1. The global impacts of COVID-19



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The devastating human loss and economic impacts of the COVID-19 pandemic is a global catastrophe that is stretching society's capacity and resources to cope.

Governments are borrowing trillions of dollars to prevent further loss of life, support faltering economies and respond to critical societal needs. Millions of people and countless businesses – from global conglomerates to small and medium-sized enterprises (SMEs) – are facing the most serious threat many have ever faced.

The insurance sector is paying out claims estimated at $107bn to customers, while also seeing the value of its global assets drop by $96bn, together making it the industry's largest ever loss [1].

The magnitude of the pandemic's financial and social impacts has exposed the shortcomings of society's preparedness for, and resilience to, systemic risks of this scale and nature, including the ability of some risk transfer products and structures to provide protection.

Global insurance market impact

A Lloyd's economic study into the impact of COVID-19 estimated both underwriting losses and a reduction in the value of investments which insurance companies hold in order to meet future claims.

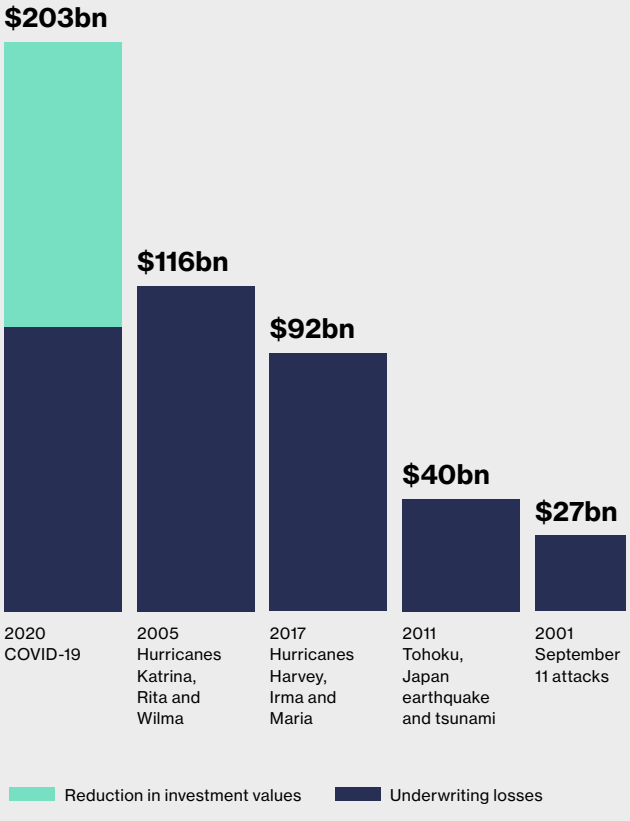


Figure 1

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Global (re)insurance industry response to COVID-19 [2]

The global insurance and reinsurance industry is responding to customers' immediate needs, both unilaterally and in partnership with governments and third parties, by committing funding and resources to support and accelerate economic recovery. Brokers and other advisory firms are working with customers to understand their changing needs better and help them recover from their losses. Examples include:

Discretionary or charitable payments to support society

- Insurers in France have established a $220m solidarity fund to support the Government bailout of SMEs
- The UK's biggest insurers have established the £100m COVID-19 Support Fund
- In many Asian countries, such as China, Sri Lanka and the Philippines, the sector is providing medical supplies, personal protective equipment and financial support to healthcare professionals

Direct customer support

- There are many examples of insurers around the world deferring premiums and accepting payment in instalments
- Other initiatives include insurers in North America and the UK returning motor premiums in recognition of the significant reduction in the use of policyholders' vehicles
- A German insurance collective is making discretionary payments of 15% of the daily losses of policyholders not covered by business interruption

Adapting and creating new products to respond to customers' changing needs

- One insurer in the UK has partnered with a tech start-up to launch a telematics app for vehicle fleets that are providing essential services during the crisis
- 68 Chinese insurers have introduced return-to-work products since the start of the outbreak, mainly providing coverage for employers' liability in the event of illness and business interruption caused by shutdowns
- One broker's financial impact model helps employers estimate the impact of COVID-19 according to the number of employees that become infected

The challenge of providing protection for systemic risks

Systemic risks such as pandemics that cause large economic and societal losses are unlikely to be covered in their entirety by the global insurance industry as the total economic loss would exceed its financial resources. Where cover is available, premiums can be significant for what many customers have previously regarded as remote threats.

The threat is less remote now, and one likely consequence of COVID-19 is customers will increasingly seek cover for both future pandemics as well as other systemic threats (see Figure 2).

This means the insurance industry must develop new products and structures in those areas where protection gaps exist today to support business recovery over the short-term post lockdown, and provide greater resilience over the medium to longer term.

The nature of systemic catastrophic events

Systemic catastrophic events are the most difficult to quantify, understand and protect against. They can be global in impact, often hitting multiple industries, countries and billions of people simultaneously, with potentially devastating consequences.

Their impact requires resources that can only be accessed by governments, with response and recovery requiring international and cross-industry collaboration. The aftershocks from these events mean the human and economic impacts can take years or even decades to fully recover from.

