



Financial & Strategic Implications of COVID-19 for the Insurance Industry

COVID-19: Health Cost Issues

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Immediate issues

- How many people will get sick?
- How much does COVID treatment cost?
- How does health system capacity factor in?
- How much other care is being deferred, or foregone?
- When will this end?

Longer term issues

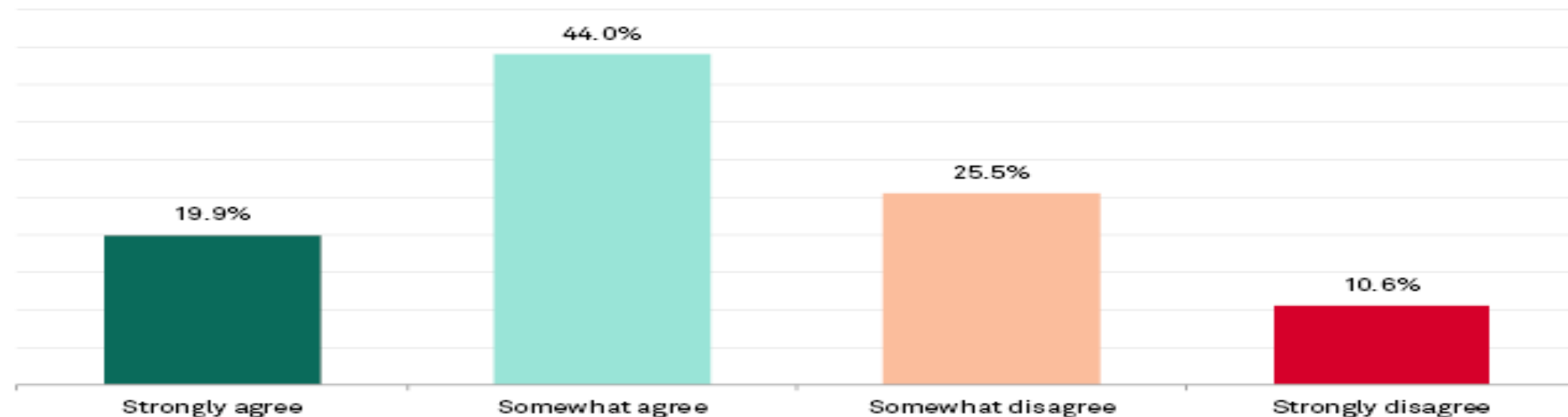
- What happens when it's “over”?
- What is the long term health effect on COVID survivors?
- Will there be lasting changes in how healthcare is delivered?
- Will there be lasting changes in health system capacity?
- Will there be lasting changes in the health insurance industry?

Business Interruption

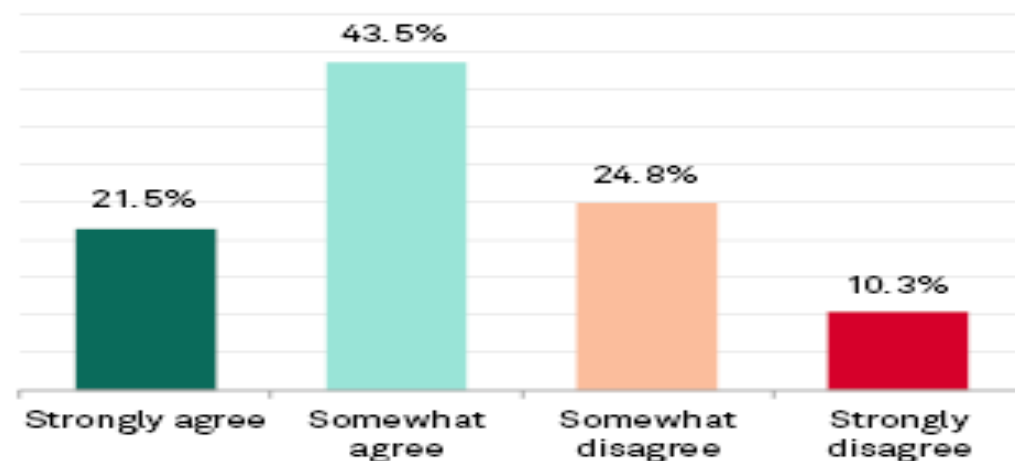
- Temporary suspension in business operations due to a specific and, sometimes, catastrophic event (hurricanes, floods, etc.)
 - Exclusion for infectious diseases
- Four states in the US have proposals requiring insurers to retroactively pay COVID-19 BI claims
- Bank of England's Financial Conduct Authority (FCA) urging UK insurers to pay COVID-19 BI claims despite policy terms and conditions
- Solvency concerns for some insurers unless governments provide financial resources to share in these obligations

