Risk Matters

A SEMI-ANNUAL PUBLICATION | WINTER 2020

RC ANSWERS:
How to address the need for risk agility?

Featured Risk Leader: **Robin S. Joines**

Beyond the Numbers
Global Insurance Protection Gap

"To fight for change tomorrow we need to build resilience today."

WINTER 2020

Risk Cooperative

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"What helps you persevere is your resilience and committment. "

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Risk Matters

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Risk Matters is published semi-annually by Risk Cooperative to move risk from being a cost to becoming a catalyst for change, new initiatives and greater resilience around the world. With this and our latest curated content, we aim to advance the standards of practice of the risk and insurance profession.

Foreword

In the final days of 2020, we reflect on the challenges this year has brought and the ways these disruptions have highlighted our collective vulnerability to complex risk issues, as well as the fragility of the global economy.

A recent study by Swiss Re noted the global economy is the least resilient it's ever been. In an uncertain global economy, the ability to withstand financial shocks is the key to building stability. Insurance and financial risk transfer solutions have long been viewed as a critical tool to help build up resiliency and expedite economic recovery. At a time when it is needed most, the insurance protection gap—the difference between insured losses and economic losses—continues to grow, reaching a record-breaking $1.2 trillion. Having suffered large-scale losses, insurance markets will also see adjustments and rate increases that further limit accessibility.

Though we are now seeing COVID vaccines approved and in the early stages of deployment, the pandemic is not the only risk factor with which we must contend. Beyond COVID, this year has seen an array of complex risk issues, such as more severe natural disasters, growing cyber attacks, and large-scale social unrest. Natural disasters and catastrophe losses have been trending well above normal levels throughout all of 2020 causing damage to infrastructure, supply chains and agriculture crops around the globe. Likewise, increasing social unrest has led to mass riots and demonstrations around the globe shutting down cities and causing large scale property damage.

In this issue of Risk Matters, we look at how to better prepare for these uncertainties, creating more risk agility for organizations by leveraging insurance solutions, and creating more access to these programs. The proactive and innovative applications highlighted here not only help to transfer financial losses, but also create a more resilient, inclusive economy. To ensure we apply the 2020 lessons learned, we must change our enterprise risk management approaches to leverage the abundant liquidity available in the insurance markets to limit the taxpayer burden, fuel growth and close the protection gap. This proactive approach will help us prepare, should another large-scale disruption event occur again.

Andres Franzetti is the Co-founder and Chief Executive Officer of Risk Cooperative

Featured Risk Leader

Robin Joines serves as Senior Vice President of Risk Management for Sedgwick, leading operational risk management activities and overseeing the management of claims, safety and loss control, physical security and travel risk management. Joining Sedgwick in 2011, Robin developed the strategic risk management vision and framework for the company's program. Today, she is also responsible for risk management planning and response related to business interruption, crisis management, and business resiliency.

ROBIN S. JOINES, ARM-E, CRM, RF,
SR. VICE PRESIDENT, RISK MANAGEMENT,
SEDGWICK

Robin earned a bachelor's degree in accounting from the University of Memphis and later earned a master's degree in risk management and insurance from Florida State University. She is a RIMS fellow and holds the Certified Risk Manager and Associate in Risk Management – ERM designations. Known for her commitment to industry education, Robin serves as a mentor and board member for organizations working to build a deep bench of young and talented risk professionals.

Robin serves as President of the Board of Directors for the Spencer Educational Foundation, an organization that awards scholarships and grants in risk management and insurance, facilitates internship opportunities, and offers university students exposure to professional risk managers on campus as a part of the academic program. She actively participates in Spencer's "Risk Manager on Campus" program and also serves as a judge for the Spencer-RIMS Risk Management Challenge.

Additionally, Robin is a Student Mentor and Judge Advocate for the University of Mississippi School of Business Administration and Risk Management.

Serving on the Board of Trustees for Gamma Iota Sigma, Robin's experience allows her to lead the strategic direction of GIS in a way that will grow and sustain a robust and diverse student talent pipeline and ultimately, ensure a vibrant future for the industry.

Robin is also a Board of Managers member of the Tennessee Self-Insurers' Association, an organization dedicated to educating employers, insurers and service providers on workers' compensation issues.

As a highly regarded presenter, Robin is frequently invited to speak at many college and university campus events as well as industry conferences and meetings.

In 2016, Robin was awarded the Ron Judd "Heart of RIMS" award in recognition of her volunteer contributions to the Memphis RIMS Chapter. During her tenure as Chapter President, the Memphis RIMS Chapter steadily grew its membership, offered quality educational programs, and raised substantial money for student education.

For this committment to elevating risk management practices and careers, it is our honor to name Robin S. Joines as our *Risk Matters* Featured Risk Leader.

By the Numbers

THE GLOBAL INSURANCE PROTECTION GAP

> "The widening global protection gap is a huge opportunity for insurers to fulfill their mandate as risk absorbers and improve societal resilience.[1]
>
> *Jerome Jean Haegeli*
> *CHIEF ECONOMIST, SWISS RE*

The insurance protection gap is defined as the difference between the amount of insured losses and total economic losses.

This measure directly impacts the amount of financial shock an organization, individual, or government can withstand, and is reflected in global econonomic reslience estimates such as Swiss Re Institute's Macroeconomic Resilience Index (E-RI).

In 2020, COVID-19 has strained this resiliency, leading to a widening protection gap, and the stimulus response used to combat economic losses has depleted reserves, further eroding the ability to withstand future crises.

2020 Global GDP
2.5%
DOWN[2]
$4.5
TRILLION[4]

2021 Rebound[3]
5.2%
DOWN FROM 5.4%

Global Resilience[1]
20%
DOWN

(**TOTAL LOSSES**) – (**INSURED LOSSES**) = **PROTECTION GAP**

Global Losses[2]	Insured Losses	Protection Gap[1]
2020-2021	2020, PROPERTY & CASUALTY[2]	HEALTH•MORTALITY•DISASTER
$12 TRILLION	**$30-$107 BILLION**	**$1.24 TRILLION**
2020-2025[3]	BUSINESS INTERRUPTION[4]	GLOBAL HEALTH GAP[1]
$28 TRILLION	**<1% INSURED**	**UP +5%**

EVERY **1%** RISE IN INSURANCE PENETRATION[5] =

13% REDUCTION IN UNINSURED LOSSES[5]

22% REDUCTION IN TAXPAYER FUNDED EXPENSES[5]

2% RISE IN NATIONAL GDP[5]

IMPROVED GLOBAL ECONOMIC RESILIENCY (E-RI)[1]

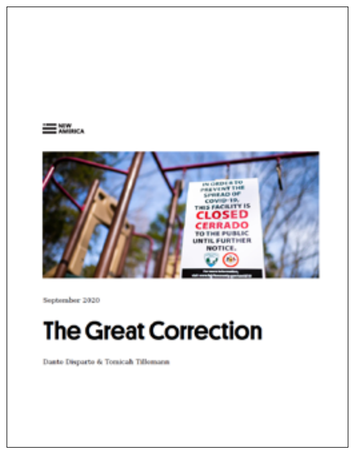
[1] https://www.reinsurancene.ws/world-economic-resilience-to-fall-in-2020-protection-gap-hits-1-24tn-swiss-re/
[2] https://www.spglobal.com/ratings/en/research/articles/200928-covid-19-highlights-global-insurance-protection-gap-on-climate-change-11617761
[3] https://www.theguardian.com/business/2020/oct/13/imf-covid-cost-world-economic-outlook
[4] https://www.theactuary.com/2020/10/27/huge-pandemic-insurance-protection-gap-uncovered
[5] https://cityriskindex.lloyds.com/

Summaries

WHITEPAPER: THE GREAT CORRECTION | PUBLISHED 09.02.2020

Written by Dante Disparte and Tomicah Tillemann

Originally published by New America



The speed with which the coronavirus pandemic crippled the global economy, buckled healthcare systems, and crushed national pandemic response plans has created a resilience crisis that is engulfing our public institutions. Communities are being forced to reimagine how they meet the needs of citizens and stakeholders. The crisis presents an opportunity to not only rebuild, but to emerge better off with a heightened ability to address many other challenges on our long national horizon. This report documents the successes and failures of US public institutions and officials in responding to this crisis and provides a roadmap for building more resilient institutions that can mitigate human suffering during future emergencies.

