

COVID-19: An Enterprise View for Protecting People and Operations

Thursday, March 12, 2020

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Featured Presenters



Nancy Green, CPCU, ARM
Executive Vice President
Global Client Promise Leader
*Co-Leader of Aon's Global Infectious
Disease Response Task Force*



Craig Kiebler, DVM MPH, MS, DACVPM
Managing Director
Aon's Reinsurance Solutions
*Member of Core Technical Team for Aon's
Global Infectious Disease Response Task
Force*



Jim Harrington, JD
U.S. Property Claims Officer
Aon's Commercial Risk Solutions
*Member, Aon's Global Infectious
Disease Response Task Force*



Jim Winkler
Global Chief Innovation Officer
Aon's Health Solutions
*Member, Aon's Global Infectious Disease
Response Task Force*



Melissa Elbert
Partner
Aon's Retirement Solutions
*Member, Aon's Global Infectious
Disease Response Task Force*



Tony Adame, CBCP
Associate Director – Business
Continuity Management
Aon's Commercial Risk Solutions
*Member, Aon's Global Infectious
Disease Response Task Force*



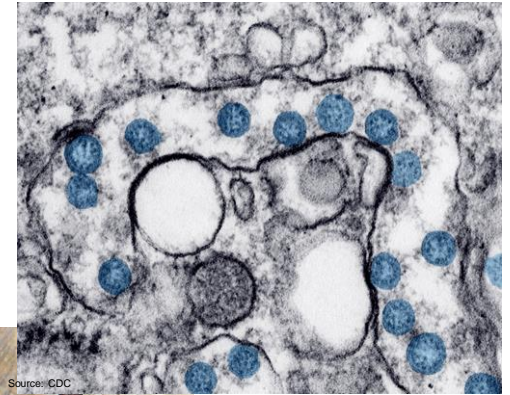
Colin Dutkiewicz
Global Head of Life
Aon's Reinsurance Solutions
*Member, Aon's Global Infectious
Disease Response Task Force*

Welcome and Agenda

- Aon's Global Infectious Disease Task Force - How we support clients
 - Please see our website at www.aon.com/coronavirus
- Today's focus: An enterprise view of COVID-19 impacts
- Situation Analysis – COVID-19
- Property insurance considerations
- Additional risk perspectives
- Business Continuity, Supply Chain and Communication Plan Guidance
- Impacts on Health and Benefits
- Impacts on Retirement and Investment planning and strategy
- Reinsurance perspectives
- Resilience in a time of uncertainty

What are Coronaviruses?

- Large family of zoonotic viruses – can transmit from animals to humans
- Severity of illness can range from mild to severe, including death
 - Common cold
 - SARS – 29 countries (8,096 illnesses, 774 deaths)
 - MERS – 27 countries (2,494 illnesses, 858 deaths)
 - COVID-19 (SARS-CoV-2) - 113 countries (118,326 illnesses, 4,292 deaths)
- Bats harbor a large proportion of global coronaviruses, but can infect other species as well
- Novel viruses can infect humans through ‘spillover events’
 - SARS = Bat → Civet → Human
 - MERS = Bat → Dromedary Camel → Human
 - COVID-19 = Bat → ?? → Human
- In humans, infection can cause respiratory symptoms, fever, cough, shortness of breath, pneumonia, ARDS and death
- Animal, human, and ecosystem health are interconnected - we can expect to see more spillover events as we increasingly have contact at the human-wildlife interface



What is COVID-19?

- Novel coronavirus is genetically similar to coronaviruses of bat origin and also to SARS
- Reportedly originated at a seafood / live animal market in China
- Global spread with WHO declaring COVID-19 a pandemic on March 11, 2020
- Transmission in 113 countries
- COVID-19 is a novel virus, so we are still learning progression of disease and epidemiological characteristics
 - Transmission – dependent on locality and response measures
 - Incubation – most cases 4 to 5 days after exposure
 - Symptoms – wide spectrum
 - Severity – wide spectrum, ~80% have mild disease, most severe in persons over 60 and / or with co-morbidities
 - Treatment and prevention – supportive care
 - Surveillance and response – dependent on locality and event dynamics



Transmission:

Close contact from respiratory droplets, lower risk from contaminated surfaces



Treatment / Prevention:

Supportive medical care for symptoms. No specific therapeutics or vaccine.



