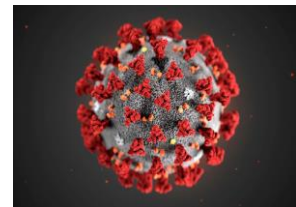




**Emeritus**  
Reinsurance

# Conducting business in the advent of COVID-19:



## Challenges and Responses

Presented by Webster Chigwende

# CONTENT



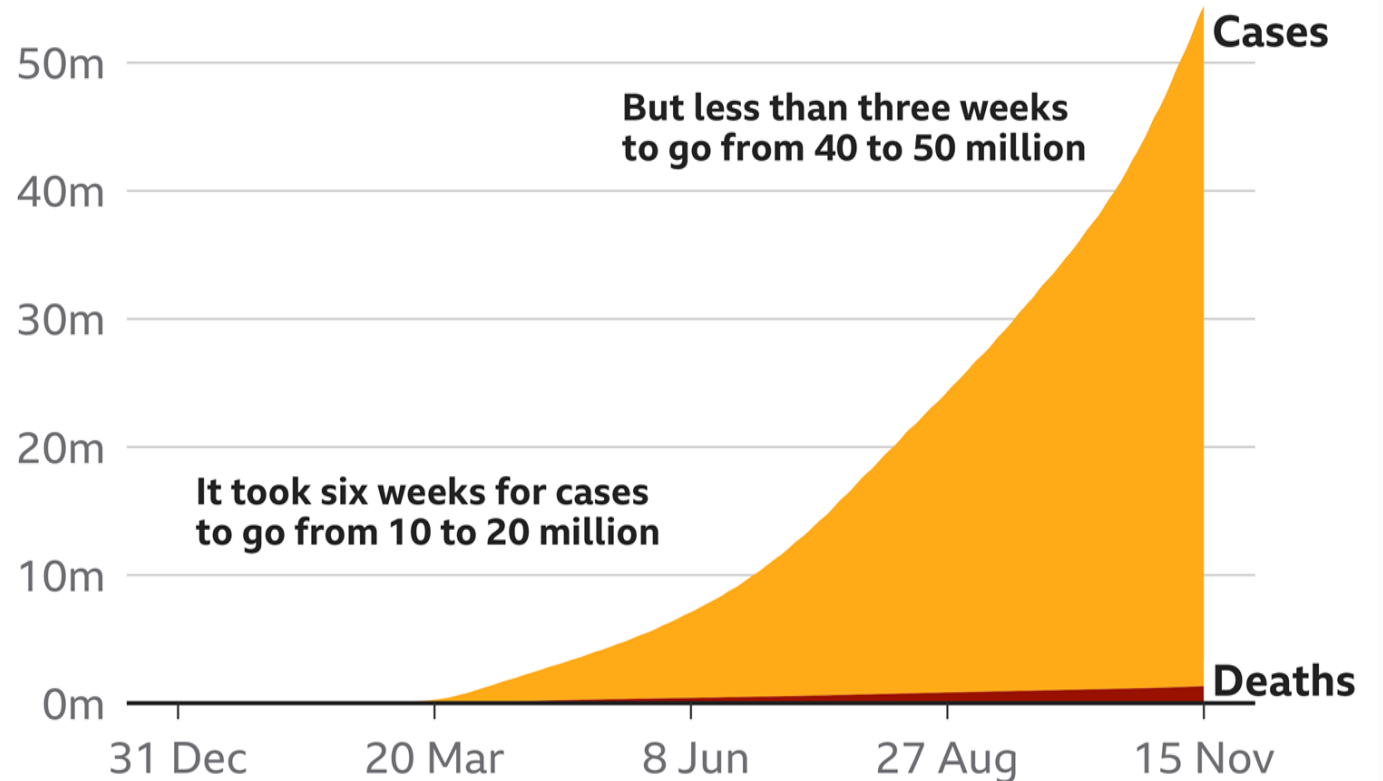
- Covid-19 the start and current status.
- Economic scenarios.
- Covid-19 induced challenges.
- The risk perspective.
- Industry response.
- Adaptation
- Lessons for the industry.



