

(Tentative and Preliminary!)
Lessons to be learnt by
insurers and reinsurers
from the Covid-19
pandemic

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RVS Virtual Conference
September 15, 2021

Some of our most engrained habits have changed...
... and the crisis is still going on, inviting to humility and prudence!

Daily check

Wallet

Keys

Phone

and...



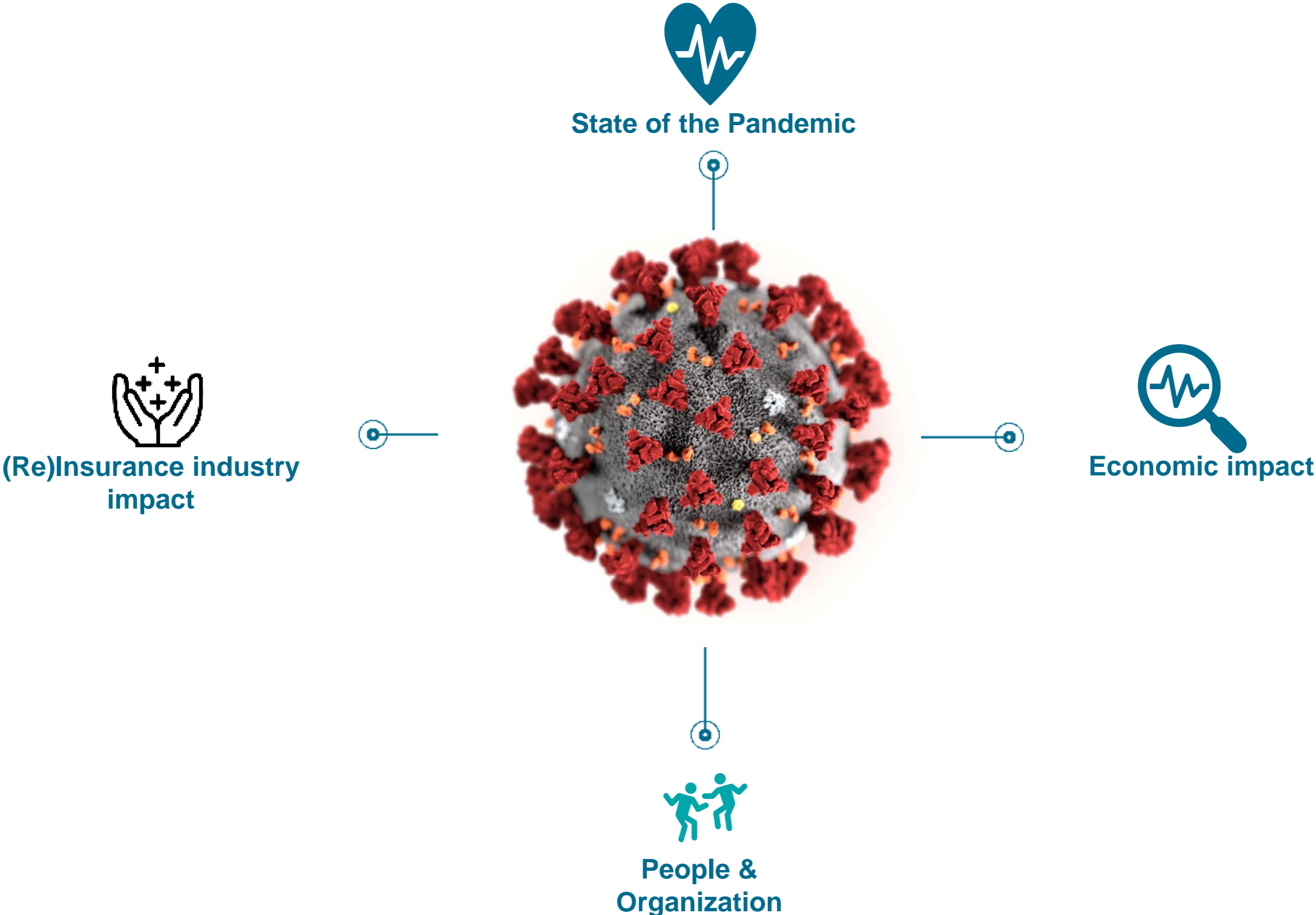
Tentative and preliminary
lessons to be learnt by insurers and reinsurers from the
Covid-19 pandemic

① How has the virus shaped the world?

② Outlook for the next decade

③ (Re)insurers: “Mind the (protection) gap”

How has the virus shaped the world?



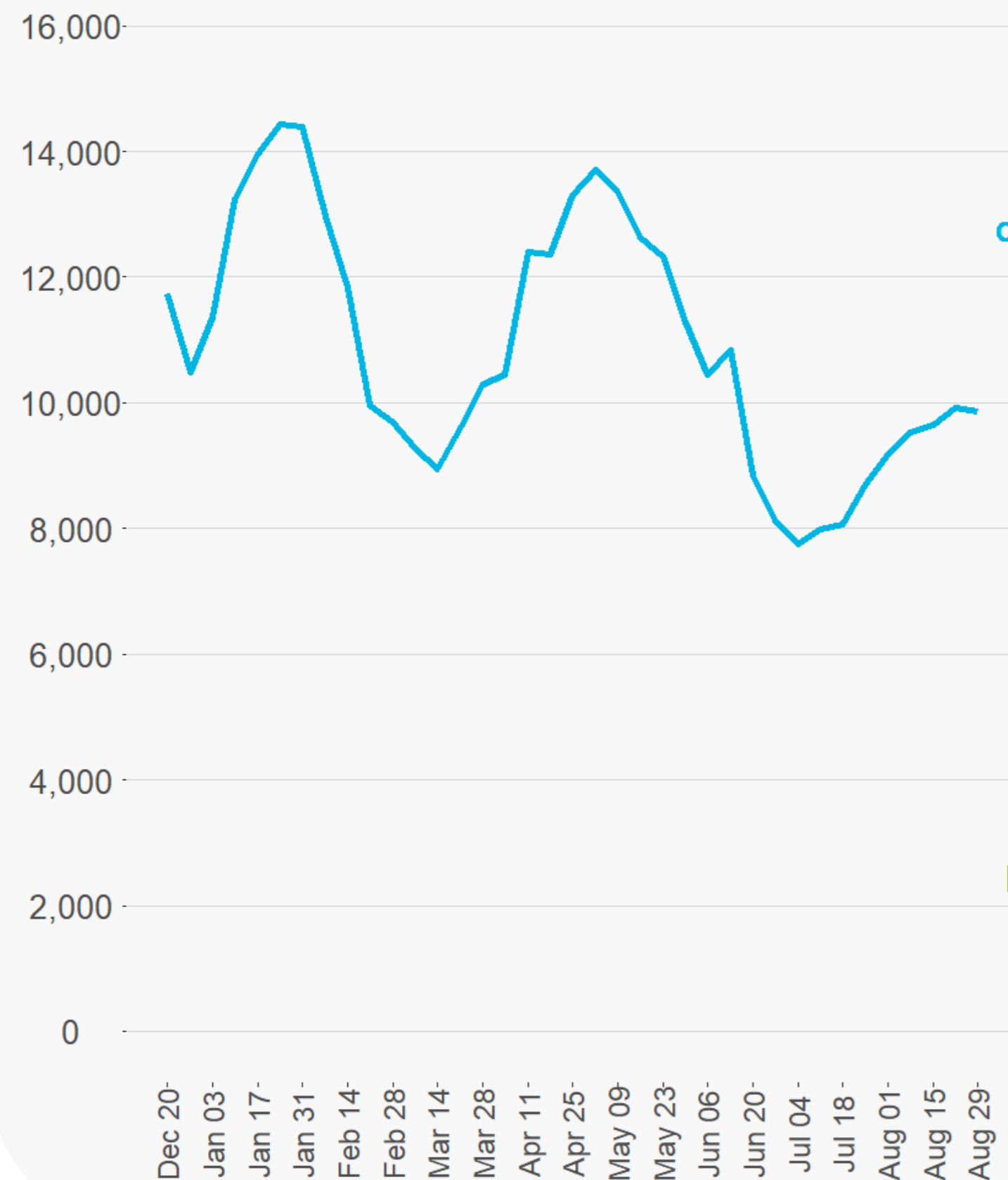
The total number of COVID-19 cases recorded since the beginning of the pandemic now stands at around 155m people, with a total number of deaths now close to 3.3m



DEATHS

DEATHS

Daily number of new deaths as a 7-day rolling average



9,860
new deaths
on August 29th, 2021
(7-day average)

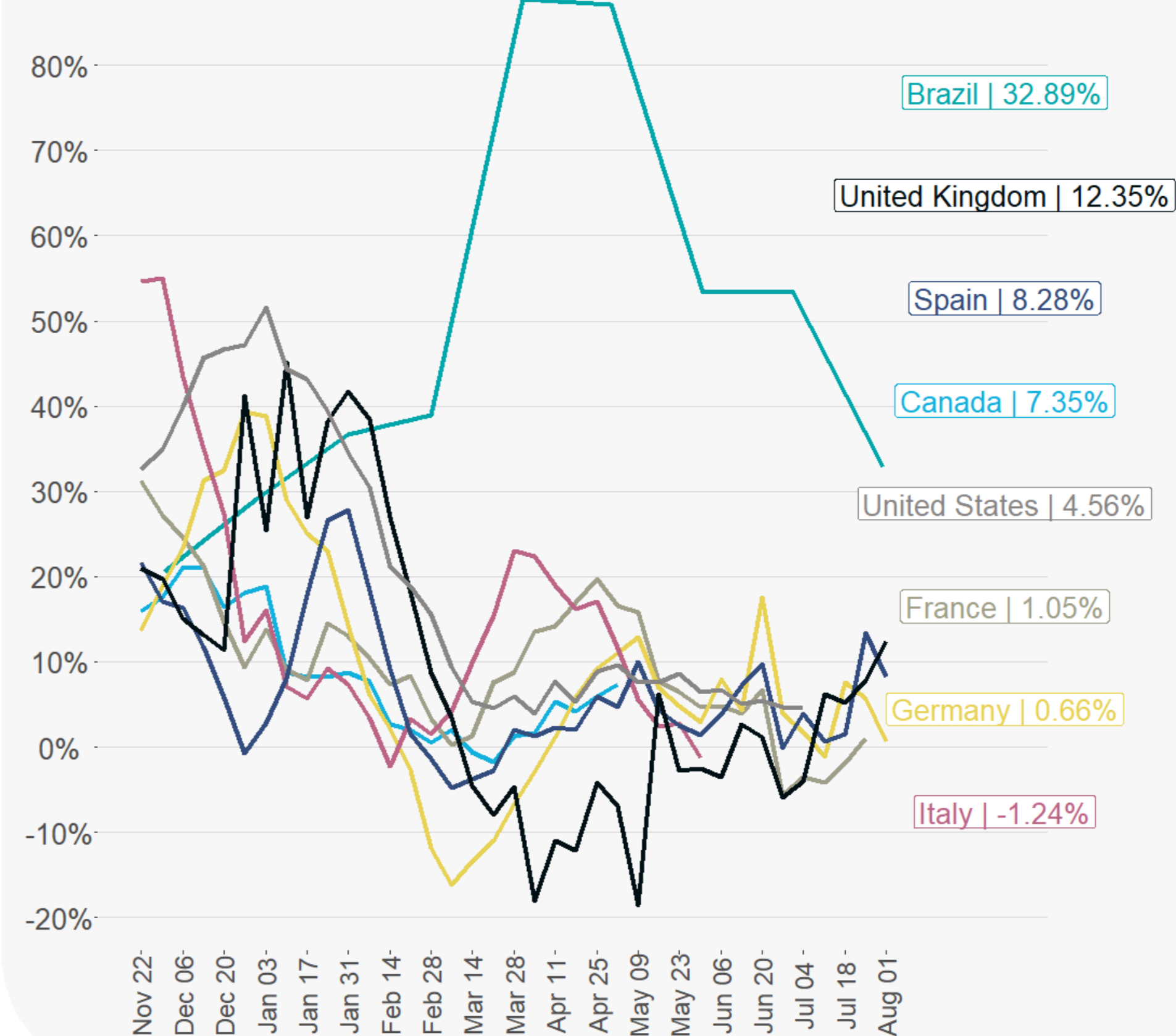
4.5M
total deaths

0.88
weekly new deaths
per 100k inhabitants

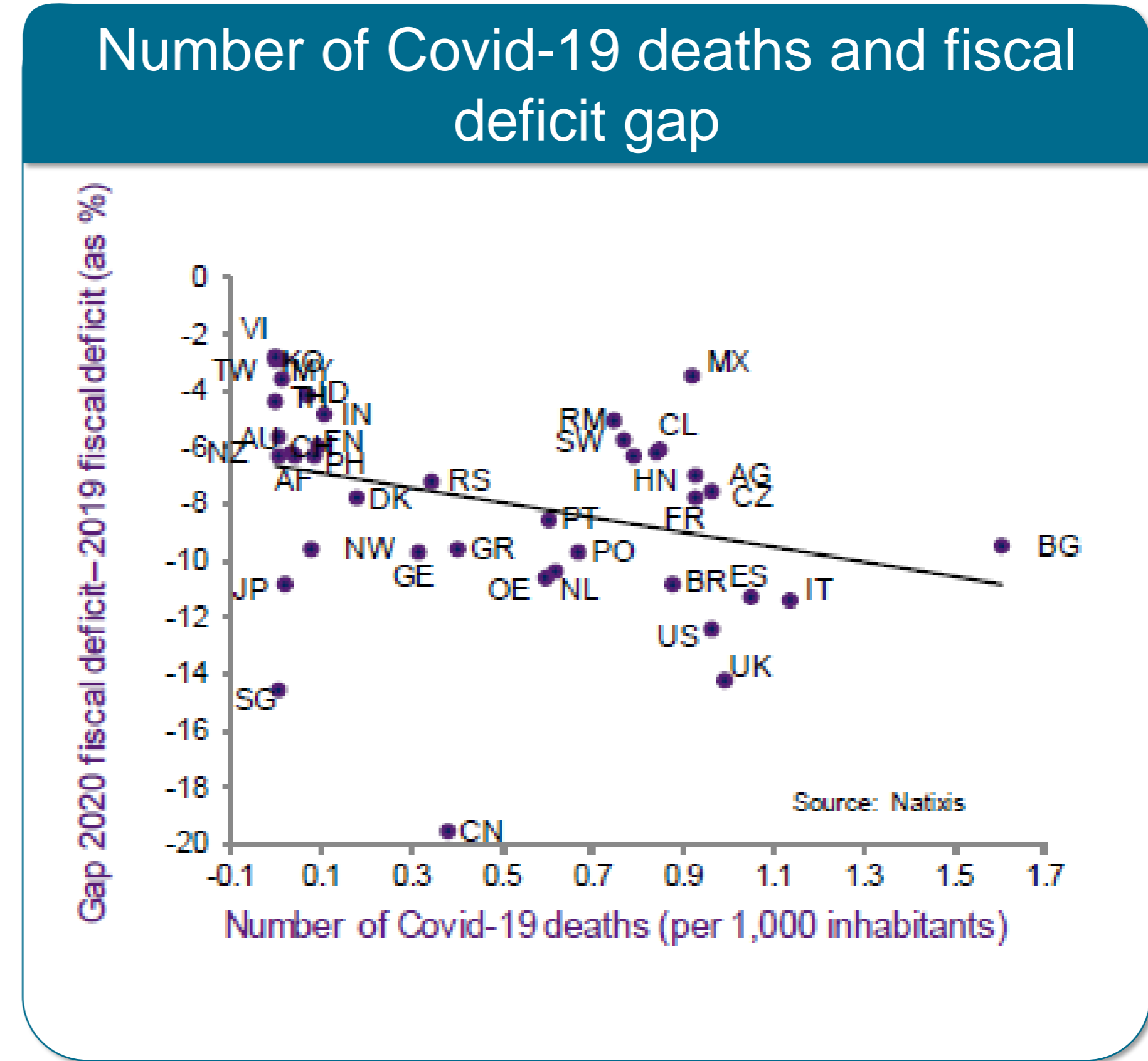
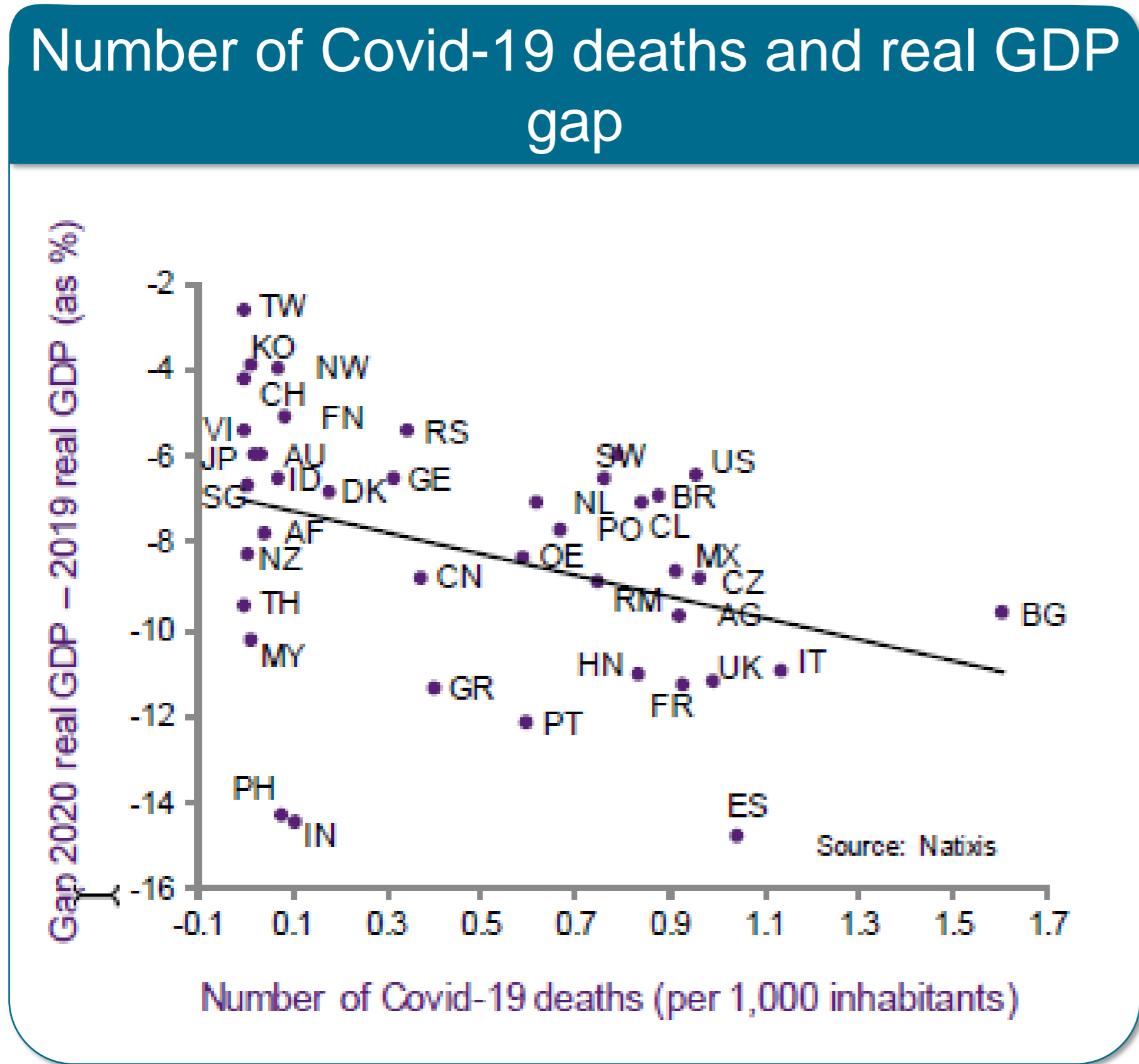
EXCESS MORTALITY

