



26 November 2020

2020 Year in review

What happened and what's around the corner

Today's Presentation will cover

- Major risks that have played out for clients and how the insurance market responded.
- "Risk Forecast" - What are the emerging risks on the horizon for the next 12 months and how is the future insurance market shaping up to meet these challenges.

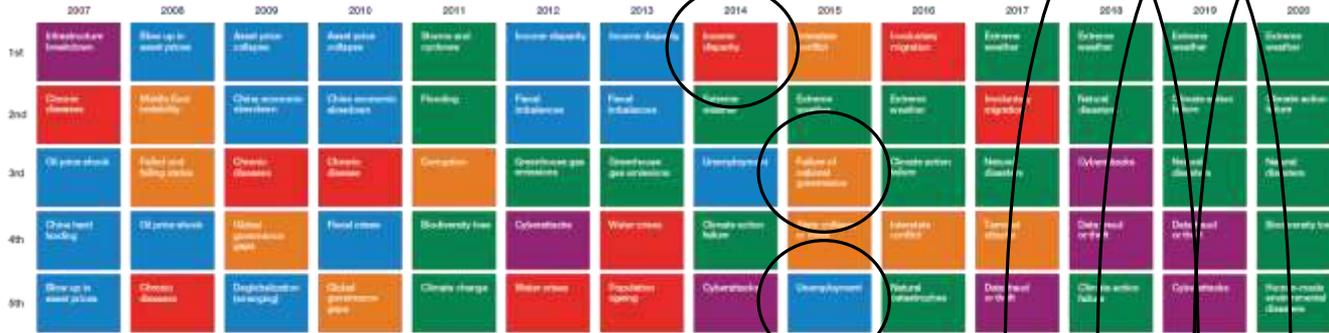


Macro Risks Dominated 2020

Global Risk Report - uncut

Figure I: The Evolving Risks Landscape, 2007-2020

Top 5 Global Risks in Terms of Likelihood



Top 5 Global Risks in Terms of Impact



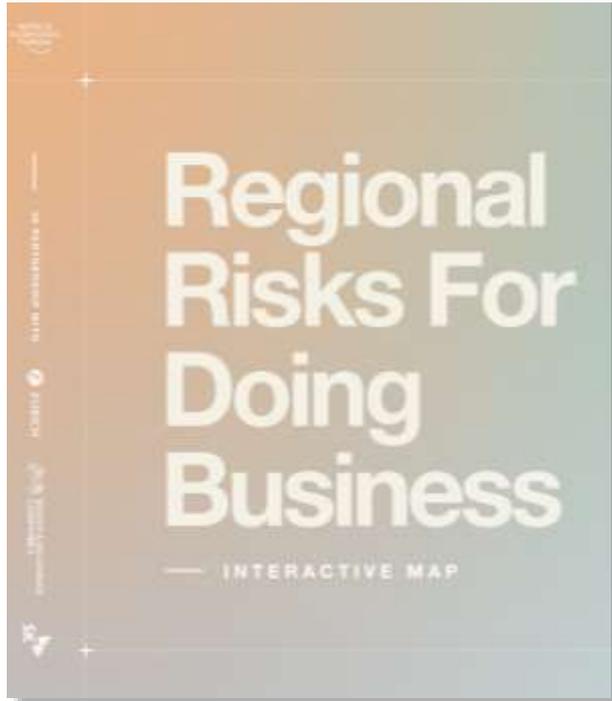
■ Economic ■ Environmental ■ Geopolitical ■ Societal ■ Technological

Source: World Economic Forum 2007-2020, Global Risk Reports.
 Note: Global risks may not be strictly comparable across years, as definitions and the set of global risks have evolved with new issues emerging on the 10-year horizon. For example, cyberattacks, income disparity and unemployment are not included in the set of global risks in 2007-2010. Some global risks have been reclassified: water crises and income disparity were reclassified as societal risks in the 2015 and 2014 Global Risk Reports, respectively.