# COVID -19

- Discovered in Wuhan City, China in December 2019.
- Belongs to the Severe Acute Respiratory Syndrome (SARS) virus category.
- Also known as 2019-nCoV or 019 novel coronavirus
- Mortality rate at +/- 2.5%
- Cases concentrated in USA, India and Brazil

## Global coronavirus cases pass 50 million

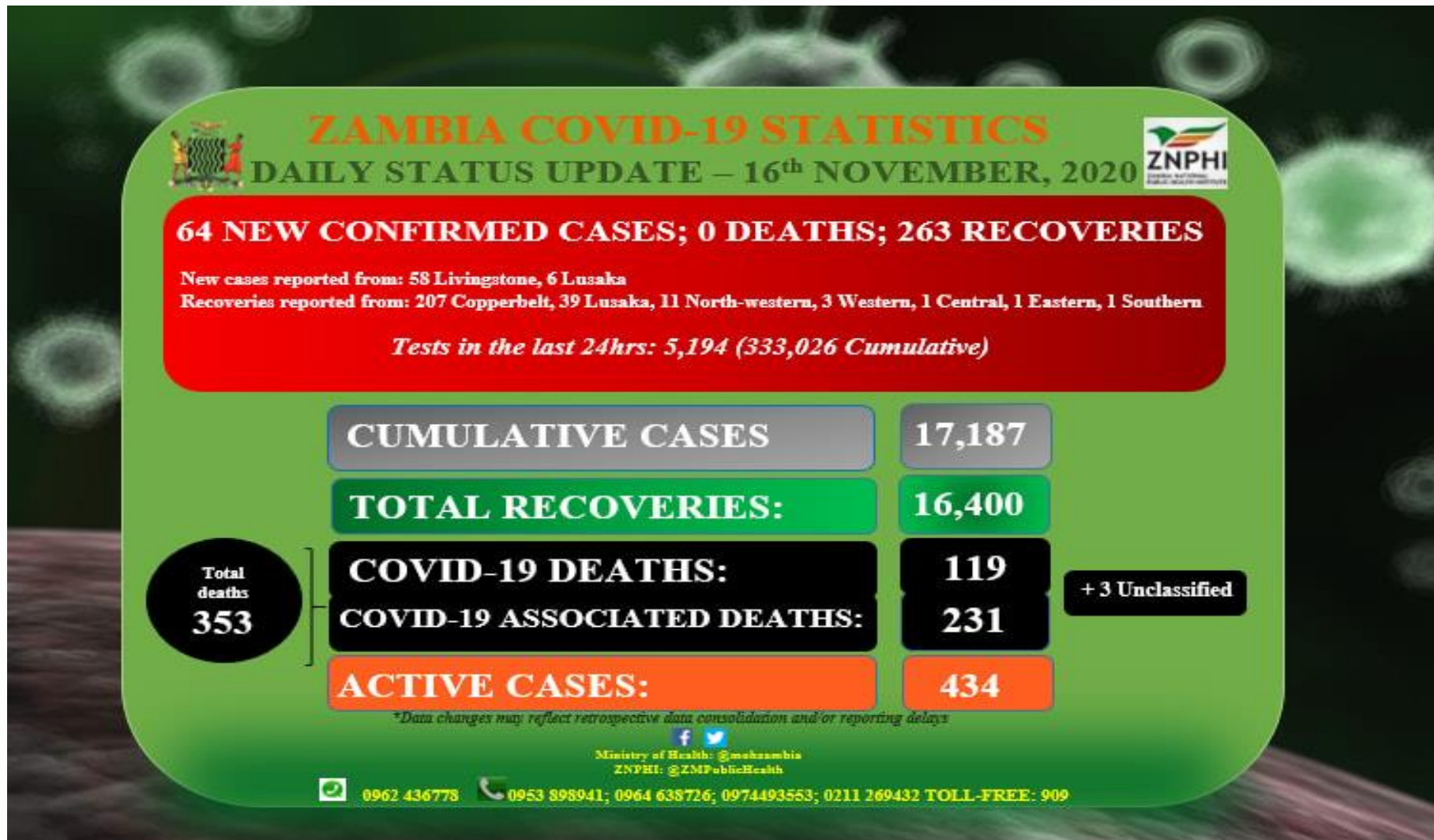


Source: Johns Hopkins University, national health agencies, data to 15 Nov **BBC**