Read the full article:
https://riskcooperative.com/whitepapers/great-correction/

HOW EAP BENEFITS CAN SUPPORT EMPLOYEE MENTAL HEALTH | PUBLISHED 10.01.2020

Written by Asmeret Teklehaimanot
Originally published on RiskCooperative.com

Learn how EAPs support mental health by providing a range of no-cost services to help employees manage day-to-day stressors.

Read the full article:
https://riskcooperative.com/news-and-analysis/eaps-support-mental-health/

Links to all RC published articles, interviews, and engagements are located under Insights on riskcooperative.com.

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CLIMATE CHANGED, BUT WE CAN DO SOMETHING ABOUT IT | PUBLISHED 10.05.2020

Written by Dante Disparte and Les Williams
Originally published in Diplomatic Courier

The acute, attritional effects of climate change will spare no place. Resilience must be of utmost import in the face of a threat so certain.

Read the full article: https://riskcooperative.com/news-and-analysis/climate-changed-do-something/

HOW TO CHOOSE YOUR BROKER | PUBLISHED 08.11.2020

Hosted by Derrick Wong and Les Williams
Originally published on RiskCooperative.com

Our experts share insider tips on what great brokers do to arm their clients with the information they need to protect their businesses.

View the presentation:
https://riskcooperative.com/engagements/choose-your-broker/

SUPPORTING CONTENT:

OPTIMIZE YOUR BROKER PARTNERSHIP
Written by Maria Jaramillo

Read the full article:
https://riskcooperative.com/news-and-analysis/broker-partnership/

MAKING YOUR BROKER SELECTION
Written by Derrick Wong

Read the full article:
https://riskcooperative.com/news-and-analysis/broker-selection/

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Featured Analysis

LEVERAGE THE INSURANCE INDUSTRY TO DRIVE CLIMATE-PROOF DEVELOPMENT

| PUBLISHED 09.30.2020

Written by Andres Franzetti and Les Williams
Originally published as part of the 21st Century Diplomacy project

As the global economy becomes increasingly interconnected, so too have the risks. A single disaster or event in one region can have severe implications felt halfway around the globe. No single risk illustrates this interconnectedness better than climate change. The increased frequency of extreme weather events and their growing intensity is affecting every facet of the world and humanity. Extreme weather events have created added strain on global food production, caused supply chain disruptions, and are constantly testing the endurance of global infrastructure as well as financial resiliency. Addressing climate change is a complex and daunting task that requires an international coordinated response from policymakers. To enact effective change, however, policymakers must do more than simply implement policies in a unilateral fashion; they must formulate public-private partnerships that can execute such actions. One key player that can help facilitate this, and has yet to be fully utilized, is the insurance industry.

The insurance industry is uniquely positioned to drive a fundamental improvement of sustainability practices across the global economy through its vast financial assets, expertise, and influence. It touches virtually every sphere of human endeavor, and insurers' ability to effectively grant or revoke permission for companies to operate affords them singular leverage in relation to curbing high-risk behaviors and encouraging financial resiliency. In 2019, 820 natural disasters around the globe caused overall losses of US$150 billion, of which only US$52 billion were insured. This widening protection gap, and the indiscriminate nature with which extreme weather events occur, could lead to a dramatic rise in global poverty levels unless addressed. Creating more access to insurance solutions can expedite recovery efforts to restore livelihoods and rebuild critical infrastructure so that people, communities, and economies can rebound.

Traditionally, policymakers have addressed climate change via regulatory means, like carbon taxes, cap-and-trade programs, and stricter emissions standards. From an insurance perspective, policymakers have worked with insurers in the promotion of premium rate relief for companies who practice responsible behavior, like utilizing eco-friendly manufacturing processes. This approach has proven effective and will be part of the solution to combat climate change for the foreseeable future. The next evolution in the utilization of insurance to combat climate change involves policies that encourage companies and insurers to participate in innovative insurance solutions. Future-proofing food supplies, rethinking insurance's role in energy and infrastructure, and designing resilient infrastructure solutions that are affordable for multiple stakeholders are three key areas of innovation that policymakers should pursue alongside the insurance industry.

Future-proofing Food Supplies

Policymakers understand that a critical aspect of climate change is its impact on global food supplies and agriculture. Climate change has undercut the reliability of the years of data and weather patterns farmers have traditionally depended on to plant and harvest their crops. Extreme weather events, dramatic fluctuations in precipitation, and heat patterns are having a detrimental impact on

crop growth, livestock health, fisheries, and other related resources. The United Nations' International Panel on Climate Change (IPCC) is forecasting a 2 to 6 percent decrease in global crop production every decade for the foreseeable future. While policymakers have implemented various types of crop insurance initiatives designed to help abate some of these risks for farmers, these programs utilize an outdated, retroactive risk modeling that does not contemplate climate change impacts, and provides funds for losses only once they have occurred. Such programs do nothing to meet the dynamic nature of climate risks, nor do they help smaller, less financially stable farmers salvage their crops and livestock in real time.

When losses can be anticipated, such as during extended droughts, existing parametric insurance programs play a pivotal role for farming communities. Parametric insurance policies utilize pre-determined triggers to determine whether a loss is likely to occur, such as insufficient rainfall. This allows insurers to pay insurance claims proactively and allows farmers to replant crops within the same harvest. Some smaller innovative companies, like AcreFrica, are deploying these types of solutions in Kenya. By embedding a mobile-activated code in the bags of seeds, farmers obtain immediate drought insurance. If insufficient rainfall occurs, measured via satellites and sensors, funds are sent automatically to farmers. While countries like the United States have made crop insurance programs available and affordable to farmers, often via premium subsidies and tax incentives, this is not a widely utilized concept. Emerging countries do not have these types of advanced insurance programs in place that would provide farmers access to risk transfer products, like crop insurance. Policymakers in developing economies could work with insurers to provide more proactive and innovative parametric program structures to encourage participation by private insurers in these markets. Parametric policies, especially those leveraging innovative technology and dynamic data modeling like that found in AcreFrica's solution, help reduce the overall severity of losses over time, create a more resilient food production supply chain, and build the necessary financial resiliency and economic stability for emerging markets.

A select number of countries have leveraged these types of programs to help establish insurance funds. Sovereign parametric insurance programs—where national governments are the buyer and the insurance relies on satellite and data modeling rather than on-the-ground damage assessments to estimate the cost of disasters—help countries manage climate disasters and enable expedited recovery efforts. Surprisingly, developing country governments have been quick to adopt these programs at the national level to offset catastrophic losses. But they have not been successful in encouraging the insurance industry to invest in creating the primary insurance markets (such as business interruption insurance vehicles) so their citizens and businesses can also benefit from these types of financial risk transfer tools.

Building for the New Normal: Impact on Energy and Infrastructure

Working towards cleaner, more efficient energy standards has long been an objective in the fight against climate change. In an interesting twist of fate, the fallout from COVID-19 has aided this task by raising the profile of clean energy projects and increasing their importance for large energy producers. For instance, in the aftermath of the pandemic, the French oil behemoth Total cut capital spending by more than 20 percent and eliminated share

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buybacks. However, the unit dubbed "new energies," which included investments in alternative energy infrastructure such as wind and solar, was spared from budget cuts.