- 800 risk professionals surveyed annually
- Perception survey
- 10 year outlook
- 2018 4th IR
- 2019 WMDs
- 2020 A Decade Left
- Fear and Opportunity

**What Risks are business leaders
now concerned about as we head
into 2021?**

About the regional risks for doing business 2020



- Data presented here are from a single question in the World Economic Forum's 'Executive Opinion Survey' (EOS).
- This had responses from 12,012 business executives from 127 countries who were asked to give their opinions on the **top 5 global risks for doing business in their country**, out of a total list of 30 risks.
- The findings of the survey are included in the [Regional Risks for Doing Business](#) interactive tool published by the World Economic Forum in partnership with Marsh & McLennan, SK Group, and Zurich Insurance Group.
- Read the [BRINK article](#) (October 8, 2020)

RIPPLES OF COVID-19: BUSINESS LEADERS' CONCERNS FOR THE DECADE TO COME

Global overview

Top 10 global risks for doing business

Rank	Risk	Change vs. 2019
1	Unemployment or underemployment	↑ 2
2	Spread of infectious diseases	↑ 28
3	Fiscal crisis	↓ 2
4	Cyber attacks	↓ 2
5	Profound social instability	↑ 1
6	Failure of national governance	↓ 1
7	Energy price shock	↓ 3
8	Asset bubble	↑ 2
9	Data fraud or theft	↓ 2
10	Inter-state conflict	↓ 2

■ Economic ■ Environmental ■ Geopolitical ■ Societal ■ Technological

Key observations



The fallout of COVID-19 has led to the threat of infectious diseases becoming a top risk for businesses globally



Economic risks remain a top priority but now are exacerbated by the impacts of the pandemic



Social instability continues to concern business leaders, with examples of civil unrest taking place in different parts of the world (Example: US, Belarus, Hong Kong)



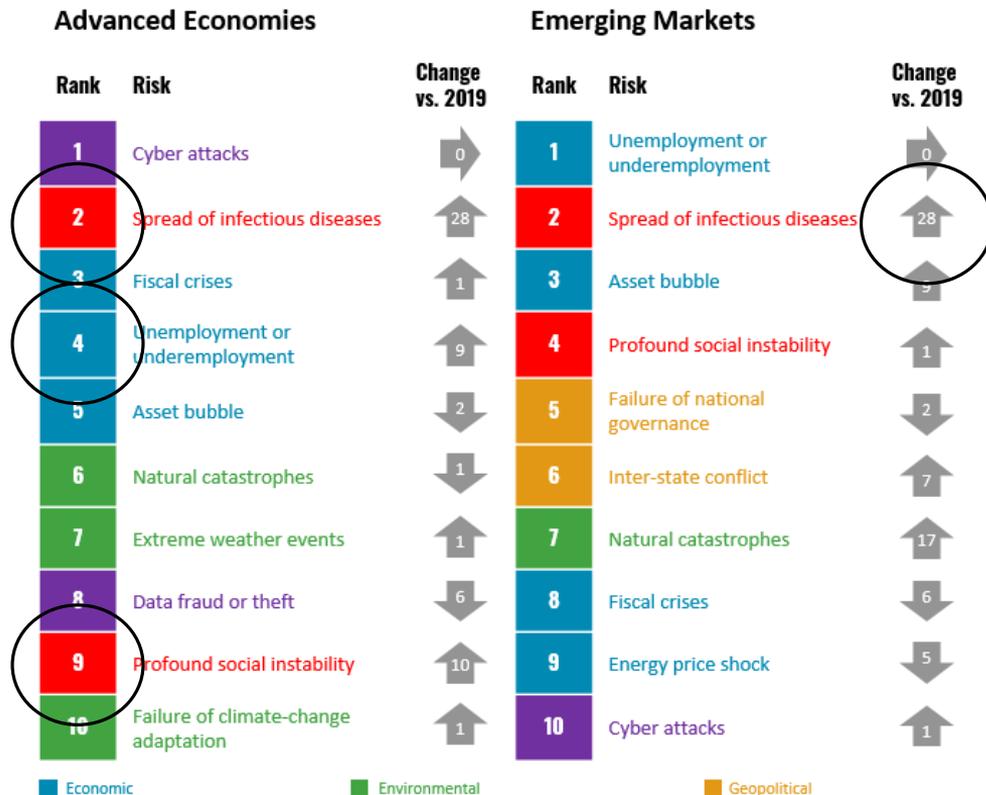
Increasing dependency on digital infrastructure has reaffirmed the dangers of cyber threats and associated technological risks such as data fraud