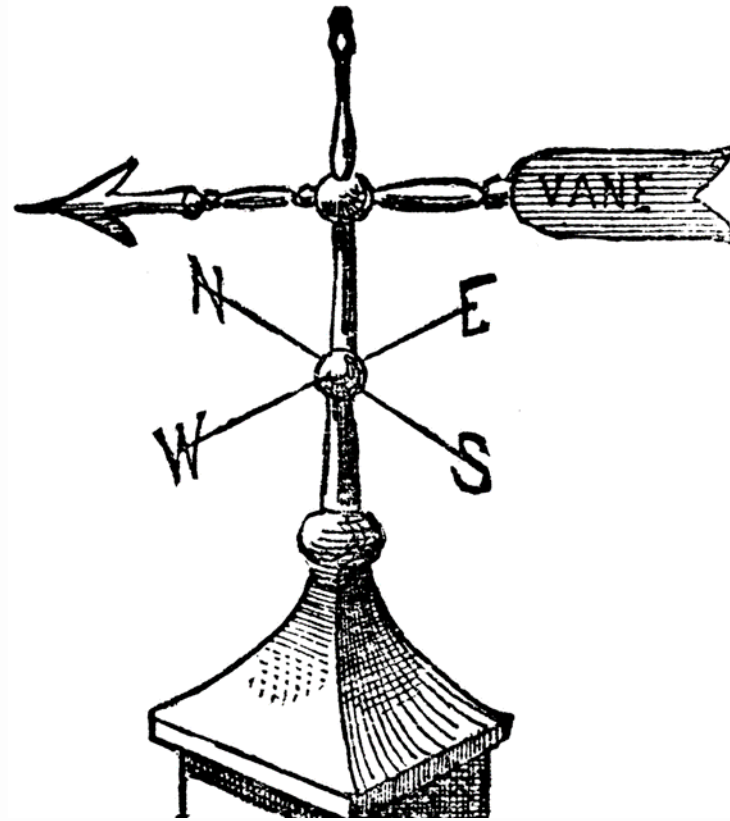
# ZAMBIA CORONA VIRUS STATISTICS



# RESPONSE TO THE PANDEMIC-GOVERNANCE

## Complete Economic Lockdown

- Europe
- USA
- SA



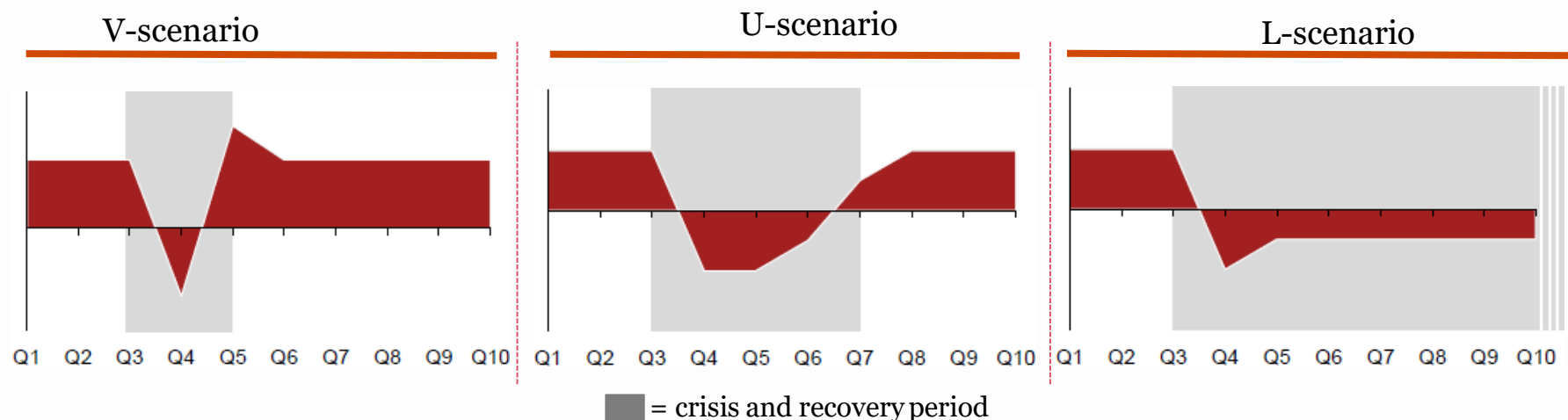
## No Economic Lockdown

- Tanzania
- Sweden
- South Korea

## Sectoral Economic Lockdown

- Zambia
- Mozambique

# V-, U- and L- shaped scenarios for overall economy- each would require a different set of interventions



**Shock impact** on the economy as a whole, followed by **swift and complete recovery**.

Reduction in full-year growth, but **limited to one year**

**Postponement** of investment and consumption **rather than cancellation**

**Mild**

**Sustained recession**, return to previous GDP level over several quarters

Performance and overall growth of **at least two full years affected**

Postponement and, in part, **sustained restriction of investment and consumption**

**Medium**

**Drastic impact** on economic performance and **prolonged recession**, threats to the monetary and financial system.

**Return** to the level of total output before CVID-19 **not foreseeable**

**Deep restrictions** on investment/consumption

**Severe**

Source: PwC



# COVID-19 INDUCED CHALLENGES

- Economic disruptions-supply chains to take time to restore
- Life/work habits changed
- Financial capabilities limited
- Liquidity challenge
- Business environment landscape shifted



# SECTORS UNDER EXTREME STRESS

S/N	Industry
1	Retail
2	Travel
3	Tourism
4	Hospitality
5	Automotive
6	Cinema
7	Logistics
8	Local Transport
9	Restaurants
10	Luxury goods