The pandemic lockdowns knocked the price of oil from above US$60 a barrel down towards $0, an unprecedented benchmark. Although negative oil prices were an anomaly related to futures contracts, and prices are slowly recovering as lockdowns end and OPEC cuts production until significant demand returns, the future of oil assets remains uncertain. Policymakers had been pressuring oil companies to diversify from these stranded assets to alternative sources well before the pandemic, but the unique slump in oil demand is a rare opportunity to accelerate these efforts.

As cheap oil dominates the headlines, policymakers must work even harder to ensure that clean energy investments like those undertaken by Total continue to proliferate. They can do this by:

- Increasing the number of new commercial and residential real estate developments required to have energy efficient systems installed, such as solar panels.
- Working with insurers to encourage insurance premium rebates to companies and residences that adopt energy efficient infrastructure improvements, such as the installation of solar panels and other alternative energy solutions.
- Working with insurers to expand their investments in renewable and clean energy vehicles via financial incentives (such as tax breaks). Examples of investments include MetLife's ownership in a solar PV power plant in Texas, and Allianz having investments in wind farms and solar parks throughout Europe.
- Increasing the adoption of Feed-in tariffs, where homeowners are compensated for any unused solar energy that is returned to the power grid.
- Easing restrictions placed on offshore wind farms.

While it is difficult to determine the lasting impacts of the pandemic on global travel, early indicators show some changes may be permanent, with lasting impacts on infrastructure maintenance at critical transportation hubs. As firms around the world have shifted to teleworking policies, travel has declined drastically, with air travel down more than 90 percent from this time last year. The International Air Transport Association (IATA) estimated that demand for air travel in 2021 will be 24 percent less than what it was in 2019, and not return to pre-pandemic levels until 2023. IATA's most pessimistic recovery scenario projected a 41 percent decrease in demand by 2021, with a five to seven-year timeframe before returning to 2019 levels. This is fueled both by consumer fears and shifting corporate views on "essential business travel" needs, especially with increased video conferencing capabilities.

This reduced travel has helped to curb greenhouse emissions in the short term, but it has also halted key infrastructure improvements at airports and other transportation hubs. To keep infrastructure improvement projects on the agenda post-pandemic, policymakers can work with insurers to establish the types of incentives that encourage energy-efficient improvements to critical infrastructure like airports and ports, such as discounts on insurance premiums.

Policymakers need look no further than California as an example. The insurance commissioner for the state recently introduced the Climate Smart

Insurance Products Database, a groundbreaking list of green insurance policies. Individuals and businesses alike can choose from hundreds of insurance policies that address climate risks, such as policies that factor green energy use in the discounting of insurance premiums.

Designing Affordable Resiliency

As the world's population creeps towards 8.5 billion over the next decade, urbanization and development of megacities around the world is accelerating. This rapid urban development, however, has not fully accounted for the new risks introduced by climate change. The past few years has shown the impact of these new weather patterns—causing devastating floods across the United Kingdom and Indonesia, igniting powerful wildfires throughout Australia and the Amazon rainforest, and bringing record-breaking high temperatures to Siberia. Houston, the fourth largest city in the United States, has now seen three consecutive 1,000-year floods in the past two years. To put this in perspective, 1,000-year floods statistically have a 0.1 percent chance of happening in any given year. These types of floods not only cost billions in damages, but also displace thousands of people. Current city planning and construction has further exacerbated these weather events by limiting natural mitigation systems such as root systems, forestry, and other barriers that reduce flooding.

By working with policymakers, insurers could help guide a more resilient approach to the development of major cities. Policymakers must enact stronger guidelines for building codes, aligning with insurers' risk models to limit losses. Encouraging developers to consider the new threat landscape that extreme weather events are creating, via measures like reduced insurance premiums, can drastically reduce the overall damage and loss of economic activity.

There is a school of thought, now backed by a growing body of evidence, that suggests that protecting nature's boundaries is critical. This is particularly important in post-disaster reconstruction cases where questions of build back, build back better, or build back at all require consideration of nature's lines of defense. Barrier reefs, for example, offer clear advantages in abating storm surges and coastal flooding, as do mangroves. Groups like Conservation International are exploring ways to leverage these natural defensive systems to reduce risks of flooding and property damage in collaboration with insurers. Their objective is to not only limit potential damage, but also work to establish greater access to insurance solutions in developing countries. By reducing the risk profile of property projects in developing countries, insurers can expand their risk appetite into regions they might have otherwise deemed too risky. This can be encouraged with the support of policymakers enforcing these types of "natural defense" building codes.

Integrating these natural defenses into man-made projects is not the only way to leverage the protection they provide. In many places around the world, natural assets act as the primary barrier against natural disasters and extreme weather events. Coral reefs, mangroves, wetlands, and forests can often minimize the damage caused by these events near metropolitan areas. It is equally important to protect these natural assets, much like property developments are protected.

The effects of human development and natural degradation (such as wind, rain, and erosion) takes its toll on these natural barriers, rendering them less effective over time. Fortunately, a select number of pioneering insurers have developed highly bespoke products to insure nature's assets. One of the first, and most notable projects, was an insurance policy

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designed to protect the Mesoamerican Reef in the Caribbean Sea. By quantifying the economic impact of potential damages and lost GDP that would be incurred should the reef cease to exist, insurers were able to develop an insurance policy protecting this asset. The policy would pay for the maintenance, revitalization, and repair efforts needed if the reef sustained any damage.

While these types of customized insurance solutions are uncommon, it is imperative for policymakers to encourage more of these solutions into their broader strategy for fighting climate change. Working in collaboration with policymakers and the private sector, insurers can help establish added layers of financial resources that will not just maintain natural assets, but also help reduce damages and protect economic interests while building more resilient communities.

This approach allows for both proactive regulatory measures and revitalization efforts to work in unison. Multilateral organizations like the World Bank have also developed and promoted sovereign insurance funds to address these types of complex, large scale risks with insurance funds, working directly with sovereign governments. However, there is greater scope to promote this approach, e.g. by involving the participation of private sector insurers and working closer with policymakers to establish subsidiaries. Doing so would both encourage governments to offset potential losses from their balance sheets and enable private sector participation in these types of innovative risk transfer solutions.

Aligning insurance underwriting requirements and regulations, via policies that allow insurers to influence buying behaviors, further encourages the proliferation of these innovative solutions. The requirement to not only keep natural protective barriers intact as regions become developed, but also mandating the ongoing maintenance of such natural barriers as part of the insurance policy, will have a lasting impact in terms of limiting potential economic losses and damages from extreme weather events.

This is akin to the practices employed by insurers and regulators during periods of urbanization in the late 19th century. When large cities, using wood as the dominant construction material, expanded along with the adoption of electricity, stricter building codes were required as a public safety measure. This served a dual purpose from insurers' perspective: stricter building codes and fire prevention measures enabled insurers to both reduce damages and contain losses in highly urbanized environments.

Regulation and Public-Private Partnerships

Public-private partnerships are key to supporting initiatives that combat climate change. Last summer, the Bank of England's Prudential Regulation Authority (PRA) stated that it would work with United Kingdom insurers to determine how climate change will affect their finances. Given the impact climate change is having on insurance claims globally, the PRA is wise to investigate how climate change will affect insurers' balance sheets as it will have a direct impact on the bank's financial health. California's insurance regulator has followed a similar posture, asking insurers operating in the state to conduct veritable climate stress tests on their balance sheets to not only identify stranded assets exposed to climate change, but also recalibrate their liabilities.

Policymakers must work with insurers globally to include climate change impacts into insurance underwriting models, compelling more businesses to make climate-sensitive changes to their operations in order to secure favorable premiums or coverage in the first place. Some insurers have taken steps in this direction. The insurance giant Chubb says it will no longer underwrite risks related to the construction and operation of new coal-fired plants. (Exceptions to the policy will be considered until 2022 in regions that do not have practical near-term alternative energy sources and taking into account the insured's commitment to reduce coal dependence.)