Incubation:

~2 to 14 days
(IQR 2-7)



Severity:

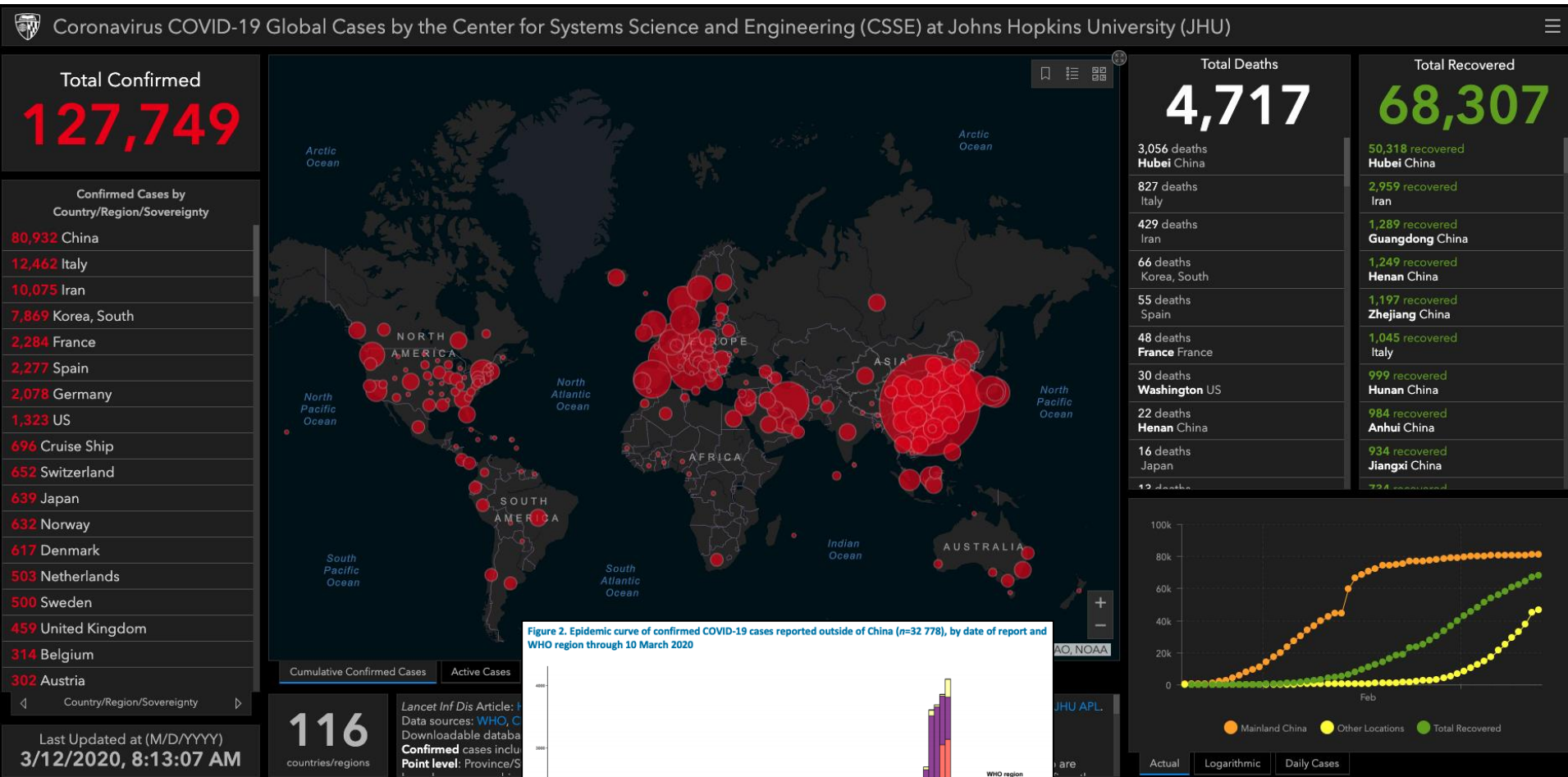
Mild (cold-like symptoms) to severe respiratory illness (pneumonia)



Symptoms:

Fever, cough, shortness of breath

COVID-19 Visualization and Live Update Sites



Source: <https://bit.ly/2Q5EyL2>

Coronavirus – Examples of Financial Impacts

DIRECT COSTS -- VIRUS

- Costs of vacating and sanitizing an insured property after an on-premises outbreak
- Income loss and cost of PR mitigation after an on-premises outbreak
- Income loss from on-premises outbreak at a supplier

INDIRECT COSTS -- VIRUS PRECAUTIONS

- Costs and income loss from the preventative closures and sanitizing
- Income loss from preventative closure of supplier
- Income loss from loss of social distancing of employees and customers

Coronavirus – Starting Points for Property Coverage Triggers

Coverage	Usual Trigger(s)
Property Damage/Business Interruption	<i>Physical Loss</i> or Damage from a Covered Cause of Loss
Civil Authority	Order Limiting Access due to <i>Physical Damage</i> of Type Insured, Distance Limitation
Ingress/Egress	Prevention or Impairment of I/E Due to <i>Physical Damage</i> of Type Insured; some policies include distance limitation
Contingent Time Element	<i>Physical Loss</i> or Damage of Type Insured at Contingent Location, some policies have BI extension triggers
Communicable Disease Response Costs (if coverage grant is included)	<i>Actual Not Suspected Presence of Disease</i> at Insured Location, Order or Management Decision to Limit Location Access, Waiting Period
Communicable Disease Interruption (if coverage grant is included)	<i>Actual Not Suspected Presence of Disease</i> at Insured Location, Order or Management Decision to Limit Locations Access, Waiting Period