Environmental risks have gained traction over the past year as businesses around the world see first-hand impacts of climate change and extreme weather events

COMMON RISING CONCERN ABOUT PANDEMICS, BUT CORE DIFFERENCES REMAIN

Analysis for advanced vs emerging markets



Key observations

- The spread of infectious diseases and associated economic risks such as unemployment and fiscal crisis are global concerns
- Executives in **Advanced Economies** remain particularly cautious about cyber risks and environmental impacts
- Executives in **Emerging Markets** reflect unease regarding geopolitical and societal risks

ECONOMIC AND TECHNOLOGICAL RISKS CONTINUE TO BE TOP PRIORITIES AGAINST THE BACKDROP OF NEW PANDEMIC CONCERNS

Advanced economies

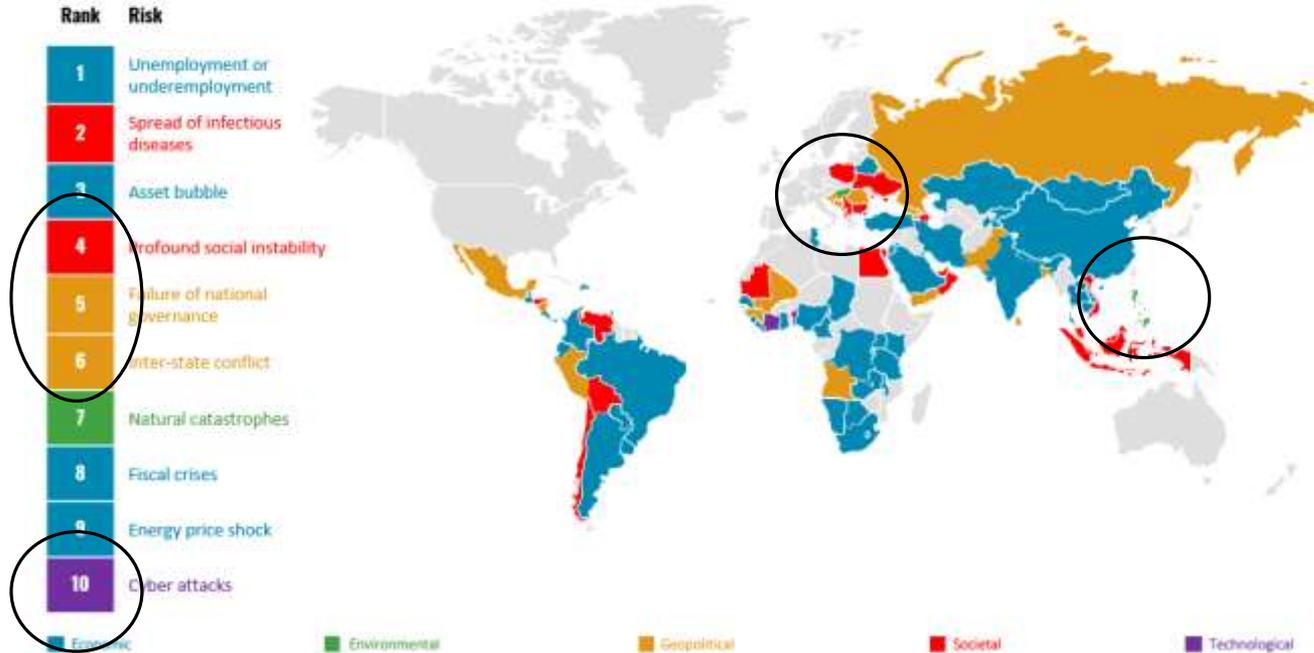


Key Observations

- Unemployment
 - Closely linked to wellbeing and healthcare
 - US hit 14.7% in April '20. Pre-pandemic 3.5% (current 6.9%)
 - NZ unemployment 5.3% up from 3.5%
- Cyber is now the dominant risk for Australia

