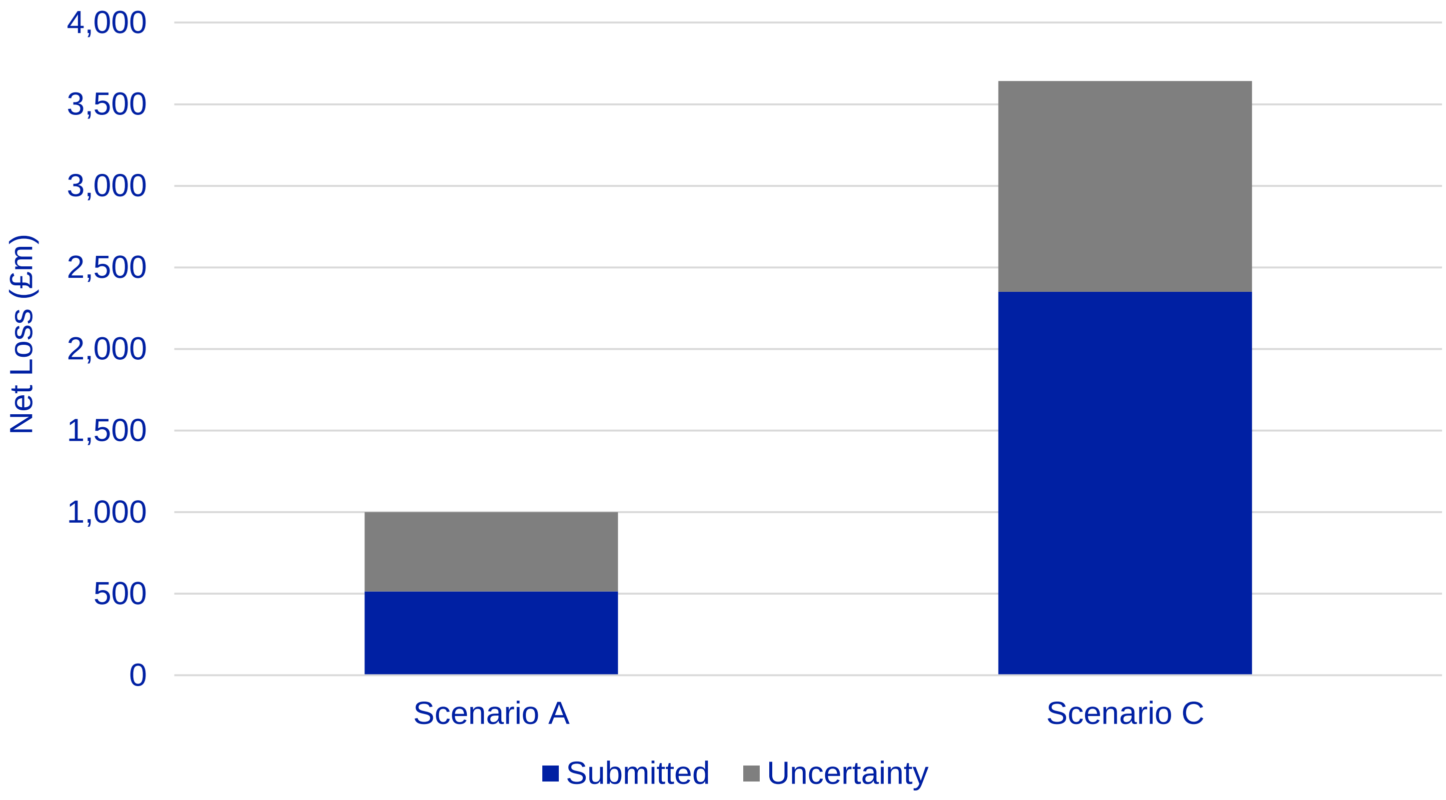
- It is an extreme pandemic, but loss is in manageable range
- Lloyd's loss estimate is £2.5-£3.5bn as at 30 June 2020
- In excess of 70% of loss from four classes of business led by Contingency
  - Contingency (31 %); Property (D&F) (17%); Property Treaty (12%); Political Risks, Credit and Financial Guarantee (11%) are the top classes.
- Unsurprisingly, US is the most significant geography
  - US is driver of estimates (40%), followed by UK (15%) and Europe ex UK (7%)
- Earnings eroding event rather than solvency event for the market
  - Average capital erosion for those who submitted is 9%, 95% <20% with 2 greater than 30% (36% and 30%).
- Critical Assumptions are: no retrospective cover for COVID-19; BI wordings hold; some syndicates including defence costs and costs for investigation