However, while some carriers like Chubb are making strides to limit their carbon footprints and wield their investment dollars to fight climate change, it is not the industry standard. Encouraging more insurance carriers to adopt this mindset and aligning shared interests would not only drive effective climate risk reduction, but also propel insurers to expand the access of their products to more emerging markets, creating broader global resiliency. The Sustainable Insurance Forum (SIF) is one such group that is gaining momentum with this effort. SIF is a global network of insurance regulators working on the sustainability issues confronting the insurance industry, and it is influencing regulation aimed at reducing the impact of climate change.

The International Chamber of Commerce (ICC) is an important element of the public-private partnership needed on a global scale. The ICC has launched its Climate Coalition, a global network of over 45 million businesses that convene on a regional level to devise solutions aimed at reducing climate change's impact—it is a type of marketplace, just as Lloyd's is the marketplace through which insurance buyers and sellers meet. The word "public-private partnership" is used casually, but the ICC's Climate Coalition is a global resource where this partnership has the chance to create public-private partnership models that can be scalable globally.

Climate change poses a global threat that requires a multi-faceted, international coalition to help change its trajectory. As governments seek to implement new guidelines and goals for how to fight its impact, they would do well to recognize that insurers can play an important role—through data sharing and financial tools that equip countries with additional funds and resources needed to rebound quickly from disasters linked to climate change. Policymakers must encourage insurers to expand their market access, bringing sophisticated risk transfer solutions to both advanced economies and those throughout the developing world. With an aligned agenda, this type of public-private partnership can affect material change and build greater financial resiliency while navigating the new risk landscape shaped by climate change.

https://riskcooperative.com/news-and-analysis/leverage-the-insurance-industry-to-drive-climate-proof-development/

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WHY WE NEED A PANDEMIC FDIC-LIKE ENTITY TO BACKSTOP INSURERS
| PUBLISHED 09.03.2020

Written by Dante Disparte and Les Williams
Originally published in Risk & Insurance

As the United States nears six months of navigating the COVID-19 pandemic, the data remains staggering. According to the World Health Organization, as of August 30, there were 25 million confirmed COVID-19 cases worldwide with deaths reaching 840,000. Sadly, the U.S. leads all countries in both confirmed cases — 5,855,521 — as well as deaths — 180,689.

While many countries enforced social distancing and mask protocols in an attempt to break the chain of transmission, the U.S. has struggled to control the spread as states and regions enforce vastly different protocols, and citizens succumb to cabin fever and the unfortunate politicization of wearing face masks, which are proven to contain up to 60% of the spread of COVID-19.

If face masks were a vaccine, they would be heralded as a miracle. The conundrum of whether to reopen offices and schools this fall adds further uncertainty in the ability to effectively control the spread. What is certain, however, is the damage done to businesses as commerce struggles to return to normalcy. Hindering the ability of businesses to survive these tumultuous times is the number of business interruption claims denied by insurers or those claims mired in lengthy court battles.

China's Approach

As reported by the Wall Street Journal earlier this year, many Chinese property and casualty insurance companies have implemented new policies, or modified current ones, to indemnify companies should they have to cease operations if employees become sick or are forced to quarantine. Many local governments in China have volunteered to pay the majority of policy premiums; one city in China even offered payouts to businesses located in government-mandated quarantine zones even if no infections occurred.

China Re Group is one of several state-owned insurers that has the luxury of being supported by its country should it suffer significant losses. This scenario is reminiscent of the government support received by Persian Gulf Airlines (Emirates, Etihad, and Qatar Airways). Since U.S.-based insurers do not enjoy the same support as their Chinese counterparts, other avenues must be explored, allowing the U.S. insurance market to support companies during future public health threats.

Force Majeure and a Strategic Backstop

Clearly, conventional insurance policy language will isolate COVID-19 claims to the excluded or denied category under the premise of force majeure or nuclear, chemical and biological exclusions, which are commonplace in most policies. Nonetheless, the strategic value of having insurance serve as a first line of financial and business continuity defense cannot be overstated.

As with 9/11 claims that hit both the life and non-life insurance industry, creating a wave of costly litigation and reputational harm to the sector as families, businesses and survivors struggled for recourse, COVID-19 will produce similar calls for a strategic backstop of the insurance sector, facilitating current and future claim payments.

The Terrorism Risk and Insurance Act (TRIA) of 2002 was enacted after 9/11 as a way of shoring up the insurance industry and giving the markets comfort that the emerging peril of trans-national terrorism enjoyed some semblance of financial protection. In the case of a major infectious disease outbreak like COVID-19, no such certainty or backstop exists, save for standalone, often limited coverage under the specialty insurance domain. Financial losses arising from business interruption, and the fact that COVID-19 is a "blue sky" disaster, are not traditionally contemplated by insurers.

There is also the added threat of workers' compensation and employer's liability claims, as some sectors, such as a meat processing plants among others, are deemed essential and yet face the specter of high contagion rates. The raft of litigation and calls for financial relief will be an enduring legacy of the pandemic. Whether the U.S. responds strategically, however, can improve national resilience amid the growing likelihood of future novel zoonotic diseases making the proverbial leap to our species, along with the inexorable march north of vector-borne diseases.

Creating an 'FDIC for Pandemics'

The luxury enjoyed by state-backed insurers like China Re begs the question: Should the U.S. consider the formation of a state-backed insurer or a strategic backstop to shore up the industry against catastrophic losses?

While a novel idea, the legislation required to establish a state-backed insurance entity would take years to develop due to the economic considerations and political point scoring likely to be involved. Rather than modeling a pandemic solution after TRIA, which has been a fraught political hot potato that needs to be renewed occasionally, the U.S. should establish longer-term programs like the Federal Deposit Insurance Corporation (FDIC).

This model, rather than short-term solutions like the Payment Protection Program (PPP) with no set mandate, or the continuous reauthorization of TRIA (as if the terrorism threat has fully vanished since 9/11), would enable the country to make strategic gains in resilience against complex emerging threats. Critically, like the FDIC, these risk-sharing approaches would accumulate paid-in capital in the form of premiums, shore up the insurance sector and give businesses and the economy writ large comfort that certain, large-scale perils would enjoy protection — albeit in a nominal form.

Much like the U.S. developed the FDIC after the Great Depression to rebuild consumer confidence in the banking system, a similar federal insurance backstop will be necessary to address future pandemics — and potentially other hazards that would defy classification or trigger force majeure exclusions. The FDIC functions to insure up to $250,000 of a depositor's money, inclusive of principal plus interest accrued, in case of a failed FDIC-insured bank. Unlike TRIA, the FDIC is an actual agency overseeing the management of funds used to deploy to depositors while accruing paid-in capital in the form of premiums of participating banks.

The inflationary activity of intervening with large-scale smoking crater or "blue sky" risks when they are uninsured is imprudent from an economic, risk management and emergency preparedness point of view. The ensuing litigation on denied COVID-19 claims will only add to the acrimony and costs for risks that should invariably trigger public-private solutions, risk-sharing and blended capital managed over a long-term risk horizon.

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Working closely with regulators, insurers can help establish these solutions with risk sharing and risk pooling components designed to help limit their overall exposure. This ensures consumers are protected and limits the burden for taxpayers who ultimately will have to pay for the PPP and other intervention programs. It also safeguards insurers against potential insolvency in the face of large catastrophic losses.