Note: Always Check Individual Policy Terms and Conditions

Coronavirus – Property Policy Claims Considerations

- Insurers unlikely to accept CV presence as unexcluded physical loss under traditional coverages
- CD: Need to show actual presence of disease at insured location for CD extension of coverage
- CD: Limits, if offered, are relatively low, annual aggregates, waiting periods
- CD: Time period for recovery is generally the time it takes to sanitize and re-open location(s)
- CD: Policy definition of occurrences may affect deductibles
- To adjust CD claims, insurers will require the following documentation:
 - Evidence of actual presence of disease at the location – medical records, time cards, etc.
 - Timelines to support causation
 - Invoices for expenses to sanitize, test, evacuate, manage PR
 - BI claim will require detailed financial proof of lost revenue, continuing expenses, and extra expenses due to the actual presence of the disease.
- For global placements, local policies may not have the same terms, limits, and deductibles

Additional Risk Perspectives

- Casualty Claims Impact – See *“Impact of COVID-19 in US Casualty Claims”*
 - US Workers’ Compensation (WC)
 - Texas Non-Subscription
 - Employer’s Liability
 - Foreign Voluntary WC and Employer’s Liability
 - General Liability
- FSG Perspectives – See *“Client Alert: The Coronavirus – D&O, EPL and Wage & Hour Insurance”*
 - D&O: Side A D&O implications and other COVID-19-related considerations
 - EPL: Compliance with key employment laws; exposure to actual or perceived inconsistency in applying and enforcing policies; other considerations
 - Wage & Hour (W&H): Don’t run afoul of W&H laws in addressing dramatically reduced business.
- Cyber – See *“Cyber Risk Implications of the Coronavirus Outbreak”*
 - Defend against social engineering attacks
 - Malicious attachments and malware
 - Phishing, vishing and smishing
 - Test system preparedness
 - Brace for disruption

Additional Risk Perspectives (cont.)

- Environmental – See *“Is Disinfection Coverage Available for COVID-19 Under Environmental Insurance Policies?”*
 - Discusses perspectives on coverage and likely challenges
 - Global program considerations
- Trade Credit* - Considerations to watch for:
 - According to market estimates, COVID-19 global business disruption could create a reduction in trade of goods and services of around USD \$320Billion per quarter
 - If a global recession, then there will likely be increased bankruptcies with companies in certain sectors including Travel & Leisure, Automotive, Textiles, IT, Retail
 - Credit market is expecting a significant increase in payment defaults and insurers have started to implement plans to review and reduce their insured exposures in certain countries (e.g, China and Italy) and trade sectors (as above).
 - Strategy to consider: All firms rely on credit to fund day-to-day operations:
 - Trade Credit – Identify revenue sources for your organization that must be protected and understand how to protect them quickly. It will become increasingly hard to gain Trade Credit coverage on the more distressed customers, but the chances are increased if packaged in a diverse portfolio.
 - Political Risk – Trade Disruption Coverage

* Trade Credit information provided by Clayton Sasse, Managing Director, Aon Trade Credit and Oliver Henderson, ACII, Chief Broking Officer for Aon Credit Solutions

Business Impact Analysis and Quantification of Possible Effects

For each location of your organization:

- Determine “mission-critical” processes that must continue to support the business
 - financially,
 - operationally,
 - customer service,
 - compliance &/or contractual, &/or
 - brand.
- Identify possible “single points of failure” (human, operational, IT, vendor)
- Determine, and possibly discontinue non-essential functions that can be suspended during the duration of the threat
- Identify processes which can be performed remotely – at home or an alternate location
- Identify and prioritize critical vendors and the information, materials &/or services they supply
- Document chronology of events and actions taken

Plan Mitigating Strategies – Key on People and Vendors

For each critical process:

- Gather contact information for critical staff, vendors, &/or customers
- Ensure accessibility to critical resources (IT, records, equipment, people, vendors)
- Determine what can be done with less staff
- Work with vendors to understand their planning activities
- Map out reasonable, nimble, and flexible recovery steps (including remote procedures)
- Train key personnel on expected recovery steps based on staffing reductions, lessened vendor support, &/or remote operations
- Design and formalize communication strategies (employees, customers, vendors, regulators, media, etc.)
- “Dry run” exercise based on loss of key personnel &/or vendors, and remote accessibility
- Use data from exercise to enhance current recovery programming

Communication Plan Guidance

Prepare a Communications Strategy now

- Internal to employees
 - State the facts as you know them
 - Describe the current and, if known, future impact on the organization
 - Demystify the fear and outline steps the organization is taking on behalf of its employees
 - Promote safety steps that employees can take at work
 - Summarize company policies/positions
 - Articulate work-from-home policies
 - Promote safe travel policies
 - Emphasize an “open door” policy for employees to ask questions
- External
 - Identify external stakeholders - customers, vendors, neighbors, regulators, media, etc.
 - Determine what should & needs to be communicated and timing thereof
 - Create a procedure for crafting, vetting/approving, issuing, then analyzing receipt of the message
 - Build a flexible schedule for follow up communications

Health & Benefits Implications for Employers

While the epidemiology of the virus is the same country to country, the considerations for employers are different between the U.S. and Canada

- U.S. – significant focus on navigating impact of time away from work, while emerging questions are focused on the cost and access to testing and treatment
Note: Potential for conflicting guidance between Federal Agencies, state agencies, and insurance carriers
- Canada – fewer “benefit plan decisions” to make, and therefore focused on organizational strategies to mitigate risk of contagion.