EXCESS MORTALITY

Weekly excess mortality (in %) in 2020 vs. 2015-19 average



Understanding there is no conflict between health and the economy



- The above shows that **health and the economy are complementary**: the countries with the fewest deaths from COVID are also the ones that have lost the least growth and have been the least reliant on fiscal deficits.
- Contrary to what is often claimed, a higher number of COVID cases does not need to be accepted in order to save the economy

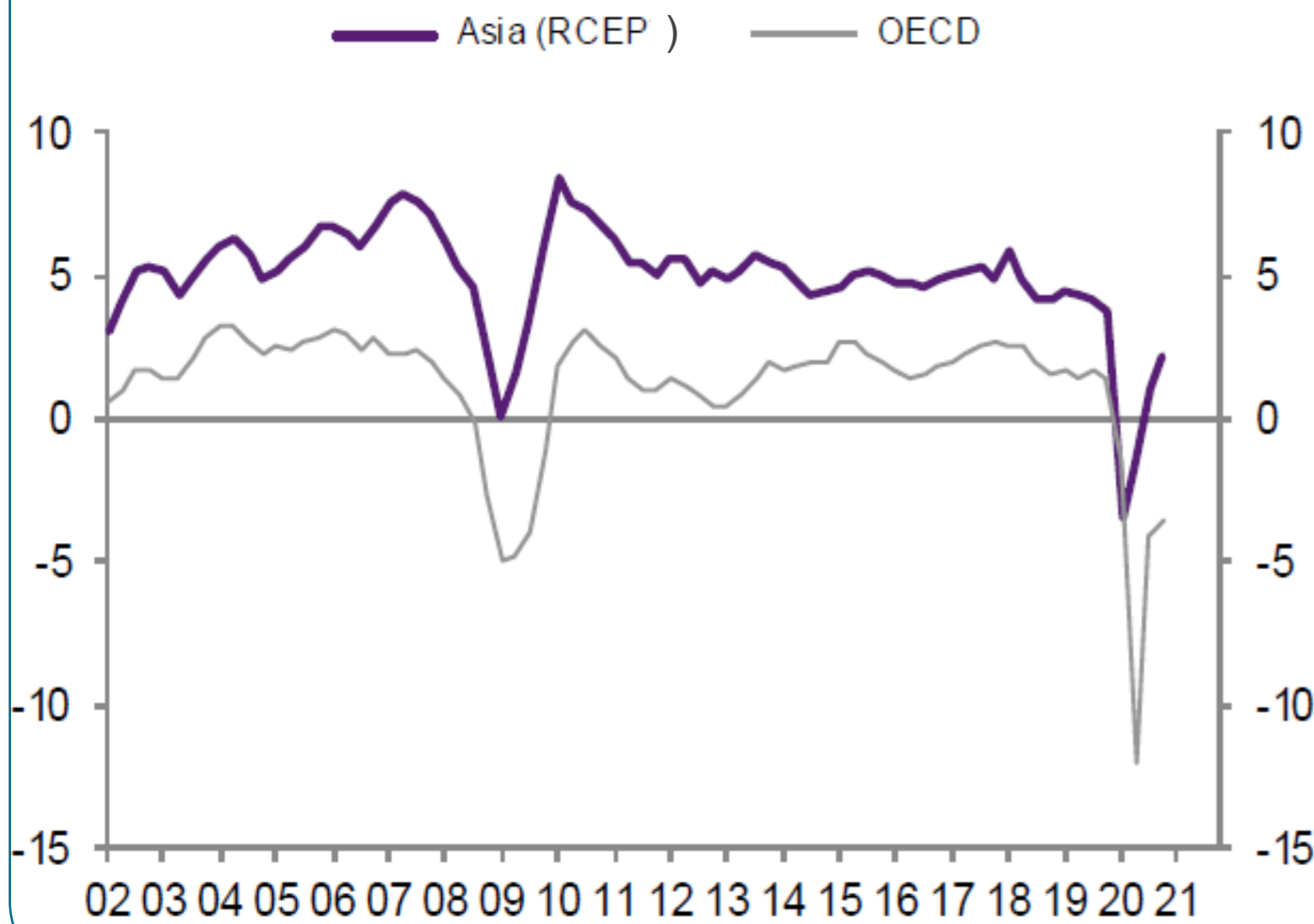
Economic challenges are forming



Economic impact

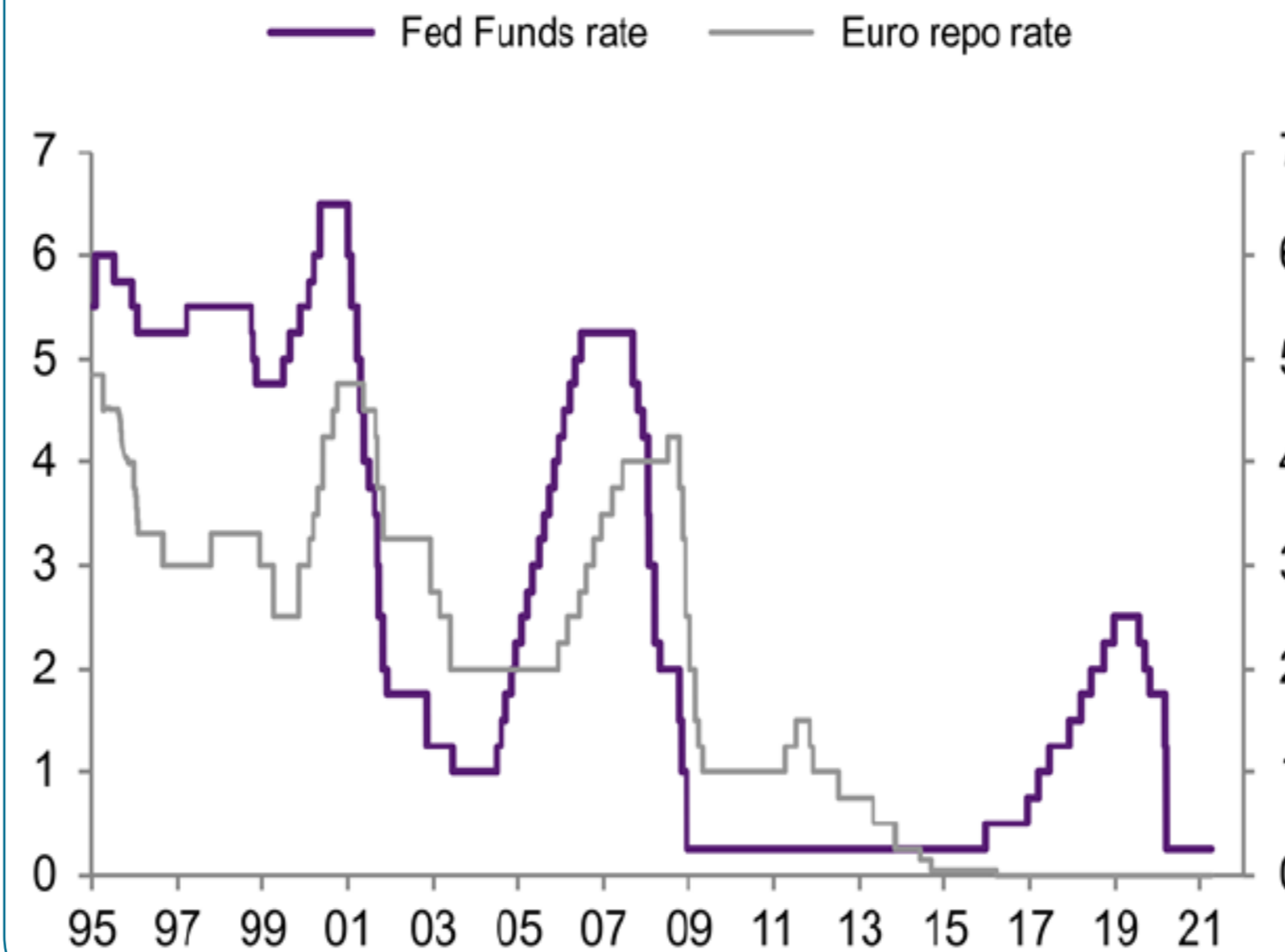
Economic Growth: Asia powering ahead¹

Real GDP



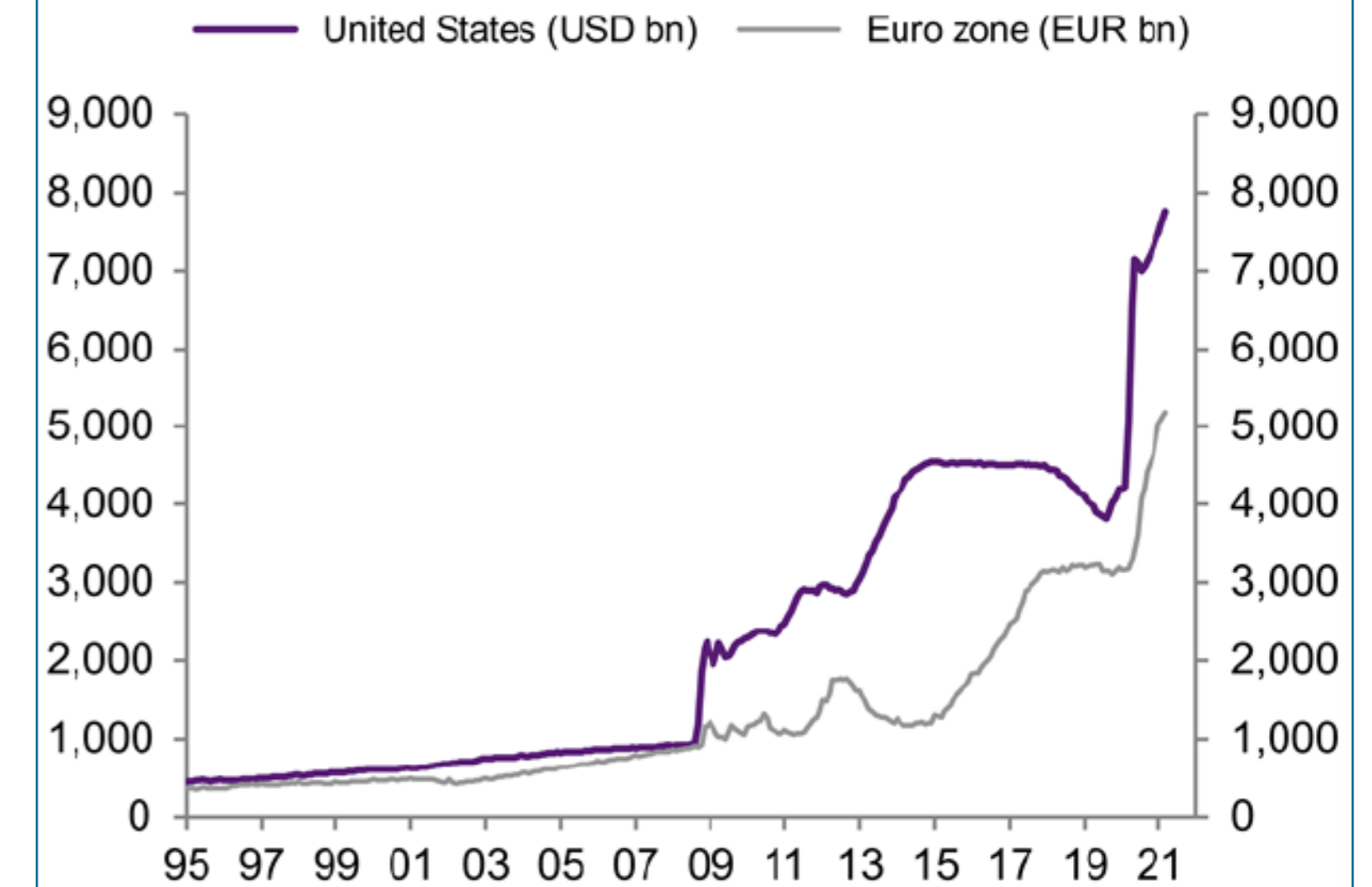
Interest rates: to the floor

Central banks' policy



Monetary base: booming

Effects of a perpetually expansionary monetary policy

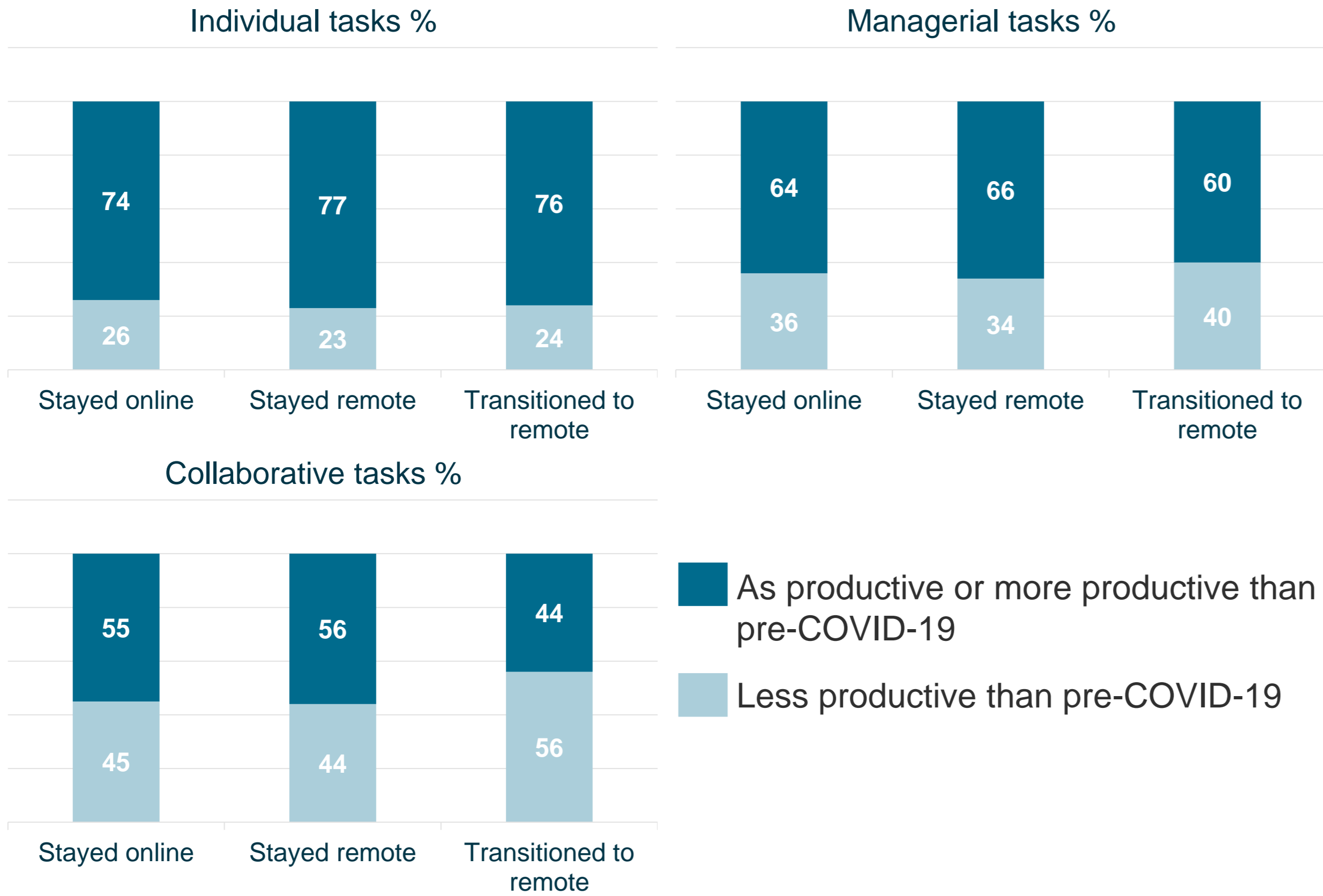


Source: Datastream, BEA, Eurostat, Natixis - What is behind the decline in the elasticity of global trade to global GDP? (8 March 2021); What choices for central banks if Phillips curve effects have disappeared? (8 April 2021)

1. 15 RCEP countries (Regional Comprehensive Economic Partnership: 10 members of the Association of Southeast Asian Nations (ASEAN) + the five regional countries with which ASEAN has free trade agreements: Australia, China, Japan, South Korea, New Zealand)

Working from home uncovered many opportunities, and increased risks

Work from home and efficiency: not a one size fits all¹



Cyber attacks on the rise²



Ransomware attacks:
x 7



Covid themed emails:
40% are spam

Source: SCOR
 1. Source: BCG, « What 12,000 Employees Have to Say About the Future of Remote Work”
 2. Source: Bitdefender Report Mid-Year Threat Landscape Report 2020

While pandemics have always had a prominent place in the galaxy of emerging risks that (re)insurers face, Mental health appeared last year



Trends

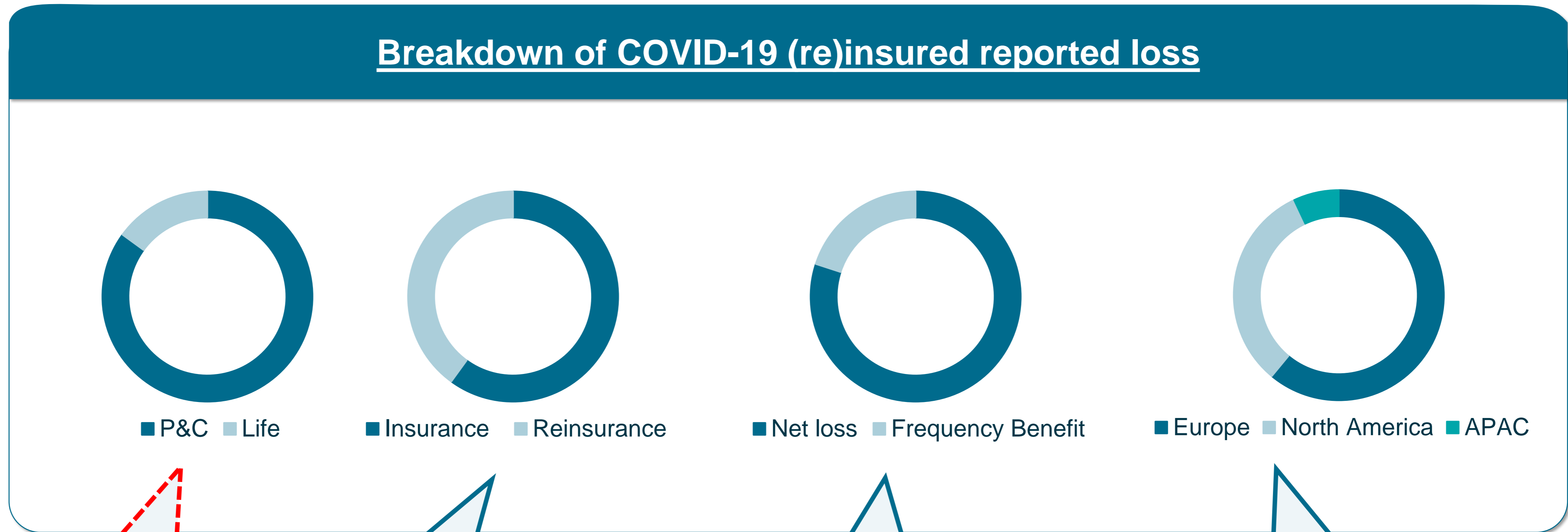
-  GLOBAL CLIMATE CHANGE
-  DETERIORATION OF THE ENVIRONMENT
-  EVOLVING HEALTH TRENDS
-  CHANGING DEMOGRAPHICS
-  SHIFTING SOCIAL & GEOPOLITICAL LANDSCAPES
-  EMERGING TECHNOLOGIES
-  HYPER CONNECTIVITY
-  NEW BUSINESS & FINANCE MODELS

Legend

-  Linkage to trend
-  Emerging Risk
-  New in 2021
- Potential impact for SCOR:**
-  Highly critical
-  Critical
-  Low critical
- Likelihood of occurrence in the next 10 years:**
- High 
- Medium 
- Low 

Impact and likelihood based on the worst-case scenario assessed

The Covid-19 pandemic looks set to be much more of a P&C shock than a Life shock in terms of estimated claims



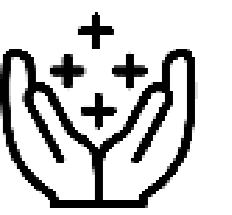
This is the biggest 'surprise' of the crisis, because it's the exact opposite of what, broadly speaking, had been anticipated and modelled for pandemic risk!