CONTINUED FOCUS ON ECONOMIC AND SOCIETAL RISKS AS GEOPOLITICAL AND ENVIRONMENTAL CONCERNS RISE

Emerging markets

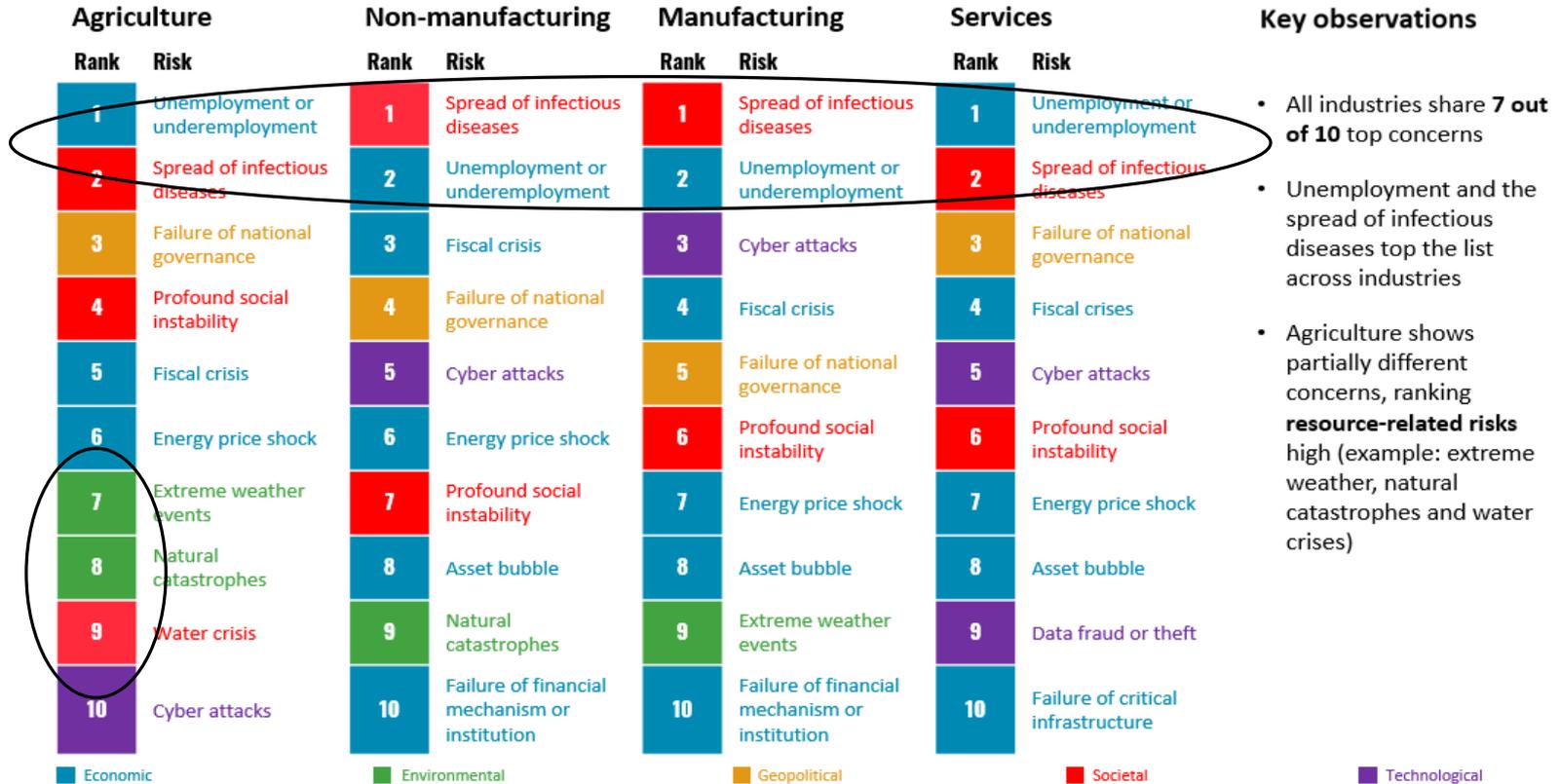


Key Observations

- Interstate conflict up 7 places
- Social Instability and national governance failure complicates COVID19 response
- Cyber in the top 10 for the first time
- Nat Cat is up 17 places!

SIMILAR TOP CONCERNS ABOUT PANDEMIC, UNEMPLOYMENT AND NATIONAL GOVERNANCE ACROSS DIFFERENT BUSINESS SECTORS

Industry perspective



New Zealand



2019, New Zealand's Top 5

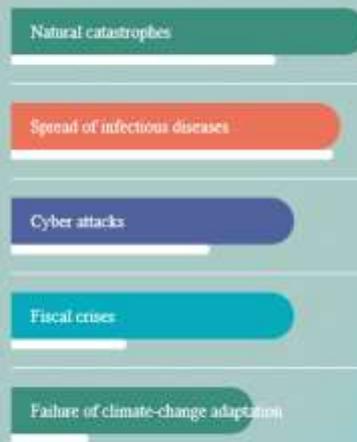


Top Perceived Risks

ECONOMY SCORE

REGIONAL SCORE

- ECONOMICAL
- GEOPOLITICAL
- ENVIRONMENTAL
- SOCIETAL
- TECHNOLOGICAL



Risk Perception 2020	SHARE
Natural catastrophes	55%
Spread of infectious diseases	49%
Cyber attacks	42%
Fiscal crises	42%
Failure of climate-change adaptation	36%
Unemployment or underemployment	31%
Extreme weather events	27%
