The Impact of COVID-19 on:
Insurance Policy Wordings

26 April 2022

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Munich RE

Image: Aeriform / Ikon Images / Getty Images

Agenda

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01 Background

02 Loss Information – Some Perspective

03 Legal Developments

04 Elements of Insurable risks

05 Impact of COVID-19 on policy wordings

06 Our risk appetite

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2019
Dec 31

Chinese authorities identify a novel corona virus, temporarily named “2019-nCoV”

WHO issues a PHEIC on 30 Jan

2020
Jan

1st cases recorded – Wuhan, China informs WHO of Pneumonia cases, cause not known

2020
Feb - Mar

Novel coronavirus officially named COVID-19,

100,000 cases of COVID-19 recorded,

2020
Mar

WHO characterizes COVID-19 as a pandemic

118,000 cases; 114 countries; 4,291 deaths

LOCKDOWNS initiated in various countries

2020
July 7

Western Cape High Court rules against Guardrisk on a BI case

Will it set a precedent?

2020
Sep 16

UK High Court ruling paves way for claims

FCA v Arch & Others

2020
Nov 17

Western Cape High Court finds Santam liable to pay for BI losses due to COVID-19 lockdown

Background

Source :https://www.news-medical.net/health/History-of-COVID-19.aspx

Image: Aeriform / Ikon Images / Getty Images

Putting COVID-19 Losses into Perspective - 2020 est

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- Major events in the last 20years
- Underwriting Losses
- September 11 Attacks amounted to 27bn
- COVID-19 Estimate was as @May 2020

US$ billion

Source : Lloyd's

Image: Aeriform / Ikon Images / Getty Images

Munich Re Incurred Loss – FY 2021

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Group finance and risk – COVID-19

FY 2021 COVID-19-related financial impact

Majority of claims in 2021 driven by L&H reinsurance (€785m)

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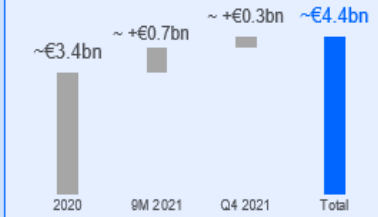
IFRS

Re-insurance (pre-tax)[1]

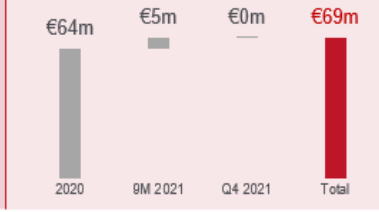


€m	
Contingency	1,846
Property/BI	968
D&O/WC	236
Credit	210
Marine	17
Life and health	1,155

Q4 2021: Provisions increased by €320m

- P-C: Small increase of €5m; 60% of the accumulated losses are IBNR, down from 65% as at Q3 2021
- L&H: Increase of €315m; claims continue to be dominated by the US, India and South Africa
- Expected COVID-19-related claims for 2022
  - P-C: No material losses
  - L&H: ~€300m

ERGO (after tax)



€m	
Claims incurred	2
Result impact from lost premiums	39
Other	28

Q4 2021: Overall no earnings impact

- No material COVID-19-related earnings impact for 2022 expected

1 Total incurred losses, including paid claims and reserves.

Source : Munich Re

Image: Aeriform / Ikon Images / Getty Images

Legal Developments

FOR SUBSCRIBERS 01 Sep 2020

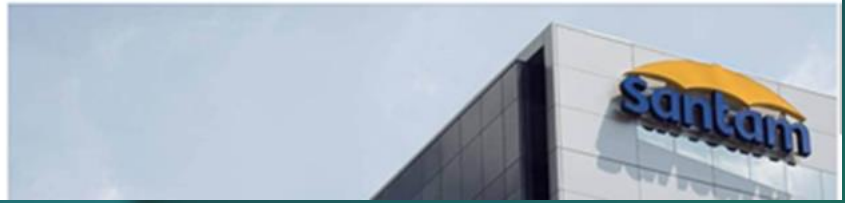
Good policy or bad bet? Lawyers face off over Santam business interruption claims