For each of the following statements, please indicate whether you agree or disagree.
My organization has adequate insurance coverage to protect against risk of business interruption posed by coronavirus

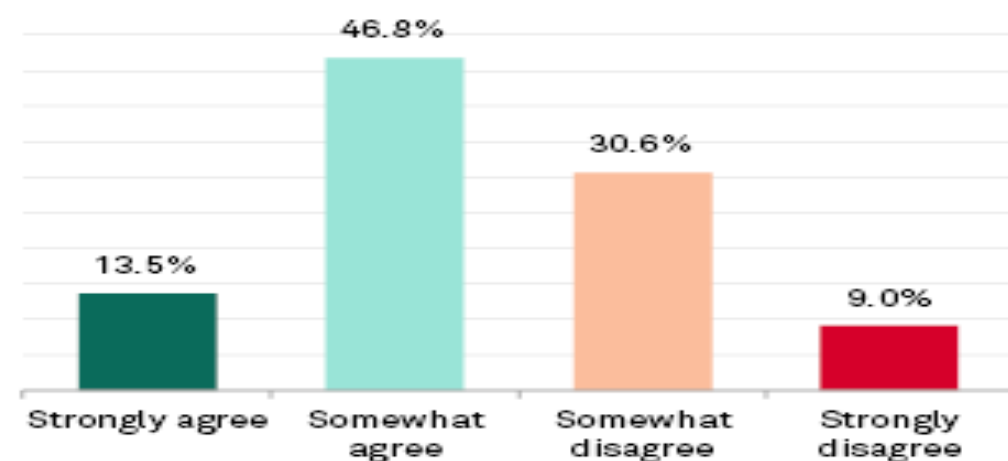
Base: All 698 respondents



North America (545 respondents)



Europe, Middle East and Africa (111 respondents)



Business Interruption – Public/Private Partnership Proposals

- In the wake of 9/11, the US Congress passed the Terrorism Risk Insurance Act, or “TRIA”
- Today, the US Congress is debating the passage of the Pandemic Risk Insurance Act, or “PRIA”
- Areas being debated include:
 - Backdating coverage to include COVID-19 claims
 - Combining TRIA and PRIA into one program
 - If enacted, like TRIA, would provide a federally funded “reinsurance” program by capping total losses covered by the non-life insurance industry

Directors & Officers Liability

- Protects shareholders from inadequate/misleading disclosures in financial statements
- D&O market experienced record litigation rates before COVID-19 outbreak
- Class action lawsuits filed in March 2020 include:
 - Norwegian Cruise Line Holdings, Ltd.
 - Inovio Pharmaceuticals