U.S. – Need for Employee Absences

Typical scenarios employers are likely to experience

- Employee is quarantined due to exposure to COVID-19
- Employee's own illness – symptomatic for COVID-19
- Employee's care of a family member – as defined by FMLA – who has illness-symptomatic for COVID-19
- Employee's care of a minor child whose school has been closed due to identified public health action related to COVID-19

Key Questions for Employers to address:

- Should employees who are quarantined for 14 days at home be paid?
- If quarantine is not an approved Short-Term Disability (STD) claim, will it be covered under an employer's sick policy?
- Will employees use sick time or a “special” category for leave?

U.S. – What Employers are doing

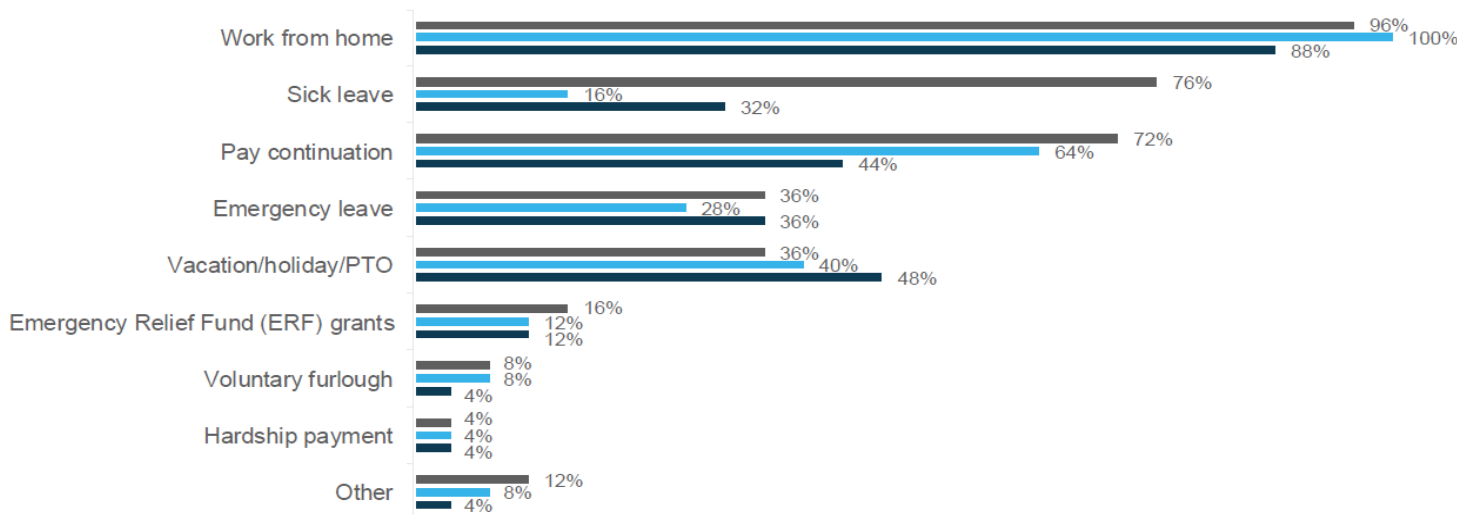


Large Employers' Offerings to Employees Impacted by Quarantines

Large employers have made many options available to employees impacted by quarantine requirements.

N=25

■ Symptomatic employees ■ Asymptomatic employees ■ Asymptomatic employees that are caregivers



Note: Other responses include: short-term disability, providing PPE where appropriate, follow any in-country government requirements, provide administrative leave, provide unpaid leave for employees that are ineligible for another benefit type.

Q: Which of the following are available to employees impacted by quarantine requirements?

U.S. – Time Away Considerations

- Short-Term Disability (STD) plan/employer sponsored
 - Confirm the availability of the benefit for periods of business or public health quarantine due to employee exposure
 - Discuss with your carrier and/or administrator
- Paid Sick Leave/employer sponsored
 - Review paid sick leave policy and confirm it covers periods of business or public health quarantine and care of sick family member
 - Consider extending paid sick leave to ineligible employees to provide a paid leave that encourages employees not to come to work when sick
 - Encourage employees to use paid sick leave and not come to work when they are sick
- Donation programs
 - Define option for employees to donate paid sick/vacation/PTO to employees on leave
 - Ensure donation programs aligns with tax rules
- Return to Work (RTW) certification
 - Update policies that identify when a medical certification/doctors note is required to RTW