The Pandemic is still at work – full effects and contractual responsibilities are a complex matter – resolution will take years

Difficult to distinguish for a global, systemic crisis what is due to the strict Covid impact

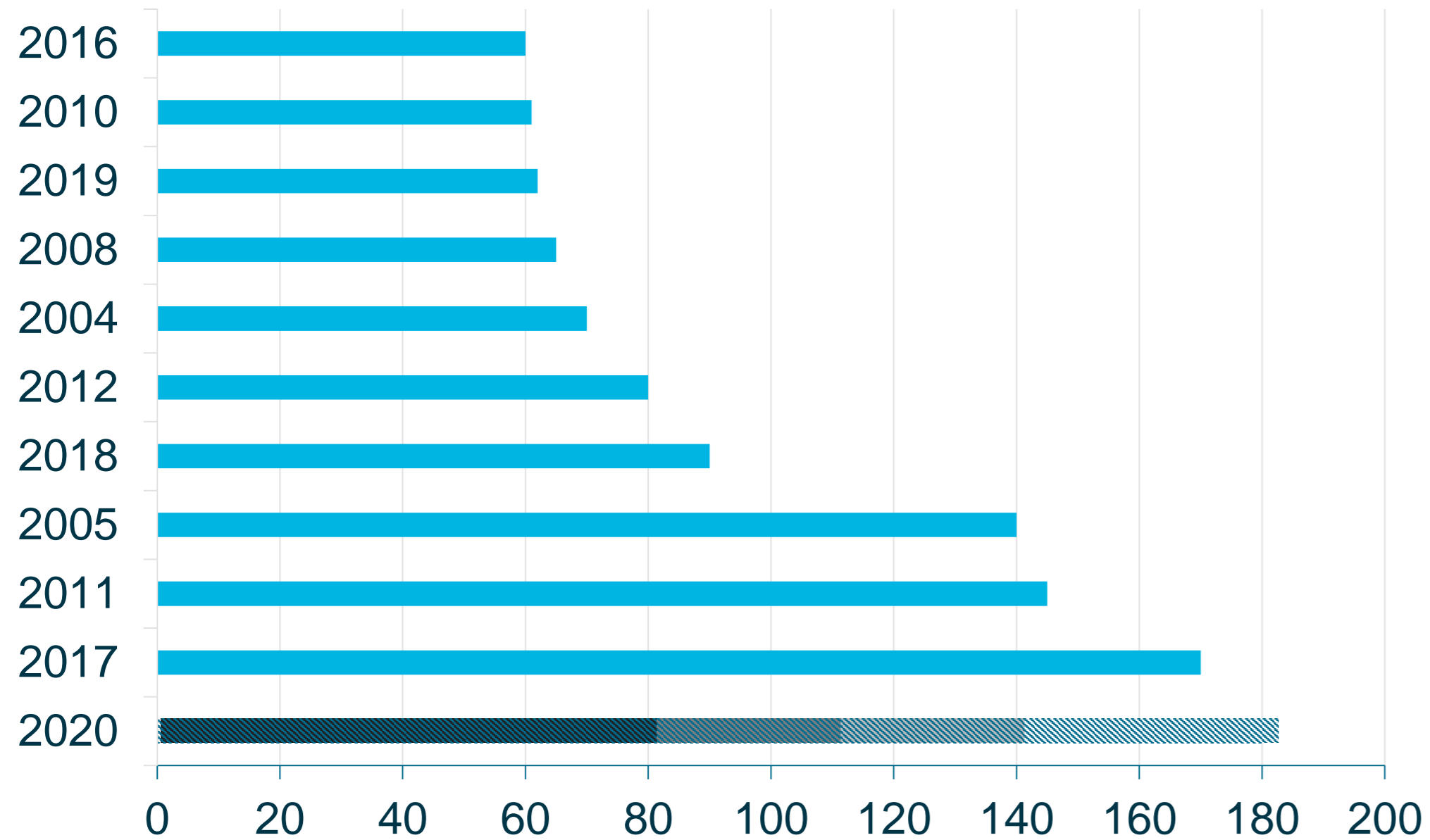
Wording clarity, and explicit exclusions in the US are such that Europe represents the largest source of (re)insurance exposures

The Reinsurance industry is playing its shock-absorbing role...



(Re)Insurance industry impact

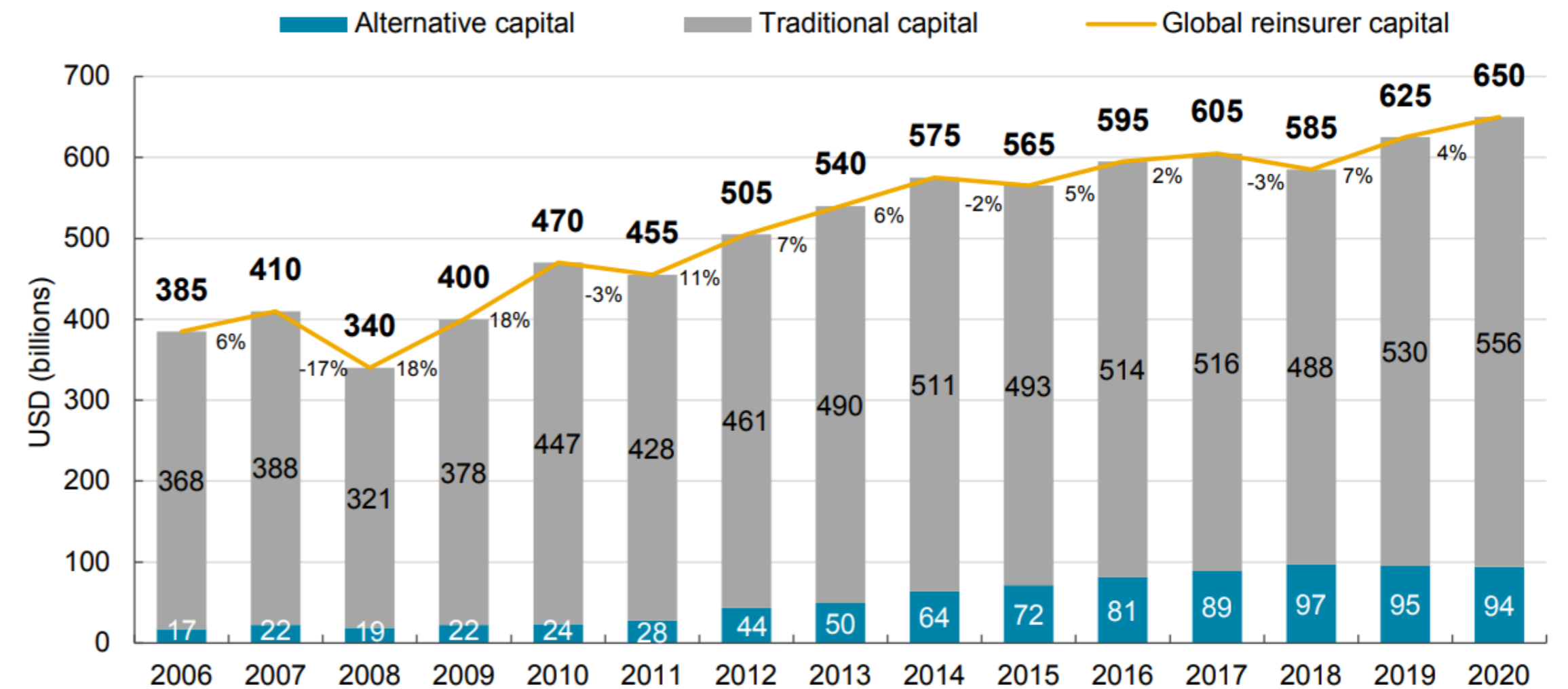
Over the past few years, cat losses have been exceptionally high ...



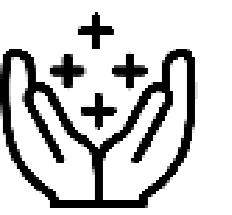
USD billion (inflation-adjusted)

- Catastrophe losses
- COVID-19 reported losses 9M20
- Consensus projection for ultimate COVID-19 loss
- Aggressive projections for ultimate COVID-19 loss

... yet Reinsurance capital remains rather stable

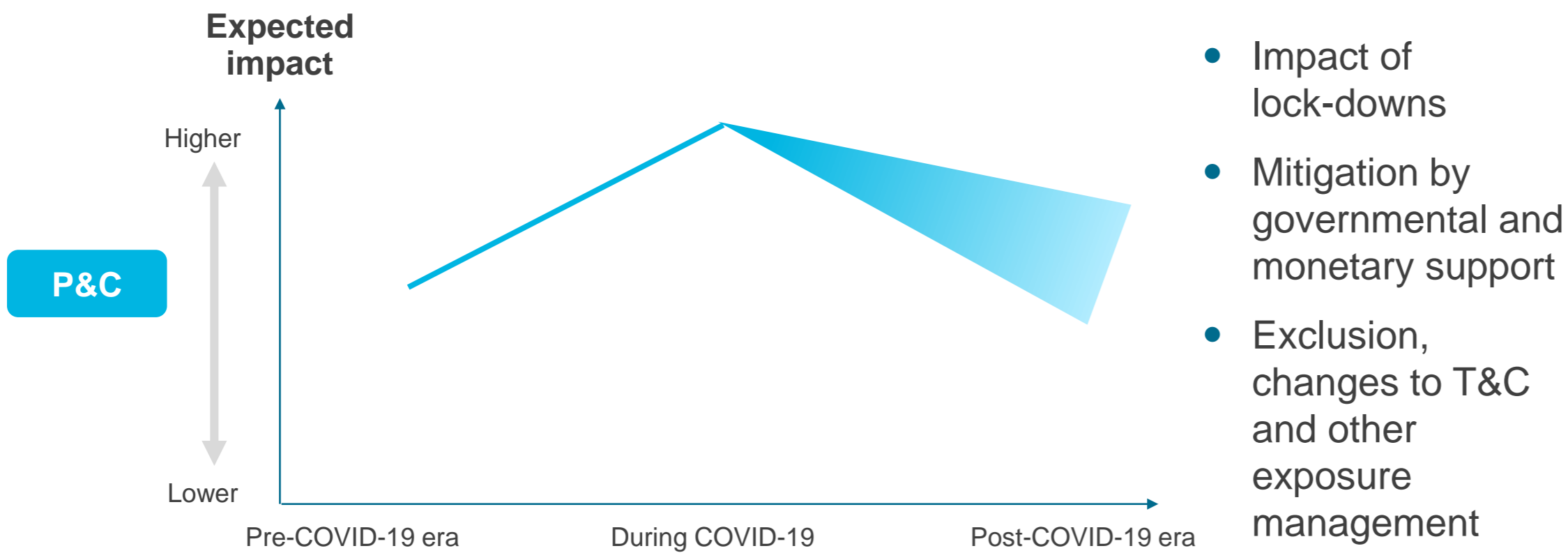
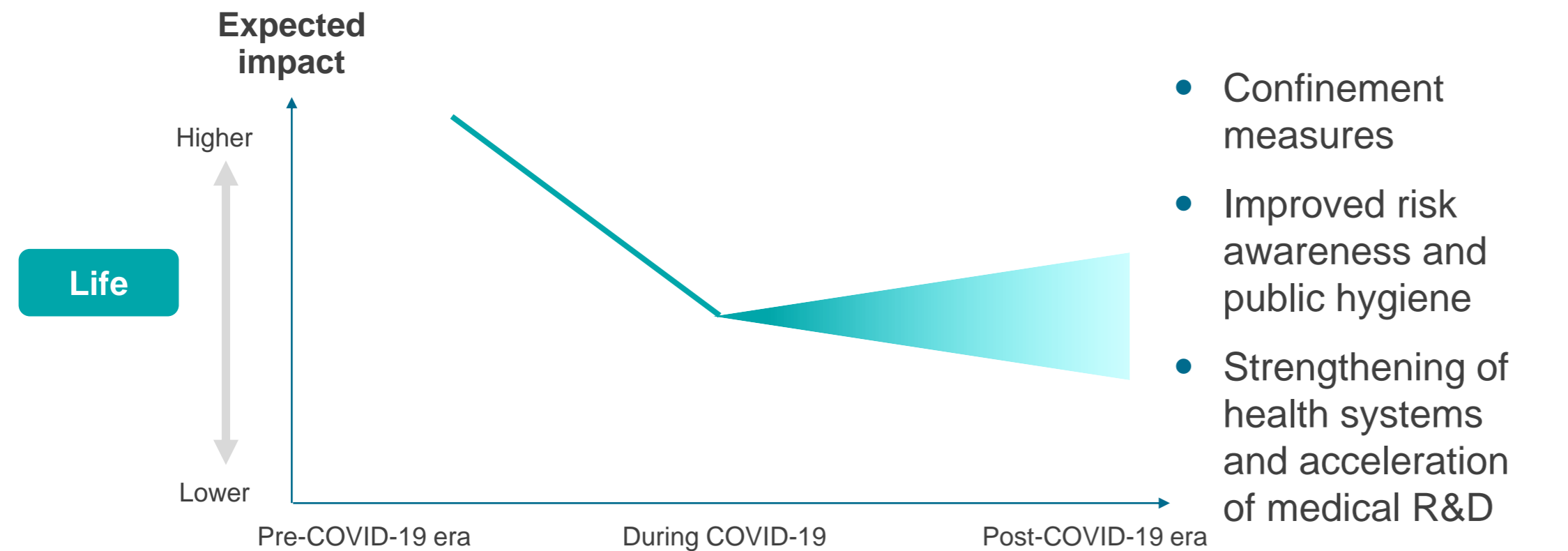


... while uncertainties remain extremely high on all types of risks...