Directors & Officers Liability

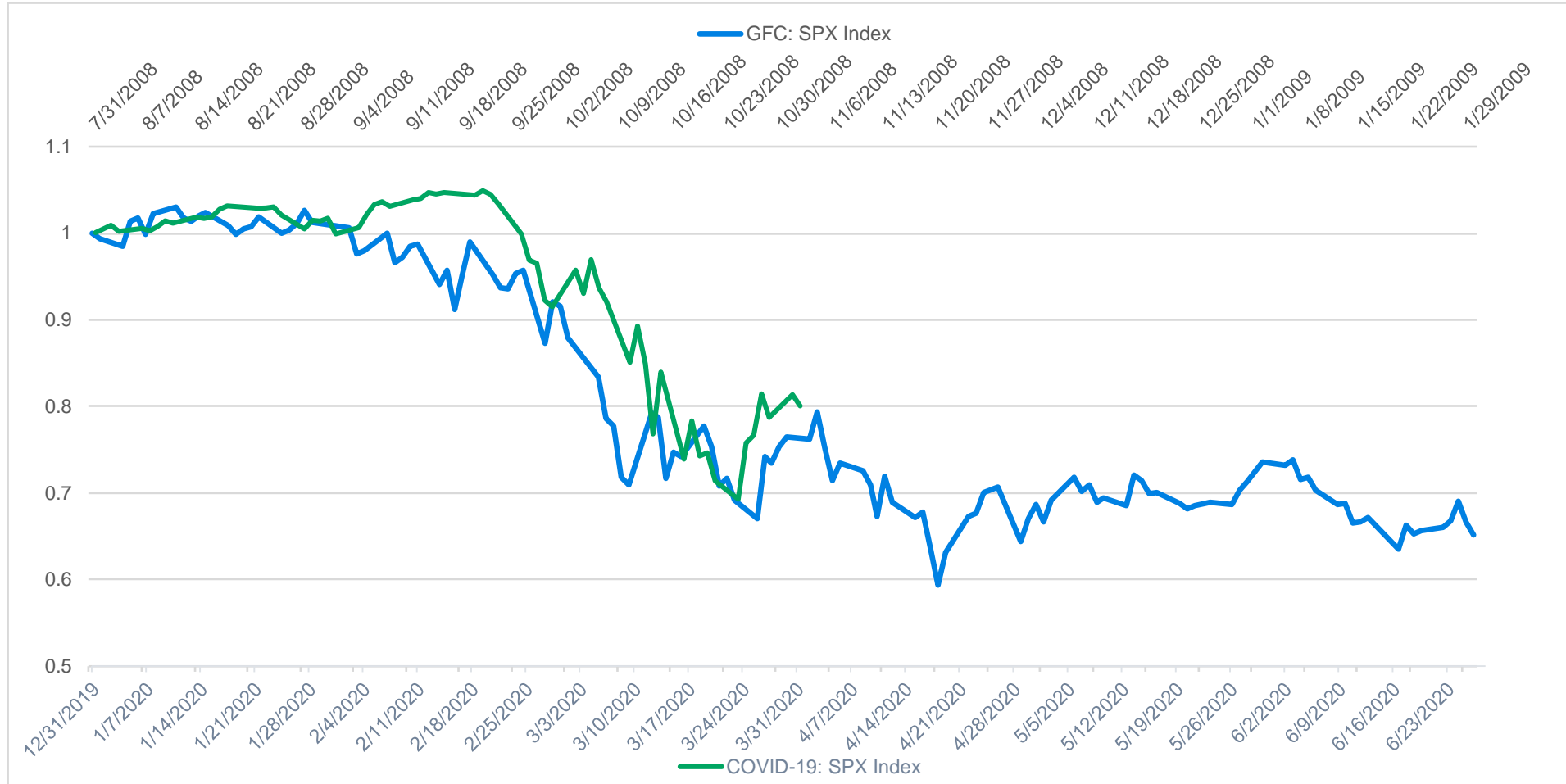
- COVID-19 outbreak and severe drop in global equity markets creates perfect storm for increase in future class action suits
- Likely future allegations stemming from COVID-19:
 - Inadequate disclosures regarding supply chain risks, causing entity to miss production/financial targets
 - Reputational damage related to the mishandling of communications with respect to personal safety of employees and third parties
 - A company in an extremely poor financial situation may choose to accept a governmental bailout without conditions viewed by shareholders as too onerous. Allegation is that the board violated the best interests of the company

Workers Compensation – COVID-19 Impact

- Claim frequency (Mixed)
- Claim severity (Increase)
- Premium (Decrease)