# Total market estimates including uncertainty

## Submitted totals + estimated uncertainty range*

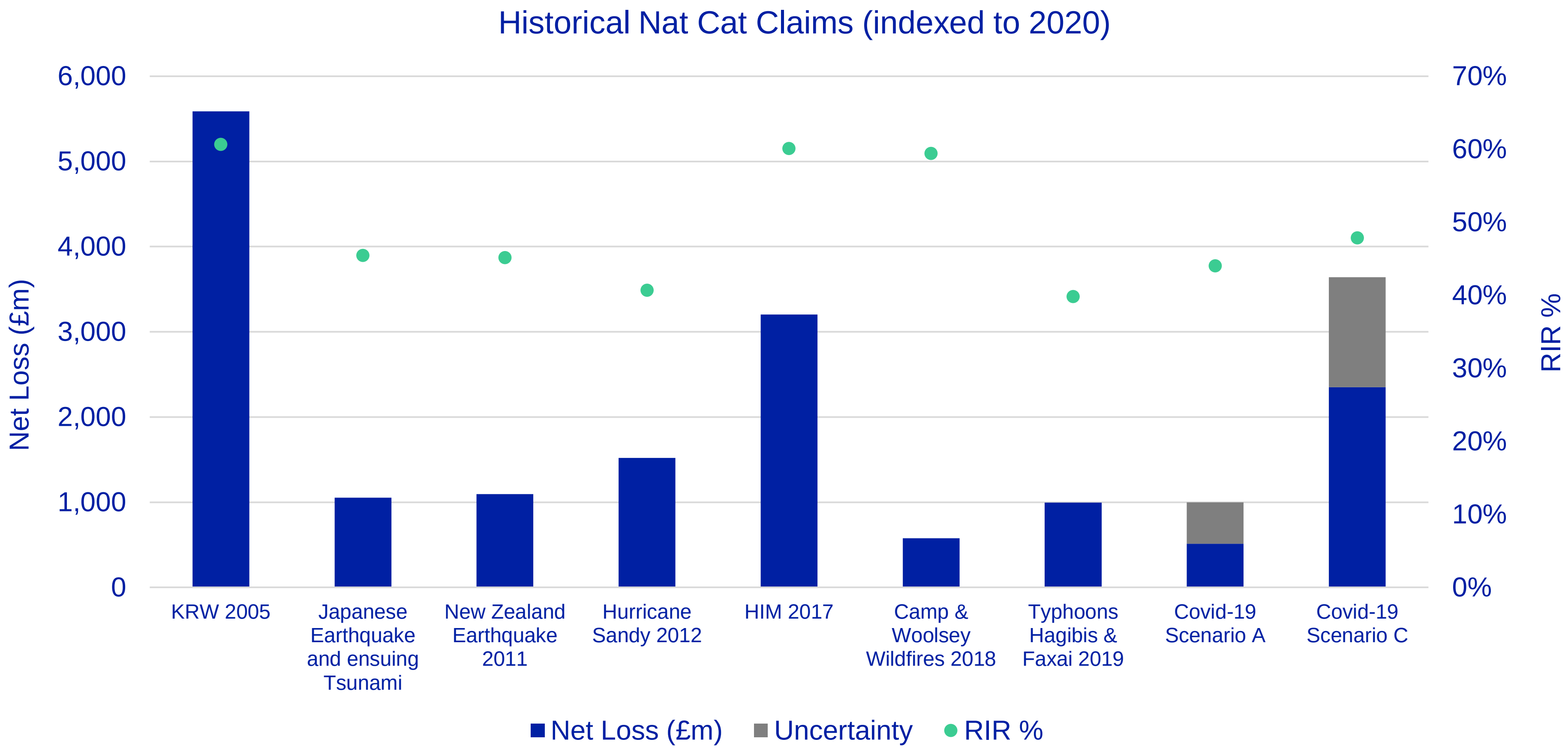
**Scenario A:**
up to and including the 16th March 2020

**Scenario C:**
Loss estimates relative to potential exposure associated with COVID-19 where affirmative coverage may be provided, assuming that material social distancing rules and restrictions persist regionally and/or globally until 30th June 2020




*Downside only considered

# Covid-19 Lloyd's market loss estimate in the context of natural catastrophe claims




Reinsurance recovery ratio (RIR) % = (gross loss – net loss)/ gross loss

Scenario C upper estimate similar to 2017's Harvey, Irma, Maria loss (HIM)

**Note**: Lloyd's 1:200 AEP* Final Net Loss for All Nat Cat Perils is **£11.3 bn**

Return period for this loss **as a Nat Cat** would be < 1 in 5: but this event is extreme in pandemic terms, the largest in modern times