S/N	Industry
11	Live Sports
12	Real estate
13	Oil and Gas
14	Construction
15	Film Industry
16	Events and Conferences
17	Tech and Gadgets
18	Automobile Manufacturing
19	Fin Tech Investments





# THE WINNERS

S/N	Industry
1	Digital Products
2	Stock market investing
3	Home/Market Gardening
4	Online teaching
5	Online entertainment
6	Alternative energy
7	Alternative medicine
8	Gaming
9	Health care
10	Network marketing

S/N	Industry
11	Data sciences
12	Spiritual sciences
13	Mental health services
14	Mobile money
15	Programming
16	Virtual meeting platforms
17	Cloud computing
18	Big data analytics
19	Encryption



## RISK PERSPECTIVE

- Covid 19 is an emerging risk.
- Known unknown
- Unlike other catastrophes, it is not localized.
- Business interruption, medical and life classes affected

## Issues affecting Insurers and/or Reinsurers

- ☐ Accumulation/spiral effect
- ☐ High individual claim values
- ☐ Reserve reduction/depletion
- ☐ Client interface
- ☐ Loss adjusting
- ☐ Moral hazard



## LOSS TRIGGERS

- Notifiable diseases-BI following such disease outbreak.
- Infectious Epidemic/Pandemic within certain radius (Radius and Notification or Radius only).
- Closure/restriction-instigated by Authorities.
- Closure by order-Interruption at business due to an outbreak at premises of insured.
- Access restriction
- Illness and Death



# INDUSTRY RESPONSES TO COVID 19

- **Payment of claims. Others taking pride in it; for example, Outsurance of SA. Lloyds of London has estimated a payout of 5 billion pounds for the year 2020, with 2 billion of that reinsured.**
- **Repudiation of claims; mainly on interpretation of the wording. A lot of court cases reported in significant markets, namely SA and UK.**
- **Relief payouts for clients.**
- **Specific exclusion for pandemics/ communicable diseases.**





# INDUSTRY RESPONSES TO COVID 19

- Introduction of new covers/products. These mainly inclined to Life cover.
- Withdrawal of capacity for pandemic cover.
- Reinsurance cost went up significantly. Hardening of the market. Currently reinsurance cost is up by average 20% to 30% on dollar premiums.
- Regulator engagement. Some Regulators such as FSCA of SA went on to provide guidance on treatment of claims. Locally, all insurers were asked to do a stress test of their portfolios.



# INSURANCE BUSINESS ADAPTATION

Area	Key considerations
Portfolio Management	<ul style="list-style-type: none"><li>• Isolate classes/lines exposed to Covid 19</li><li>• Regular monitoring and measurement of the portfolio's exposure.</li><li>• <i>Sensitivity analysis modelled against different scenarios (scenario planning key)</i></li><li>• Assess impact on future wordings.</li><li>• Assess impact of premium holidays and delayed payments.</li></ul>
Interface and Customer Care	<ul style="list-style-type: none"><li>• Simple and straightforward platforms for claims reporting, assessment and payment.</li><li>• Electronic premium payments.</li><li>• Interactive virtual platforms.</li></ul>



# INSURANCE BUSINESS ADAPTATION

Area	Key considerations
Actuarial & Risk Management	<ul style="list-style-type: none"><li>• Adopt EWRMS.</li><li>• <i>Appropriate and adequate data collection in order to monitor the experience influencing the key assumptions.</i></li><li>• <i>Regular actuarial review of the adequacy of reserves.</i></li><li>• <i>Sensitivity analyses of the balance sheet from the expected changes in investment return.</i></li><li>• <i>Monitoring and measuring the credit risk exposure from other financial institutions on possible defaults (including credit risk on reinsurance recoveries).</i></li></ul>
Investment & Solvency	<ul style="list-style-type: none"><li>• Continuous monitoring of liquidity metrics e.g cash cover, growth</li></ul>
Business Continuity Plans	<ul style="list-style-type: none"><li>• Periodic review of business continuity plans to enhance effectiveness.</li></ul>



# LESSONS FOR THE INDUSTRY

- Reputation risk. A lot of court cases to date have seen industry being embarrassed.
- Need to review wordings. Most wordings have been in use for years without being revised. A must to read treaty wordings.
- Courts invariably side with claimants when it comes to most insurance cases. For Covid 19, the courts have emphasized INTENT as opposed to clarity of the wording. Guard risk vs Café Chameleon.
- The need to price correctly even for risks/exposures which seem very remote. Huge losses suffered. Balance sheets for big companies have been eroded drastically.
- Risk based supervision cardinal to ensure adequate reserves maintained.





