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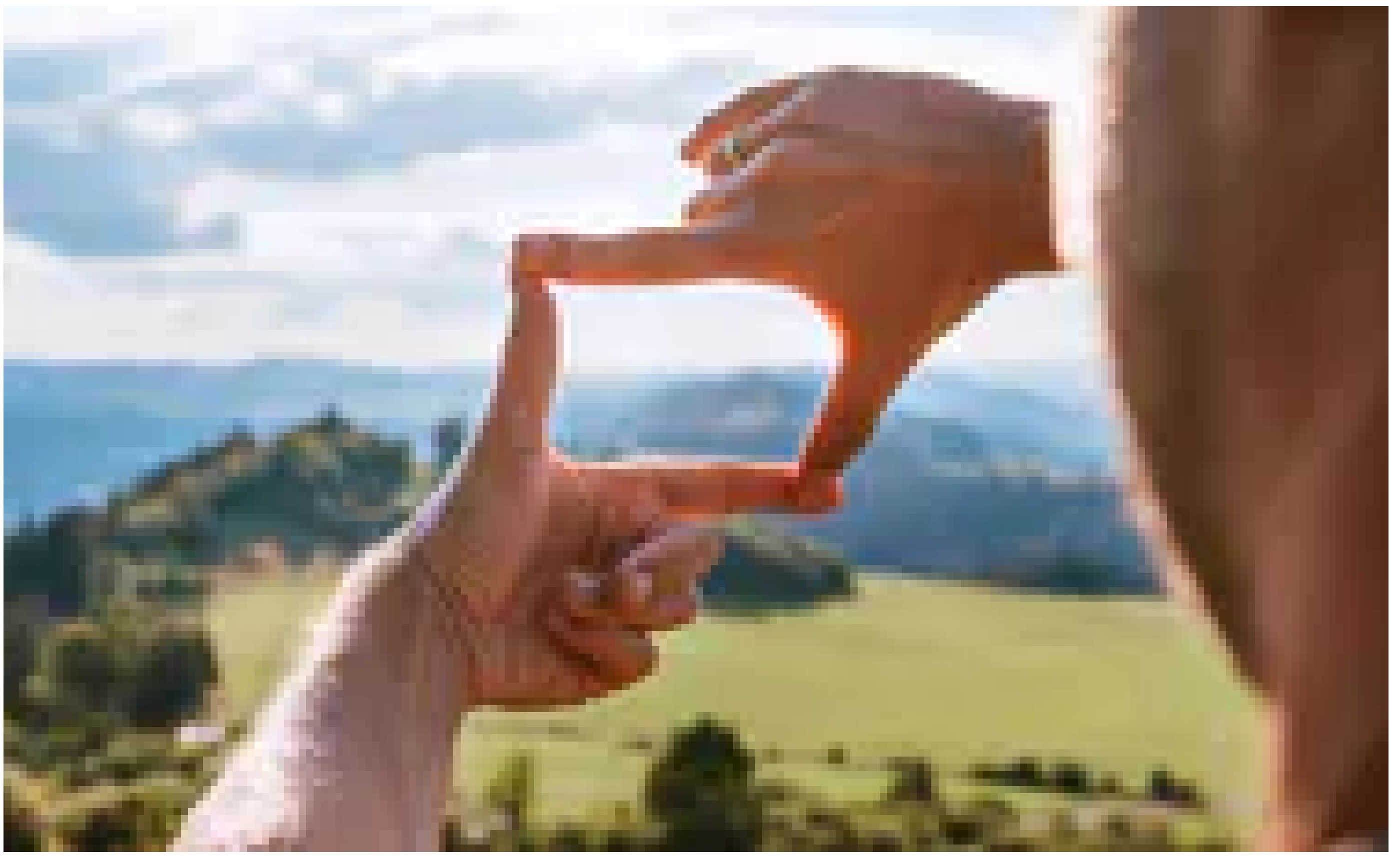
Natural Disasters, Disease, Instability: Commercial Insurance Risk Assessment in an Era of Global Uncertainty



“The global economic stage saw an unusual amount of political-related upheaval in 2019, and 2020 is not looking to be much calmer,” writes **John Lorié, Ph.D.**, chief economist at Atradius Credit Insurance and a researcher at the University of Amsterdam, in Risk Management magazine.

While many commercial insurers saw the same landscape of risk at the time, few predicted the global turmoil that erupted just a few weeks later. As we enter the final quarter of 2020, the coronavirus pandemic remains a major concern in assessing commercial risk. Natural disasters and political and economic upheaval further complicate efforts to understand risk and respond appropriately.

The State of Risk: Addressing Changes in 2020 Economic Predictions

The early economic impacts of COVID-19 sent many analysts scrambling to change their predictions for global, national and regional economic growth in 2020. Many based new predictions on scant information and extrapolation.

For example, a March 2020 **report** from the OECD predicted that global growth would drop by 0.5 percent, “on the assumption that the epidemic peaks in China in the first quarter of 2020 and outbreaks in other countries prove mild and contained.” As more information becomes available, predictions shift. These unknowns make planning and risk management even more difficult for small businesses and their insurers.

As a rule, businesses have more information about their own efforts than they do about the state of the economy as a whole. Perhaps this explains why a July 2020 McKinsey survey found that, while businesses are more likely to predict their own profits will increase in the coming months, they are less likely to believe that their national economy as a whole will recover in that time, writes McKinsey associate editor **Heather Hanselman**. Companies in North America are particularly pessimistic about national or regional economic recovery occurring before the end of 2020.