U.S. – Medical Benefit Considerations

- Promote the use of telemedicine and other virtual visits, especially for the “worried well”
- Confirm with your medical plan carrier how the cost of testing will be covered
 - Internal Revenue Service guidance on 11 March eases rules for waiver of deductible in High-Deductible Health Plans (HDHPs)
 - COVID-19 tests have been available only through government entities (but at no cost to patient); private sector solutions (LabCorp, Quest, etc) becoming operational to expand access
 - Outpatient tests expected to cost \$50 - \$100
 - Tests administered at hospitals likely to be 2x-3x that cost
- Cost estimates for patient treatment are wide-ranging, due to relatively low volume to date, especially for working age Americans
 - The vast majority of patients will have minimal medical expenses, akin to an outpatient office visit
 - Patients at greatest risk for complex care are those with co-morbid conditions; at present, effective treatment beyond supportive care has not been established

Canadian Employer Considerations: 3-Tier Focus

1. Avoiding contagion

- Employers should communicate and encourage employees to monitor symptoms and, if apparent, self-isolate and communicate with public health authorities
- Employment insurance will grant sick-leave benefits without any waiting period for a quarantine period requested by the employer or a health care professional (with and without apparent symptoms)
- Designated COVID-19 screening clinics are launched by provincial health authorities
- In-home testing available in certain regions

2. Employees returning from travel and visitors from abroad

- In airport border services may mandate a 14-day quarantine period
- Returning from Hubei China or Iran, Government of Canada requests an automatic 14-day voluntary at-home quarantine
- Asymptomatic employees can be given thermometers by employers to monitor temperature
- Symptomatic employees should be directed to contact health authorities for instructions and not enter the workplace
- Some employers are conducting risk assessment questionnaires prior to integrating an individual to the workplace

Canadian Employer Considerations: 3-Tier Focus (cont.)

3. Group Insurance coverage

- Quarantine periods are covered by most Canadian insurers at this point if mandated by a health care professional and in some cases by health authorities.
 - Waiting period for coverage may vary by carrier
- Many insurers have imposed medical travel coverage restrictions for departures to destinations where the Government of Canada has issued a health travel notice for COVID-19 at the date of departure
- Special Risk coverage may be available for travel in restricted areas

Employers are encouraged to refer to the Government of Canada Coronavirus disease (COVID-19) travel advice site

Retirement Impact: Defined Contribution Plans

Lower retirement savings may delay retirements and increase litigation risk

1 in 3

employees prepared for a **comfortable retirement** at age 67¹

1 year

delay in retirement **reduces** amount of **savings needed** by **1x pay**¹



6x

Increase in **401k complaints** filed from 2006/07 to 2008/09²

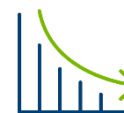
Actions



Ensure Strong Governance



Review Plan Design



Consider Lifetime Income Options



Address Broader Financial Wellbeing

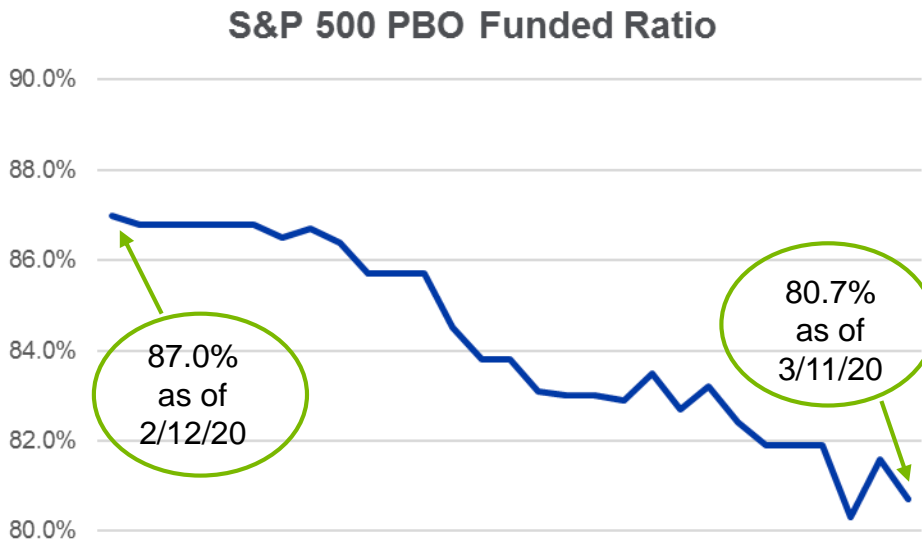
¹The Real Deal: 2018 Retirement Income Adequacy at U.S. Plan Sponsors

²Center for Retirement Research at Boston College, May 2018, 401(k) Lawsuits: What are the Causes and Consequences?