Failure of critical infrastructure	27%
Asset bubble	22%

A blurred, high-angle photograph of a multi-lane highway with traffic, overlaid with a semi-transparent blue filter. The image is used as a background for the text.

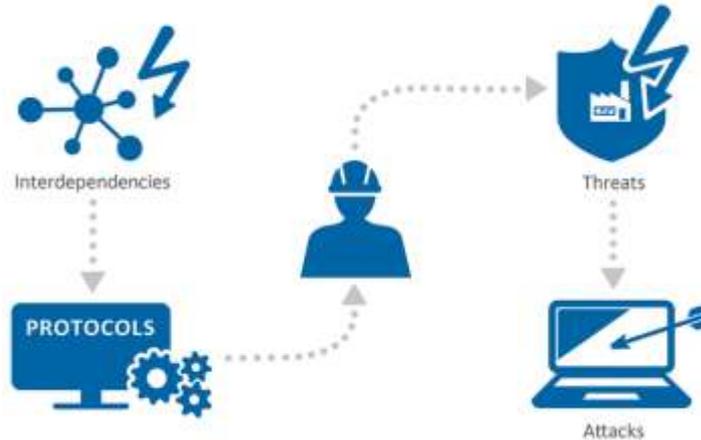
How has the insurance market responded?

Cyber Risks

Cyber

Advanced Economies

Rank	Risk
1	Cyber attacks
2	Spread of infectious diseases
3	Fiscal crises
4	Unemployment or underemployment
5	Asset bubble



- Top 5 advanced economy risk for 4th year running
- Up 24 places in emerging economies
- Increasing reliance on digital infrastructure
- Working from home (NZ 3rd 1/4 attacks up 33%)
- Geopolitical power shifts (China/US/Australia)

Data Protection

- TWO YEARS ON, GENERAL DATA PROTECTION REGULATION (GDPR) CONTINUES TO SHAPE GLOBAL DATA PRIVACY REGULATION
- GDPR has served as a catalyst and a reference point for drafting new data privacy laws, overhauling existing laws.