S&P 500 Index

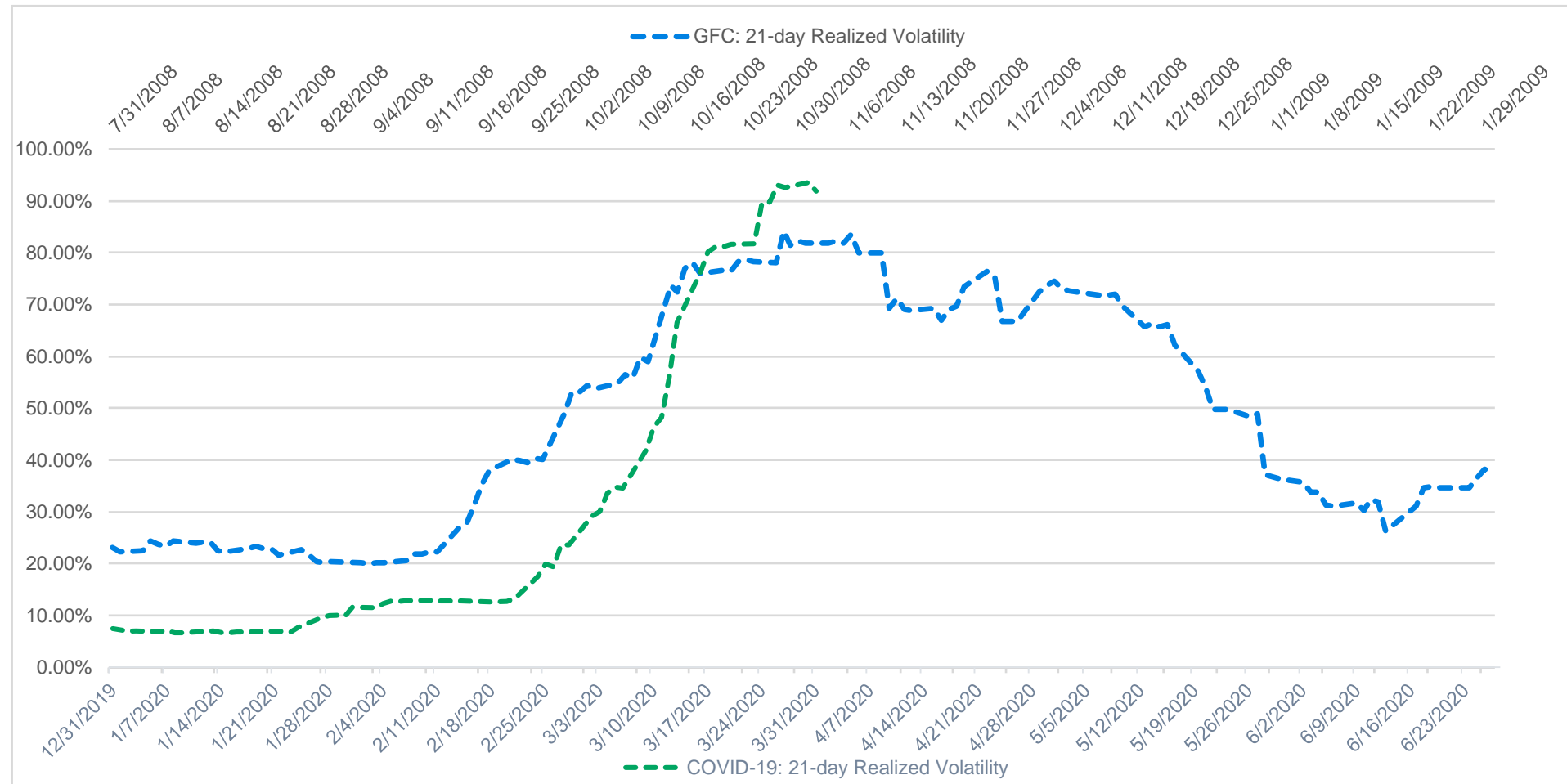
Historical Comparison of GFC & COVID-19 (Daily)



Source: Bloomberg, as of March 31, 2020. The results shown are historical, for informational purposes only, not reflective of any investment, and do not guarantee future results. Any reference to a market index is included for illustrative purposes only, as it is not possible to directly invest in an index. Indices are unmanaged, hypothetical vehicles that serve as market indicators and do not account for the deduction of management fees or transaction costs generally associated with investable products, which otherwise have the effect of reducing the results of an actual investment portfolio.

