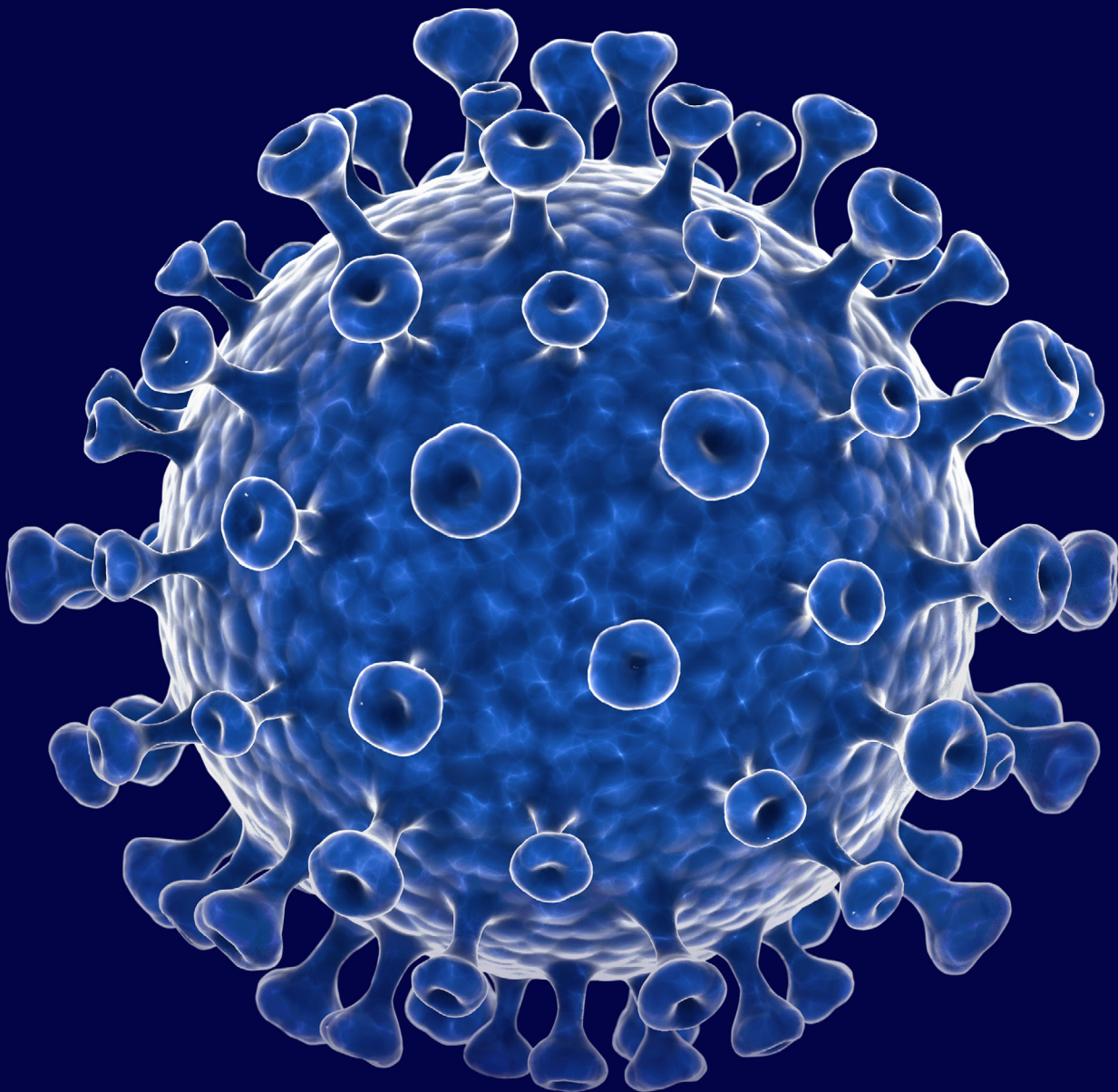


Supporting global recovery and resilience for customers and economies

The insurance industry response to COVID-19



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Disclaimer

The conceptual frameworks and proposals set out in this paper are designed to bring consumer and public benefit by promoting competition and innovation of initiatives that could be developed through appropriate partnership between the insurance industry, government and customers. The proposed solutions are intended for consideration where particular cover for large scale systemic risks is not commercially available to customers in any particular jurisdiction and pooling and other collective action is therefore necessary to create the capacity to provide solutions to customers. Structures given are by way of illustration or example only. Any solutions would need careful competition law consideration in the relevant jurisdiction and discussion with relevant regulators before any steps were taken to implement the consultation proposals.

Foreword

COVID-19 has resulted in a humanitarian crisis on a scale the world was underprepared for.

Society has responded collectively, with businesses, charities, communities and governments working together to tackle the health crisis, provide financial support to workers and companies, and bolster economies.

The global insurance industry is playing its part by paying claims, donating funds to support business and society in general, and by offering flexible terms and conditions to help its customers in the immediate aftermath of the pandemic.

Now, as economies begin to return to normality, businesses need the support and protection insurance offers, so they can operate post lockdown with confidence.

