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Untold chaos emerging

12 March 2020Myra Knoesen

Craig Baker

Fears about the coronavirus and its impact have spread, and this is causing uncertainty. Covering, or rather answering those burning questions, **Craig Baker, CEO of MiWayLife** shared some commentary regarding insurance and COVID 19, specifically around reputational risk, travel insurance, business and life insurance. This article is rather long but worth the read.

The new market disruptor

According to Baker, people are starting to put some distance between themselves and you if you have the sniffles or a dry cough, maybe this is why… Since the beginning of 2020, one story has had the power to dominate headlines across the globe: COVID 19, also known as the Coronavirus. It's had the financial services world in its thrall too, with untold chaos emerging as a result of the virus' epidemic of fear.

Although insurers' commonly use of the term 'disruptor' when referring to the latest advancement in FinTech or when there is a development which meaningfully affects the *status quo*, the Coronavirus is the very image of a disruptor in all the ways that count. Everything about the virus points to just how vulnerable markets are to unexpected global upset. Of course, the basis for insurance is to provide cover against unforeseen events, the Coronavirus partially fits in the frame of the unforeseen and insurers and reinsurers have for while been warning that it is not whether, but rather when, we see the next "superbug".

What is interesting in this scenario is that the bug seems to be emerging as highly contagious but less deadly than originally thought. This brings into focus where the claims are likely to start emerging from. Contagious means that protocols will be followed on quarantining people who have been exposed or infected. After-all even if the mortality is low, with a world population over 7bn deaths may still be high if the spread is not controlled.

Quarantine in turn means that people are unable to work, or come into physical contact with others, which is fine if you have a job where you can get work electronically and complete it at home, however judging by the bulging skylines across our major metropoles, the vast majority of people still fill large buildings with centralised air-conditioning and shared canteens. Coffee shops are a hive of activity in the day with people enjoying a coffee over a quick business meeting, or using the coffee shop's free WiFI to finalise a proposal or catch up on e-mails.

So, who is going to pay for all of this? Questions Baker.

Travel insurance travails

Firstly, the most predictable casualty: travel insurance. Internationally, Forbes has noted that travel insurers are reporting an alarming surge in policy sales with 'Cancel for Any Reason' selected as an optional upgrade… in places where such niceties exist.

"I have seen two major insurers recently announce the suspension of international travel for their staff while they assess the situation. Even if you travel in your personal capacity, some companies are shortly going to require a doctor's note (after you have been tested for COVID 19) that you are fit to return to work," explains Baker.

While travel insurance will take some of the hit, Baker said the airlines and tourism industry will feel the hit financially as we see commodity prices under pressure off the back of an expected slowdown in travel – as already evidenced above.

There are also conflicting opinions about whether travel insurers are liable for flight claims, depending on specific policy wording and the individual circumstances of each case.

Business insurance

With the recent discovery of South Africa's first positive cases of Coronavirus, Baker said one should spare a thought for the risk faced by people that are self-employed such as plumbers, dentists and personal trainers where being quarantined is a guaranteed loss of income for the business, even if you carry no mortality risk. Think also of the local coffee shop where you stop off daily to beat the traffic and catch up on some emails, or for colleagues who catch buses and taxis to work. Simple acts of daily life such as going to a shopping centre or attending a concert or local football match, in places affected by the Coronavirus, have been significantly affected to the point that these places are now shut down. It remains to be seen how much of this business interruption can be covered by the insurance sector.

What about the fact that many components are manufactured in China and other countries with reported cases, or the fact that countries, such as India, are now taking precautionary steps by exporting less medication in case they need to contain the spread within their own borders? In China, large scale companies and assembly lines have been closed to prevent the spread of the virus, the knock-on effect is that we may see shortages of key components for things like motor vehicles. Given that Chinese manufacturing is ubiquitous in terms of the things we use daily, the impact is significant, and the risks are elevated.

Life on the line

Life insurance payouts for an increasing number of deaths, not to mention payouts for loss of income as the quarantine figures in China alone reach millions, could be a serious bill to foot.

"Most events linked to the Coronavirus, such as quarantine and even loss of life, is likely to be covered fully or at least in part by most life insurers. The sheer scale of something like the Coronavirus threat means that insurers will need to re-think processes on how to deal with potential claims volumes not seen in modern times. This is of course still theoretical in our markets, although places like Wuhan which is the epicentre of the outbreak will be facing the practical realities of this right now," said Baker.

Reputational risk

The fact that most insurers and reinsurers would typically have contractual exclusions in place for epidemics, as the Financial Times noted in February, really misses the point.

As the article notes: “clients are asking about the extent of their cover,” said Clarissa Franks of insurance broker Marsh. That’s all there is to it. Although exclusions are well within an insurer’s rights (as a means to mitigate over exposure to risk), it can cause public ire more damaging than any payout, we have numerous examples of this in recent times here in South Africa.

Decades of perception of insurance as a grudge purchase is begging to come to boiling point if – when – the first report of an insurer refusing to pay out due to Coronavirus comes out. An unflattering Pontius Pilate narrative is likely to emerge, painting the not-too-hard-up insurance industry as one that has sold reassurance for centuries, only to wash their hands when the world really needs protection.

Although many well-established exclusion clauses exist for epidemics, just as they do for war, ‘acts of God’ and civil unrest incidents, this would do little in the face of public opinion stating that the Coronavirus crisis is exactly what insurance is for. The surge in claims is also likely to highlight any fault lines between policyholder, insurer and reinsurer. For many years, the industry has acknowledged widespread misunderstandings many policyholders have with what’s really covered in insurance, due to outdated lengthy T’s and C’s contracts and further complicated in countries like South Africa where the average citizen’s financial literacy is severely limited.

A house of cards

What the Coronavirus really shows is the vulnerability of areas of the financial services system to global-level threats. It also shows how reliant everything is on a secure and stable insurance environment as ultimately insurance underpins just about everything that takes the economy forward from infrastructure projects, to the workforce, small businesses and ultimately your income and life.

At the beginning of 2019, long before Coronavirus had reared its head, the World Economic Forum noted that “the number and kind of infectious disease outbreaks have increased significantly over the past 30 years. Since 2011, the world has seen nearly 200 epidemic events per year. Pandemics will be the cause of average annual economic losses of 0.7% of global GDP – or $570 billion – a threat similar in scale to that estimated for climate change in the coming decades… companies operating globally can take action to mitigate threats posed by epidemics.”

Also, a truth universally acknowledged, but curiously not often within financial services itself, is that no industry is an island. As much as the industry is reliant on insurance, insurers are reciprocally dependent on the economy that houses them, just like everyone else. With economies and stock markets having been in turmoil since 2020 began, and with the bigger financial players facing increased costs associated things like the screening of entrants across borders, increased costs of setting up facilities to deal with any Coronavirus cases and more, this will certainly have a knock-on effect for insurers.

The very definition of a disruptor is a new and unexpected entrant who highlights where the existing status quo was complacent. Today it is the Coronavirus but tomorrow it will be something else. Because the world is now a very small place, we are all vulnerable and must re-think our approaches to risk management before it is too late. Which it may already be…

Writer's Thoughts:

Although insurance does underpin just about everything that takes the economy forward, this outbreak could lead to significant losses for the insurance industry. However, the size of the losses from this event are unknown. Only time will tell, but it will certainly have a knock-on effect for insurers. Do you agree? Please comment below, interact with us on Twitter at @fanews_online or email me your thoughts myra@fanews.co.za.