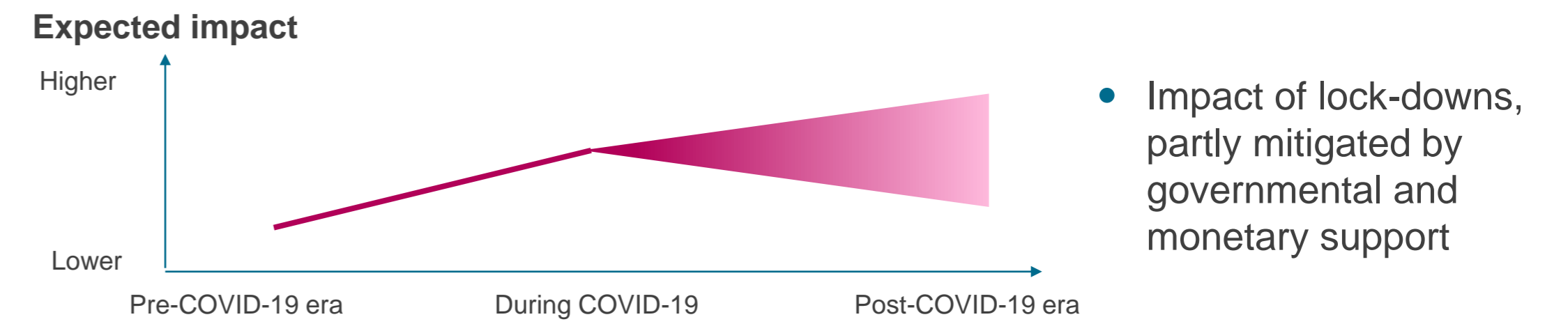


(Re)Insurance industry impact

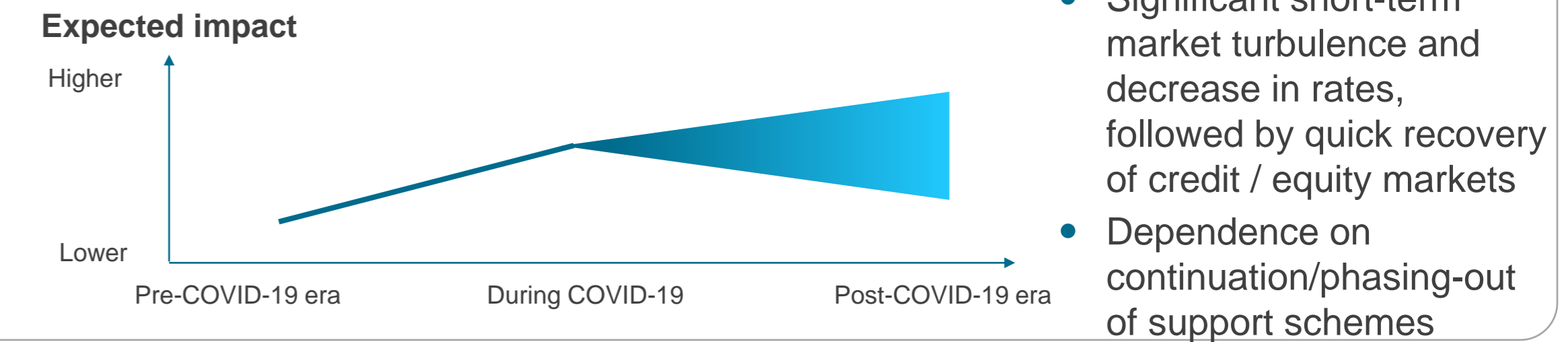
Underwriting



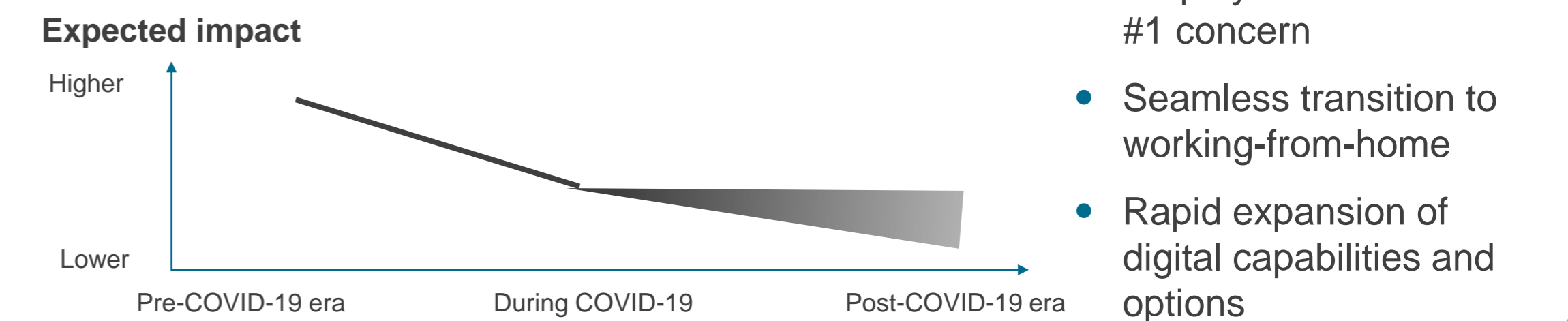
Credit



Financial Markets

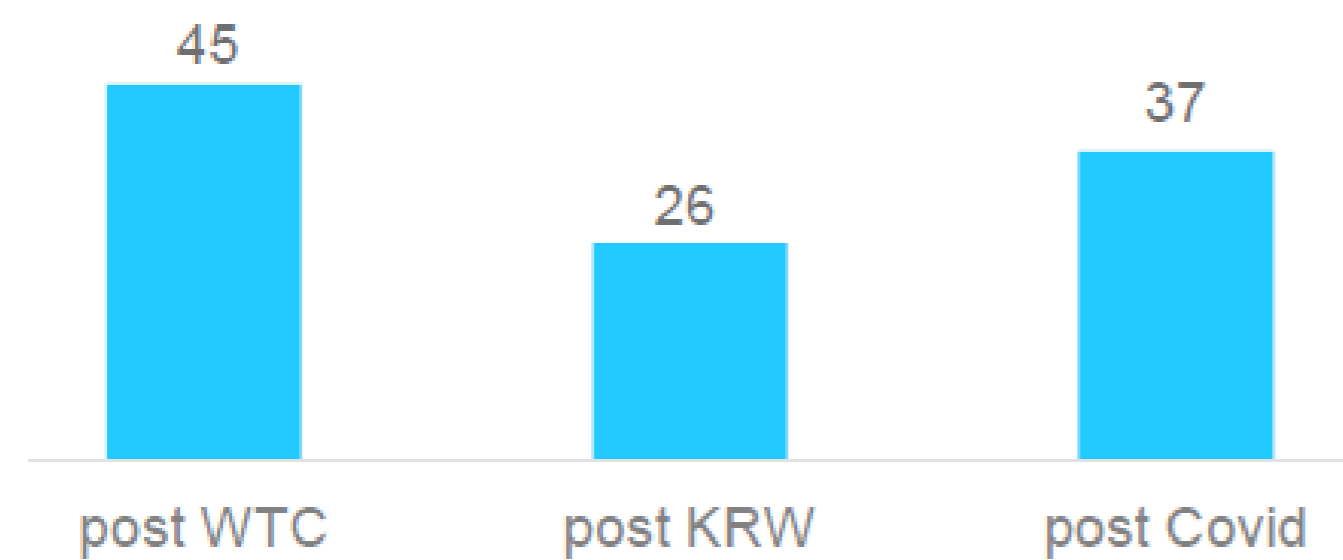


Operational

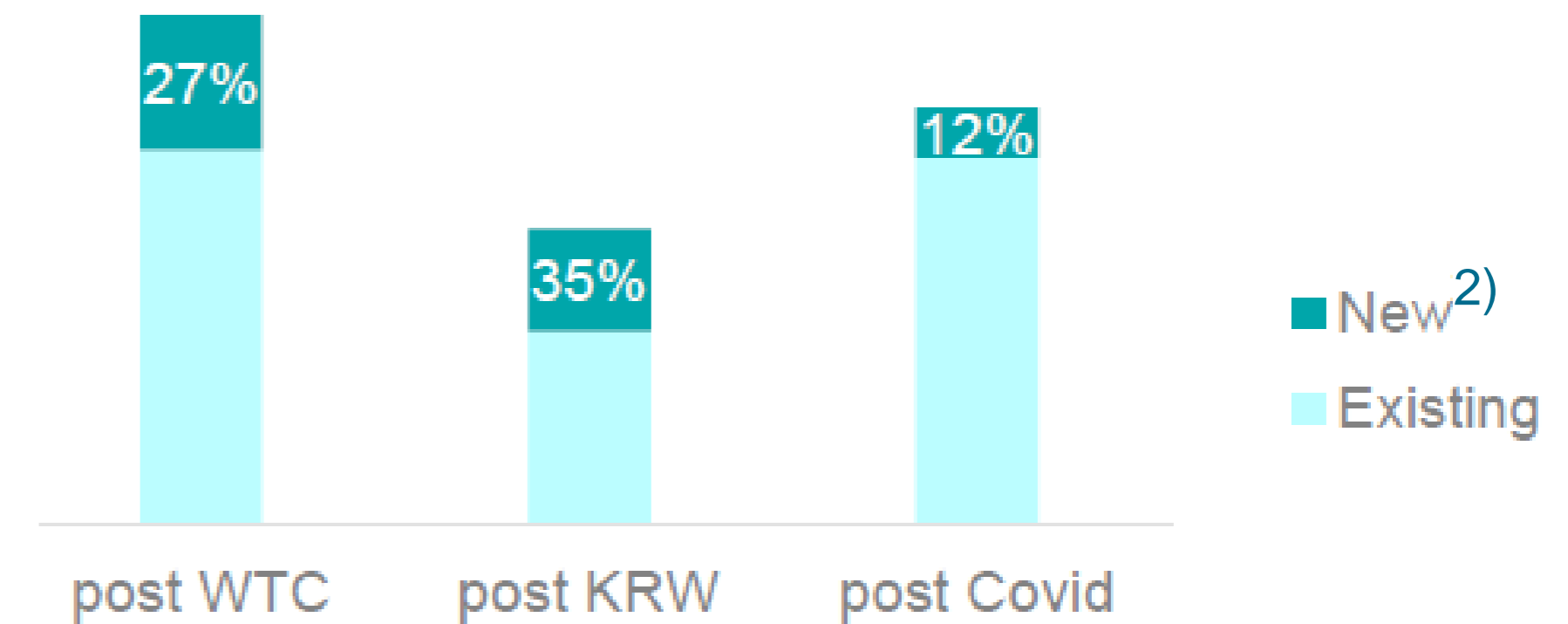


... triggering another influx of capital to the (Re)insurance industry

Capital raised post large Catastrophic events¹



New carriers versus existing ones

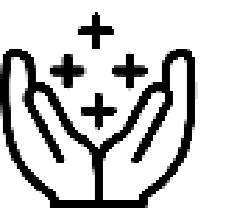


Source: SCOR, as of 15th April 2021

1) Capital raised based on SCOR internal research. Post WTC until June 2004, in % funds as of YE 2000. Post KRW until November 2006 in % of funds as of YE 2004 Post Covid until December 2020 (before deduction of debt repayments) in % funds as of YE 2019

2) New post Covid includes Convex, which raised capital post Covid in 2020 but had already been established in 2019; excluding them share of capital raised by new reinsurers drops to 7%

But sectorial wording issues are putting the (Re)insurers at risk of taking the position of the villains, similarly to banks in 2008

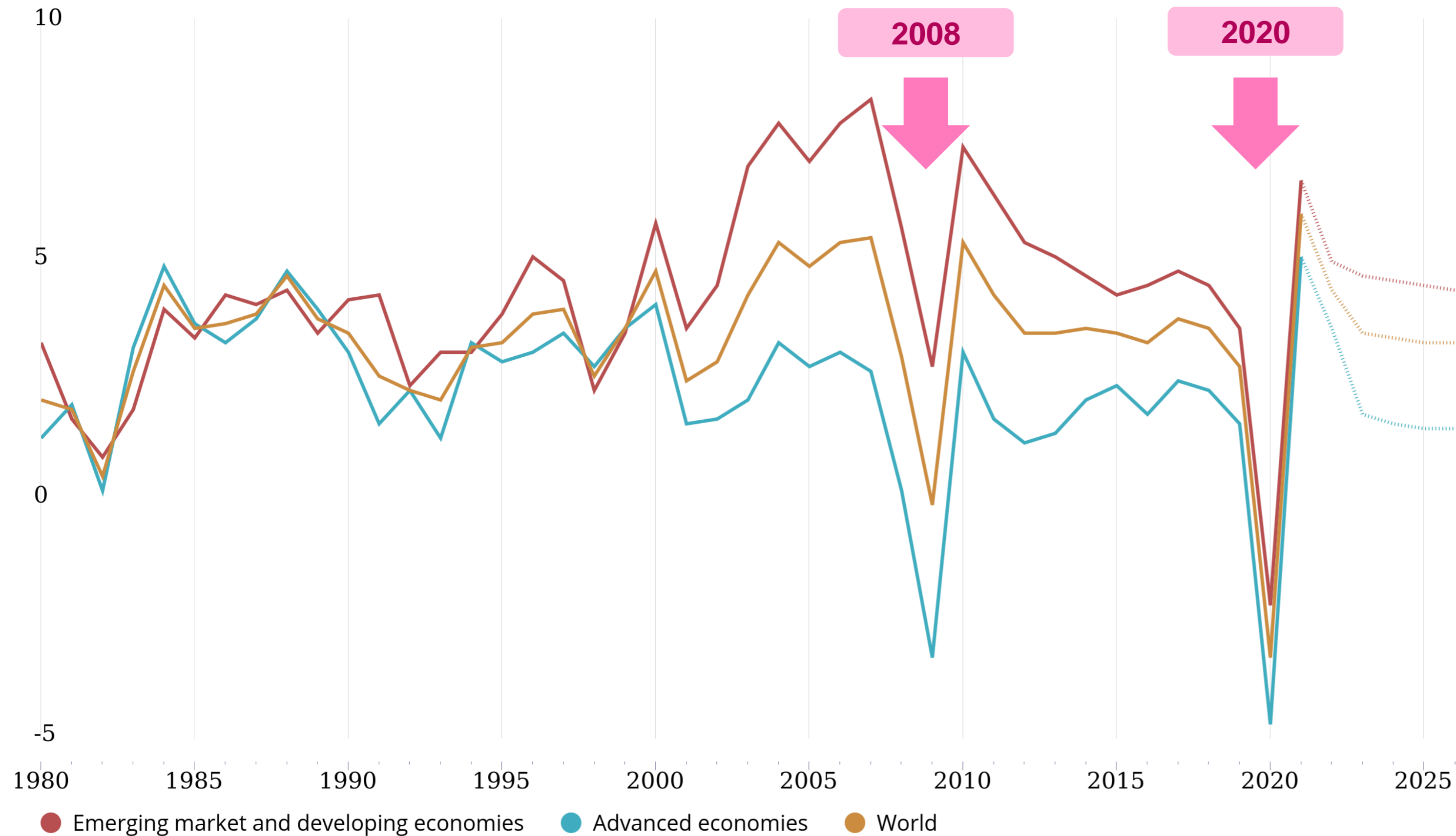


(Re)Insurance industry impact

Impact of Covid-19 pandemic on the global GDP

IMF DataMapper

Real GDP growth (Annual percent change)



2008



2020

Insurers refusal to pay out over coronavirus claims 'ridiculous'

High Court test case set to decide on claims on 'business interruption' policies



FCA wins Business Interruption insurance case over COVID: what now?

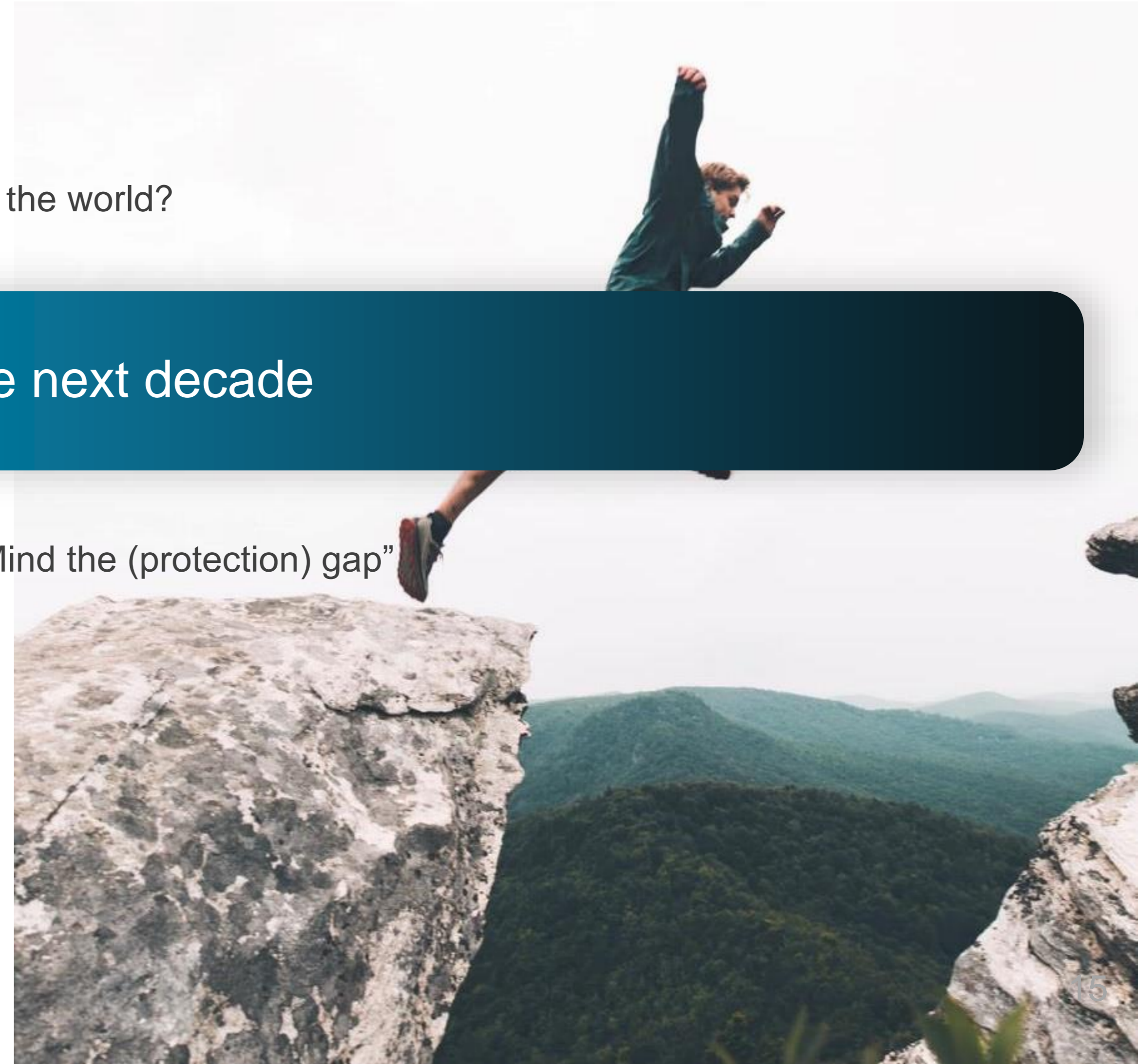
© January 20, 2021 | Hannah Robinson | Claims

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Covid-19 pandemic

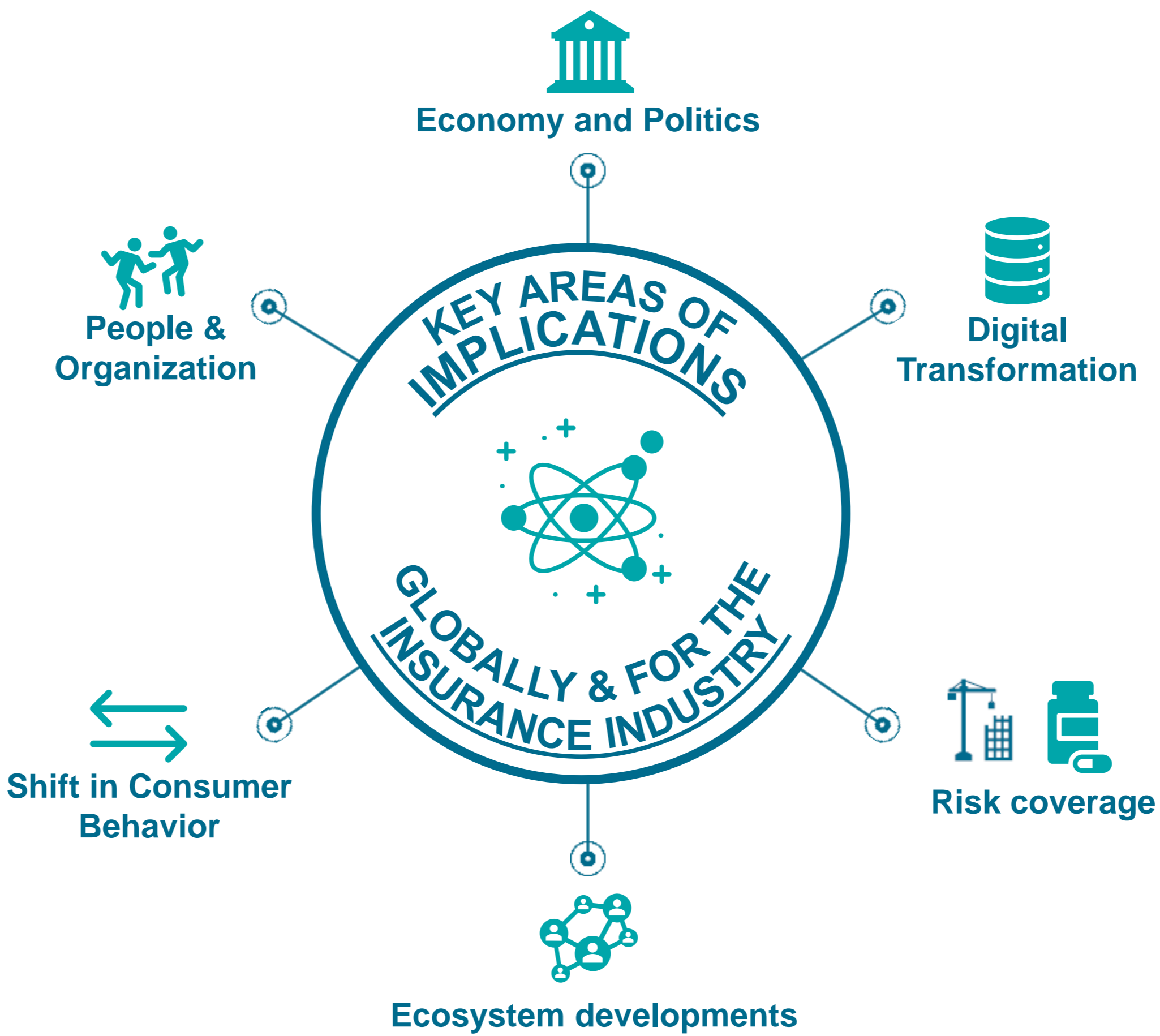
1 How has the virus shaped the world?

2 Outlook for the next decade

3 (Re)insurers: "Mind the (protection) gap"



We look at six key areas of implication through COVID-19 Globally and for the (Re)insurance industry



New world disorder: social, political and geopolitical

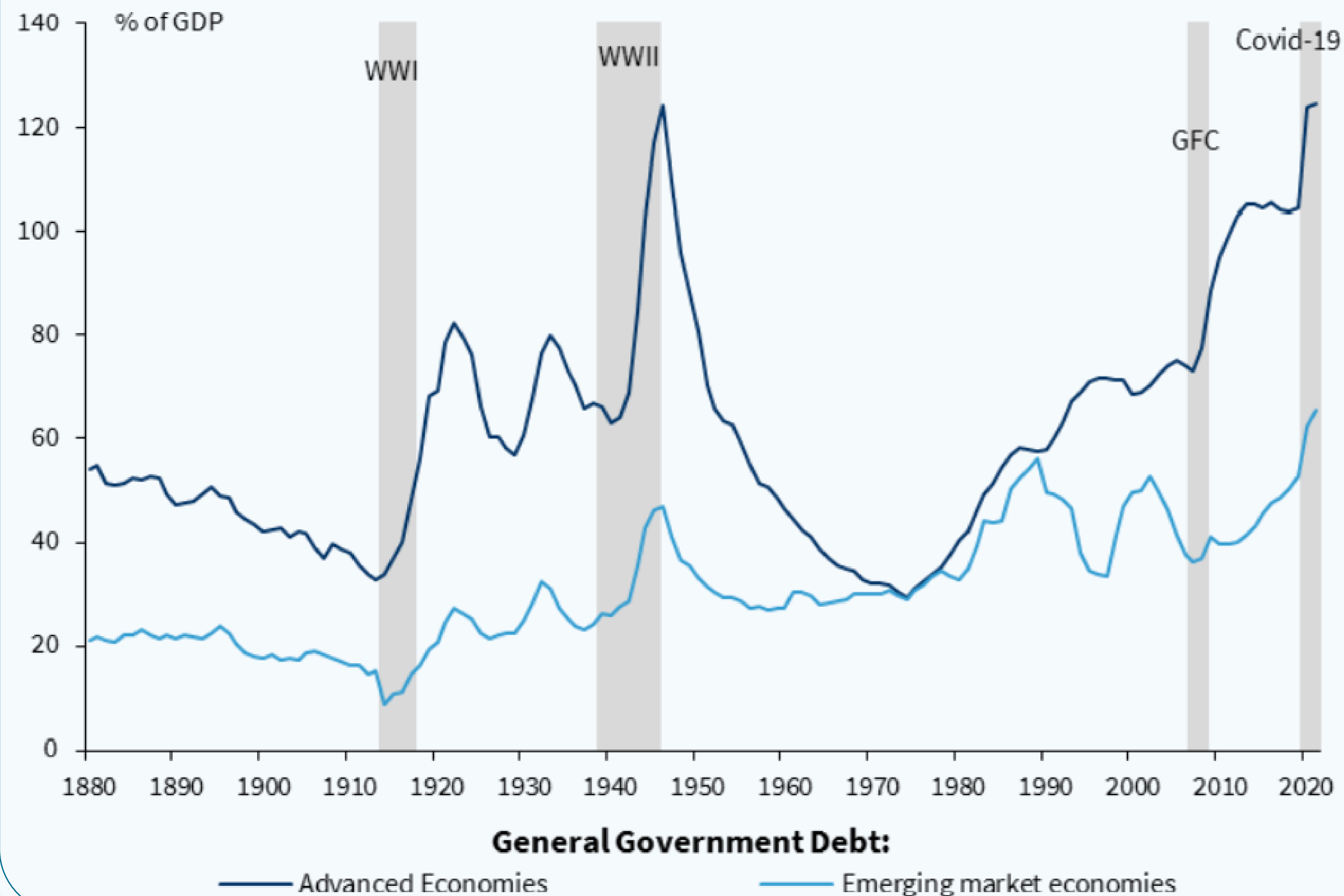
- ❑ 2008 financial crisis: domino effect from a Financial crisis, to an economic one, leading to social and political backlash, globally
- ❑ 2020-2021: the political response (“whatever it takes” approach: global confinement, massive injection of liquidities in the economy) was un-predictable... and impossible to model for a(n) (re)insurer





How will we exit the wall of debt? Will the return of inflation be the usual recipe?