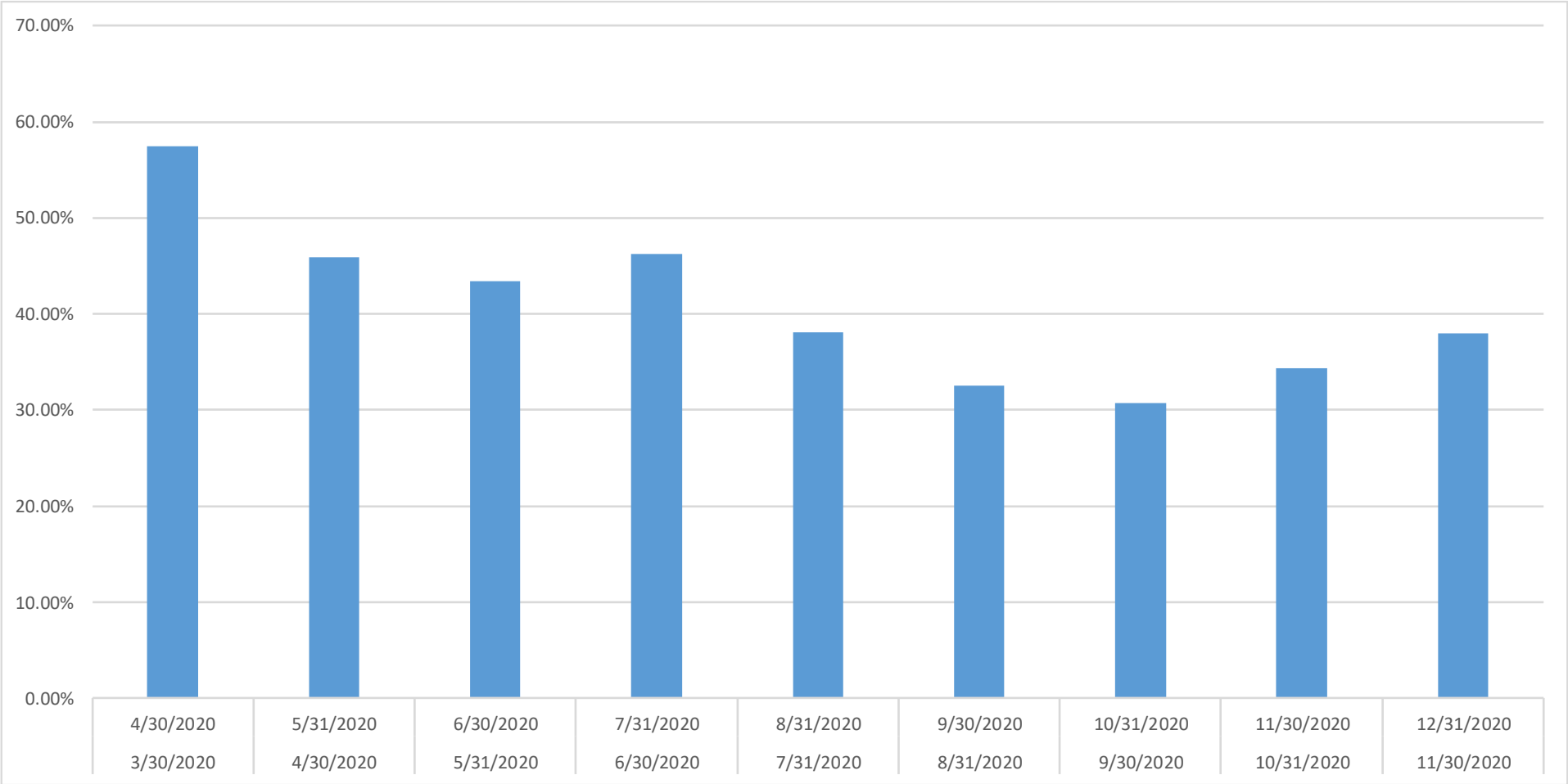
S&P 500 Index: 21-day Realized Volatility

Historical Comparison of GFC & COVID-19 (Daily)