*Aggregate Exceedance Probability

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# COVID-19 losses by class of business and geography

## Class of Business

### Scenario C

| Class | Gross (£m) | Net (£m) | Net cont | RIR% |
|---|---|---|---|---|
| A&H - Contingency | 1,804 | 737 | 31% | 59% |
| Property (D&F) | 642 | 399 | 17% | 38% |
| Property Treaty | 541 | 286 | 12% | 47% |
| Political Risks, Credit & Financial Guarantee | 511 | 267 | 11% | 48% |
| All other classes | 1,009 | 661 | 28% | 34% |

## Geographies

### Scenario C

| Country | Gross (£m) | Net (£m) | Net cont | RIR% |
|---|---|---|---|---|
| USA | 1,806 | 947 | 40% | 48% |
| Worldwide | 835 | 434 | 18% | 48% |
| UK | 768 | 349 | 15% | 55% |
| Rest of World | 393 | 224 | 10% | 43% |
| All Other Europe | 284 | 157 | 7% | 45% |
| Canada | 121 | 82 | 4% | 32% |
| Australia | 78 | 47 | 2% | 39% |
| China (incl. Hong Kong) | 88 | 43 | 2% | 51% |
| All Other Asia | 64 | 35 | 1% | 45% |
| Japan | 71 | 31 | 1% | 56% |

# Solvency Stress Analysis

## The solvency impact of the range of loss estimates is closely monitored

| | | Projected 30/06/20 - Variable Event Loss (£bn) | | |
|---|---|---|---|---|
| Solvency | 31/12/2019 | 0.5 | 1.5 | 2.5 |
| Central Solvency Ratio | 238% | 225% | 203% | 181% |
| Market wide Solvency Ratio | 156% | 155% | 144% | 135% |

| 100% Recapitalisation | | Projected 30/06/20 - Variable Event Loss (£bn) | | |
|---|---|---|---|---|
| Solvency | 31/12/2019 | 0.5 | 1.5 | 2.5 |
| Central Solvency Ratio | 238% | 225% | 225% | 225% |
| Market wide Solvency Ratio | 156% | 155% | 155% | 155% |

Notes:
Solvency ratios at 31/12/2019 as quoted in Annual Report
Table 1 projected solvency ratios to 30/06/20 based on member capital updates as part of June coming into line, member solvency at 31/03/20 and central asset valuation at 30/04/20. The second table shows impacts if all further loss is recapitalised.
Scenarios assume loss is evenly spread across the market and has the same model likelihood as any other loss source of hitting the central fund. Scenarios are to illustrate the potential solvency impact of loss levels rather than reflect this precisely.

# Our priorities

**John Neal**
**Chief Executive Officer**

# Our priority is protecting our customers and supporting economic recovery

## We have already taken action

- Payment of valid claims
- Repurposing existing initiatives to help fast track development of insurance products to support the response to Covid-19
- £15m donation to charity partners, focused on healthcare, innovation and wellbeing across our major markets
- £15m seed capital to develop new structures to support economic recovery and build future resilience

## A collective response

- Many insurers and brokers have taken action to support their customers in the immediate aftermath of Covid-19
- By acting collectively, there is more the industry can do over the short, medium and long term
- This includes initiatives that can be delivered by the industry itself, and potential opportunities for the insurance sector and governments to work together to protect against future systemic risks

## Developing our ideas

- Lloyd’s has developed nine potential ideas for our market – and the wider insurance sector – to work collectively to further protect our customers and support economic recovery
- We are convening our Global and UK Advisory Committees to discuss these proposals
- If supported, we propose to develop them at pace over the summer in partnership with the wider industry and other stakeholders

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# We have developed nine potential initiatives for discussion with our advisory committees

## Short term examples

- Providing insurance for the Covid-19 exit strategy, e.g. through partnerships with charitable bodies to protect medical supply chains, or a facility providing greater capacity for vaccine development and clinical trials

- Working with government to ensure capacity to continue insuring critical economic activity e.g. trade credit

## Medium term examples

- Adapting cover to reflect new risks as Covid-19 restrictions are relaxed e.g. employers' return to work liability, or increased cyber risk from home working

- Working with government to establish a 'Recover Re' insurance vehicle offering cover for pandemic related business recovery, including the current Covid-19 pandemic, over the long-term

## Long term examples

- Forming pandemic underwriting centres of expertise to help develop new innovative insurance solutions for pandemic exposed risks

- Establishing a funded 'Black Swan Re' vehicle (like the UK's Pool Re) that sets up a private/public partnership to provide coverage for non-damage BI from systemic risks such as pandemics, internet outages, space weather, etc

 

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