Earlier this summer, Lloyd's called for "Black Swan" reinsurance backed by governments. The establishment of a veritable Pandemic FDIC can address this clarion call, and this model could also be used for other systemic threats like cyber as well as shoring up hard-to-insure critical infrastructure. A Pandemic FDIC structure provides the coordinated approach necessary to address the widespread impacts caused by novel diseases like COVID-19. The U.S. must act quickly because, as is often the case with history, it eventually will repeat itself.

https://riskcooperative.com/news-and-analysis/pandemic-fdic/

THE NEXT STORM: PREPARING FOR POTENTIAL POST-ELECTION VIOLENCE

| PUBLISHED 10.26.2020

Written by Les Williams and Matthew Kahn
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No matter who wins on November 3, a disaster-weary country will need all the help it can get to stop the tide of mounting losses and uncertainty. Preparing now for the likelihood of post-election uncertainty can help.

This year has been a tumultuous one for so many reasons, highlighted by the COVID-19 pandemic changing nearly every aspect of life and compounded by the national discourse on racism, diversity and police violence in the wake of the George Floyd murder and countless other cases gaining national attention. These large-scale events impacting all levels of society leave many wondering, what is next?

Risk professionals are preparing for a storm. Given that we are still in hurricane season (already a record-breaking year for the largest number of named hurricanes hitting the country), you would think we are referring to the natural catastrophe events that have traditionally impacted the industry. However, we are bracing for something even more concerning — potentially the most contentious election in American history.

Adding to the anxiety is the widespread uncertainty around Election Day — the day when we ordinarily learn the results of public opinion manifested at the ballot box. However, if 2020 has taught us anything, nothing is outside of the realm of possibility, and we may have entered a zone of unintended political consequences. We now know that there will likely be a significant increase in mail-in voting and that we may be counting votes for weeks after the election. This likely means any winner announcements will be postponed, thus increasing the anxiety and stress for all Americans. Even more concerning, a recent study published by Politico shows that one in three registered voters, both from Democratic and Republican affiliations, are now justifying violence if the election results are disputed.

While there is no certainty that violence will occur, it is prudent to begin thinking about what new mechanisms you can implement or existing protections you can review to reduce the overall impact if it does. The perfect storm of violent forms of civil unrest, a pandemic and a highly contested political environment may converge with devastating consequences. These consequences, in the insurance parlance, are most often known as political violence or strikes, riots and civil commotion (SRCC) and may be excluded from traditional policy language. It is important to note, even before the pandemic materialized, the insurance industry transitioned into a "hard" market. This means insureds have faced increased underwriter scrutiny, increased premiums and reductions in coverage terms.

Since the beginning of the pandemic, operating in the "new normal" has been a hot topic, but it is now, as we approach Election Day, more critical than ever to have the proper risk mitigation and transfer strategies in place to weather the lingering storm. Your risk strategy should be addressing key questions, including:

- Could remote work due to the pandemic qualify your properties as vacant and limit your property coverage in the event of vandalism?
- Will politically-motivated cyber attacks impact your business or any aspect of your supply chain?
- Could you be liable if your employees are negatively impacted by post-election violence in the course of or as a result of their employment?
- Could a single or small group of violent actors target your business?

Vandalism of Vacant Properties

This year, we have already seen several instances of violent civil unrest lead to financial impacts on businesses. A Claims Journal report highlights over $25 million in aggregate damage since May due to these isolated, violent outbreaks. There is also a global precedent for political unrest to cause catastrophic damage, notably in Chile, as protests caused over $2 billion in property damage in 2019.

Vandalism stemming from political unrest is one of the biggest threats facing property owners as we approach Election Day. All businesses should audit their policies to ensure coverage for vandalism and property damage arising from political violence. Businesses that have been impacted by COVID-19 should take a close look at how vacancy (which is defined in your policy) may limit or eliminate coverage for vandalism and other perils.

The standard ISO (Insurance Services Office, a leading provider of advanced tools for property & casualty insurers) property form includes a troubling provision that eliminates vandalism coverage for vacant buildings. The form states that a property owner or lessee must conduct operations in the insured building and defines a building as vacant unless at least 31% of the square footage is utilized for the owner or lessee's operations. The form

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states that if a property is left vacant for 60 days, by this definition of vacant, then the carrier will not pay claims for several perils, notably vandalism. This is of particular interest to firms that have shifted to temporary remote operations in the wake of the COVID-19 pandemic.

Unless the treatment of the pandemic as a *force majeure* clause in the favor of policyholders lifts this vacant property exclusion, this may be an area of post-election contention and possible litigation. Some carriers are willing to modify this standard exclusion by adding a vacancy permit to the policy so long as the insured can demonstrate they are taking appropriate actions to protect their vacant property. However, given the hard market conditions, this has become increasingly difficult to modify. Therefore, the primary way to mitigate this potential risk may be to work closely with your risk management and safety teams to prevent, rather than transfer any potential losses.

Businesses must also understand that most property insurance policies exclude business interruption coverage that does not arise from physical damage to the subject property. As such, while violence alone at a property could result in a loss of income, it likely is not covered by a standard property policy. Businesses are encouraged to purchase standalone coverage to expressly address this potential gap in coverage.

Politically-Motivated Cyber Attacks

Remote working has become a new reality for most firms throughout the U.S. and around the globe. This sudden shift has also given rise to an increase in cyber breaches, as more remote employees can mean more opportunities for human error and vulnerabilities to be exposed due to employees relying on home networks outside of firewalls and other protections in the workplace.

At the onset of the pandemic, between February and March of this year, cyber attacks on banks and other financial institutions increased from 38% to 52%. Cyber criminals do not discriminate and are industry agnostic. From small businesses that often cannot recover from a cyber attack to global companies with vast resources, everyone is at risk of an attack regardless of their size or cyber security sophistication. In September, a cyber attack targeted a major hospital system, Universal Health Services, which experienced a massive breach impacting over 400 locations.

It is not just cyber criminals who are perpetrating these attacks for monetary gain; nation-states and political groups are also increasing their attacks on opponents. Firms that make public stances or affiliations often find themselves in the crosshairs of a potential activist hacker. Politically-motivated attacks are projected to increase days before and after the election from such adversaries, both domestically and globally. Firms can prepare for potential financial risks and resource allocation by ensuring they have cyber insurance policies with adequate cyber terrorism coverage for such attacks.

While cyber insurance can provide a fixed price on the uncertainty following a cyber attack, it does not necessarily prevent cyber attacks. Since the most significant cyber threat often lies between the keyboard and the chair, the human element must be addressed to bolster a firm's cyber posture.

Employees should be given a refresher on proper cyber hygiene and routine training to spot suspicious emails or phishing activity. Additionally, IT staff should ensure firewalls and security standards are updated, and firm management should review their cyber incident response plan detailing the proper steps to take following a breach.

Now is an opportune time for businesses to work with their risk manager to ensure their cyber policies have adequate coverage and that potentially insidious war and terrorism exclusions are removed. This exclusion nullifies cyber coverage if war-related activities trigger such coverage. Foreign or domestic hackers carrying out cyber attacks due to a particular candidate winning in November could be interpreted by insurance carriers as "acts of war," thereby negating coverage. Equally as necessary is addressing "silent cyber," the unknown exposure in an insurance policy created by a cyber risk that has neither been excluded nor included.

Liability of Employee Exposure to Violence

While most major corporations are familiar with directors and officers (D&O) insurance coverage, many mid-sized enterprises are not. This lack of coverage leaves businesses and their executive leaders exposed to potential liability issues.

D&O insurance has grown in popularity, but the current economic climate, combined with several large claims in 2020, has made this critical coverage all the more difficult to procure. D&O protects directors and officers of a firm from lawsuits claiming they managed the business without proper regard for others' rights, including the requirement to provide a safe workplace for its employees.

The ongoing COVID-19 pandemic has made the "safe work environment" clause a challenging goal to achieve. As firms slowly begin allowing workers back into the office, they need to ensure that it is safe. They must also look beyond COVID-19 and contemplate other possible disruptions, such as violence resulting from a contentious or disputed election or other societal and geopolitical issues.

