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SPECIAL REPORT

INSURANCE

> Insurance coverage under the COVID-19 pandemic and economic crisis

> Repercussions of the bank crisis effect on insurance companies

By Thomas Schellen

WHO PAYS?

Confused outlook on insurance coverage for Lebanese COVID-19 patients

In the immediacy of the coronavirus crisis, the most pertinent insurance question for the holder of a medical policy is simple: Who will pay if I need to be hospitalized? The answer, as with many things in Lebanon, depends. According to Nadine Habbal, acting head of Lebanon's Insurance Control Commission, slightly more than half of Lebanon's health insurance policyholders have coverage for coronavirus-related hospitalization costs. Their providers either have written no exclusions of pandemics into their contracts or have waved such exclusions as a service to their clients, she tells Executive. Another category consists, she says, of "companies health insurance portfolio is divided into two parts: some policies that don't exclude pandemics and the remaining policies that exclude pandemics. (For additional information, see Q&A on page 74).

Notwithstanding that commercial insurers listed on the ICC website, by Habbal's assurance, honor their health insurance obligations in COVID-19 cases, the picture is not automatically clear as to how large a percentage of health insurance policyholders will be admitted without any questions and how many would be faced with incongruences in admittance procedures when in need of hospitalization for the disease. According to Elie Torbey, the president of the Association des Compagnies d'Assurances au Liban (ACAL), coverage of COVID-19 cases is to date clear and secured for one client category only: all those who are medically insured as foreign workers in Lebanon under coverage (up to a ceiling of $20,000) that is mandated under labor regulations. "In our opinion, most of the Lebanese are not covered by insurance in corona cases," Torbey tells Executive. "Just two or three companies in Lebanon cover the corona cases for Lebanese [policyholders], but only because they are linked to head offices abroad. They are [units of] international companies and since their head offices says they will cover COVID-19 cases, they will have to follow coverage."

According to him, the total population with private sector insurance is composed of 845,000 policyholders, of whom almost 200,000 are holders of expatriate medical insurance policies designed for foreigners who are employed in Lebanon. After accounting for the expats, 670,000 Lebanese policyholders with existing health insurance contracts remain, and many of their policies explicitly exclude coverage of pandemics. "A limited number of the insured are covered for COVID-19," Torbey reiterates.

The problem about actuarial calculation of premiums for coverage of the pandemic is the lack of data. Given that a global pandemic on the magnitude of the coronavirus infection might happen once every 200 or more years, no data exists upon which a rational calculation could be based, Torbey explains. "That is what we are afraid of," he says. "We are afraid of the frequency and the severity of cases. If we have data, we can calculate how much we should require from the clients if we want to impose an extra premium for the future, and then we will cover it. We don't want to shift from problems of covering coronavirus cases to a situation where we have a problem that might go as far as bankruptcy of a few insurance companies if they are highly affected by the cost of treating coronavirus cases inside Lebanese hospitals." Ten to 12 Lebanese insurance providers have large medical portfolios and could be highly exposed to COVID-19 risk, he says, but to his view, exposure of insurance companies to the pandemic would in any case require placing caps, meaning a maximum limit, on risk exposure per company.

In addition to the fundamental difficulty of assessing the pandemic's coverage risk, the situation of insurance payments for in-hospital treatments of

COVID-19 appears to have not yet been sorted in two further respects. According to Torbey and other sources in the insurance industry, private sector companies are, at time of this writing, still engaged in pricing disputes with hospitals and discussions with ministries. In their negotiations, which Torbey says are progressing now on the level of the office of Prime Minister Hassan Diab and his staff, insurers are asking to be invoiced for treatment dues for coronavirus infection at or near the discounted rates that hospitals receive from the National Social Security Fund (NSSF) for patients with NSSF coverage.

On their parts, hospitals demand insurance companies to pay rates that appear to exceed the NSSF rates by as much as 150 percent, based on information that ACAL gleaned from a number of invoices that had already been sent to insurance companies after they assumed responsibility for coverage of COVID-19 treatments.

However, it seems that the NSSF rates are not suitable as benchmarks for determining full treatment cost in the coronavirus scenario, given that hospitals, according to Torbey, argue that they are incurring extreme costs for protective gear needed in care for pandemic patients and that such gear, which is purchased on basis of dollar prices and reportedly accounts for 30 percent of total patient care cost, is not included in the NSSF's coverage.