Data Protection – New Zealand

- New Zealand's long-awaited **Privacy Bill** was passed through Parliament in late June and is due to be implemented on December 1, 2020.
- Among the key reforms is the introduction of **mandatory notification** of harmful privacy breaches to increase transparency.
- This means that if organisations have a privacy breach that poses a risk of serious harm, they are required by law to **notify the Privacy Commissioner and affected parties**.

Silent Cyber

- **The 2017 NotPetya and WannaCry** cyber events losses exceeding US8 billion and insured losses estimated at US3.6 billion on both affirmative and **non-affirmative (silent)** covers globally.
- **Lloyd's issued its Market Bulletin Y5258 (07/2019), and Y5277 (Jan2020)** to provide clarity on the cyber exposure in all their policies
 - This requirement was introduced to ensure that cyber risks and accumulations are understood by all relevant stakeholders, from the boards of directors to junior underwriters, pricing and capital actuaries and exposure analysts.
 - focused on driving the **eradication of silent cyber** from traditional lines of insurance by encouraging insurers to identify the exposure and either **clearly exclude or affirmatively include** it.

Cyber - Future Risk Developments

WHAT DOES THE FUTURE HOLD?

- To mitigate of the potentially catastrophic impact of silent cyber within non-cyber lines of business, **re/insurers require an effective means of qualifying and quantifying the risk** of silent cyber across their whole portfolios.
- **Regulators and re/insurers will all continue to clarify their respective intentions** and appetites for cyber in standalone policies and inclusion of cyber in traditional lines.
- This should give **clients greater clarity** of the intent of coverage under their insurance contracts, though there will be some tough negotiations in situations where clients believe they are potentially losing coverage.