Government Debt-to-GDP in Advanced and Emerging Economies



- ❑ Governments and Central Banks around the globe are engaged in a competitive monetary inflation which produces the devaluation of their currencies, testified by the enthusiasm for precious metals and inflation-resistant digital currencies
- ❑ We have been here before. Financial repression is not new. Policies of this kind were pursued at the end of the World Wars of the 20th Century in response to crippling indebtedness
- ❑ The objective is the gradual expropriation of secure savings
- ❑ Over the last few months, most of the characteristic financial trend of the pre-pandemic decade have been restored: a “back-to-the-future” paradox, in spite of reflationary policy regimes of the West:
 - US-China divergence
 - Delayed recovery by Covid-19 waves

EHRs (Electronic Health Records) provide an attractive alternative to traditional medical underwriting methods

EHRs HAVE THE POTENTIAL TO IMPROVE THE UNDERWRITING EXPERIENCE

- Leverages key data from past exams and is hence less intrusive than ad-hoc exams
- Removes delays related to availability, completion and processing of requirements
- Allows to close business online and to meet consumers 'instant buying' expectations
- Offers more transparency – applicants can see the medical records used in underwriting



Digitalization of the full customer journey, including Underwriting & Claims



Digitized systems and processes, cloud-based services, automation

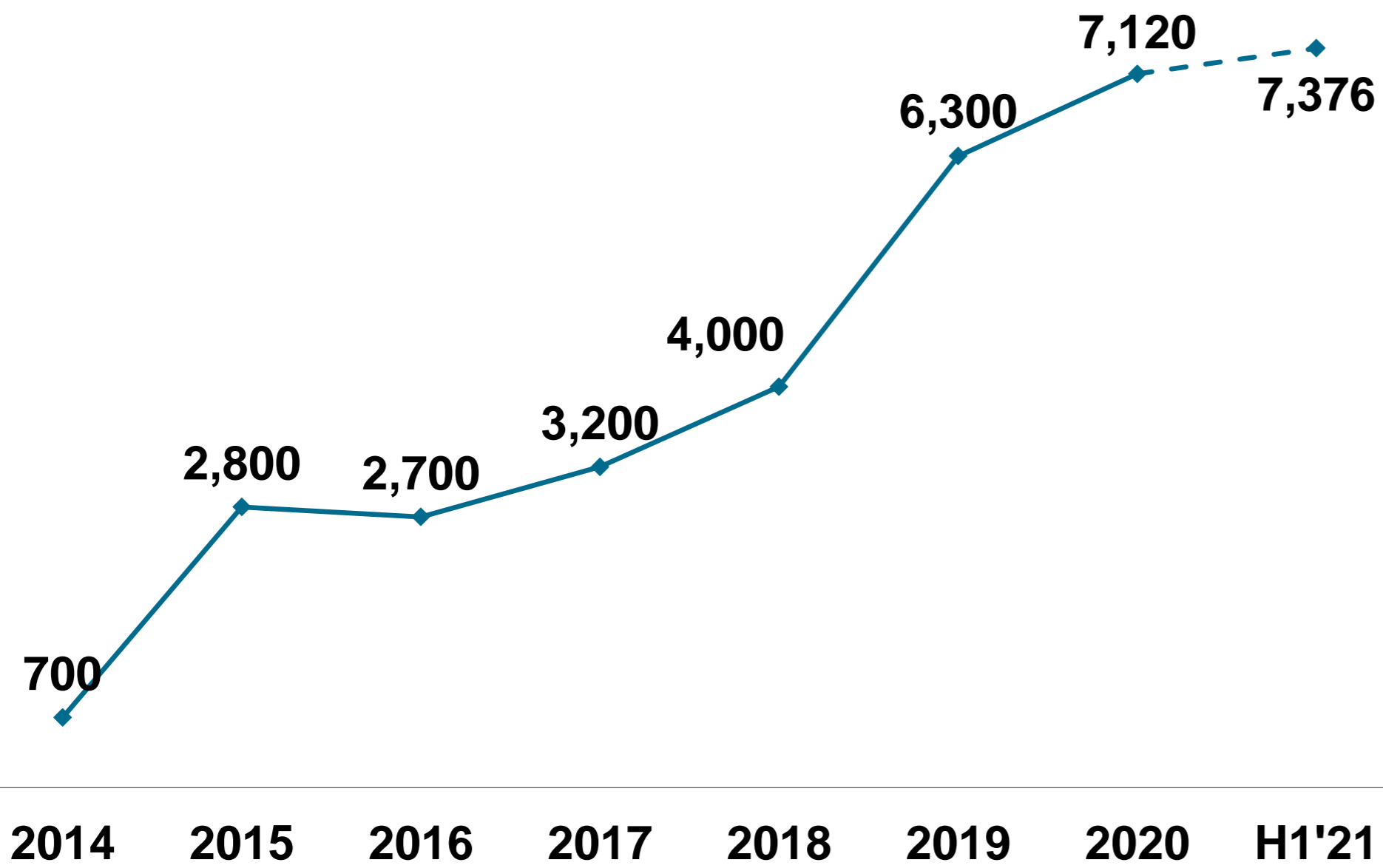


Robots/ AI: remote patient monitoring

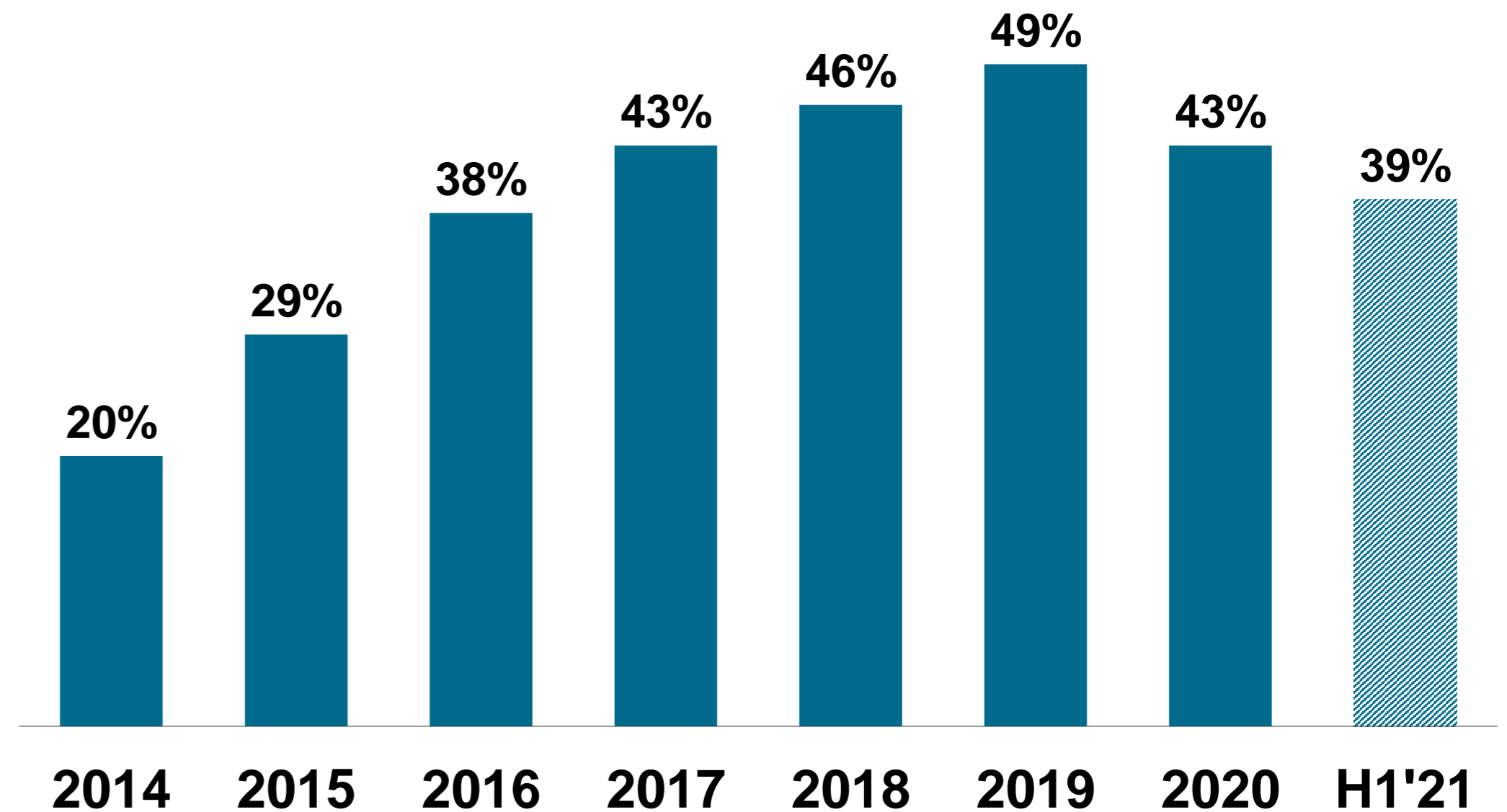
For insurers, EHRs reduce underwriting costs, allow for more automation and increase placement rates thanks to quicker processes

Venture capital has flowed into InsurTech since 2015; (re)insurers are leading players

InsurTech funding (\$ millions)



(Re)insurer participation in InsurTech fundraises



	2014	2015	2016	2017	2018	2019	2020	H1'21
Deal count	88	126	163	206	195	314	375	308
Deals 50m+	4	7	9	11	19	23	26	34

Sources: Willis Towers Watson, CB Insights, FT Partners, Pitchbook, SCOR internal analysis

Moving forward, coverage and prevention of pandemics will become a key topic for the industry



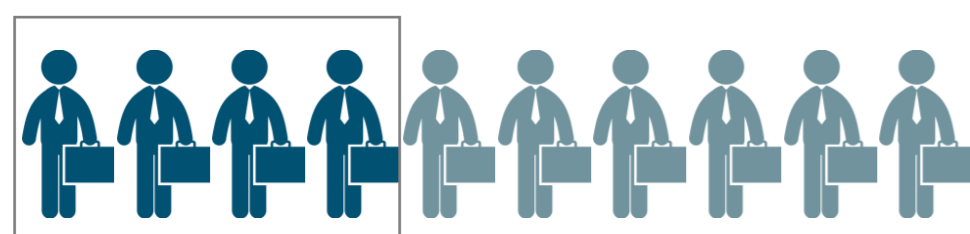
We are living longer

But this contributes to new and complex ageing challenges

- More and more active workers need to support an elder relative
- Growing need for Long Term Care



Today, 1/3 of Europeans above 50 have to take care of an elder relative¹⁾



Approx. 4 in every 10 people will have a need for long term care in their lifetime¹⁾

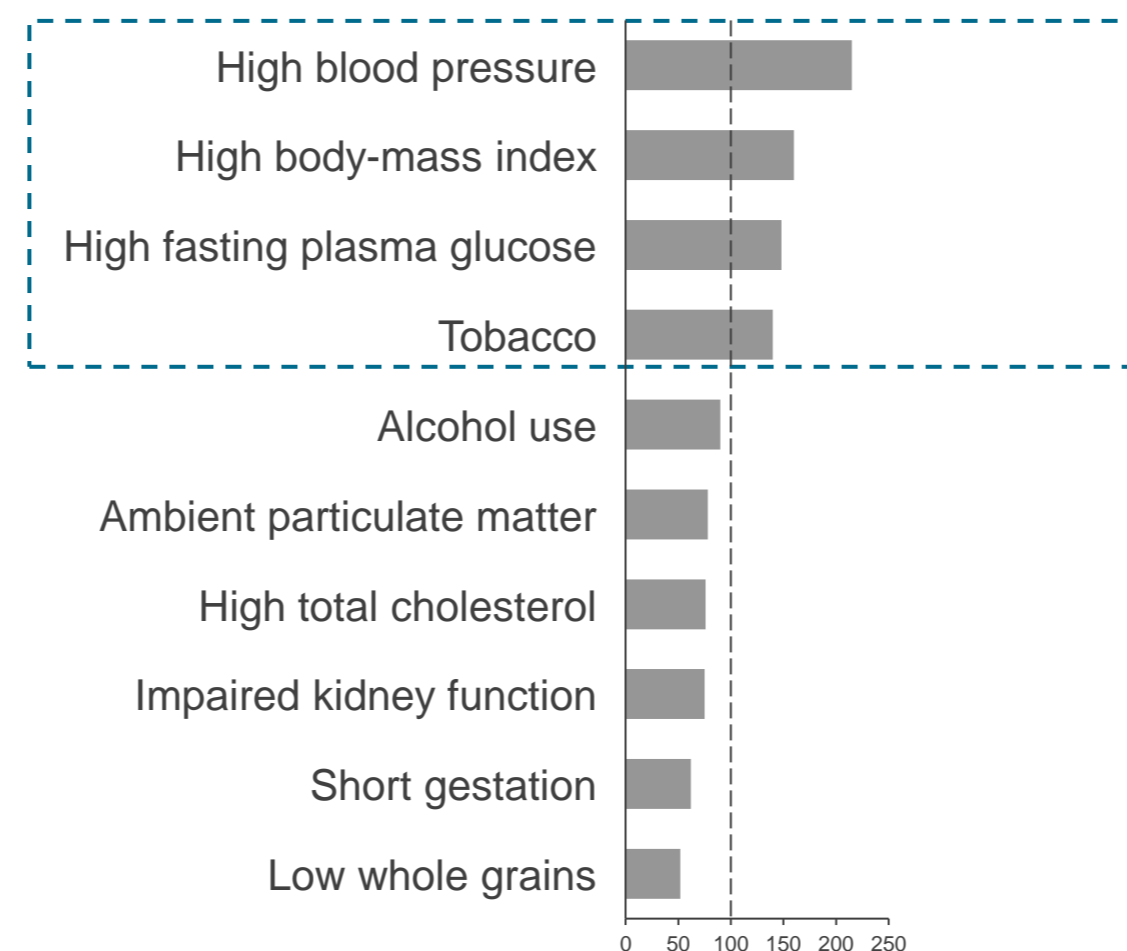


We are healthier

But environmental and lifestyle risks are increasingly contributing to mortality

- Top 4 risk factors account for more than 100 million years of life lost²⁾

Years of Life Lost (in millions)

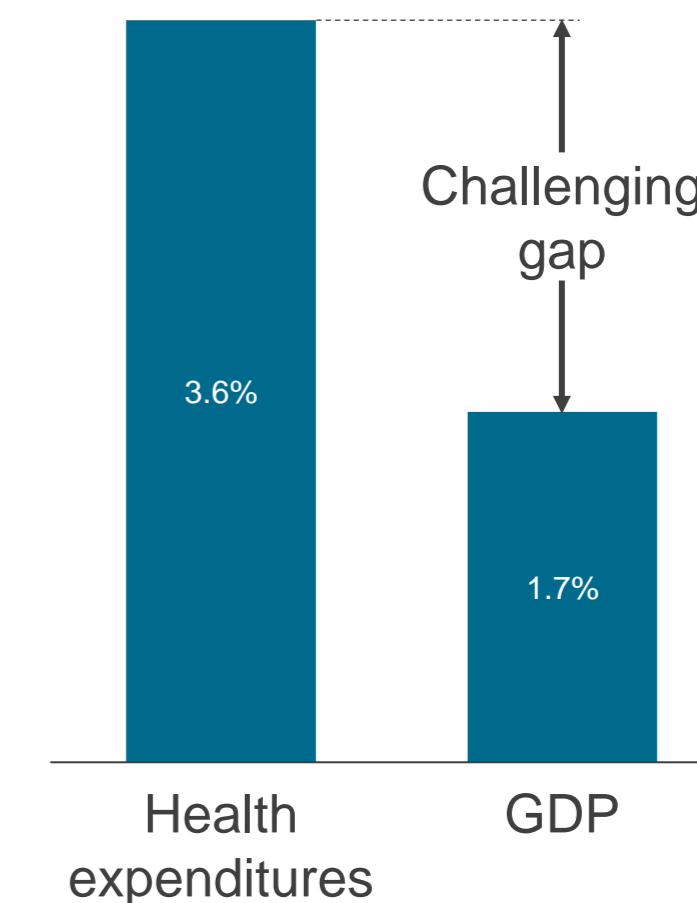


Cost of healthcare becomes challenging

Health expenditures are increasing at a faster pace than GDP

- Health expenditures increased yearly by 3.6% in real terms over the 2000-2016 period³⁾

Yearly increase in OECD countries over 2000-2016 period



1) Source: Global Health Metrics study, October 2018

2) The years of life lost correspond to the remaining life expectancy lost due to a premature death. Source: K.J.Foreman, N.Marquez, A.Dolgert et al. "Forecasting life expectancy, years of life lost, and all-cause and cause-specific mortality for 250 causes of death: reference and alternative scenarios for 2016", Lancet, October 2018

3) Source: The World Health Organization Global Health Expenditure database and World Bank National Accounts data files

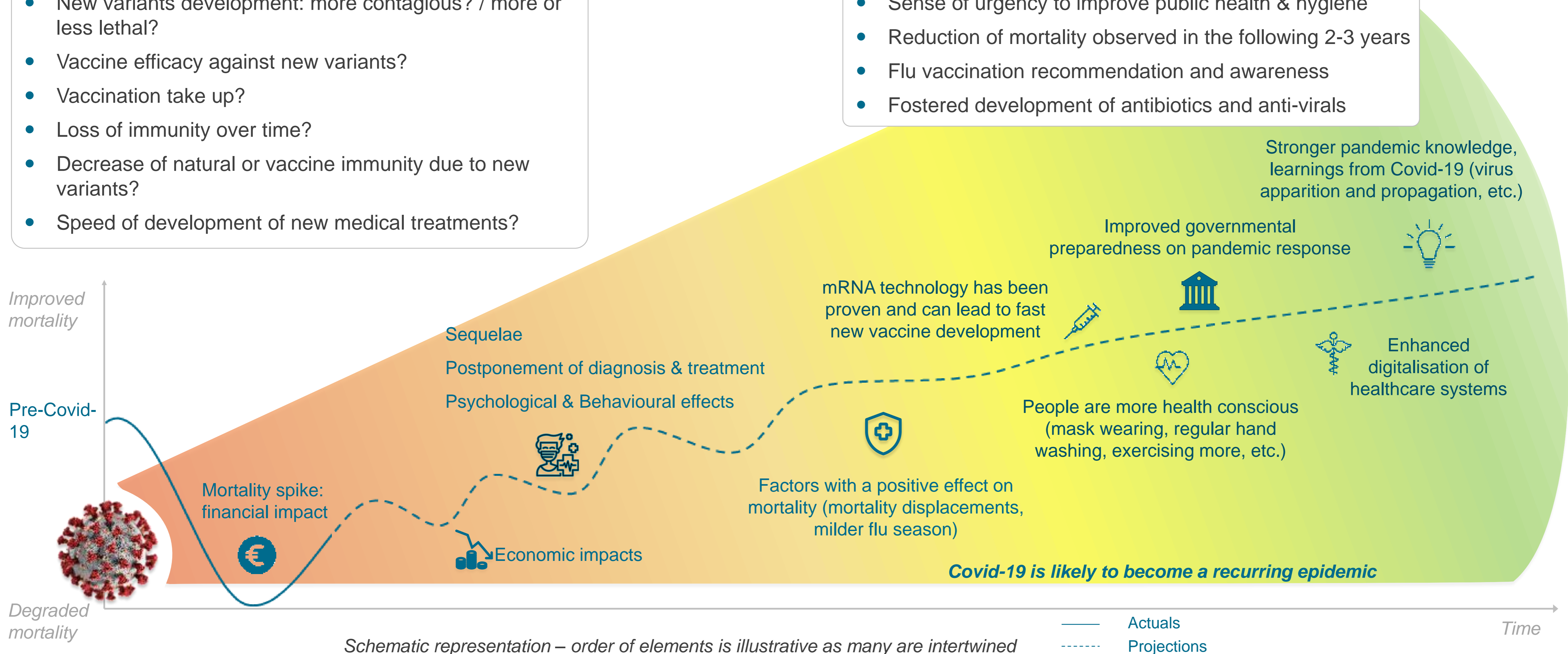
Learnings from past pandemics suggest long-term positive impacts on mortality driven by advances in the healthcare and pharmaceutical industries

High uncertainty in the short to medium term driven by several questions:

- New variants development: more contagious? / more or less lethal?
- Vaccine efficacy against new variants?
- Vaccination take up?
- Loss of immunity over time?
- Decrease of natural or vaccine immunity due to new variants?
- Speed of development of new medical treatments?

