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After COVID-19 – an even more resilient insurance sector

The ongoing pandemic is not a black swan event for insurers and regulators. This is thanks to the fact that the insurance industry already considered pandemics in their risk modelling. Large systemic events do however unfold in unexpected ways. With COVID, we saw unexpected losses in the areas of business interruption and, in particular, with respect to Non-physical Damage Business Interruption (NDBI). On the other side of the balance sheet, the uncertainties in the financial markets, compounded by a low interest rate environment, created challenges. This unique combination of severe effects on both sides of the balance sheet underscores the systemic impact of the pandemic. So, what lessons can we learn from this pandemic in order to manage a future systemic shock to the insurance industry, and our economies, better?

The COVID pandemic has highlighted the fact that resilient economies need to be built in order to manage systemic shocks. A society that has internal economic buffers is in a much better position to withstand any external shocks that it may face. Resilience to systemic shocks, such as pandemics, which do not diversify, requires a combined effort between the state and insurers. Public Private Partnerships (PPP) would create preparedness for such extreme events by pre-funding the costs. If reinsurers provide their global view and expertise on risk, primary insurers tap into their local network for claims management and states makes use of their logistics and risk bearing capacity, then future extreme events can be withstood much better.

The economic stimulus packages released around the world play an important role in the global recovery effort. These packages should also be used to address issues such as climate change which are pertinent to the insurance industry. For instance, funds should go into decarbonising the energy sector, building climate change resilient cities, protecting public health and to the restoration of natural assets and ecosystem services. This will help ensure that extreme weather hazards, such as hurricane related storm surges, will no longer materialize into huge property losses if we protect coastal wetlands.

The protection gap is another element that needs to be addressed if we are to make our economies more resilient. Insurers can take the lead in developing solutions and regulators can help by providing the regulatory frameworks needed to facilitate this. Private sector initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD) complement regulatory efforts as they force companies to put a price tag on risks that formerly did not appear on their balance sheet. While it is currently not mandatory, there are over 1000 public and private sector organisations around the world that support the TCFD giving it global credence. Expanding the TCFD's use would help bring about consistency, and improve the quality, of sustainability reporting as opposed to developing new frameworks which may only lead to confusion and hinder the progress that's been made. It is only by jointly developing such frameworks, as well as pooling and sharing data and expertise, that we can move quickly in developing more resilient economies and building new insurance solutions that will close the protection gap.

The insurance industry continues to play an important role in society and, as such, we must ensure that it remains operationally resilient and trustworthy. It is only by taking a global approach, and by making sure that the we apply operational resilience frameworks that take the diversity and sizes of different businesses into account, that we can ensure that the industry continues to be society's trusted partner in times of need.