What is furthermore missing and yet to be developed is a rule for tariffication of treatments under a medical code for the novel coronavirus infections. Medical codes are standardized and detailed scientific catalogues that come into force when approved by health authorities. They entail information on diagnosis, procedures, drugs, and prices of treatment for a classified disease and note correlations with other ailments if such are applicable. Guidance on such codes for coronavirus infections is internationally evolving with the pandemic; interim or emergency codes have been issued by the World Health Organization and some developed countries over the past two months while research into clinical and epidemiological features of COVID-19 is still far from complete.

In Lebanon, medical codes are developed and regularly reviewed by a committee of high-powered medical professionals and officials for the Ministry of Public Health (MoPH). While Habbal confirms that the medical code for the novel coronavirus is needed and that discussions on this issue are progressing with support from the minister of health and MoPH teams, there is no indication of the code having been completed.

However, seeking to give a signal of hope for the people with private sector insurance, Habbal points out that a recent ministerial decision by the economy minister through Ministry of Economy and Trade (MoET), the administrative superior of the ICC, has been issued to remove any ambiguity on the inclusion of pandemic coverage from future health insurance policies in Lebanon. "As part of our efforts to improve the medical insurance offering in Lebanon, a ministerial decision was issued on April 15 requiring insurance companies to introduce a compulsory pandemic cover in every new or renewed policy," she tells EXECUTIVE in a Q&A (see page XXX). "This will enhance the insurance protection for existing and new insured members, and would present a better value proposition that is uniform for all."

Insurers confirm the receipt of the MoET's ministerial decision but did not enthuse about it. On one hand, their first worry is about dealing with existing policyholders (an issue not addressed in the new ministerial decision) and finding a solution for the tangled situation of insured clients whose needs are neither provided for by their contracts with Lebanese insurers nor included in treaty coverage of local insurers with international reinsurance companies. "Our priority is to cover existing policies," Torbey says. "We are working now with the prime minister's office to find a solution for the existing, non-covered clients. We should find a solution for those clients, because it is clearly mentioned in our policies that pandemic is excluded; so if we have to pay, we will be paying from our own pocket."

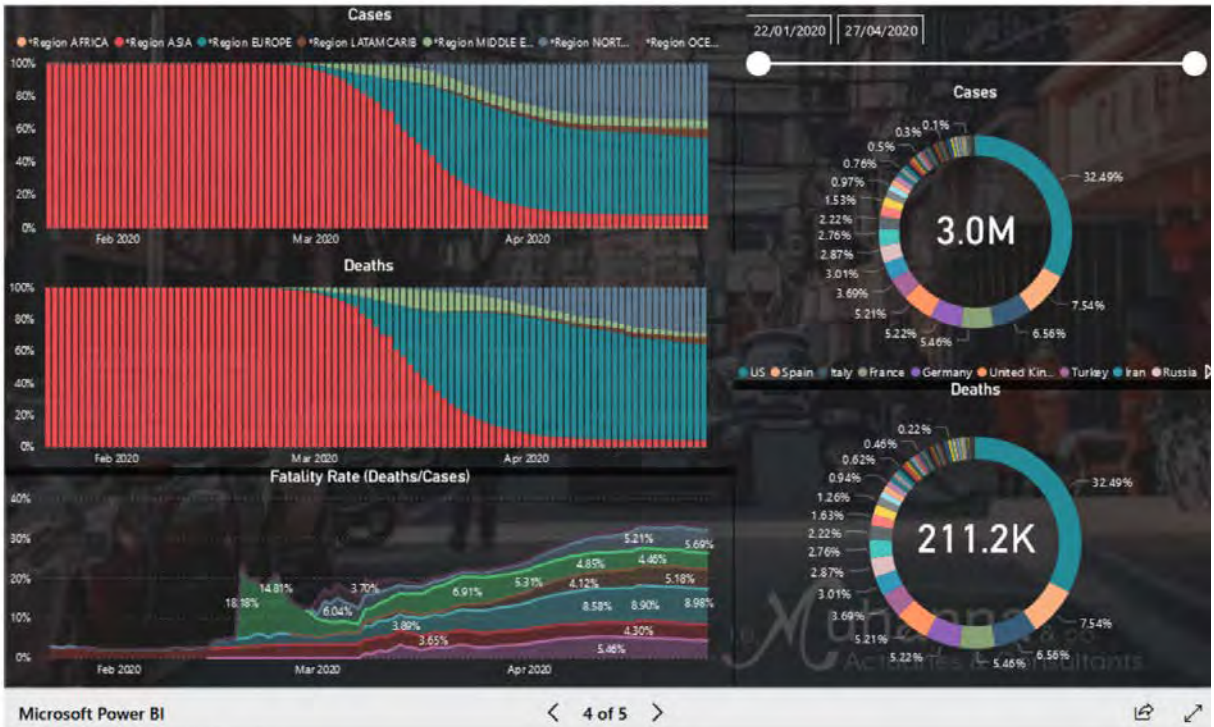
> The most pertinent insurance question for the holder of a medical policy is simple: Who will pay if I need to be hospitalized?