Lessons learned from previous pandemics and epidemics

- Sense of urgency to improve public health & hygiene
- Reduction of mortality observed in the following 2-3 years
- Flu vaccination recommendation and awareness
- Fostered development of antibiotics and anti-virals

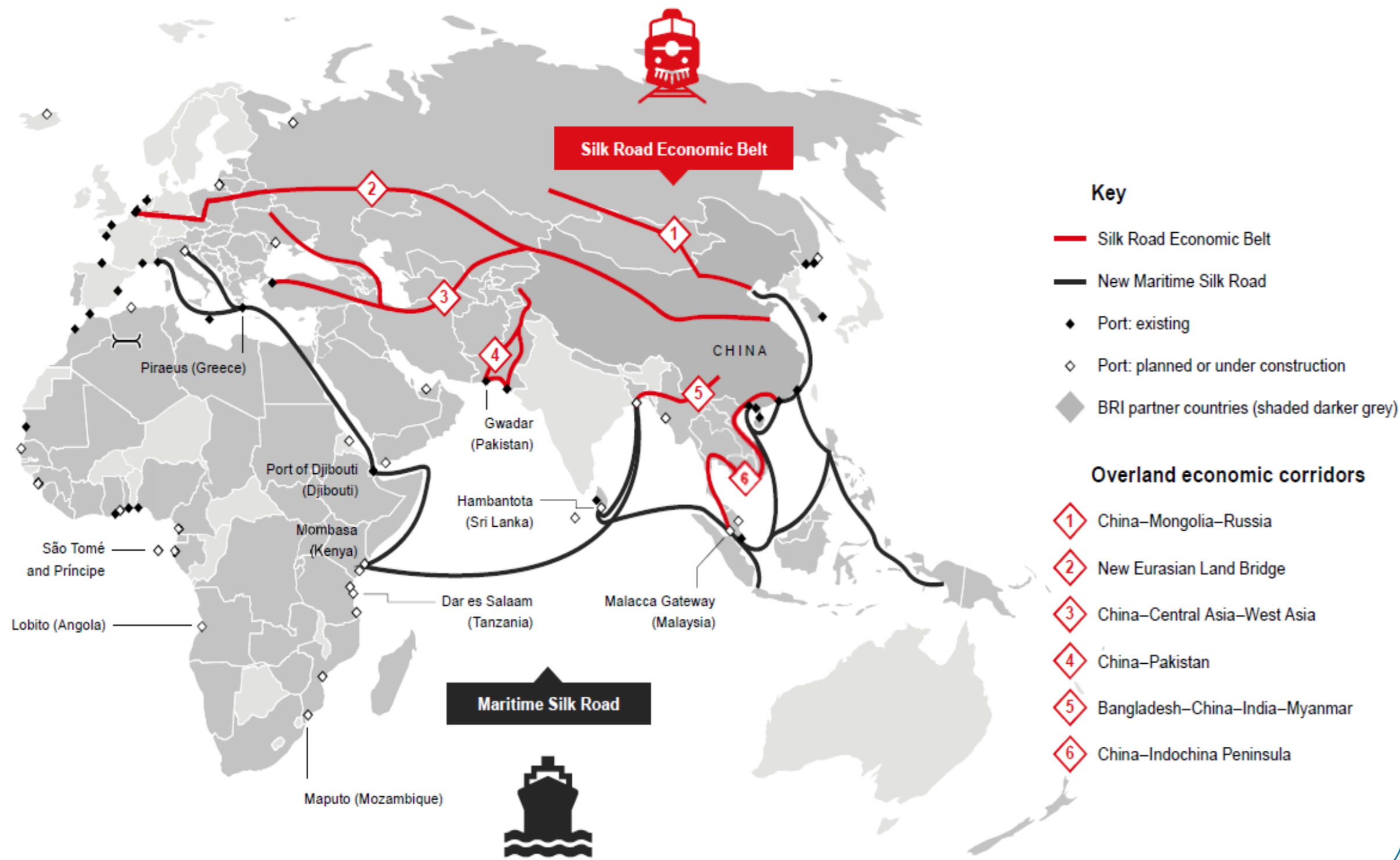


Degraded mortality

Insurable assets will continue to grow fast From tangible assets towards intangibles

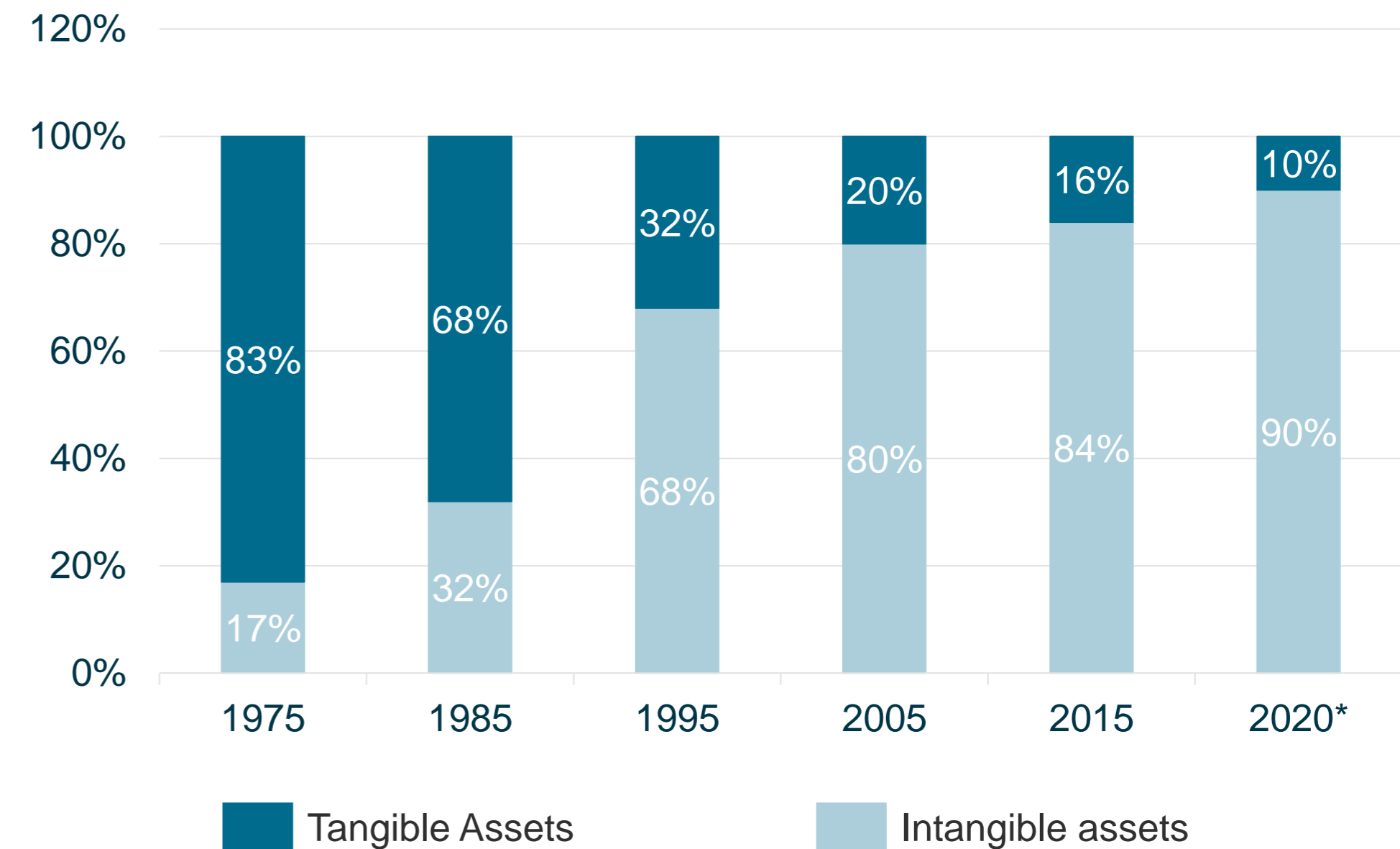
While global infrastructures will continue to drive huge economic growth...¹

Belt and Road economic links and corridor



... the value of intangible assets is fast outpacing tangible assets²

Components of S&P 500 Market Value



Towards a “Capitalism without Capital”?³


1. Source: HSBC, World Bank

2. Source: Ocean Tomo


3. “Capitalism without Capital: The Rise of the Intangible Economy”, Jonathan Haskel, Stian Westlake

Environmental, Societal & Governance, and Climate Change will take an increasing role in steering economic activity globally


Today
Examples of key industrial occupancies



Oil & Gas



Power & Utilities



Infrastructure




Transformation due to major macro trends

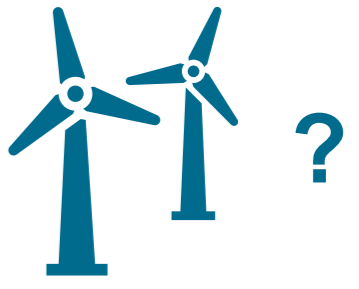
Anticipating the evolution of key industrial occupancies

- **Today, SGP&C is a recognized technical leader in several key occupancies:**
 - This is integral part of Specialty Insurance’s DNA, developed from a large industrial risks background
 - SGP&C is reinforcing its technical expertise thanks to industrial risk & client proximity
- **Climate change & Energy transition as well as other major macro trends will impact these key occupancies’ future**
 - Insurance needs from key occupancies’ clients will evolve
 - SCOR invests today to be able to understand and adapt to various industrial scenarios and remain relevant to its clients
- **SCOR is actively investing to remain an industry expert in the future through:**
 - Preparing for the mid-to-long-term major macro trends’ impacts on key occupancies
 - Predicting the impact on insurable matter, insurance covers, needed underwriters’ skills and organizational setup


Mid / Long-term future



Oil & Gas



Power & Utilities

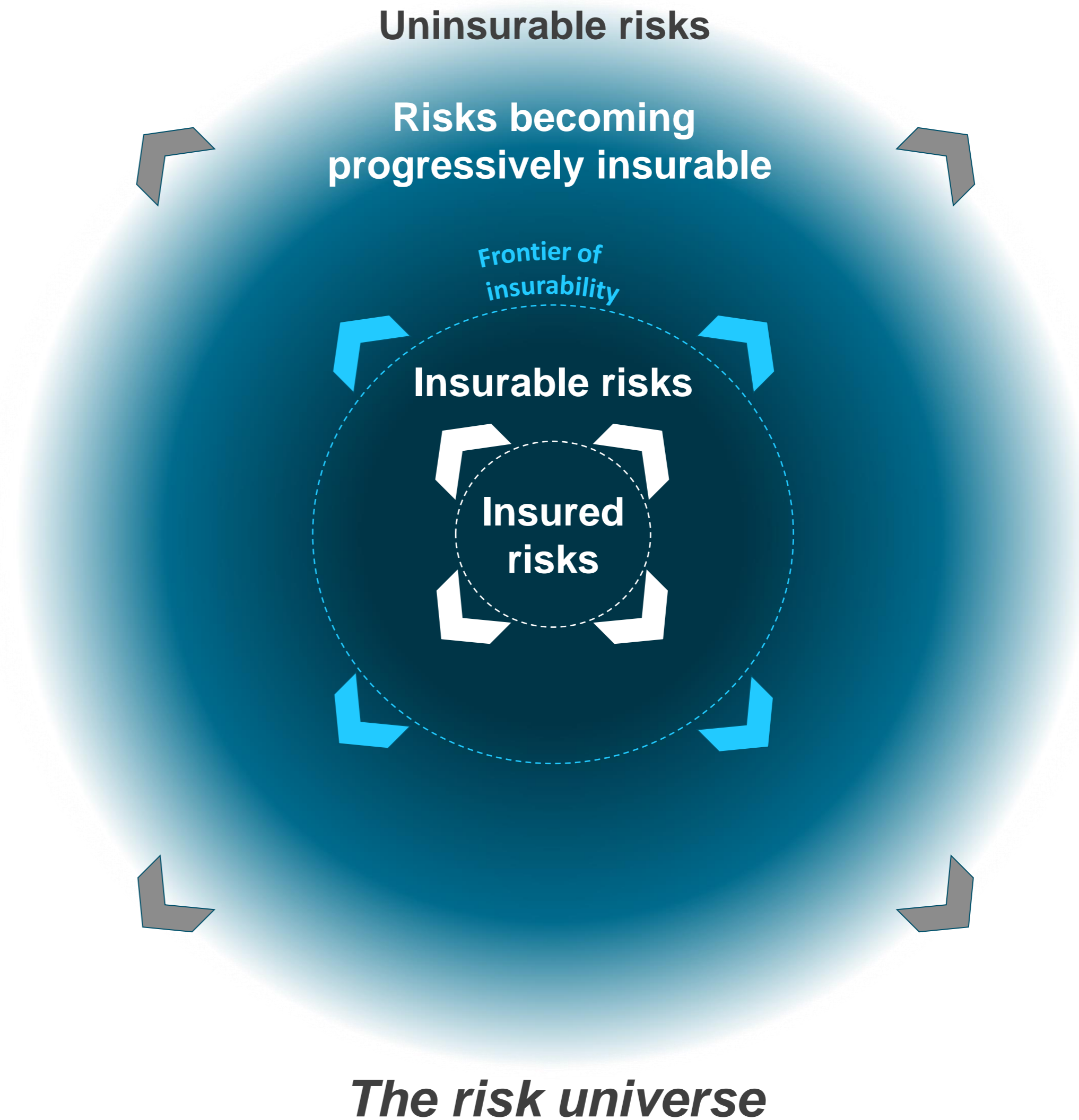


Infrastructure

The frontiers of insurability and underlying risk pools are evolving and reshaping increasingly fast

- Drivers, such as the changes in the macro-economic environment, technology, and data contribute to the growth of the sphere of insurable risks (incl. public goods, cyber, terrorism)....
- ... But we are also facing opposite trends: climate change or growing networks and inter-dependencies are challenging long-term insurability of the world
- Addressing systemic risks will require
 - the combined efforts of governments and the private (re)insurance industry in the form of strong and innovative public-private partnerships
 - (re)insurers engagement with capital market, to bring the necessary capacity to bridge the protection gap
- (Re)insurers are at risk of becoming irrelevant to societies if they are not at the forefront of Risk assessment, Risk management and Risk transfer agendas

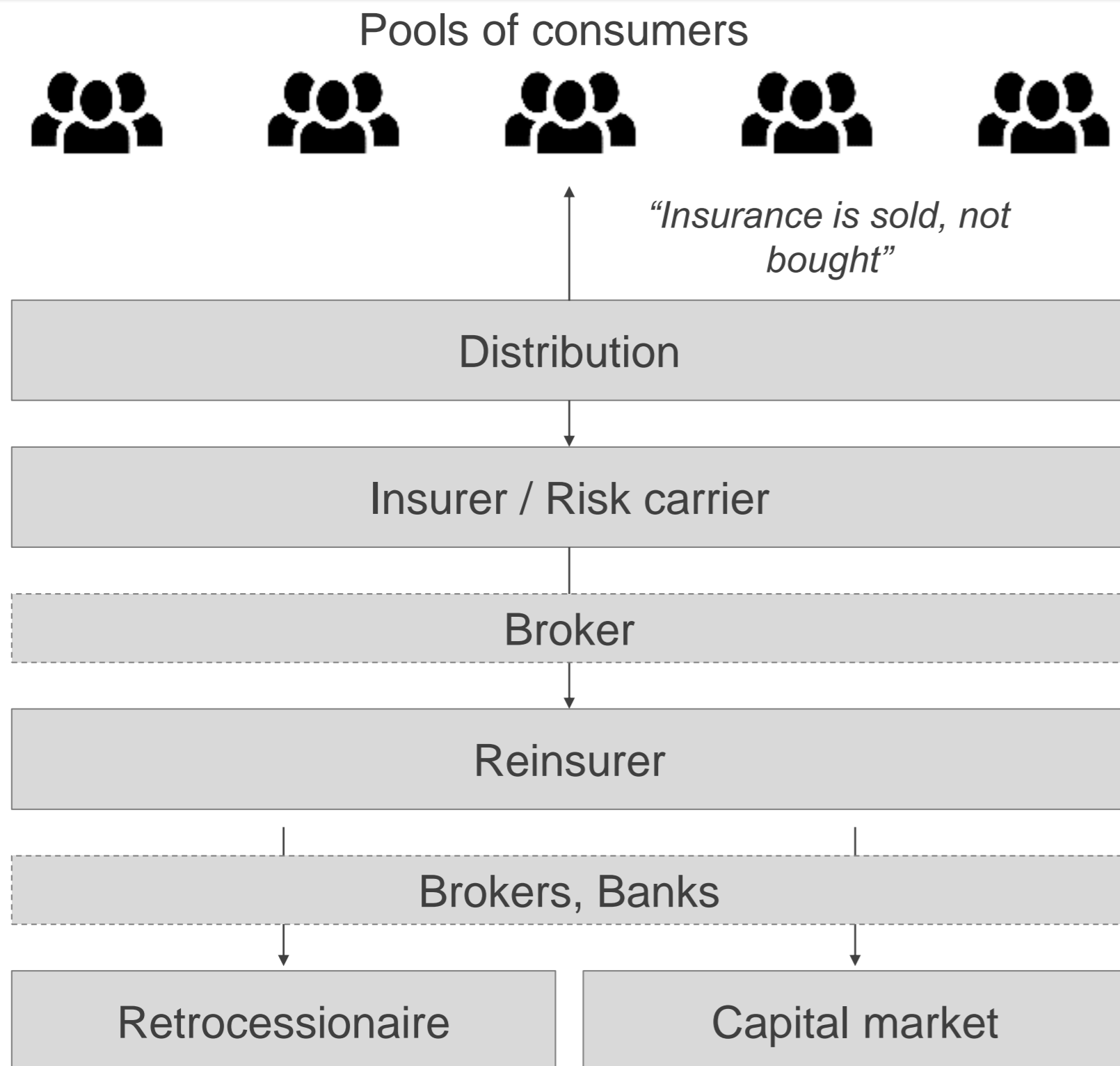
➤ **Climate and Cyber risks as the next global (systemic) catastrophies?**