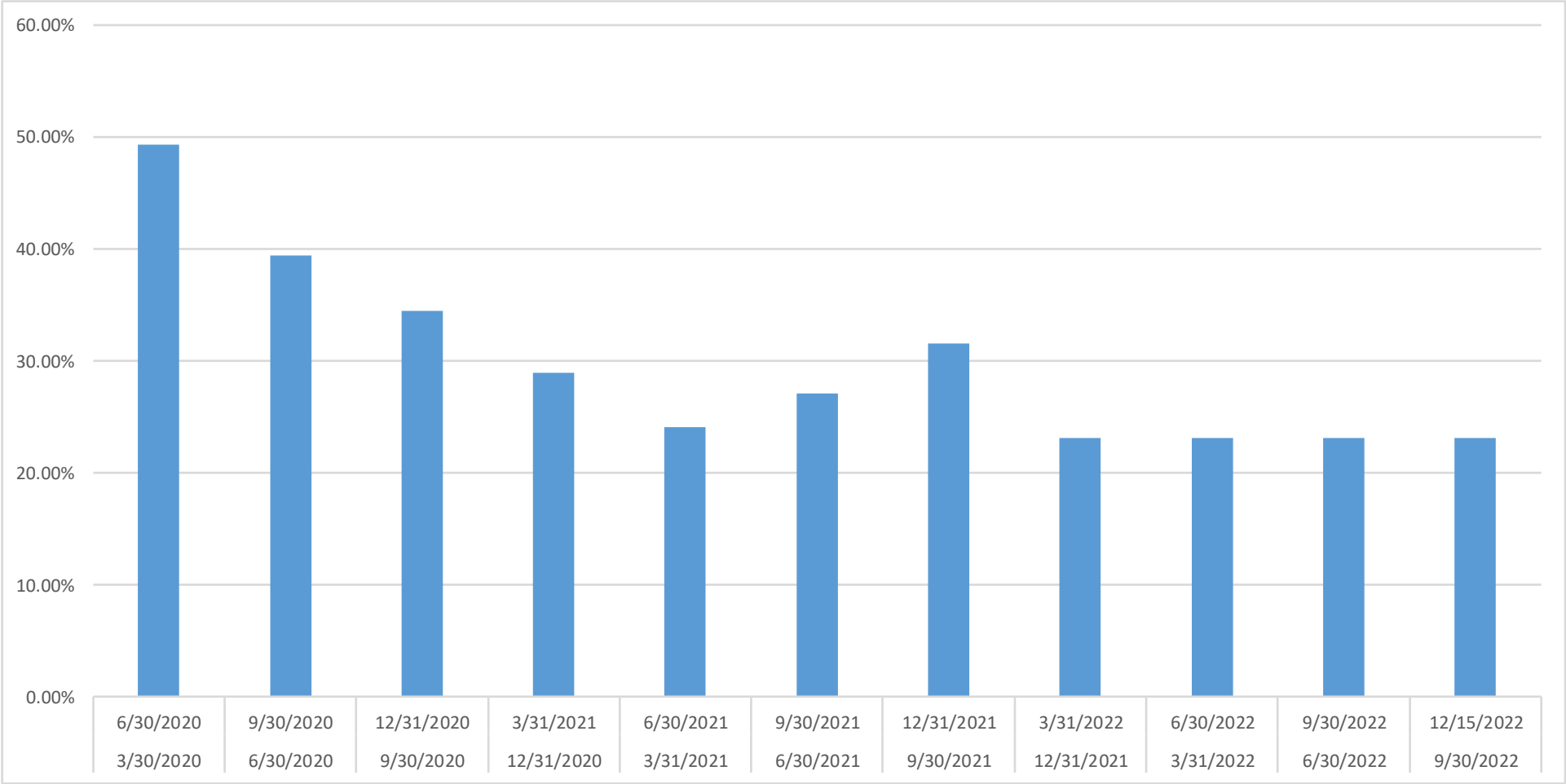
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Forward Implied Volatility - 2020 (Monthly)