He also is not exactly cheery about the long-term risk implications of the new decision. "We are not overly in favor of this because if they cover pandemic it is not mentioning corona [specifically]," Torbey says. He emphasizes that another pandemic might just be too much for Lebanese insurers to cover and alludes to principles of risk mitigation under which large aggregate risks such as pandemics and earthquakes are tasks for governments rather than commercial insurance markets.

This general principle of governments' responsibility for handling national-scale disasters, however, does not answer the question if either the Lebanese insurance sector or the country as a whole would emerge intact if another, equally severe pandemic to COVID-19 were to hit Lebanon next year. Even the thought of such a possibility reminds that in insurance and governmental preparations for eventualities of catastrophes alike, fortuitous timing and utmost actuarial diligence in planning may both be needed—and certainly appear to be so in this Lebanese spring of 2020.

By Thomas Schellen

A LAMENT ON INSURANCE IN TIMES OF PANDEMICS



i.e. Muhanna & co data tool

The Lebanese insurance scenario amid threats of global collapse

Judging from the numbers at the tail end of the third phase in the Lebanese lockdown and the start of the transition to a winding-down phase, the picture is flawless from the medical and from the insurance supervisory angle: Lebanon's case count of severe COVID-19 illnesses up to the second half of April 2020 has been medically and administratively manageable. There was no need for dreaded selections by attending physicians—of who would get respiratory support on a ventilator and who would not—and, in a proxy indicator, there was no undue stress on the hotline of the Insurance Control Commission because of hospitalized persons' complaints over exclusion clauses in their existing medical insurance policies.

And although trust in politicians is as rare as a $100 dollar bill in an ATM these days, one had absolutely no need to rely on assurances by government ministers or community leaders to believe the unfathomable: that something in this country was moving the right way. The numbers confirmed that the country has so far been responding with uncommon effectiveness to the medical dangers of the COVID-19 pandemic.

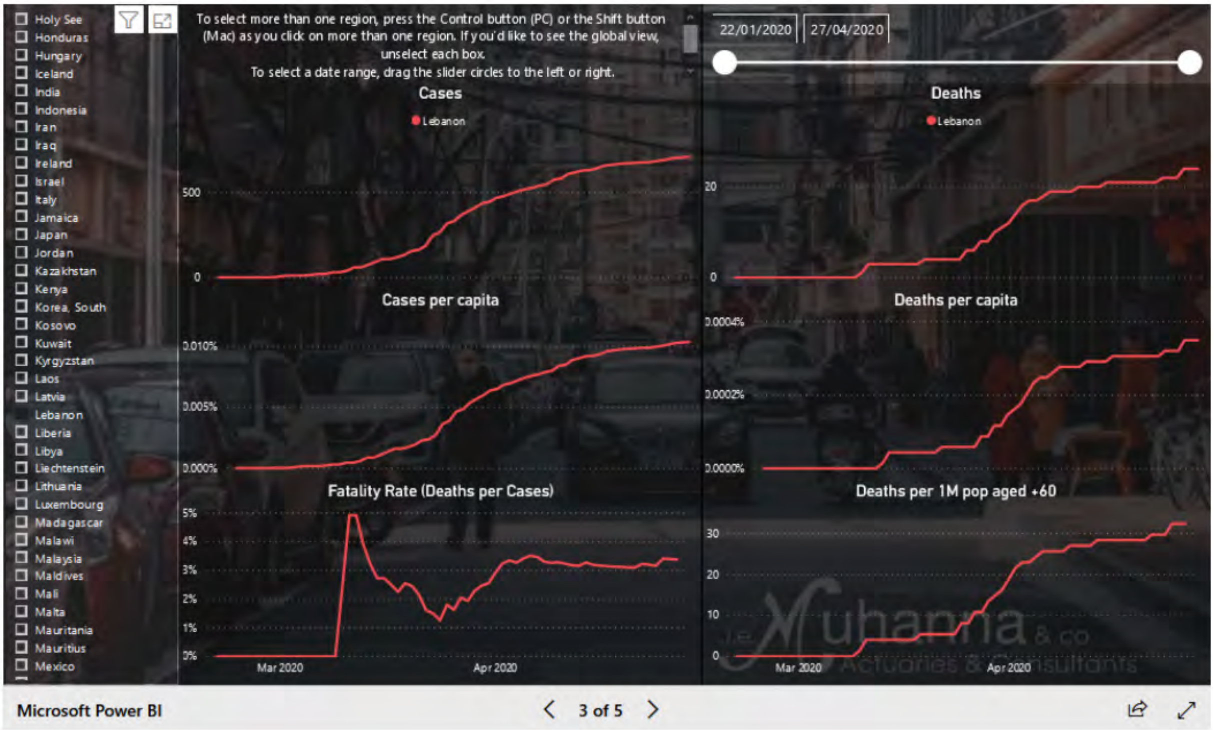
Firstly, the around 700 confirmed cases up to the last days of the third lockdown period have been reassuringly low, with a slow rate of increase. This impression is compelling, notwithstanding the under-powered testing for coronavirus infections in the population. Even if one hypothesizes a gap between actual infections and confirmed infections to be in the thousands of cases, or upward of 1000 percent, it seems simply implausible that a high cresting of severe COVID-19 infections would have gone unnoticed across the entire (very small) country—particularly when one takes into account the country's intensity of social communications, the high connectivity of family networks, and the recent protest movement's shattering of previous social barriers to free expression.