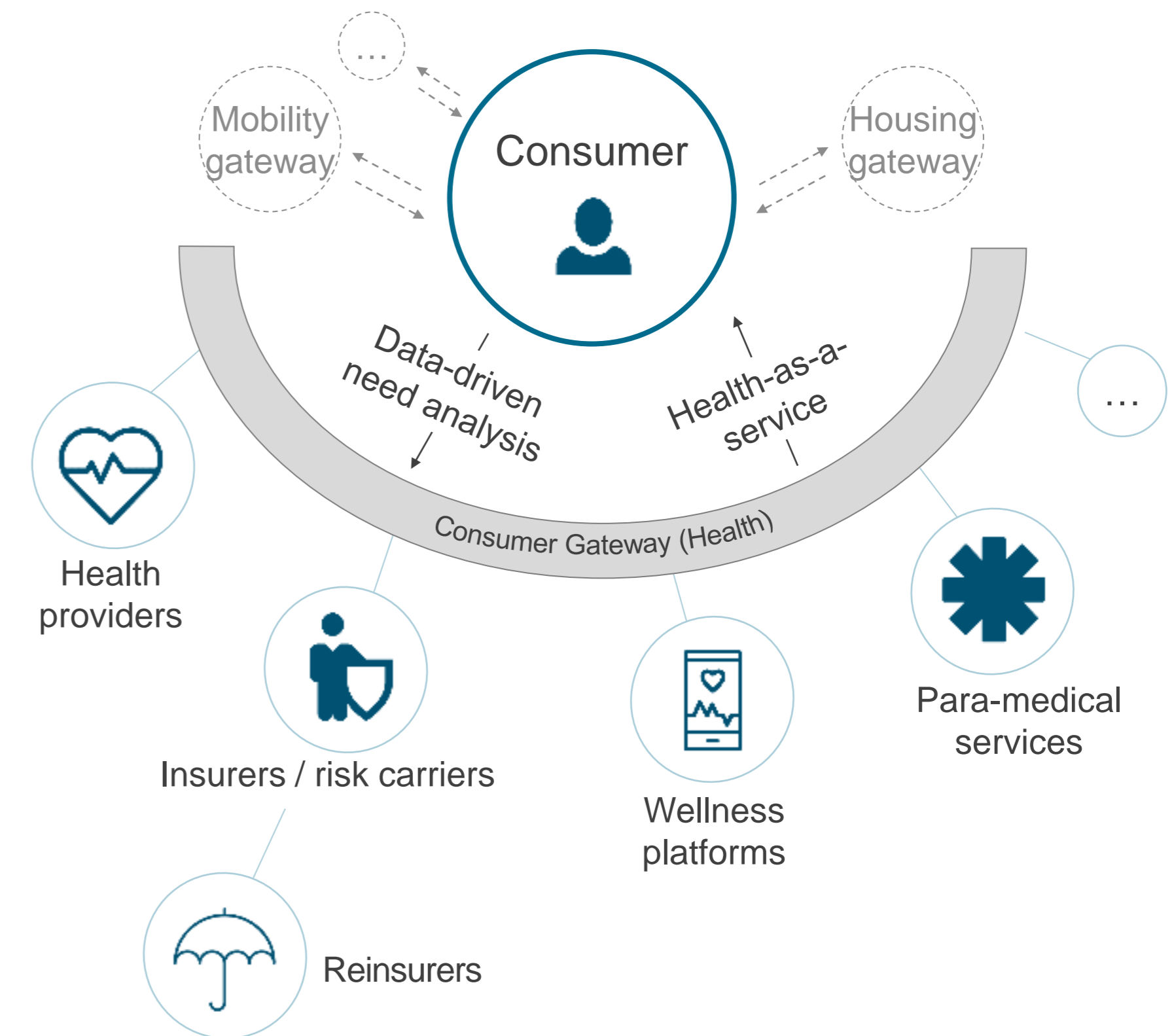


We expect the disintegration of the traditional insurance value chain to accelerate towards “platformisation” of the ecosystem

Moving from traditional risk-driven value chains...



...to new consumers' needs ecosystem



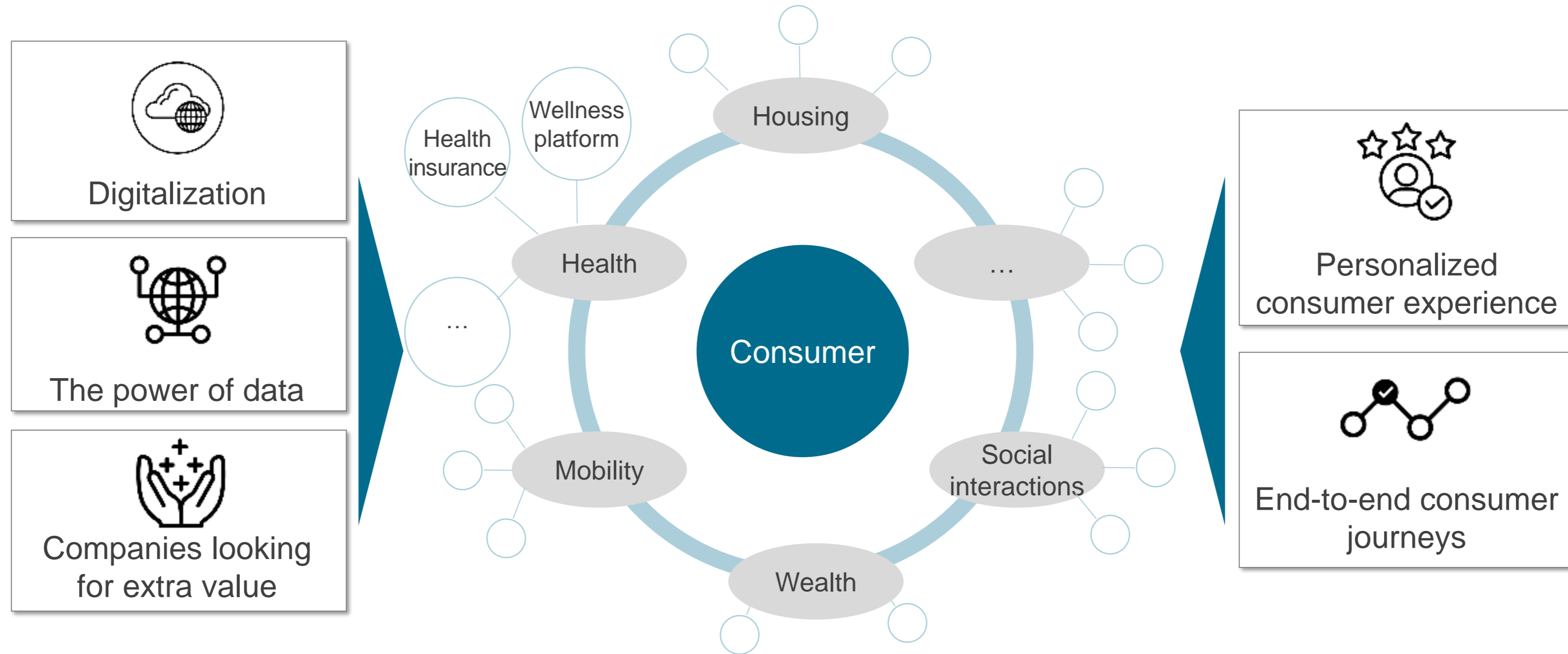


We call to build consumer-driven ecosystems, going beyond just answering traditional insurance needs

Supply – macro-trends
reshaping industries

Consumer-driven ecosystems

Demand – changing
consumer expectations

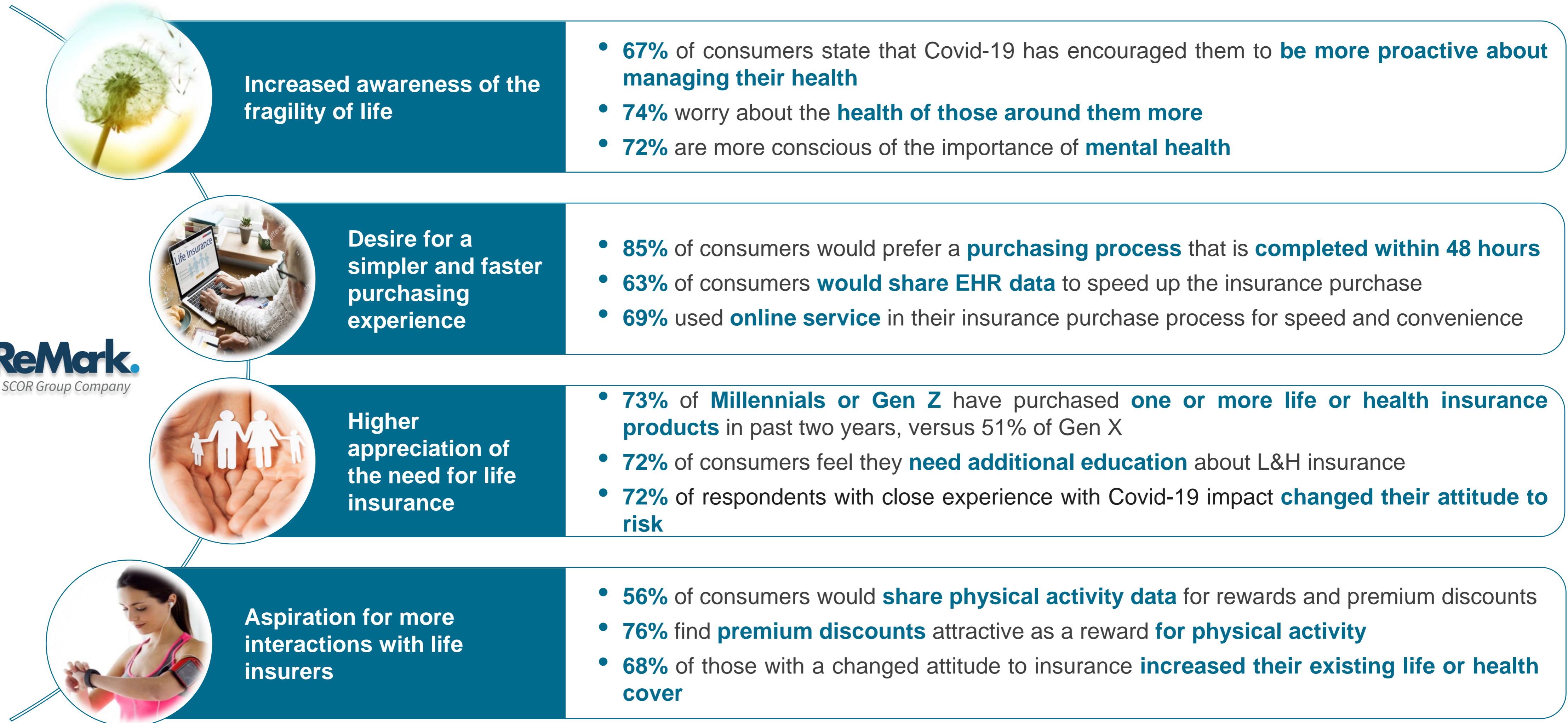


The Case for Default Insurance¹

- ❑ “First, new insurtechs need to continue to build convenient, category-specific offerings that can easily be embedded into a merchant’s existing checkout flow or user experience. (...) The bigger opportunity lies in incorporating platform data to not only better underwrite risk, but also inform marketing, quoting, sales, and renewals over the full life cycle of a customer.”
- ❑ “How might this insurance embedding work? New insurance infrastructure companies will provide some of these layers “as a service.” (...) As a business model, embedded financial services is becoming increasingly mainstream. Embedded insurance is next”



Post Covid-19, consumer demands are driving a transformation of the Life insurance industry – ReMark Global Consumer Survey¹⁾



1) ReMark's Global Consumer Survey 2021 (to be released end of September 2021) early findings. Based on 10% of survey sample data from English-speaking markets.

Motor and Home insurance are being integrated as part of a broader, services-based offering

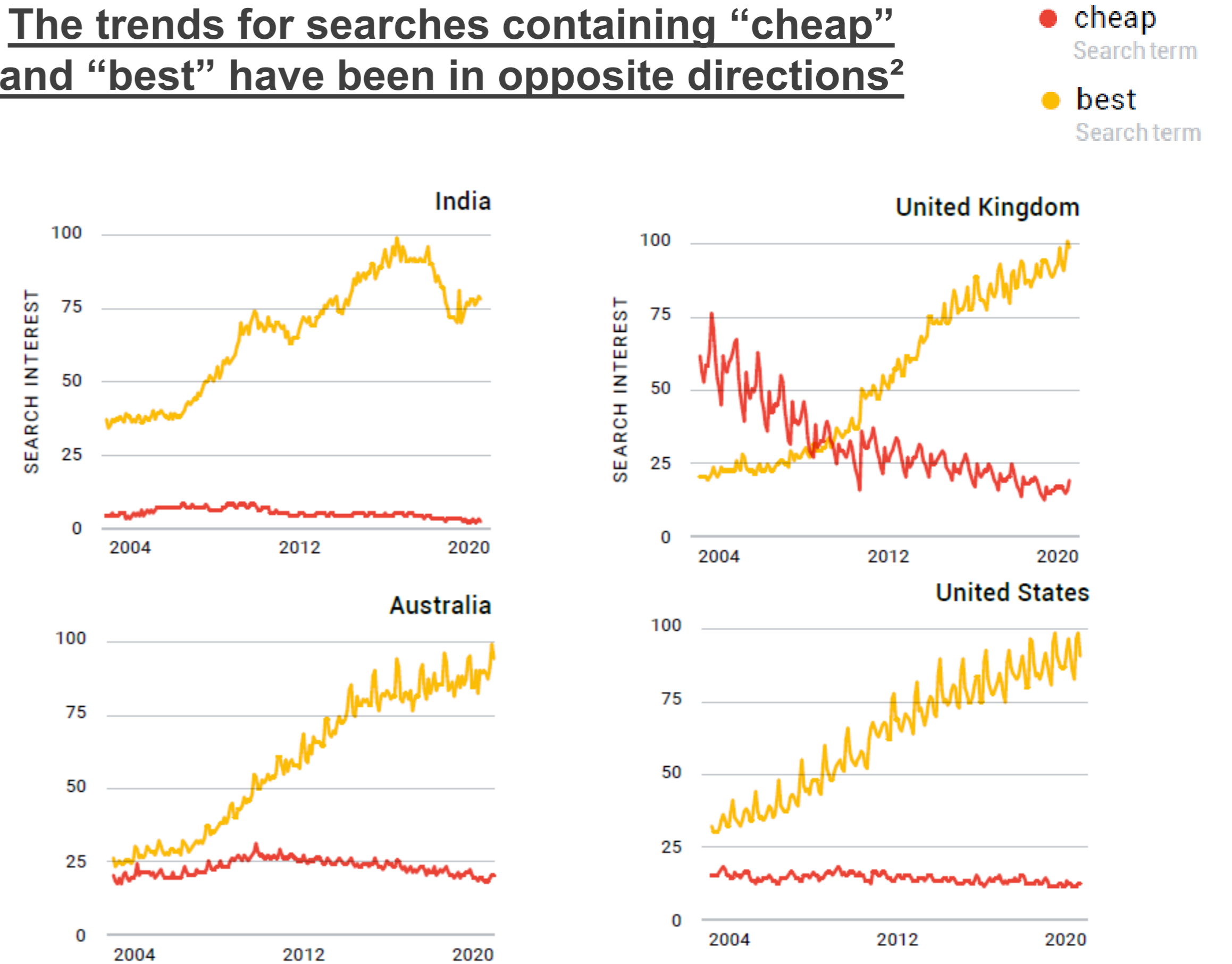
Motor & Home insurance: More and more customers are willing to share data

Proportion of customers willing to share data with an insurer for a lower premium and/or more tailored cover¹

	DE	CA	US	UK	AUS	JP	IT	CN
Social media history	9%	14%	16%	13%	17%	29%	23%	32%
Spending history	30%	22%	22%	21%	24%	53%	44%	42%
Home sensor data	18%	36%	34%	30%	31%	43%	44%	38%
Car or home video	23%	31%	27%	37%	36%	42%	40%	42%
Home energy usage	52%	53%	52%	51%	54%	52%	59%	48%
Credit history	24%	55%	67%	63%	59%	55%	42%	74%
How I drive	35%	51%	56%	50%	54%	63%	68%	73%
Where I drive	28%	62%	55%	57%	65%	62%	63%	63%
Criminal history	44%	59%	63%	77%	67%	50%	69%	39%
My car usage	54%	78%	77%	74%	82%	76%	77%	86%
Insurance history	58%	85%	83%	90%	87%	68%	82%	85%
Average	34%	50%	50%	51%	52%	54%	55%	57%

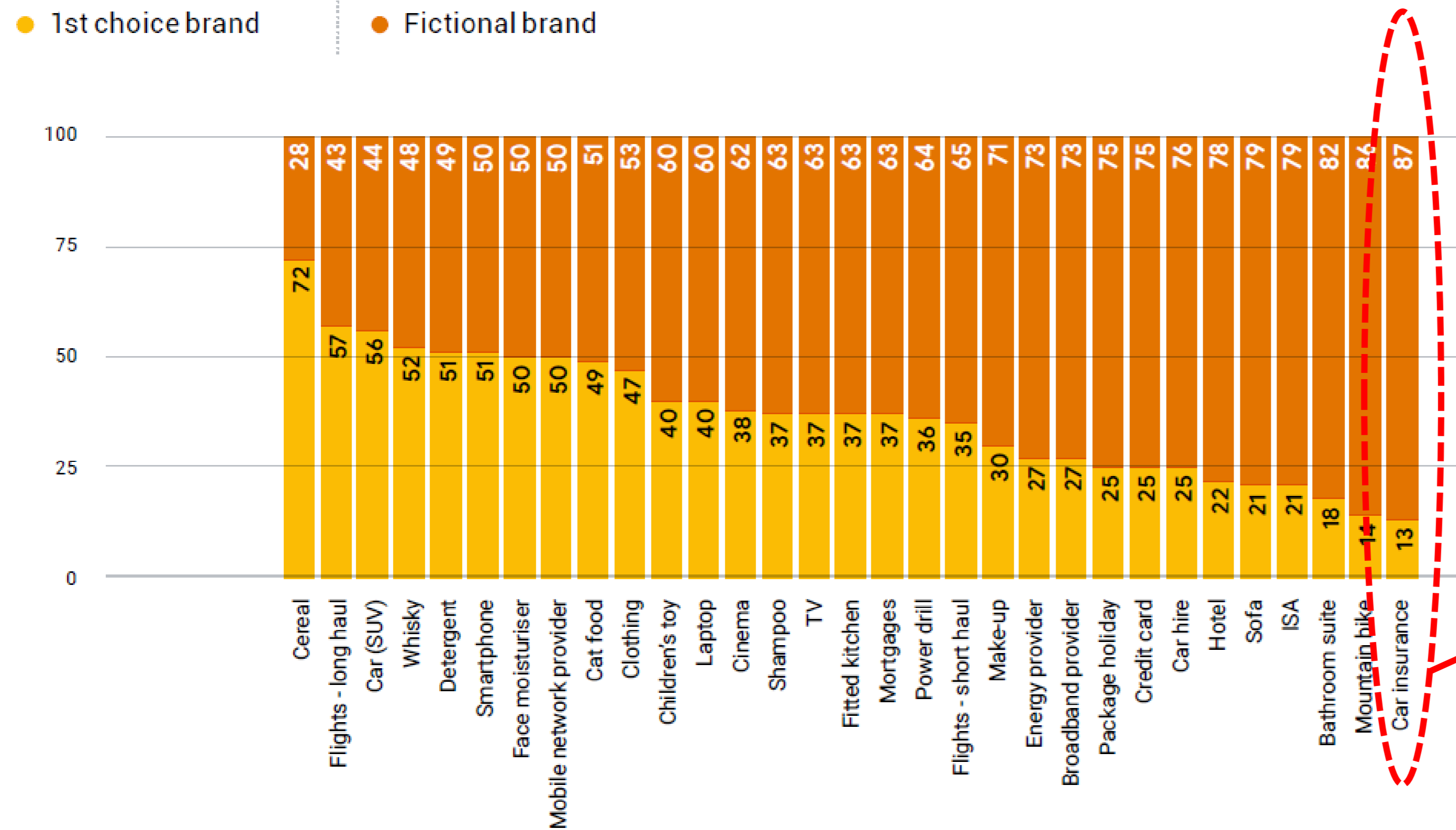
Consumers will increasingly look for value-add: services, connectivity

The trends for searches containing “cheap” and “best” have been in opposite directions²



Will (financial) institutions continue to inspire trust? When “Presence” takes over “Brand”¹

Motor insurers sell a product most exposed to new entrants: limited value of brand¹



➤ In a UK study¹, Google shows that a fictional brand is most likely to be preferred to a well known (“1st choice brand”) brand when superior desirability categories (biases) are promised²

➤ Insurance customers are the most prone to follow desirability promises and their own personal biases to ignore the brand value of the provider

➤ **Car insurance ranks the lowest of all products where loyalty to “1st choice brand” resists to the power of a fictional brand with supercharged promises**

1. Source: Google, “Decoding Decisions - Making sense of the messy middle”

2. 6 biases identified and exploited in the Google study: Category heuristics, authority bias, Social proof, Power of now, Scarcity bias, Power of free

Employees and civil society's aspirations towards corporations are evolving

The workforce shrinks dramatically and shifts strategically¹

- Digitization replaces 30% of insurance workers and 100% of manual processes, even as data science, tech and customer wellness jobs expand
- **Critical questions facing the employers of tomorrow:**
 - How to retain a strong transformative culture in highly automated environments with extensive remote working?
 - What are the optimal sourcing strategies for the future?
 - What role will automation and technology play in workforce transformation?
 - How can simplified products increase automation?
 - Which key attributes of insurance careers appeal to top talent?