Should violent civil unrest ensue during the week of the election or in the weeks to follow, businesses must avoid the liability associated with not giving employees the option for remote work, potentially exposing them to dangerous conditions during their commute or while in the workplace, not to mention the requirement for ongoing observance of public health advisories on social distancing.

For firms that do not have D&O coverage, it will be critical to proceed as if uninsured. This means reviewing existing coverages and taking all necessary measures to protect your people, business and communities. COVID-19 has put pressure on firms to publicly disclose how their operations will adapt to the "new normal" and encourage them to evaluate the pandemic's impact on financial performance. This scrutiny results in many D&O claims as stakeholders, like employees, uncover issues affecting a firm's financial health.

Violent Actors

Among one of the most serious concerns that may occur as a result of post-election violence, and at any time, is the possibility of a violent actor(s) perpetrating an attack on your business and its people. In the months leading up to Election Day, several concerning events highlight the importance of protecting your business.

Most recently, 13 individuals were arrested in a thwarted domestic terrorism plot to kidnap Michigan governor Gretchen Whitmer. According to a CNN report, six people were federally charged with conspiracy to kidnap. Seven other people associated

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with the militia group "Wolverine Watchmen" were also charged. In December 2016, a gunman traveling from North Carolina brandished a military-grade assault weapon inside a Washington D.C. pizzeria. No one was hurt in the attack. This example is significant, however, because the incident underscores the exposure small businesses can face from the prospect of politically-motivated violence. While the examples above involved no physical injuries or death, there is recent historical precedence for politically-motivated attacks to end in tragedy.

In 2011, Congresswoman Gabrielle Giffords and 18 others were shot at a community outreach event outside of a Safeway store in Tucson, Ariz. Six people died and 13 were wounded, including Giffords, who was shot at point-blank range resulting in massive head trauma. Giffords was forced to resign in 2012 due to complications from her injuries.

In 2017, Congressman Steve Scalise and four others were shot on a Virginia baseball field while practicing for a bipartisan charity baseball game. Scalise suffered critical hip wounds requiring months of recovery.

These threatening and harmful events involving workers and elected officials highlight the need for active shooter and assailant insurance policies. These policies can provide relief for a variety of issues surrounding an active shooter or violent situation. These include physical damages, legal liability, crisis management, business interruption, medical expenses, funeral expenses and death benefits, and decline in market interest due to the repercussions of an event. When it comes to people's health and safety, it is never the wrong time to obtain adequate coverage or ensure your coverage is appropriate.

Looking Forward

After 10 months of uncertainty and stress for millions of people, Election Day seems to be the veritable climax of a turbulent 2020.

The threat of violence will not automatically subside either; it will be crucial to remain vigilant in the weeks following Election Day and beyond.

Unlike prior setbacks this year, the advantage we have now is that we can plan for November 3. Proper preparation will help navigate Election Day perils, the most serious being the potential for post-election violence threatening life and property.

While insurance policies such as cyber, D&O and property help to protect firms should a claim occur, the main goal must be to prevent claims from occurring in the first place.

Mandating that all employees work from home during election week when possible, reviewing cyber hygiene protocols, physically securing all first-floor doors and windows, procuring standalone business interruption coverage and reviewing the vandalism clause in property policies are all pertinent steps towards managing what will likely be a tense exercise of democratic will.

No matter who wins on November 3, a disaster-weary country will need all the help it can get to stop the tide of mounting losses and uncertainty. Preparing now for the likelihood of post-election uncertainty can help.

https://riskcooperative.com/whitepapers/election-violence/

WHY THE DEPARTMENT OF DEFENSE'S CYBER SECURITY STRATEGY IS WORTH EMULATING | PUBLISHED 09.18.2020

Written by Andres Franzetti
Originally published in Risk & Insurance

While 2020 has given the U.S. a multitude of challenges to manage simultaneously, a perennial pandemic that has been buried in the headlines must never be ignored — cyber breaches.

The ongoing COVID-19 pandemic has exacerbated cyber risks as corporations shifted operations to a nearly 100% virtual environment. This has created the perfect environment for cyber criminals, who have increased their attacks drastically since the start of the global pandemic. There was a 48% increase in cyber attacks the day the U.S. announced its 1st COVID case, a 64% increase when states declared emergencies, a 28% increase when Italy locked down, and a 22% increase when WHO named COVID a pandemic.

High-value targets, like the Department of Defense (DoD) and the 300,000+ government contractors that make up their supply chain, have spent countless years preparing to bolster their cyber security stance to counter such attacks. Despite these extensive preparations, the old adage that a chain is only as strong as its weakest link has never been more applicable than in 2020.

Defending the Department of Defense

In February, the Defense Information Systems Agency (DISA) suffered a data breach exposing PII for 200,000 people. While a spokesman for the DoD said its networks are constantly under attack, DISA oversees military cyber security, making this particular breach akin to the "police chief's patrol car being stolen while parked in front of the station." While an unfortunate event, thankfully the DoD has the resources and capabilities to thwart the vast majority of cyber attacks.

Despite the resiliency of the DoD, a supply chain as vast, complex and interconnected as that of the DoD is only as strong as its weakest link. This makes it imperative that every link in the chain of our national defense is not only secure, but resilient as well. According to Bloomberg, from January 2016 to February 2018, nearly 6% of U.S. military and aerospace contractors reported data breaches. Many of these attacks were the result of foreign adversaries seeking highly sensitive information or national secrets.

Attacks by foreign adversaries seeking to extract national secrets is a growing threat, and in some instances, DoD may require the contractor to let the intruders remain in their system so they can source the attackers' point of origin. This runs counter to the main tenant of cyber insurance policies that require immediate notification and containment of a cyber breach in the world of PII and privacy notification laws.

The larger contractors were able to invest in adequate preventive measures and early alert systems that help contain the potential fall out of these inevitable modern-day cyber warfare tactics. Yet, it is the smaller subcontractors that pose the greater risks. The same study found the cause of one very high profile breach, which resulted in the theft of plans of a highly sensitive F-35 fighter, to be caused by a small Australian subcontractor that had never changed its Windows password from the default settings of "admin" and "guest."

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However, it is not just breaches where sensitive data is stolen that are cause for concern. It is also these smaller, more vulnerable subcontractors that can bring the complex supply chain of the DoD to a screeching halt when ransomware attacks take place. Right as the pandemic's fist peak was being reporting in March of 2020, NextGov reported that a supplier to many of the major defense contractors including Lockheed Martin, Boeing and SpaceX were the victim of a ransomware attack named DoppelPaymer. This attack shut down the contractor's systems by encrypting their files — but not before it had stolen the targeted information.

As in most ransomware scenarios, unless the ransom amounts are paid, or the contactor has extensive cyber security experts on its staff, their systems and business operations remain shut down. This has a tremendous knock on effect for the broader DoD supply chain across many of its national security objectives.

Creating A Standardized Approach

DoD understands the importance of cyber security within its supply chain, and the risks that the vast network of suppliers and vendors represents. To help strengthen their supply chain, DoD has implemented new requirements that all contractors must meet known as the Cybersecurity Maturity Model Certification (CMMC) program.

Under CMMC, all DoD contractors must be certified and ranked based on their level of overall cyber preparedness and verified by an independent third party. In addition to securing their own operations, contractors must also ensure that any subcontractors meet the same standards. Auditing contractors' cyber security practices to verify they are abiding by the necessary standards is a critical first step towards building a more secure supply chain, yet key vulnerabilities remain in this, if not most, cyber security frameworks — resiliency.