In the face of 2020’s various uncertainties, insurance companies are shifting their expectations for the year. For example, in a June 2020 press release, **Munich Re**expressed optimism about its economic position but stated that the company “will not meet its profit guidance of €2.8bn for the whole of 2020, owing to losses and high levels of uncertainty.” The company declined to provide a new profit guidance at the time.

Munich Re’s press release focused on the effects of COVID-19 on the company and industry. The pandemic remains one major factor in 2020’s complex uncertainties, and it is likely to affect commercial insurance decision-making for some time to come.

Continuing Uncertainty Regarding COVID-19

COVID-19 continues to exact both a human and an economic toll on world populations. In June 2020, the **World Economic Forum** projected global economic growth of -4.9 percent for 2020 — a downward adjustment of 1.9 percentage points from its April 2020 predictions.

The coronavirus's economic effects hit hard in March 2020, triggering the biggest one-day drop in the S&P 500 since 1987. An oil price war in March, spurred by the collapse of talks between OPEC and its partners, further compounded economic issues, writes the Financial Times global finance correspondent **Robin Wigglesworth**. The shockwaves from these events have been felt ever since, and they have further compounded economic and commercial issues arising from the pandemic.

Protection for Workers: Ongoing Risks in the PPE Supply Chain

Problems with manufacturing, shipping and acquiring personal protective equipment (PPE) marked the early months of the pandemic and continue to present problems in a number of places and for a number of industries. "Early on in the crisis, PPE products were available, but were not flowing to where they were needed because some of the products that were approved in some countries were not approved in others," writes **John Scott**, head of sustainability risk at Zurich Insurance.

Changing regulations have helped ease PPE-related issues, but cost and scarcity remain problems in some areas of the world, including the United States. For small businesses, PPE concerns can lead to significant risks for workers, customers and the business, which insurance companies and businesses alike must address as best they can.

COVID-19, Remote Work, and Cyber Risk

In response to the spreading pandemic, many businesses shuttered in-person workspaces, moving their workforces and customers alike to online platforms. While the transition to digital helped slow the spread of the virus, it also increased the risk to companies of a major cyber event.

Cyber security was a top concern for global business even before COVID-19 sent companies and customers flocking to the digital landscape. According to DRI International's **5th Global Risk and Resilience Trends Report**, concerns over a major successful cyber attack topped the list of risks businesses feared, both overall and in particular regions and industries. Concerns over a severe data breach and IT outages ranked second and third, respectively.

Yet hope remains. The report also found that businesses accelerated their efforts to consolidate business continuity, disaster recovery, and crisis and emergency management efforts throughout 2019. Although these businesses could not have known what lay just over the horizon in 2020, they nevertheless worked to prepare for the threat of unknown disasters. These efforts paid off in greater resilience for many businesses.

Managing Commercial Debt and Other Risks

Concerns about PPE exposed weaknesses in the global supply chain. As businesses continue to move to online-only or online-first models, the supply chain continues to creak under the strain of the pandemic, shifting regulations, environmental stability and other issues.

Shipping companies and companies that rely heavily on their supply chains face additional risks involving default on debts and similar financial problems. “Shippers could be directly affected by industries in which major shutdowns have occurred,” says **Jamie Cannon**, vice president of third-party logistics at Reliance Partners. “Defaults pose a threat to those directly affected by industries that have lost consumer confidence as well as those that are experiencing slowdowns due to a lack of supply as well as supply chain delays.”

When the pandemic began in late 2019, many small and medium-sized businesses were on shaky footing. At the close of 2019, 40 percent of U.S. companies had lost money in the previous 12 months, says FreightWaves research analyst **Andrew Cox**. Many of these businesses may already have closed their doors, further destabilizing their former insurance company’s bottom line and exacerbating issues like high unemployment.

Economic and Political Instability and Continued Risks

Environmental disasters are also a prominent concern for businesses and governments alike. The World Economic Forum **2020 Global Risks Report**, for example, ranks climate threats at the top of its list of global long-term risks. Economic and political instability resulting from the effects of climate change appear as prominent short-term risks in 2020, according to the report.

The report's predictions for top environmental global risks include extreme weather events, continued inaction on climate change adaptation and mitigation, environmental damage caused by humans, biodiversity and ecosystem collapse, and natural disasters like earthquakes and hurricanes.

Regulations Control Risk, But Raise Questions

As economic, climate and political risks continue to mount, so do demands that the world's businesses address these threats. "There is mounting pressure on companies from investors, regulators, customers, and employees to demonstrate their resilience to rising climate volatility," says **John Drzik**, chairman of Marsh & McLennan Insights. "Scientific advances mean that climate risks can now be modeled with greater accuracy and incorporated into risk management and business plans."

"Led by discontent, governments are taking regulatory action to address social and environmental grievances," writes **Chloe Demrovsky**, president and CEO of Disaster Recovery Institute International. Because regulations emerge from an overlapping patchwork of government and regulatory agencies, particularly in the United States, businesses may find themselves facing legal requirements that are difficult to reconcile. Awareness of regulatory changes as ideas emerge can help businesses and insurers alike adjust more easily as these changes become law.

2020 continues to be a year of unprecedented events, risks and losses. Commercial insurers find themselves facing a new matrix of overlapping challenges that complicate one another. While insurers worldwide are rising to the occasion, many unknowns remain.

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