FOR SUBSCRIBERS 01 Sep 2020

MaAfrika Hotels says Santam hiding behind semantics in case over lockdown claims

BUSINESS MAVERICK

Santam finally concedes defeat in business interruption insurance battle



NATIONAL

Cape Town restaurant wins Covid-19 claim against insurer

The judgment will have far-reaching implications for other insurers facing similar claims

BL PREMIUM

06 JULY 2020 - 23:00 *by* LINDA ENSOR

17 Dec 2020

Pay up, Supreme Court of Appeal tells Guardrisk

Image: Aeriform / Ikon Images / Getty Images

Elements of an Insurable Risk

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- Large number of exposure units
- Determinable and Measurable Loss
- Determinable Probability Distribution
- Calculable chance of loss with economically feasible premium
- Fortuitous loss
- Non-catastrophic loss

Image: Aeriform / Ikon Images / Getty Images

Impact on Policy wordings

Image: Aeriform / Ikon Images / Getty Images

Critical Concerns

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Coverage Extensions

- **Standard coverage**
- **Intent of extension?**

Loss Occurrence Definitions

- Aggregation
- Meeting of minds?

Exclusionary Language

- Causation language
- Definition of terms

Writebacks

- Named Perils vs All Risks Coverage
- Intent – what is the policy originally meant to cover?
- Gaps in cover
- Potential new risks?

Image: Aeriform / Ikon Images / Getty Images

Coverage Extensions - Property

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Physical Damage Proviso

The Reinsurer's obligation to indemnify shall be restricted to claims payments resulting from:

- property insurances, insofar as they cover financial losses arising from the physical loss of or physical damage to the tangible insured property caused by an insured peril, and

Business Interruption

The Reinsurer's obligation to indemnify shall be restricted to claims payments resulting from:

- property business interruption insurances, insofar as they cover interruption directly caused by physical loss of or physical damage to the tangible insured property caused by an insured peril or directly caused by physical loss of or physical damage to tangible property at the premises of a customer or supplier of the insured

Non-Damage Business Interruption

- Can be triggered without Physical Damage to insured property
- Localised impact, "One spot events"
- Strictly limited – geographical scope, sub-limits, radius
- Deductibles
- Selective underwriting

Contingent Business Interruption

- Business Interruption cover suffered by the insured resulting from damage outside of the insured's property
  - Customers & Suppliers Extension
  - Loss of Attraction
  - Denial of Access
  - Public Utilities Extension

Image: Aeriform / Ikon Images / Getty Images

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Loss Occurrence Definitions

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Casualty – WCA & EL

Gradual v Sudden & Identifiable exposures

- Historical view – only gradual exposures were considered to be occupational diseases
  - COVID-19 has shown otherwise – the possibility to contract an occupational disease from a sudden & identifiable local occurrence – Pandemics can be covered
  - Current Occupational Diseases clauses may therefore not mitigate accumulation
  - Exclude Occupational Diseases under EL
  - MR Amended comprehensive ACOD/C clause (CXL treaties only)
  - Precise Loss Occurrence Definition - Hours Clause, not exceeding 168hrs

Image: Aeriform / Ikon Images / Getty Images

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- **Named Perils vs All Risks Coverage**
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Image: Aeriform / Ikon Images / Getty Images

Exclusions & Writebacks

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Exclusionary Language

Approach to Exclusions

- Class of Business Specific Approach
  - Covered risks & original conditions
  - Legal environment
  - No one size fits all however, some Communicable Disease clauses can cover all COBs

- **Exclusion language** to consider the following:
  - clear Definition of terms e.g., agents/methods of transmission
  - Precise triggers- beginning and end of a pandemic – who determines this? NB* Communicable Disease exclusions eliminate this challenge
  - Not limited to named diseases
  - Concurrent Causation language (directly or indirectly caused by…)

Writebacks

Avoid gaps in cover created by adding an exclusion, BUT, consider the following:

- In Property, restriction to Physical Damage
- Restriction to Named perils preferred – provides clarity
- Sometimes irrelevant perils are added which is not necessary
- Exclude Pandemic related SRCC* – critical considering globalization, availability of information and social media induced movements – in a pandemic situation the already high loss burden (accumulation from several COBs) can be exacerbated

**SRCC – Strikes, Riot & Civil Commotion*

Image: Aeriform / Ikon Images / Getty Images

Ultimately, typical insurance risks rather than entrepreneurial risk, remain the core of insurance coverage – losses arising from a “state of affairs” cannot be sustained by the industry.