Proactive mitigation is critical, but as we've seen time and time again, it is not a matter of if a cyber attack will occur, but rather a matter of when. For this reason, it is also imperative to measure a contractor's resiliency to withstand a cyber attack and maintain operations with as minimal downtime as possible. This critical component is often facilitated not just by response plans but also risk transfer and insurance products that help build up the financial capacity, especially of smaller contractors without fortress balance sheets, to withstand the costs associated with breach mitigation and business interruption that often arise out of a cyber-attack.

Ransomware attacks, for example, can not only brings the contractor's operating capabilities to a halt, they can also render them unable to perform their duties as outlined by the contract and therefore create a cascading effect throughout the DoD supply chain. This can result in the DoD, or its other strategic contractors, having to source key materials, parts and other goods from different suppliers delaying missions or critical objectives. The verification process of adequate cyber insurance coverage to address business interruption and breach response issues remains ambiguous. In many instances it is more of a "check the box" model rather than a "verification process," as CMMC aims to accomplish.

Cyber Insurance the CMMC Way

Some contractors that have taken the proactive measure of securing cyber insurance still do not meet the proper requirements. The sourcing of inferior or inadequate cyber insurance is not entirely their fault, nor a cost cutting measure. This lack of proper coverage is due to the complexity and multitude of available options on the market. Yet not all cyber coverage is created equal, and not all cyber policies are designed to address the specific needs of the government contracting community.

The insurance industry needs to become better aligned with the requirements of DoD contractors so they can provide coverage which address the key areas of risk. Standalone cyber policies, as the most robust cyber insurance options available, can address key components like breach response capabilities and business interruption, but they may have key coverage exclusions which render them useless in certain claims scenarios.

One such scenario would be covering Confidential Unclassified Information (CUI) that many contractors are likely to store on their systems. Most policies exclude intellectual property, or trade secrets, instead focusing on personally identifiable information (PII) or personal health information (PHI). Additionally, the types of attacks DoD contractors are likely to face is going to differ from the normal cyber threats most corporations will endure.

Attacks by foreign adversaries seeking to extract national secrets is a growing threat, and in some instances, DoD may require the contractor to let the intruders remain in their system so they can source the attackers' point of origin. This runs counter to the main tenant of cyber insurance policies that require immediate notification and containment of a cyber breach in the world of PII and privacy notification laws.

To help insurers, contractors and DoD bridge this divide, greater collaboration is needed. While CMMC is a constructive step towards standardization and verification of cyber security best practices being upheld through the DoD supply chain, it has room for improvement. The integration of risk transfer and insurance must be the next logical area of development. Working together, all parties can understand the critical elements to ensure that insurance policies are designed to address these components.

Closer collaboration on this standard would enable insurers to not only obtain much needed and useful data for underwriting purposes, but to ensure that any coverage designed is addresses the key risks and concerns of both the contractors and DoD.

Additionally, better vetting and incorporation of technology platforms into the security stack will further allow organizations to contain or proactively mitigate these types of attacks so insurers can avoid large scale losses. Without this type of integration, the CMMC will provide another robust cyber security framework to which companies can adhere, but the small to mid-size providers bidding on contracts will be ill- equipped to face a possible cyber-attack. They will remain the weak link that can break the integrity of the entire chain causing larger scale disruptions and vulnerabilities, leaving our national security at greater risk.

https://riskcooperative.com/news-and-analysis/cyber-security-strategy/

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HOW GOVERNMENT CONTRACTORS CAN USE EPLI TO MANAGE CHANGES AFFECTING DIVERSITY TRAINING | PUBLISHED 10.15.2020

Written by Les Williams
Originally published in Risk & Insurance

In the aftermath of the tragic death of George Floyd, businesses across the country have scrutinized their Diversity and Inclusion (D&I) initiatives more closely than ever. JP Morgan has recently committed $30 billion to help close the racial wealth gap facing Black and Latino Americans.

While the investment addresses important issues, like the origination of personal home loans and providing loans to thousands of small Black and Latino businesses, other banks have pursued similar outreach efforts. Earlier this year, Citigroup and Bank of America announced over $1 billion each to help close the racial wealth gap.

While these banks have made external efforts to improve D&I, these banks, and other organizations, have also taken measures to address D&I internally Starbucks made the unprecedented move to tie executive pay to 2025 diversity targets, with the goal of having 30% of U.S. corporate employees and 40% of U.S. retail and manufacturing employees be people of color. Setting a date of 2025 is important for two reasons — it sets a definitive timeframe for the company to manage towards, and a five-year window enables Starbucks to be thoughtful about a strategy that can be adjusted as needed to meet its goals.

Tying executive pay to diversity targets is one way to make a D&I program impactful, and Starbucks should also consider tracking the retention rates of these new hires. Do these targeted employees have a higher attrition rate than new hires from other racial backgrounds? What percentage of these new hires remain at Starbucks after one year? Retention is another important metric every D&I program should measure.

Starbucks has always been on the cutting edge of promoting conversations around race, from the edgy Race Together Campaign in 2015 to its response to the profiling incident at one of their Philadelphia stores in 2018. However, despite their good intentions, trouble may be brewing for Starbucks and other businesses contracted to work with the federal government given the new executive order issued by the White House addressing race and sex stereotyping.

Government Contractors Beware

On September 22, the White House's Executive Order on Combating Race and Sex Stereotyping instructed all federal agencies and government contractors to suspend diversity training programs. While the goal of the order is to discourage D&I training programs from casting the United States as a fundamentally racist country, it misses the point of what D&I programs are designed to accomplish.

In the wake of George Floyd, firms want to create a safe environment where employees can understand the difficulties faced by their fellow employees of color, and an important part of D&I training involves having open and honest dialogue. D&I programs attract employees of color to companies, and studies show that diversity boosts innovation and financial results.

While many companies, such as Starbucks, intend to ignore this executive order, smaller firms that do not have Starbucks' fortress balance sheet may be unable to withstand the shock of losing a government contract due to lack of compliance. If a government contractor suspends its D&I program to remain in compliance with its federal contract, does this create liability should an employee file suit claiming racial discrimination due to the changing office environment? By suspending D&I programs, do government contractors also run the risk of declining employee morale and high attrition?

While government contractors continue to debate the suspension of their existing D&I training programs, there is a solution they can implement to protect themselves from liability in the form of Employment Practices Liability Insurance (EPLI) insurance.

Try EPLI

EPLI covers, up to the policy limits, damages for which an employer is legally liable such as violating an employee's civil or other legal rights. This can include claims such as racism, sexism and ageism. In addition to paying a judgment for which the insured is liable, EPLI also provides legal defense costs, which can be substantial even when there has been no wrongdoing.

As employees and employers struggle to make sense of the post-George Floyd environment, having a forum to openly discuss race is more important than ever. Government contractors are encouraged to revisit the limits on their EPLI policies with their risk managers, and now is the perfect time to procure this imperative coverage if none exists.

Just like COVID-19 has led to an increase of D&O claims, the suspension of D&I programs may result in an increase of EPLI claims among employees who face real or perceived racial discrimination in an environment without D&I training. While the future of D&I training remains nebulous for government contractors, having a robust EPLI insurance policy provides the financial backstop needed to place a fixed price on an uncertain future.

https://riskcooperative.com/news-and-analysis/epli-and-diversity/

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RC Answers

COVID-19 has exposed unknown vulnerabilities, compounded risks and threatened revenue streams for organizations. How can my business build risk agility for a post-pandemic world?

HAVE A QUESTION FOR OUR EXPERTS?

Send your inquiries to info@riskcooperative.com and your question and answer may be published in a future edition of Risk Matters.

The impact of COVID-19 has highlighted many vulnerabilities across the world, not just in the private sector but across governments as well. Even the most well-prepared governments could not fathom the mass levels of disruption to everyday life and economic activity that this deadly virus would bring. For those who had not contemplated such risk scenarios, the struggle to remain operational become all the more difficult. Coupled with the financial constraints most businesses and households face during normal times, it creates a compounding issue threatening global stability.