Defining our Purpose

- Purpose is about moving from what to why, moving from content to context



Extending
Protection & Peace of Mind



Making insurance
Relevant & Desirable



Improving
Health & Well-Being



Expanding
Risk Knowledge



Inspiring
Purpose-Driven Communities



Keeping our
Financial Promises

- ***Combining the art & science of risk to protect societies***

1) Ernst & Young, "NextWave Insurance: life insurance and retirement How insurers can navigate to growth in the next decade"

Tentative and preliminary
lessons to be learnt by insurers and reinsurers from the
Covid-19 pandemic

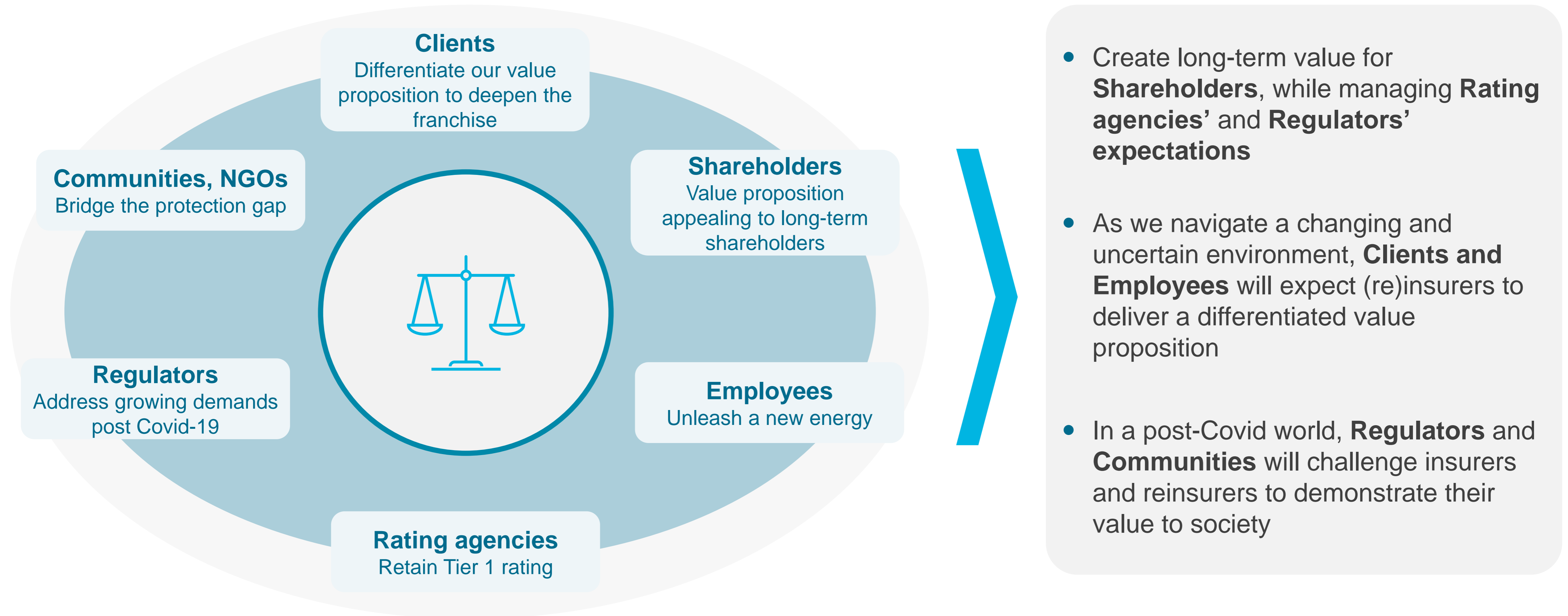
1 How has the virus shaped the world?

2 Outlook for the next decade

3 (Re)insurers: “Mind the (protection) gap”



(Re)insurer should ensure that they meet their stakeholders' expectations and deliver value to all of them...



... while delivering on their Purpose and bring solutions in a heightened risk awareness environment



Macro trends

The pandemic accelerates pre-existing underlying profitability issues in the industry

Capital will continue to be a commodity in a low interest rate environment... but cost of funding will increase at some point

Sustained hardening of the P&C insurance and reinsurance markets since 2018

Technology is a secular disrupter

Increasing focus on Sustainability: planet, human and organisational health

translate into...



Opportunities

Underwriting returns will remain the key performance drivers
Gap between leaders and followers will widen

Simplicity and efficiency get rewarded
Strong underwriting discipline is what matters in the end

Profitable growth opportunities available to those with strong capital base and global infrastructure

Reinsurers are ideally placed, at the crossroads of capital and technology

Accompanying clients in their transition: climate risk and health protection gap

Re/insurers are actors in an expanding risk universe, where client needs, typology and maturity of risks are evolving

Exogenous factors

The risk landscape is evolving, shaped by the world's economic macro trends



Hubs, Networks & Connectivity



Intangible Economy



Sustainable Development & Energy Transition

Re/insurers challenges for the future

Emerging & future risks

Products maturity cycle ongoing

New & evolving client needs

Endogenous factors

How can a (re)insurer differentiate itself?

Robust partner

Ease of doing business, client-mindset

Expertise & capabilities

How to build a reinsurance business that is “future ready”

Investing in our People and Culture, in Innovation and Expertise, and help our clients grow

Take a view on what will not change in the future...

1. The risks environment is expanding, requiring ever growing “Art & Science” approach to risks
2. Insureds’ appetite for risk and volatility decreases as the world becomes more complex - growing appetite for both:
 1. Simplicity AND expertise
 2. Risk-bearing capabilities AND services
3. Regulation will not shelter insurers: innovation will work around it

... and build on it today, progressively

Depth & Sophistication

(Re)insurers need to be more sophisticated in their own infrastructure / depth, investing both in Technology and Human capital (current and tomorrow’s)

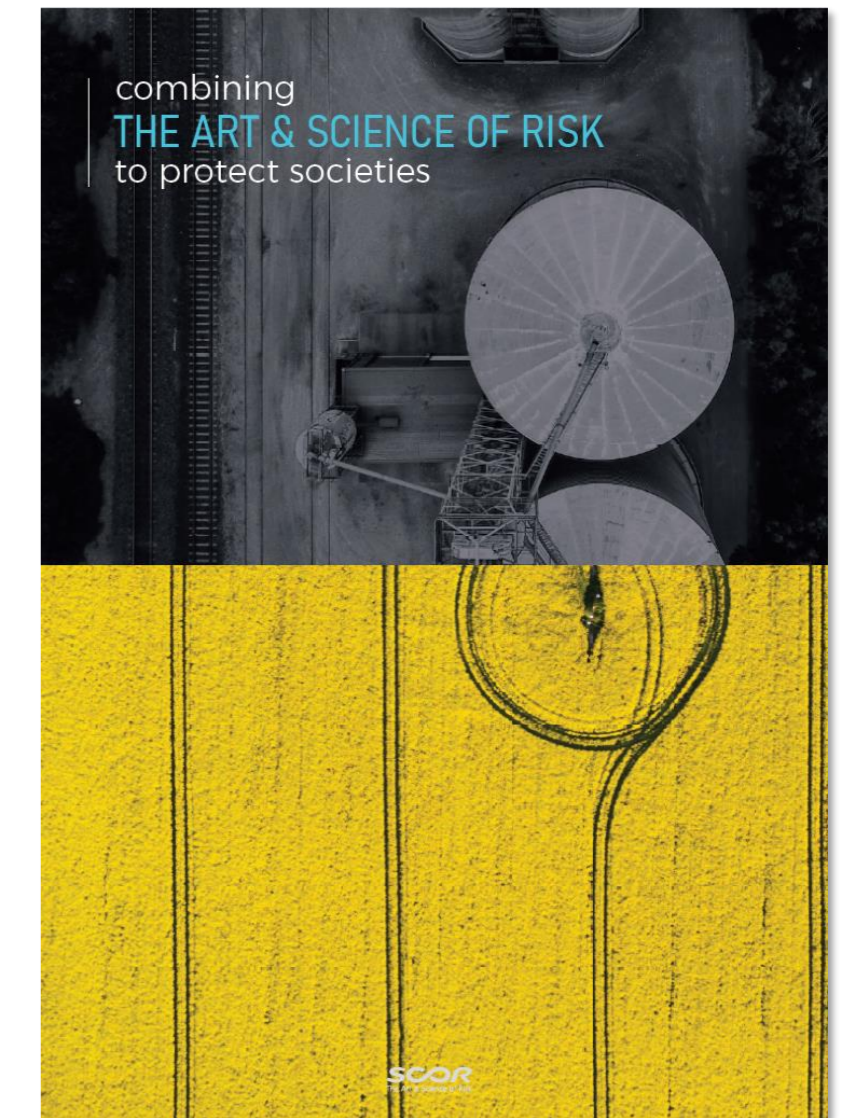
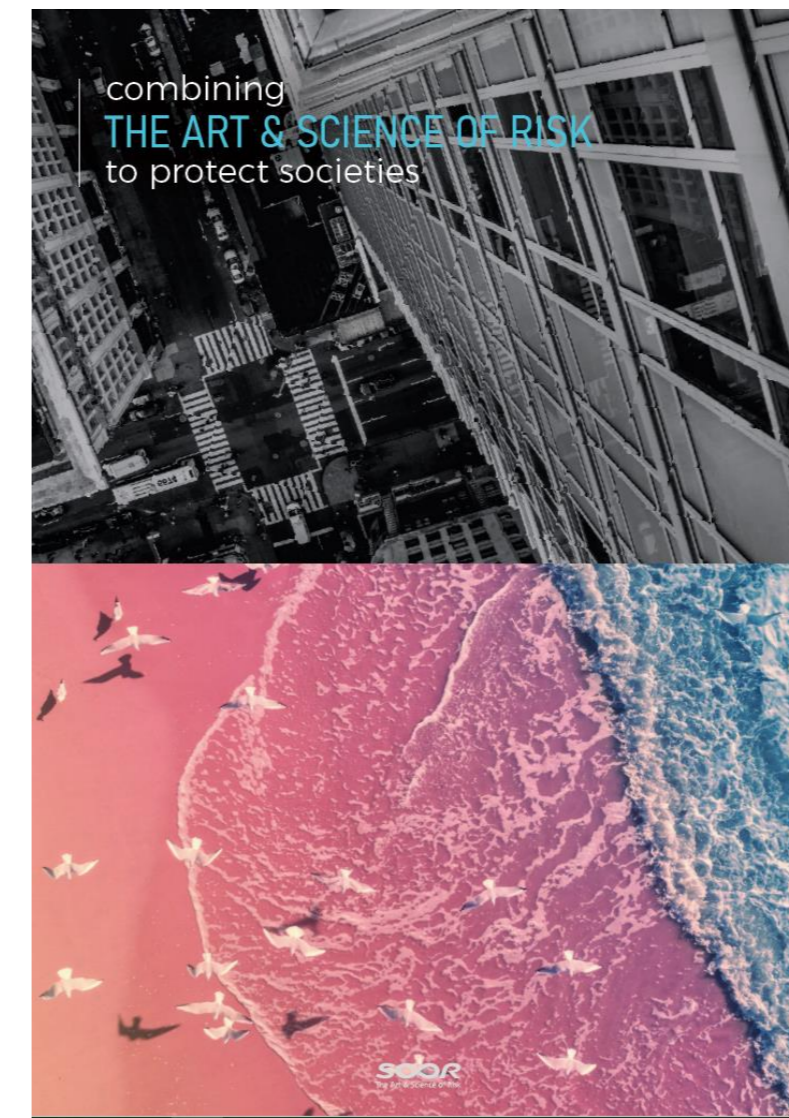
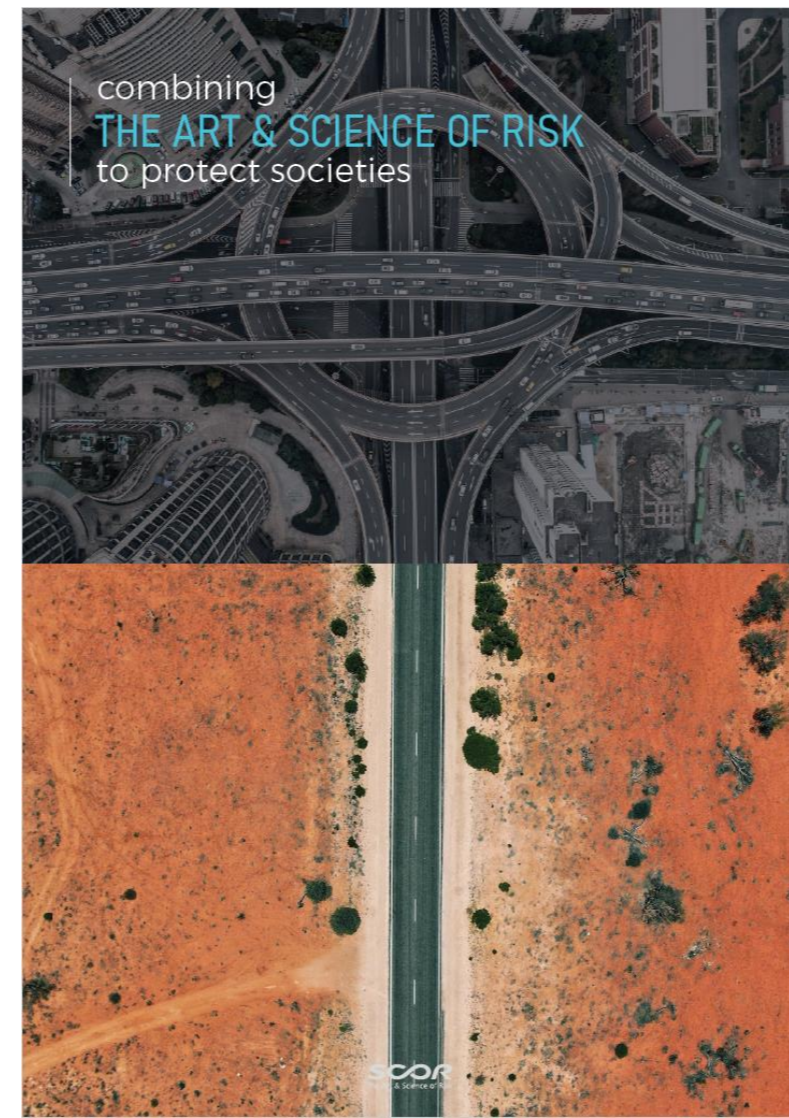
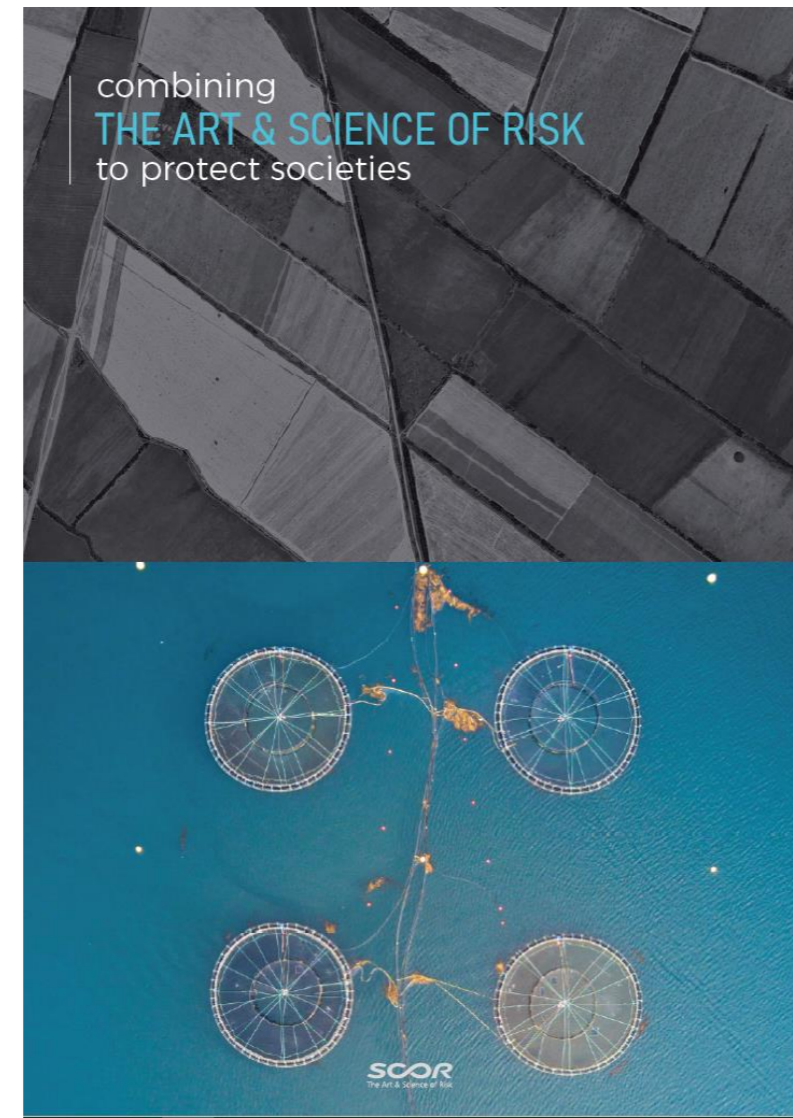
Client-centric organisation

Deliver a simple, commercially-appealing offering, delivered by a client-centric organization
Look for transparent long-term partnerships, leveraging data, information, clear wordings

Turned towards innovation

Work on building the insurers of the future, partnering with all stakeholders: existing clients, regulators, innovation partners

SCOR's *Raison d'être*



***Combining the art & science of risk to
protect societies***