

COVID-19: The Good, The Bad and the Ugly

RISKS &
OPPORTUNITIES



1



“By rapidly forcing a large-scale experiment in previously limited practices, such as mobile work, telemedicine and virtual meetings, and massively ramping up e-commerce, COVID-19 is introducing both risk and opportunity.”



2



3

| Top 10 extreme risks facing the insurance industry (as rated by wiki survey respondents) | | |
|---|---|-------------------------------|
| Rank | Risk description | Seeded or user-submitted risk |
| 1 | Pandemic: A new, highly infectious and fatal disease spreads through human, animal or plant populations worldwide | Seeded |
| 2 | Natural catastrophe: A confluence of major earthquakes, tsunamis, hurricanes, flooding and/or volcanic eruptions with major global effects | Seeded |
| 3 | Food/water/energy crisis: A major shortfall in the supply of, or access to, food/water/energy, causing severe societal issues | Seeded |
| 4 | Cyber-warfare: Computer sabotage/espionage on a major scale, with severe damage to infrastructure, financial, medical or defense systems | Seeded |
| 5 | Technology: A large quantity of personal, government or business data stored in clouds are found to be hacked, compromised or misused | User submitted |
| 6 | Depression: A deep and protracted trough in economic output, massive increase in unemployment, restriction of credit and shrinking investment | Seeded |
| 7 | Banking crisis: Central banks unable/unwilling to supply liquidity in the next crisis, causing banking and real economic activity to stop | Seeded |
| 8 | An extreme event that causes property damage, supply-chain failures, business interruption and death on a significant scale | User submitted |
| 9 | Rise in extreme weather: Events exceed the capacity of insurance industry and governments to respond, with physical and social implications | User submitted |
| 10 | Sovereign default: Nonpayment by a major sovereign borrower causes market panic and disrupts the global economy | Seeded |

TowersWatson, Extreme Risks 2013

4

| Top 10 extreme risks facing the insurance industry (as rated by wiki survey respondents) | | |
|---|--|-------------------------------|
| Rank | Risk description | Seeded or user-submitted risk |
| 1 | Pandemic: A new, highly infectious and fatal disease spreads through human, animal or plant populations worldwide | Seeded |
| 2 | Natural catastrophe: A confluence of major earthquakes, tsunamis, hurricanes, flooding and/or volcanic eruptions with major global effects | Seeded |
| 3 | Food/water/energy crisis: A major shortfall in the supply of, or access to, food/water/energy, causing severe societal issues | Seeded |
| 4 | Cyber-warfare: Computer sabotage/espionage on a major scale, with severe damage to infrastructure, financial, medical or defense systems | Seeded |
| 5 | Technology: A large quantity of personal, government or business data stored in clouds are found to be hacked, compromised or misused | User submitted |
| 6 | Depression: A deep and protracted trough in economic output, massive increase in unemployment, restriction of credit and shrinking investment | Seeded |
| 7 | Banking crisis: Central banks unable/unwilling to supply liquidity in the next crisis, causing banking and real economic activity to stop | Seeded |
| 8 | An extreme event that causes property damage, supply-chain failures, business interruption and death on a significant scale | User submitted |
| 9 | Rise in extreme weather: Events exceed the capacity of insurance industry and governments to respond, with physical and social implications | User submitted |
| 10 | Sovereign default: Nonpayment by a major sovereign borrower causes market panic and disrupts the global economy | Seeded |

TowersWatson, Extreme Risks 2013

5

Who were we?

Physically: 47% of Americans had at least one underlying condition that would put them at risk of severe complications. (chronic obstructive pulmonary disease, cardiovascular disease, diabetes, chronic kidney disease and obesity) -- CDC

Financially: About 50% of Americans could cover a \$1,000 emergency, when unexpected expenses cost about \$3,500. -- Bankrate poll. -- CNBC

Despite the rise in annual family median income to \$68,000 annually
Americans have less buying power. -- Investopedia (and that has been happening for years)
Half of Americans age 55+ will retire at the poverty line. -- Morningstar

Culturally: Me First.

6




There is still time to positively influence the future outcomes of COVID-19, but it requires vigilance and thoughtfulness in a me-first culture. To protect the country, we must be united.

INSURANCE
COMMUNICATORS

7

What was going on before COVID-19 that was impacting P/C Insurance?

- High rate increases, especially in most commercial lines
- Low returns on interest getting even worse
- Downward pressure on profits
- Insurers blaming social inflation for rising rates.

INSURANCE
COMMUNICATORS

8



actuarialREVIEW

TIPPING THE SCALES:
Measuring the Impact of Social Inflation

2020 CAS
Elections and
Constitution/Bylaws
Amendments

Equity: The North
Star in Our PSL
Journey

INSURANCE
COMMUNICATORS

9

The “me first” culture...creates an extraordinary tendency towards motivated reasoning, where our beliefs drive what we are willing to accept as facts and law.

-- Thomas M. O'Toole, president & consultant, Sound Jury Consulting



10

75% would disregard the judge's instructions and base a case on their own personal beliefs of right and wrong.

57% affirmed they would ignore a judge's instructions to avoid internet research on the case if they felt that they could learn something important from it.

75% would disregard the instruction from a judge to ignore inadmissible testimony if they felt the testimony was important.

-- Sound Jury Consulting, 2019



11

65% of 1,000 respondents would be more likely to force an insurer to pay a lot of money to a plaintiff

-- “Pandemic Juries” Sound Jury Consulting, May 2020



12

COVID SHOCK



13

How will COVID-19
change us?



14



15

How will COVID-19 Change Us?

- ☐ Work
- ☐ Live
- ☐ Relate
- ☐ Educate
- ☐ Shop
- ☐ Travel
- ☐ Go to the doctor



16



17



“Nobody ever expected COVID-19 to affect commercial property.”

-- Gary Marchitello, chairperson, Willis Towers Watson's North American property team



18



19



20



21

COVID-19: The Good, The Bad and the Ugly

RISKS & OPPORTUNITIES