



COVID-19 Perspectives Series: Part II

Q&A with David Priebe, Chairman, Guy Carpenter

David Priebe offers COVID-19 insights on health of the property and casualty industry, public-private initiatives for pandemic coverage, industry preparedness and infrastructure to serve clients and Guy Carpenter client support on coverages in an interview with *The Insurer* held on April 6. This is Part Two of a three part series.

1. With a global recession looming, what impact might this have on the health of the P&C industry?

In times of economic distress, (re)insurance is typically considered by investors to be a defensive sector. This view is well merited: it has less exposure to economic cycles than other industries and has a strong track record in navigating macroeconomic and capital crises.

This is not to say the sector will be unaffected by the COVID-19 crisis. Access to capital has reduced while carriers' assets have clearly been hit by lower interest rates, wider credit spreads and an equity crash. A fall back into recession will also hinder growth opportunities, given the long-standing correlation between economic output and premium growth.

It is nevertheless important to point out that most carriers' investment portfolios are invested conservatively, with a predominance of (high-grade) fixed income securities and low

equity gearings. Whilst investment returns are likely to drop to new lows, such conservative allocations are likely to insulate property and casualty insurance carriers from significant investment portfolio risks. The sector also remains well capitalised. Ultimately, the fundamentals of the (re)insurance market remain strong.

2. Is a public-private insurance initiative along the lines of TRIA or Pool Re the only way to provide coverage for pandemic exposure going forward?

The insurance industry, policyholders and governments throughout the world must come together on an approach that offers relief to those who need it now and develop a plan to implement mitigation strategies and a response mechanism for future pandemic events. The scale of this exposure is immense and far beyond the financial capabilities of the insurance industry alone. A public-private solution is necessary to address this risk.

The public-private partnership model is one that has worked particularly well to date for other risks that are capable of causing systemic economic shocks, such as terrorism. TRIA and Pool Re are two fine examples where the security of backing from central governments has allowed private carriers to offer comprehensive terrorism policies at affordable costs. Whatever model is pursued for pandemics, COVID-19 has shown that any viable, long-term solution requires government participation.

3. Is the industry doing enough at the moment or could it do more?

The (re)insurance industry delivers significant value for communities and businesses around the world. Regions (and risks) with high levels of insurance penetration recover much more quickly economically from major events (while also limiting the burden on taxpayers), as (re)insurance dollars flow in from around the world.

By paying (legitimate) claims over the coming weeks and months, the insurance industry will play a crucial role in helping societies and businesses recover financially from COVID-19. The industry has undertaken substantial investment to ensure an efficient market response necessary to support economic activity, prompt claims payments, the introduction of flexible payment schedules and coverage for new risks. The majority of health insurers in the United States have also waived cost sharing for COVID-19 testing and treatment. This is without regulatory intervention and is a powerful statement by that part of the industry.

But more can (and needs to) be done. COVID-19 has highlighted important coverage gaps for pandemic risk. Developing solutions to close these gaps is now one of the highest priorities for the (re)insurance sector. This will take some time and, as indicated in my previous answer, require partnership with governments.

4. Will all brokers and underwriters cope as well from WFH or is there a danger that some companies (and their customers) could suffer through a lack of preparation or joined up infrastructure?

The industry response has been impressive. The transition to working from home has gone incredibly smoothly overall, enabling seamless communication between brokers, cedents and reinsurers. Despite considerable readjustments to working practices, 1 April renewals were completed on time, with relatively few issues arising from these new arrangements. Attentions have already switched to mid-year, with renewal meetings being conducted over video conferences. These have so far proved a successful medium for our brokers and clients to communicate their renewal messaging.

There have, of course, been challenges, particularly around online bandwidth, as virtually our entire world converted to working from home simultaneously. IT providers have nevertheless responded well to the unprecedented situation, even if some were more prepared than others. Virtual meeting platforms have not experienced any significant compatibility or accessibility issues, in the main. People are being creative and working around any issues that do arise, and the industry continues to operate in a business as usual manner.

5. How concerned should we be about ensuring that our industry employees have the support, infrastructure and resources to do their job during these unusual times?

Based on what we have seen so far, there appears to be little cause for concern for colleagues to be able to execute effectively in the current operating environment.

All segments of our business are being affected by current events, and it is critical that companies provide colleagues with the support needed to move forward with their day-to-day activities. The ability of IT, human resources and management to respond so effectively to this unprecedented situation by pivoting almost immediately to virtual workplaces has been massively impressive.

Technological advancement has facilitated this transition but human behaviours are equally important in ensuring colleagues continue to feel “connected” to their co-workers, clients and the overall market. Communication on an ongoing basis will be key to ensure this connectivity is maintained.

6. What specific actions is your business taking to meet fast-changing client needs around coverage?

Guy Carpenter has convened a COVID-19 Task Force to help support clients through these extraordinary times. By leveraging the deep expertise within our firm and aggregating information from daily colleague and market interactions, we are able to provide our clients with unique perspectives across all lines of business and geographies.

As reinsurers escalate efforts to introduce COVID-19-related exclusions or wording changes to contracts on upcoming renewals, the Task Force is coordinating responses in a thoughtful manner focused on the best outcome for our clients. The Task Force is also monitoring closely regulatory activity for all regions and classes of business and disseminating timely and insightful thought leadership on matters such as these to help clients make the most informed decisions.

Guy Carpenter is fortunate to be able to bring the power of Marsh & McLennan Companies to bear through this process by working closely with Marsh and Oliver Wyman to understand the impact on the primary market and wider financial system. Marsh & McLennan Companies is at the forefront of conversations to create a forward-looking (re)insurance solution for pandemic risk in conjunction with policyholders, insurance markets and key policymakers.

About Guy Carpenter

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