Retirement Impact: Defined Benefit Plans

Drop in equity markets and interest rates putting pressure on pension plans

~\$149B Value lost of S&P 500 pension plans in last month¹



Actions



Review Cost Projections



Follow Investment Policy
(while seeking opportunities)



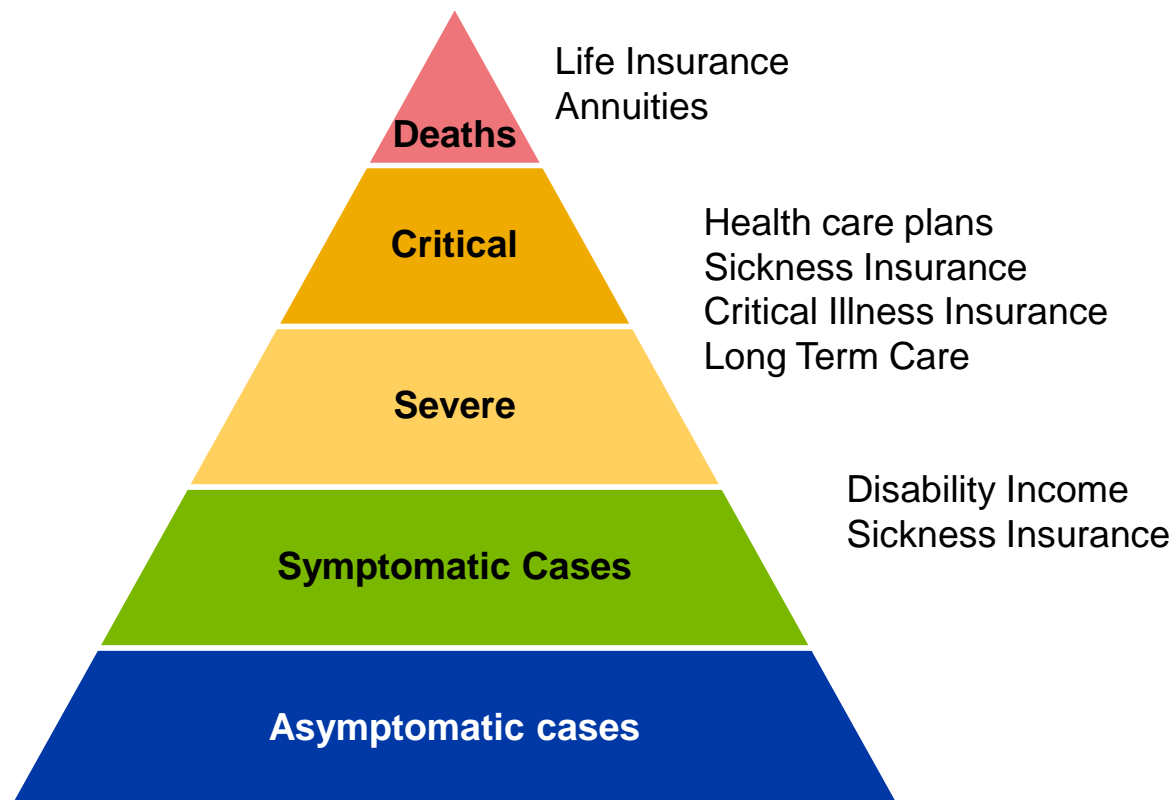
Confirm Methods and
Assumptions



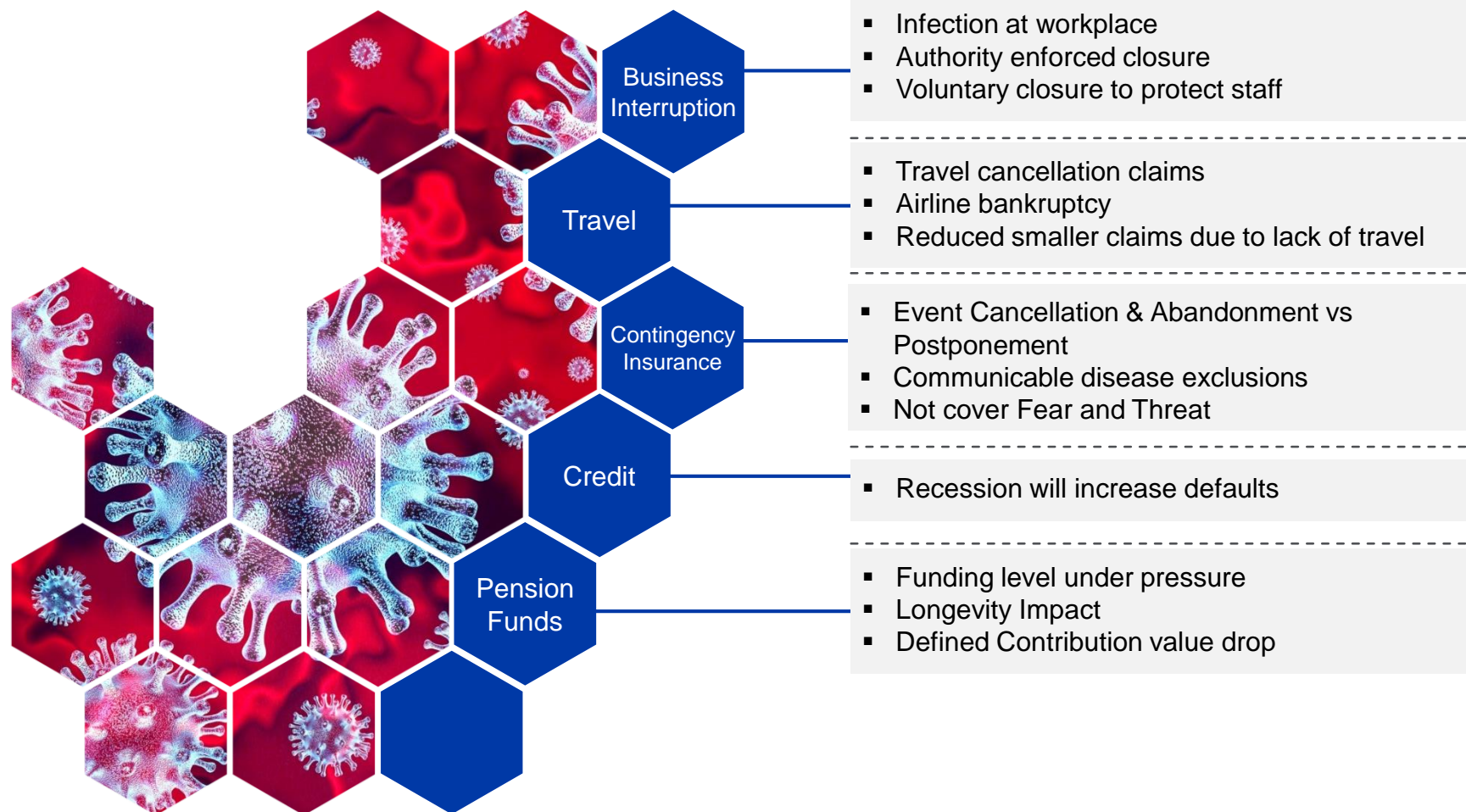
Consider Settlement
Opportunities

¹Aon's S&P 500 Pension Risk Tracker as of 3/10/2020

Human Impact View – Life and Health (re)insurance Market



Business Insurance View – Non-life (re)insurance



From an Insurer Need View

- Effective insurers are:
 - Well diversified: Non-life, Life, Longevity, Health, Savings and Geography
 - Well capitalised: Robust balance sheet and already accounted for pandemic risk
 - Well reinsured: keep risk they are able to manage and reinsure risk they don't want

- Interest rate reductions hurt
 - To counter economic downturn, central banks reduce rates
 - Reduced rates increase reserves and capital for life insurers
 - Reinsurers assist insurers in this environment

Perspective

- Insurance industry is providing necessary cover
- Reinsurance industry is spreading the risk/loss
- Capacity going forward a question

Not everything goes according to plan

Understanding what it feels like to be making decisions in a crisis situation

- Psychological impacts of crisis situations
- Effect that shock creates
 - Don't miss the gorilla
- Organizations (and people) that move successfully through crisis situations typically exhibit one or more of these characteristics:
 - Employ active passiveness
 - See what's really there; not what they expect to see
 - Are open to possibilities – are willing to consider solutions that might have been ruled out before
 - Are confident they will find a solution
 - Are able to flex to adjust when needed, and are able to identify inflection points for changes
 - Are persistent – they do not give up

Source: Sherwood, Ben. *The Survivor's Club*. New York: Grand Central Publishing, 2009.

Resilience in a time of uncertainty

How to maintain a good decision-making environment when responding to uncertainty

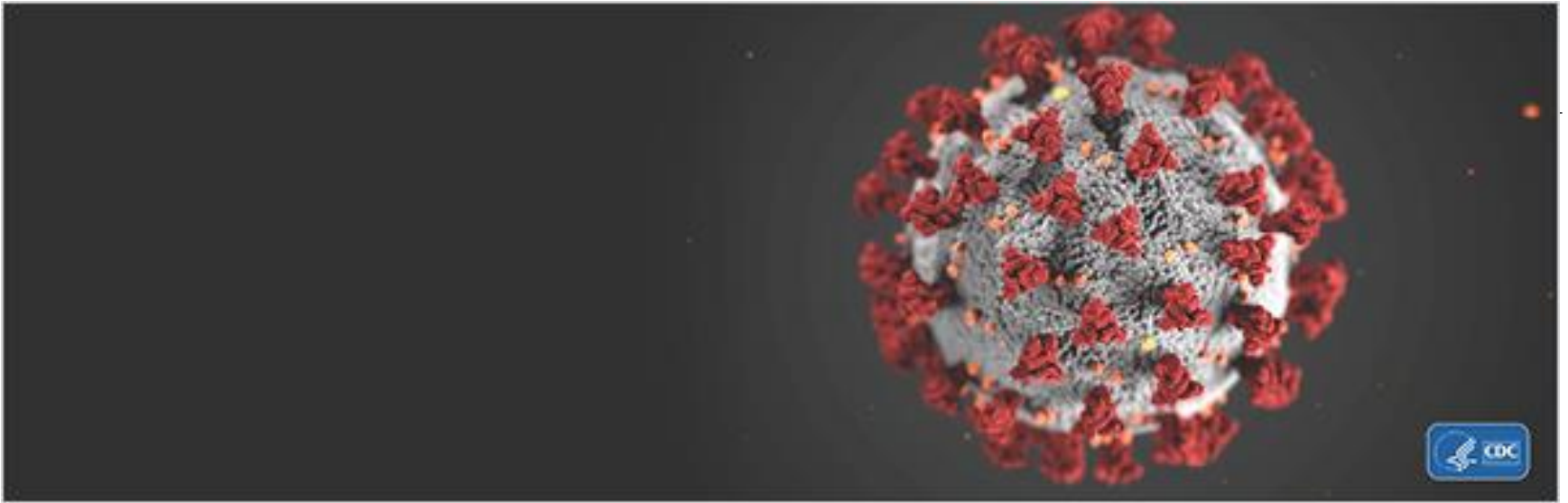
- Test and question assumptions to avoid inattentional blindness
- Take emotion out of the equation:
 - Focus on accurate, factual, objective data
 - Expand access to external resources to give breathing room to leadership and internal resources and free up capacity to run day-to-day operations
- Broaden view of options by expanding access to depth/breadth of resources and ensuring multidisciplinary perspectives
- Break situation down into manageable components for tactical response, but retain perspective of whole
- Get comfortable making decisions with imperfect information; implement a situational analysis process and decision cadence
- Power of planning is not just the plan; it's also the planning itself and how it brings teams together and facilitates understanding
- We can't predict the scope or severity of the event, but we *can* prepare for the impact