The rapid spread of COVID forced countries to shut down and economies to come to a halt in order to protect their citizens and contain the virus. While this had a severe impact on households and businesses alike, our global economy was already frail to begin with. Global economic resiliency is at its all time lowest, meaning its ability to absorb economic shocks to the system is almost none. When faced with such a catastrophic scenario as COVID 19, this fragility only adds fuel to the fire.

In addition to the new risks COVID brought to bear, organizations and households were already facing a barrage of complex risk issues impacting their daily operations. From the increasing economic uncertainty of geopolitical policies such as Brexit and trade wars, more frequent and severe natural disasters, to growing social unrest and cyber threats, organizations the world over are under-prepared to deal with such disruptions.

To build risk agility and resiliency, a proactive Enterprise Risk Management (ERM) approach must be taken. Our risk experts recommend an ERM approach that breaks down into three key components:

Risk—Identify your vulnerabilities and establish risk tolerance thresholds.

Readiness—Address risk via multi-faceted proactive approach of training, mitigation and risk management plans.

Resilience—Activate and implement response plans and risk transfer solutions for a smooth recovery.

To become risk agile, organizations of all sizes need to first understand their greatest exposures and vulnerabilities. By evaluating their ability to withstand these risks or devise plans for how to adjust their operating models, they can increase the ability to withstand unexpected disruptions from any source. Risk advisors can be engaged to help identify key risks, their likelihood, their impacts and interconnections across the organization. Once mapped, these vulnerabilities can be addressed with training, risk transfer or insurance solutions, and strategic response plans.

The greatest mistake many organizations make is to assume they do not require insurance for select categories of risk because they do not perceive the risk to be a real threat, or they believe they can absorb the loss. Without proper financial analysis, many companies both large and small, find themselves struggling to maintain operations during a possible disruption. Institutions should not be evaluating their need for insurance solely based on compliance or contract driven requirements. Rather they should be evaluating how insurance can help them build a more resilient business and the thresholds of risk their organization can withstand. In the event that catastrophe strikes, insurance can help reduce the financial losses to the organization, while also providing key response resources to help expedite recovery efforts.

The impact of insurance protection also plays out in a global sense. Not only are individual organizations suffering from a lack of resiliency, the insurance protection gap—the difference between economic losses and those covered by insurance—is growing at a staggering rate at the same time that global economic resiliency is plummeting.

Essential to managing your organization's "protection gap" is to purchase and maintain insurance for key risks before you are impacted by a risk event. According to Lloyd's of London and their City Risk Index report, greater adoption of insurance can drive economic stability. The study shows that a 1% rise in insurance penetration translates to a 22% reduction in taxpayer funded expenses and a 2% rise in GDP. COVID has shown that risks do not discriminate, and no one (or no country) is immune to its impact regardless of size or balance sheet. To build resiliency and stability, we must be willing to take proactive steps to first identify our own vulnerabilities then take the necessary steps to limit their potential impact. Now is the time to ensure that the next crisis doesn't take you by surprise.

Announcements

RISK COOPERATIVE CEO NAMED TO BUSINESS OF PRIDE CLASS OF 2020

Risk Cooperative CEO and Co-Founder, Andres Franzetti, has been named a 2020 Business of Pride Honoree by the Washington Business Journal on October 2, 2020. The award recognizes Mr. Franzetti's tireless advocacy of diversity in the workplace and in the broader community. Carrying this philosophy forward, Andres and his co-founders have established Risk Cooperative as a highly diverse, minority and LGBTQ led firm in an industry that is often perceived as more conservative and predominantly male-dominated.

https://riskcooperative.com/press-releases/wsj-business-of-pride-2020/

RISK COOPERATIVE'S CHIEF REVENUE OFFICER NAMED PROFESSOR OF PRACTICE AT UNIVERSITY OF VIRGINIA

Risk Cooperative, is pleased to announce the appointment of Les Williams, Risk Cooperative's Co-founder and Chief Revenue Officer, as a professor of Practice in the Mechanical and Aerospace Engineering department at his alma mater, the University of Virginia's School of Engineering and Applied Science (SEAS). As a successful entrepreneur, risk and resilience leader, this recognition of Les' contributions to management practice are a capstone to a year of personal and professional accomplishments.

https://riskcooperative.com/press-releases/professor-of-practice-uva/

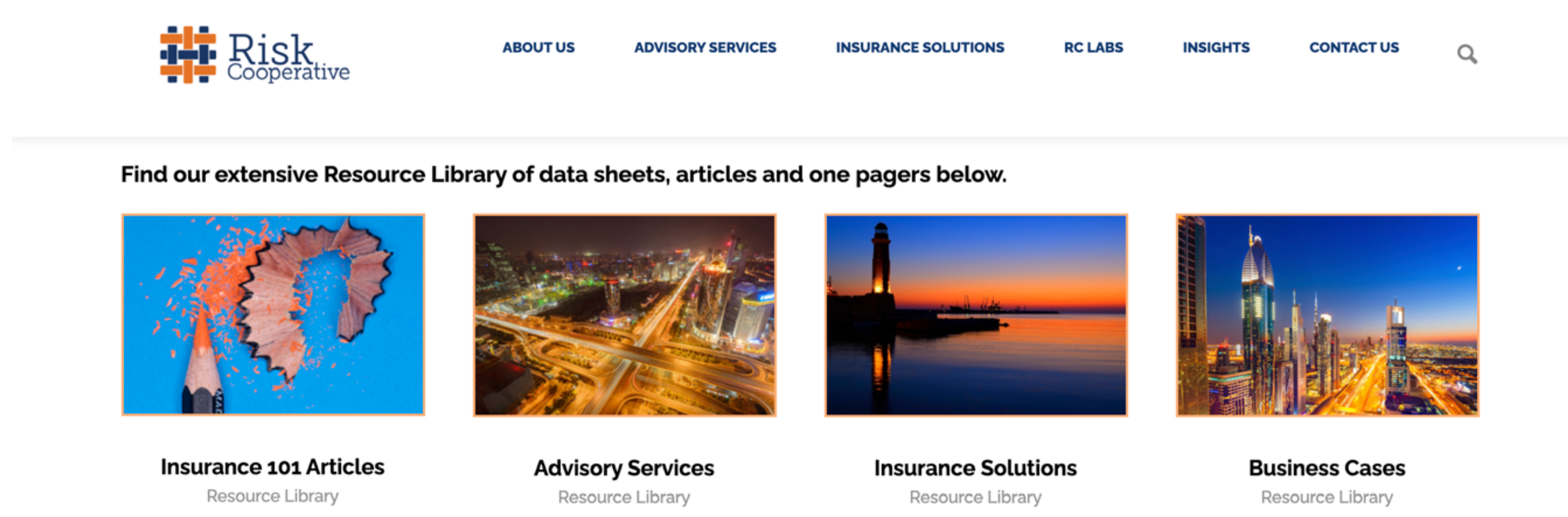
RISK COOPERATIVE'S RESOURCE LIBRARY

Risk Cooperative's Resource Library provides information organizations need to make the necessary decisions for managing risk and ensuring resilience.

As a new addition to the library, find a robust selection of thoughtful Insurance 101 articles to asnwer fundamental questions about coverages and best practices.

Our Advisory and Insurance one-pagers provide service and solution information for risk manangers and the growing library of Business Cases showcases some of the complex engagements our team of experts has successfully navigated.

https://riskcooperative.com/resource-library/



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Risk Cooperative is a specialized strategy, risk and insurance advisory firm founded around the question, what would you do in a world without risk? Risk Cooperative is a licensed brokerage across the full spectrum of risk and insurance solutions.

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