Thank you!

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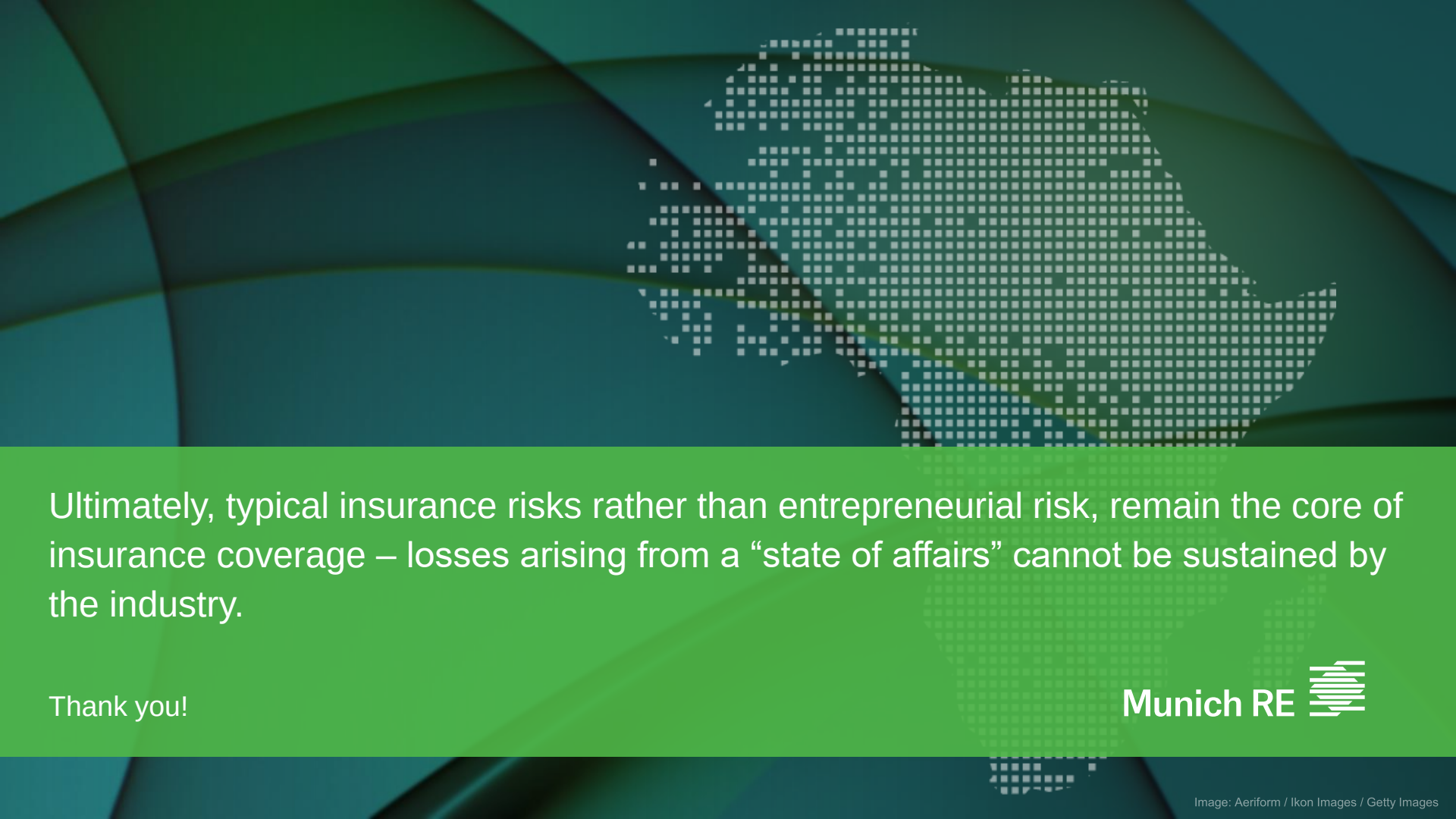

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