Note: See Aon's whitepaper "Keys to Success in Managing a Black Swan Event" on our website at www.aon.com/coronavirus

7 Cs of Decision-Making in a Crisis Event

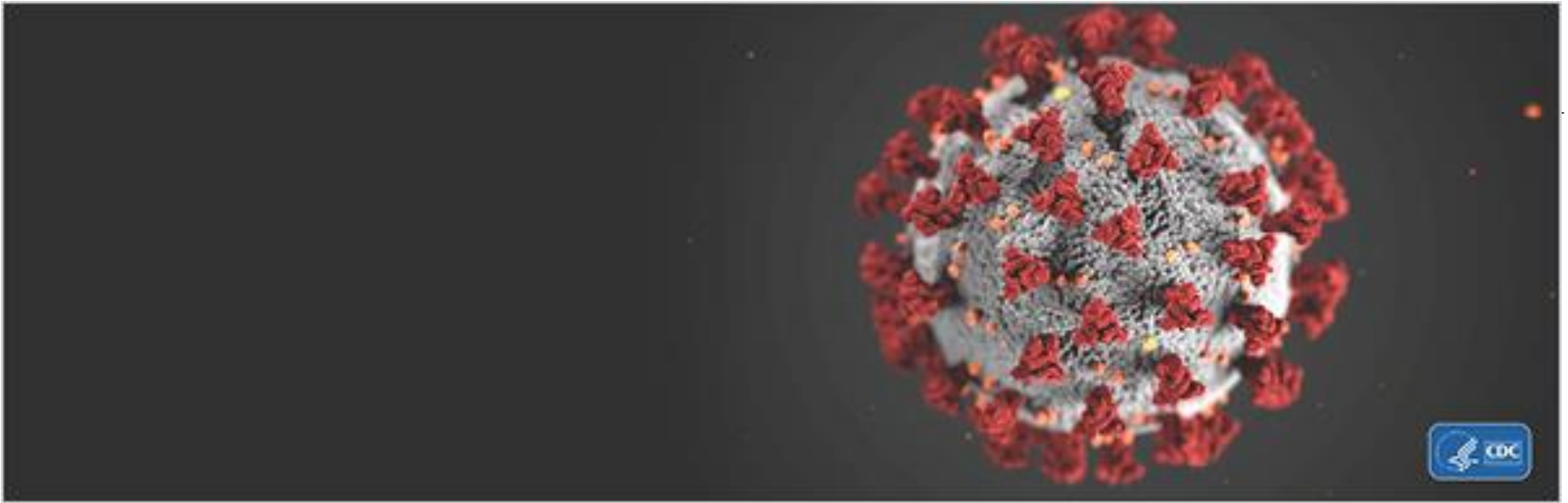
Company should ensure all of the following are involved in each key decision:

- ✓ **Candid** – be candid, as candor enhances credibility and improves effectiveness of communication
- ✓ **Creative** – be willing to think outside the box and even consider solutions that might have been ruled out before
- ✓ **Code of Conduct** – operate within the ethical boundaries that are consistent with the character of the Company
- ✓ **Competence** – continue to fulfill the Company's daily mission; do not allow performance and service quality to falter
- ✓ **Confidence** – be confident that we will find a solution for impacts – it counteracts 'tunnel vision' to become more open to possibilities; confidence also enhances colleagues' and public's view of the Company's stability and focus
- ✓ **Compassion** – empathy enhances ability to see how the other party(ies) views the situation and improves effectiveness of strategy development, smooths disconnects and enhances communication with internal and external parties
- ✓ **Coordination** – *simultaneously* maintain emergency response, address the underlying problem and keep the daily operations going



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