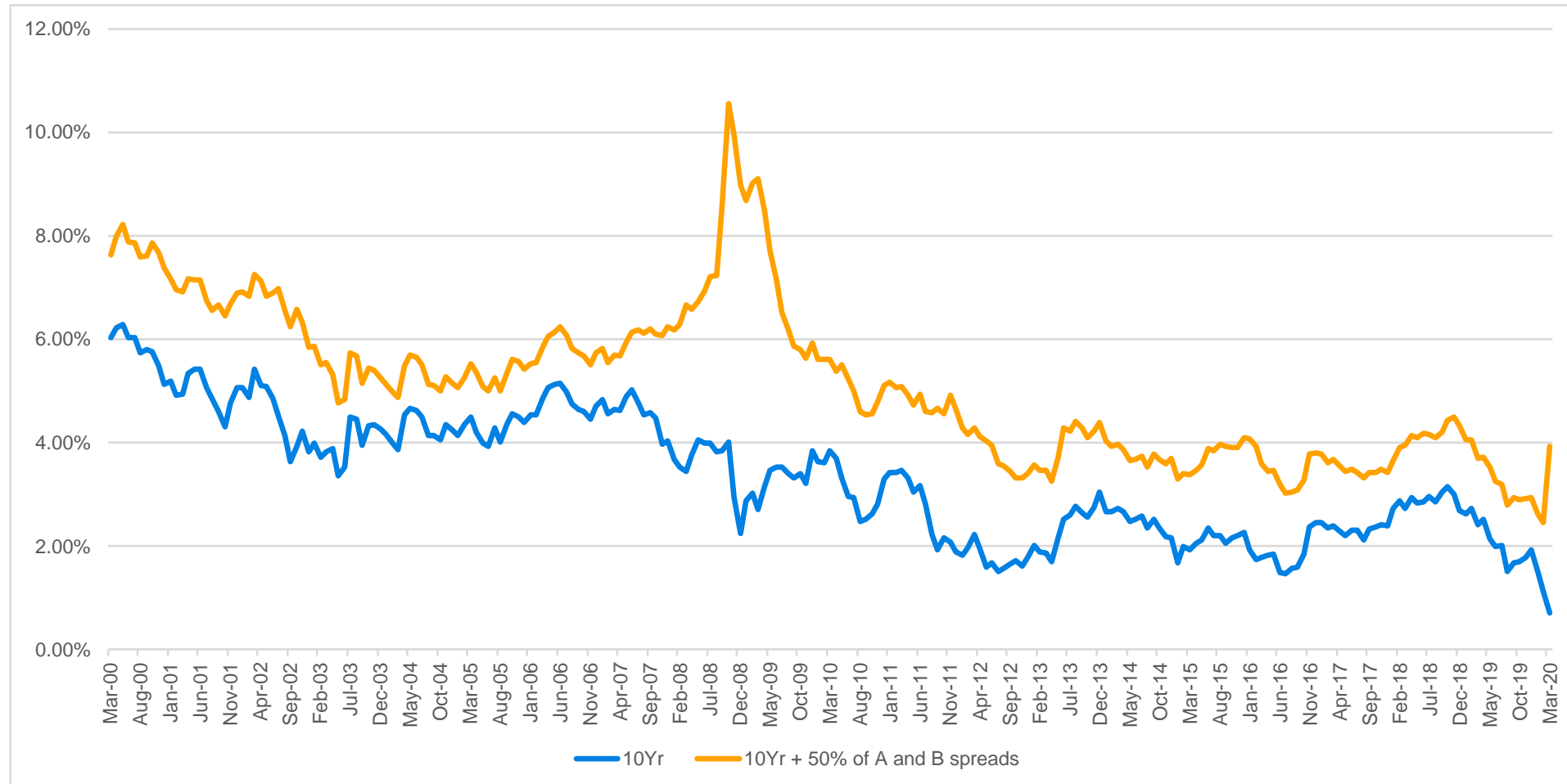
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Forward Implied Volatility - 2020 – 2022 (Quarterly)



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10Yr UST vs. New-Money Portfolio Yields



Source: FRED Economic Data, ICE BofA, as of March 31, 2020. The results shown are historical, for informational purposes only, not reflective of any investment, and do not guarantee future results. Any reference to a market index is included for illustrative purposes only, as it is not possible to directly invest in an index. Indices are unmanaged, hypothetical vehicles that serve as market indicators and do not account for the deduction of management fees or transaction costs generally associated with investable products, which otherwise have the effect of reducing the results of an actual investment portfolio.



Thank you