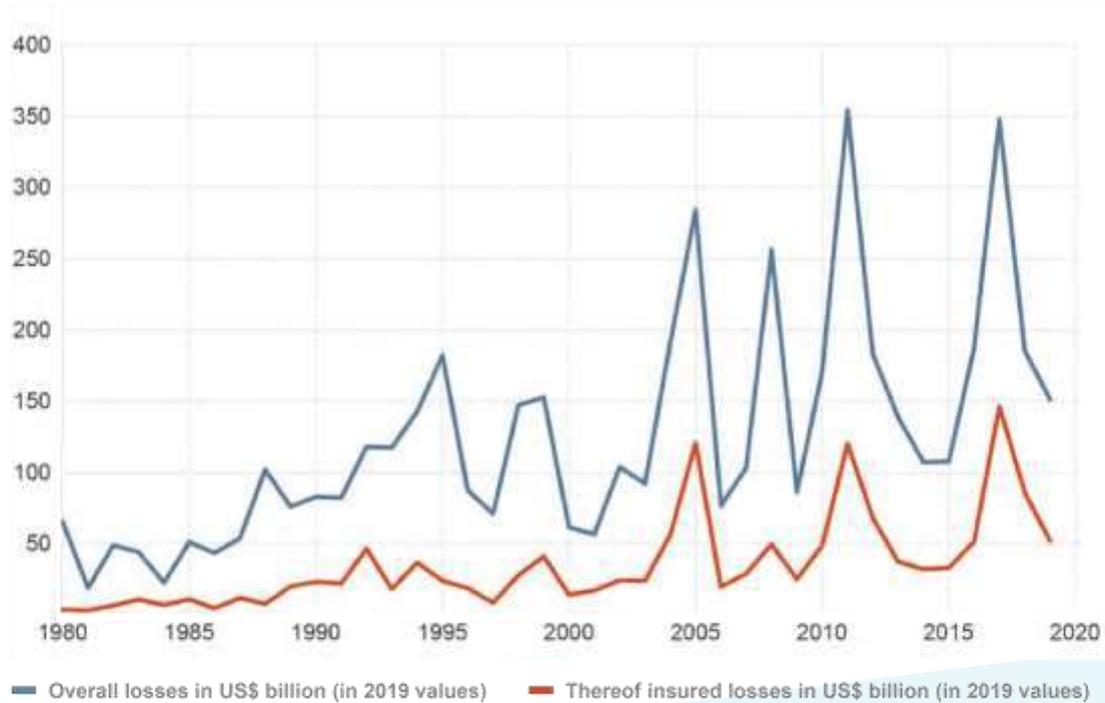
Natural Catastrophe

and the growing protection gap

Climate Change and Insurance Market

Natural Catastrophe Losses 1980-2019

Munich Re NatCatService



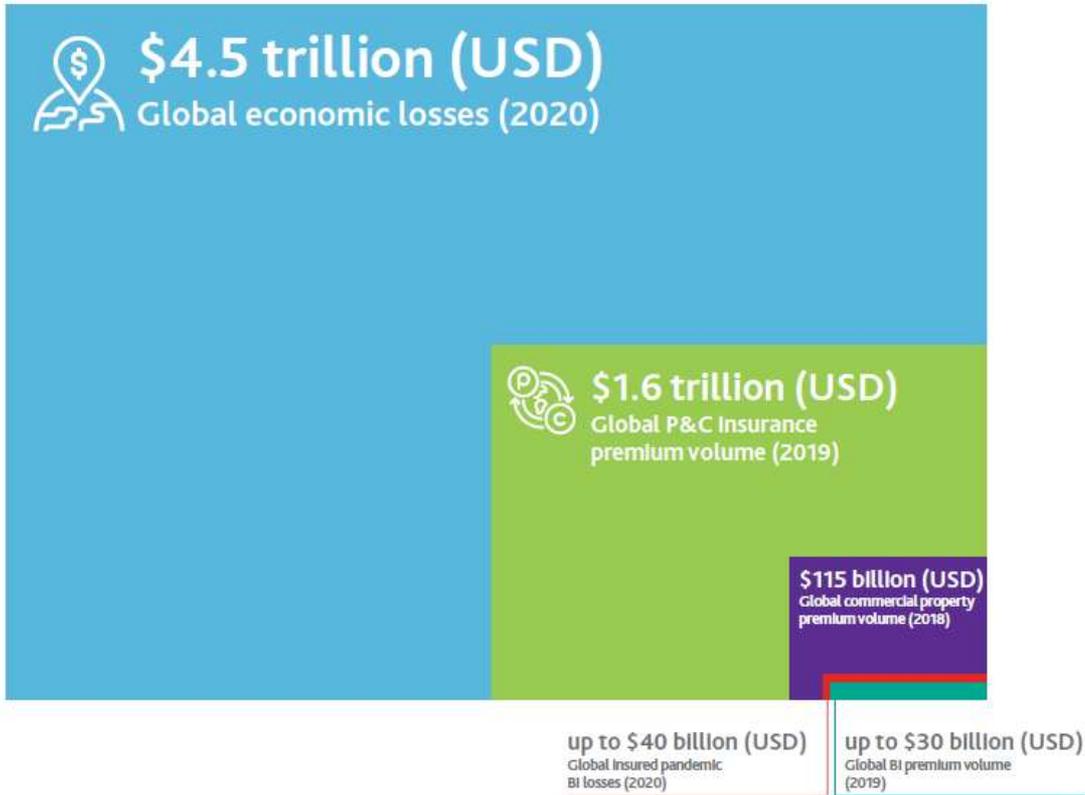
Source: Munich RE, NATCAT Service

COVID-19

and the growing protection gap

Figure 1: An illustration of the global pandemic BI protection gap

All figures are estimates.



Source: The Geneva Association (based on The World Bank 2020, McKinsey 2020a and contributions from Allianz Research)

For 2020, the World Bank currently expects a 5.2% contraction of the global economy amounting to more than USD 4.5 trillion in lost output.

