Insurance during the coronavirus crisis – The losses after the losses.

The current pandemic and necessary restrictions are impacting all industries, and insurance is no exception. But one aspect sets insurers clearly apart from other companies: calculating probabilities of occurrence and supporting risk management among insureds is their core competency. In the context of the current business interruption loss events experienced by a staggering number of enterprises, it should be no surprise that companies and the media have a very close eye on the insurance industry. Every move and every statement make a huge difference in how the sector is viewed and trusted in the future.

Clearly, many companies – notably and acutely in the hospitality industry – with business interruption and contingency BI covers expect payouts triggered by the government-ordered shutdowns. Although the policy wordings vary and may contain exclusions, the closing sentence of a recent article (May 25, 2020) of the German insurance-sector publication VersicherungswirtschaftHEUTE says a great deal: "The financial supervisory authority BaFin called on the industry to offer goodwill solutions, in order to avoid costly legal actions. Many policies are thought to be unclearly or ambiguously worded." (Our translation and italics.)

As if that weren't enough, an article distributed via the business network Xing (June 10, 2020) strongly criticizes the "Bavarian compromise (bayerischen Kompromiss)," which proposes out-of-court settlements granting insureds 10–15% of the agreed daily BI payout. An article in a further insurance-industry publication, the Versicherungsbote, warns of serious damage to the image of the entire insurance sector, quoting Managing Director of the Association of German Insurance Brokers (BDVM) Hans-Georg Jenssen with the statement: "A clear direction can be seen in which most insurers take a obstructive stance here." (Our translation.) The article calls for a solidarity fund to save the insurance sector's image.

An inevitable public opinion disaster?
In times of crisis, media reports often look for scapegoats. The complexity of insurance policies makes the industry an easy target for criticism. But this doesn't have to be the case. Insurers can take a proactive approach.

The insurance sector understand risk – pandemic risk included. A 13-year-old position paper published by the Chief Risk Officer Forum "Emerging Risks Initiative Position Paper, Influenza Pandemics" (CRO Forum 2007) is just one of many publications and statements that have detailed precisely the scenarios we are currently experiencing. The insurance community has had ample time to prepare itself and policyholders for this state of affairs.

LHD GBR
BÜRO DÜSSELDORF
Stresemannstraße 28
40210 Düsseldorf
Tel: +49 211 46994-11
E-Mail: info@lhd-associates.de
www.lhd-associates.de

LHD GBR
BÜRO MÜNCHEN
Plinganserstraße 57
81369 München
Tel: +49 159 02026265
E-Mail: le@lhd-associates.de
www.lhd-associates.de

A crisis is not only an unwelcome stress test, but also a chance to shine with knowledge, thought leadership and solidity. This could be considered an "antifragility" effect. The termed, coined by Nassim Nicholas Taleb of Black Swan fame (The Black Swan 2007), refers to systems that emerge stronger than ever from stress events. In "Antifragile" (2012), Taleb refers to the mythical monster Hydra, a vicious serpent that grows back two heads for every one cut off. A more pleasant real-life example of the antifragility effect can be observed in muscles: during regular fitness training, tiny tears occur in muscle fiber. The body responds to this microtrauma by not only repairing the damaged tissue, but by building stronger muscles.

Putting the antifragility effect to work.
Which brings us to some key learnings. During a crisis on this scale, damage control is not enough. To emerge from this stress test stronger than ever, the insurance community must meet the needs of society and live up to its role as a reliable partner in managing risk.

Those insurers that succeed in keeping customers informed and resolving claims unbureaucratically stand to reap huge rewards in credibility, respect and customer loyalty. And those that actively engage media bodies and use their in-depth knowledge of pandemic risk scenarios to help inform the public can raise their profiles as good corporate citizens. As Stanford economist Paul Romer once stated, "A crisis is a terrible thing to waste."

Allianz CEO Oliver Bäte and Axa CEO Thomas Buberl have shown what this could look like in practice. Although they rule out the prospect of the industry alone paying for all losses, they introduce an alternative idea: a public-private insurance system for major risks such as corona. Industry experts are already working on a concept that provides for private-state cover for small- to medium-sized enterprises (SMEs).

This shows once again how important crystal-clear communication is in the industry: under no circumstances should the impression be given that the industry – from the insured's perspective – is stealing away from its obligations and reinforcing the prejudice that profits are privatized and costs socialized. There must not be another "Bavarian compromise" here. To take up the example of training again: there is a risk of a severe sports injury, resulting in a permanent handicap. With the right approach, on the other hand, there is the prospect of a positive antifragility effect. The industry would emerge strengthened from the crisis!

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www.lhd-associates.de

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