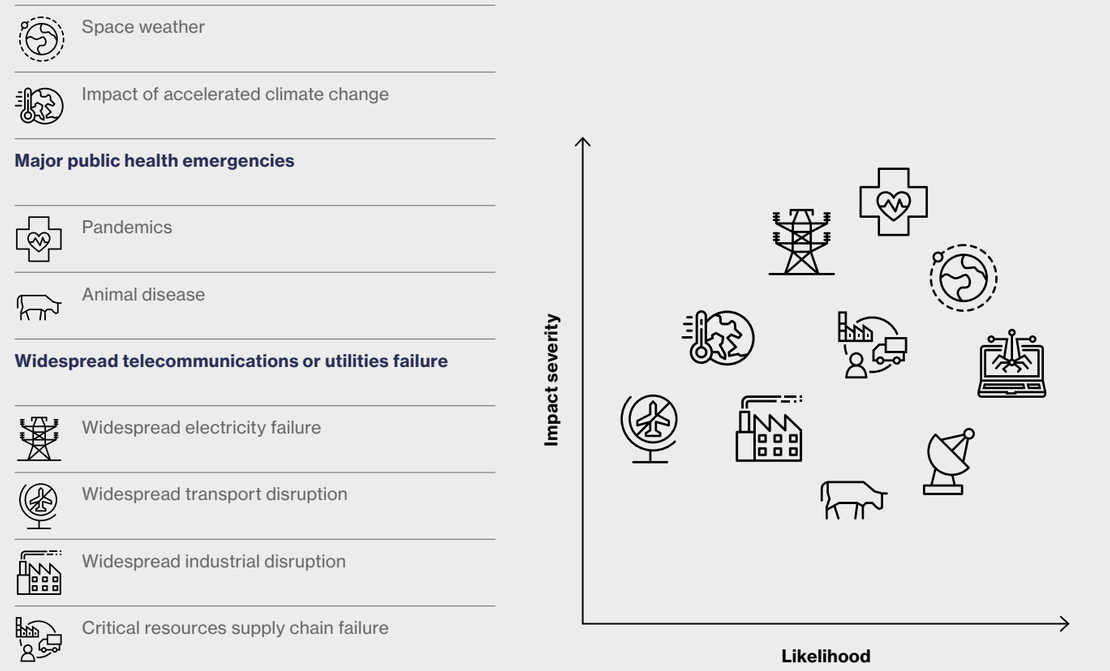


Figure 2: Illustrative national systemic risk register

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The customer view

To identify exactly what customers' priorities are, Lloyd's interviewed executives and experts across key global industries including travel and hospitality, healthcare and pharmaceuticals, retail, automotive, supply chain and transportation, energy, and construction.

The research found some customer attitudes to insurance had deteriorated, with the perception that some business interruption policies have not performed as expected. Some companies said they were increasing the amount of risk they self-insure through captives; others said they were taking the first steps in this direction.

It also identified specific needs, with customers asking for the following:

In the short-term:
– Ensure business resilience to a second wave of the pandemic
– Safeguard employees as they return to work
– Provide a safe environment for customers as businesses reopen
– Provide clarity of insurance cover

In the medium term:
– More flexible insurance cover for a more volatile business environment
– Ways to increase the resilience of their global supply chains
– In-depth assessment and protection from cyber risk exposures
– Protection from digital economy liabilities

Over the long term:
– Risk prevention and mitigation support
– Advice on preparing for the next systemic risk

Insurers and brokers should therefore focus their development work in these areas to protect customers as they restart their businesses and start operating again, and to strengthen society's resilience more broadly.

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The role of the insurance sector

Much of this work can be carried out by the global insurance industry itself, working collaboratively to design and develop new products, services and structures.

However, to overcome the challenges of offering protection for systemic risks at scale, it must also work with governments to combine insurance and reinsurance capital, as well as capital market resource, with sovereign funds to provide the necessary security and capacity to pay claims.

The insurance industry is ideally placed to lead and coordinate this work. First, because by ensuring price reflects risk, it can drive behaviours to mitigate the impact of events such as COVID-19 in the future. Second, its risk expertise, claims assessment and payment, and risk management can play a vital role in global recovery.

This Lloyd's paper sets out ways the industry can do this. It aims to stimulate innovation and accelerate development by proposing new solutions that could be developed and adopted by the global insurance industry to protect businesses and society in the short to medium term. It also sets out proposals for region-specific vehicles (See Figure 3) that could offer protection against systemic risks over the longer term.

Protection offered by Lloyd's proposals

The potential solutions in this paper include *ReStart* (pooled insurance capacity to protect customers against a second wave of COVID-19); *Recover Re* (a government-backed vehicle offering long term 'after the event' cover that could insure against COVID-19 as well as future pandemic risks); and *Black Swan Re* (a government-backed vehicle to insure against future systemic risks).

	Current COVID-19	Second wave COVID-19	Future pandemic	Future systemic risk
Recover Re	✓	✓	✓	?
ReStart		✓	?	
Black Swan Re			✓	✓

Figure 3: Systemic risk cover from proposed solutions