Pandemics and the Insurance Industry

- Pandemics are not usually a “Black Swan” event for the insurance sector
- Experience since 1918 illustrates that pandemics are more of the order of one in 30-year events
- Insurers are impacted by COVID-19 in numerous, compounding ways:
 - Asset values and liquidity
 - Large losses for travel, event cancellation, mortality and morbidity
 - Large reserves for 2nd waves losses in D&O and US casualty markets (Vic Govt Hotel Quarantine)
 - Operational challenges such as new business declines, client base reductions
 - Increased reporting, disclosure, and solvency related activity is being taken by regulators such as APRA and RBNZ, AM Best, S&P, Fitch (New India downgrade)

The Future

- The COVID-19 situation will reignite the debate about what exactly the role of insurance should be in our rapidly evolving and volatile world
- The business interruption issue brings back into focus the question of how best to mitigate major structural and societal risks and the **growing protection gap** trend
 - How can insurers price such policies and will customers have the appetite for this cover given the cost?
 - Where do governments fit into the equation?
- Pandemic risk pool where governments ultimately provide the backstop in cases that rise to a catastrophe.

The Business Interruption Debate



- AFCA and ICA COVID19 BI test case (Quarantine Act).
 - New South Wales Supreme Court of Appeal found against insurers
 - IAG entered a trading halt on 19 November and successfully raised \$750m
- FCA (UK) High Court test case (Oct 2020) found in favour of all four policy arguments advanced on behalf of policyholders

Directors and Officers

and the growing protection gap

Directors & Officers - Programme Drivers



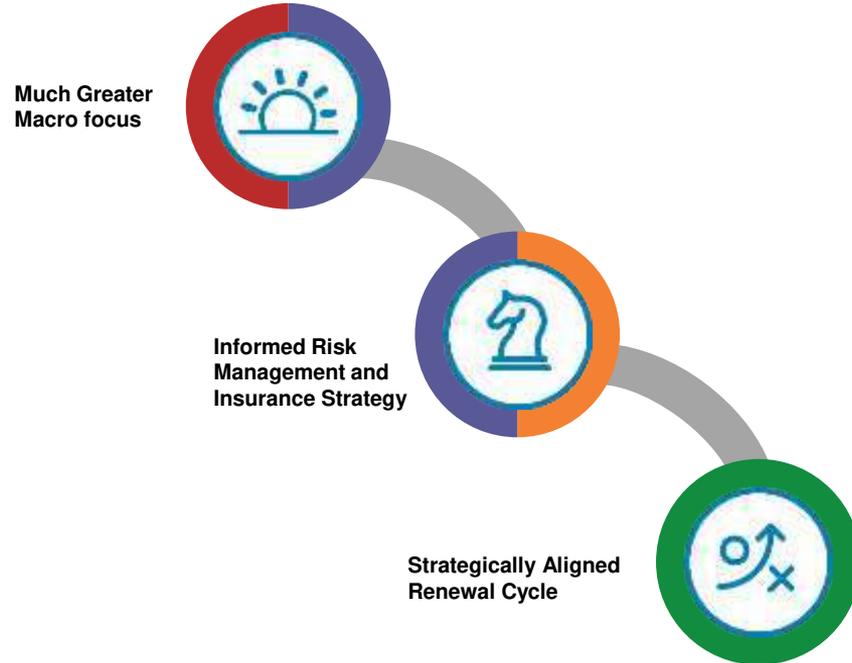
Key Observations

- Relatively “young” class of insurance
- Not just about fiduciary obligations
- Heavily influenced by macro trends
- Distressed insurance class

Strategic Agility

The background of the slide is a blue-tinted photograph. In the center, there is a diamond-shaped road sign with a white border and a dark silhouette of a kangaroo. The sign is positioned on a road that curves to the right. The surrounding area is filled with dense, green vegetation, including trees and bushes. The overall image has a monochromatic blue color scheme.

Project Framework



Questions



Disclaimer: The information contained in this document is confidential, may be privileged, and is intended for the use of the individual or entity named above. If you, the reader of this message, are not the intended recipient, the agent, or employee responsible for delivering this transmission to the intended recipient, you are expressly prohibited from copying, disseminating, distributing or in any other way using any of the information in this document.

Copyright © 2020 Marsh Limited. All rights reserved. S20-1452