As research carried out for this paper shows, customers are asking our industry for products that cover them for new or heightened risks they may encounter in the new normal, protection for a second wave of the pandemic and longer term protection from future systemic risks.

Some of these customer needs can be catered for using existing or modified products and services; others specifically impacted by COVID-19, such as business interruption and trade credit risk, require new approaches. The global insurance sector must work collaboratively and with customers to accelerate this work.

Designing cover for future systemic risks is more complex. As the COVID-19 pandemic has shown, their impacts are too wide-ranging for any one sector to carry the risks alone. Solutions are required nonetheless, because where no commercial insurance cover exists, systemic risks are borne by customers and ultimately, by governments and therefore the taxpayer. If the cover is implicit, the protection is uncertain and the risk is often poorly understood.

The way forward, therefore, requires close collaboration between insurers, brokers and customers, and between the global insurance industry and governments, to create new vehicles that combine insurance capital with sovereign capacity to enable protection against systemic risks.

To accelerate this process, Lloyd's is proposing solutions that could provide protection for customers' short, medium and long-term needs. These include two potential frameworks that, if taken forward, could provide governments around the world with risk transfer models they could put in place immediately in partnership with the insurance industry.

Foreword

There is now an urgent need to develop these ideas further – alongside the many others under way in other parts of the world – so we can quickly provide customers with the protection they are asking us for and can play our part in strengthening society's resilience more broadly.

We often pride ourselves as a sector on our inherent social purpose – that is to help businesses and communities reduce the risks they face, enable them to recover quickly from disasters by paying claims, and to provide the security that allows them to innovate, develop and drive economic growth. COVID-19 has demonstrated is that there is much more we can do in this role and, on behalf of our customers, we should carry out this work as quickly as possible.

The pandemic has provided us with an opportunity to come together to share risk and create a braver, more resilient world – and we must seize it.



John Neal
CEO, Lloyd's



Bruce Carnegie-Brown
Chairman, Lloyd's

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Overview

This paper proposes several solutions that could offer customers greater protection against a future wave of the COVID-19 pandemic or against future systemic risks. The table below summarises their characteristics, as well as those of other initiatives being developed by the wider insurance industry.

	Description	Example initiatives underway or proposed
Current state	Systemic risk typically sits with individual customers with some protection offered by governments, paid for by taxpayers	<ul style="list-style-type: none"> – Government loans – Furlough schemes – Other social security initiatives
<i>ReStart</i>	Risk pooling between insurers to offer non-damage business interruption protection against future waves of COVID-19	<ul style="list-style-type: none"> – Potential commercial product developed by the Lloyd's market – Lloyd's open source framework
<i>Recover Re</i>	'After the event' insurance product, providing immediate cover for non-damage business interruption, including COVID-19, with premiums charged over the long term to recoup costs	<ul style="list-style-type: none"> – Lloyd's open source framework
Pandemic pools	Government-backed industry pools to protect customers from future pandemic non-damage business interruption risk (not in scope for this paper)	<ul style="list-style-type: none"> – French Government, CCR and industry working group – German GDV working group – UK Pandemic Re working group – US BCPP – US PRIA
<i>Black Swan Re</i>	Government-backed industry pool, reinsuring systemic risk from commercial non-damage business interruption cover	<ul style="list-style-type: none"> – Potential role of global reinsurance pools (e.g. expanding the scope of Pool Re in the UK) – Lloyd's open source framework
Other insurance solutions	Developing industry capability and accelerating new product development to protect customers more effectively against systemic risks	<ul style="list-style-type: none"> – Lloyd's Systemic Risk Centre of Excellence – Lloyd's Product Innovation Facility – Lloyd's Innovation Lab – Pandemic catastrophe bonds – Potential COVID-19 vaccine and distribution cover

Lloyd's also outlines additional ways in which the global insurance industry could respond to protect customers. Below we summarise our potential role in delivering these proposals in the short, medium and long term. For more details of the potential solutions in this paper, see the accompanying appendix, Open source frameworks for systemic risk.

Solutions	Short term Respond to immediate gaps in customer support	Medium term Develop systemic risk expertise and innovate for the changing risk landscape	Long term Develop structures to protect customers from future systemic risk
Lloyd's role	<ul style="list-style-type: none"> – Support Lloyd's market proposals to respond to the pandemic such as <i>ReStart</i>, as well as others that are being developed – Work with interested governments around the world to advise on immediate challenges and help develop short, medium and long-term solutions 	<ul style="list-style-type: none"> – Develop a Centre of Excellence that would use data, models and human insight to understand and mitigate systemic risks better, and build capabilities to respond if they occur – Accelerate the pace of Lloyd's market innovation by increasing capacity to carry it out and by working with Lloyd's Product Innovation Facility to develop new products 	<ul style="list-style-type: none"> – Support and align with governments and industry bodies keen to take forward ideas such as <i>Recover Re</i> and <i>Black Swan Re</i> <p><i>Note: while these are long-term solutions, work should begin on these structures in 2020</i></p>