More significantly, no alarming developments have been observed in the crucial count of deaths from the pandemic. There may be—and this must be assumed with high degrees of certainty—individuals who are not included in the official fatality number of 24 as of April 25 because they passed away in their homes in villages or perhaps behind the veils of emergency tents in the southern suburbs. There may thus be deaths related to the pandemic that did not get reported as COVID-19 fatalities. But fatalities show in national statistics even if they are not attributed to the pandemic. And the overall seasonal fatality numbers in Lebanon have not been reported anywhere to be in vast excess over those of previous years, contrary to what the statistics show for countries such as Italy, France, Spain, and the UK, and also are beginning to show for New York City in the United States.

For the months of March and April, available data from these most-affected countries show that total fatality counts—attributed to COVID-19 or not—have increased undeniably, thereby strengthening the case for vigilant coronavirus containment measures in those countries and countering conspiracy tales that suggested normal death rates to have been present.

In Lebanon, a conceivable theory of hidden death counts would go in the opposite direction, not alleging that overall fatality numbers were the same as every spring as conspirationalists say in Europe, but alleging that the number of COVID-19 fatalities in this country from the last six weeks is seriously underreported. Of course, the statistics of weekly deaths in Lebanon this April might very well not be available for many weeks and then only as reliable as any other tally in a statistically impaired country. But the question remains if a statistically significant and communally unnoticed aggregation of March/April fatalities in the hundreds or thousands could really occur here.

The risk of a pandemic was known but thoroughly misunderstood and insufficiently modeled by leading risk experts.



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Deaths per 1 million inhabitants in the pandemic's worst-hit countries were reported to be multiples of what was this spring observed in Lebanon in terms of deaths per capita. Could a proportional increase of such magnitude have been kept hidden from attention in Lebanon's small and family-centric society? In a country with this newly hyper-sensitive and protest-eager civil society?

Upon accepting that the Lebanese response to the COVID-19 pandemic to date has shown good results and saved lives—but without drawing the false conclusion that the country will continue to be spared from worse developments—quite a few questions remain. And these are questions that urgently wait to be answered as the global moods shift from containment of the virus to alleviating the repercussions of lockdowns on economies.

As the pandemic's current wave might be slowing in some countries and yet must be expected to surge in others, and as a following wave is expected by many epidemiologists to strike later this year, the question for policy-makers and governments is how to balance the need for a restart or reinvigoration of economic activity on the one hand with the need for containment of the virus on the other. For corporate strategists and investors, the challenge is to limit sunk costs, identify sustainable opportunities that emerge in the wake of the pandemic, reorient teams from old economic nags to new stallions, and also assess risks of the coronavirus recession that might manifest with a delayed fuse.

Both of these uncertainty complexes—the need of policy-leaders to reduce economic risks while staying on top of the containment and treatment needs, and the need of economic agents to assess risks and potential new rewards in the business landscape—have the common denominator of risk evaluation and risk management. This bears the question, if pertinent evaluation on the balance of medical and economic coronavirus risks or hints for economic opportunities could be procured from the industry that has prided itself over all others as harboring top expertise in the assessment and management of risks in the global economy. This is the insurance industry with its more than $5 trillion in premiums, or more than 6 percent of global GDP in 2018.

NOT ALL BAD NEWS

Curiously, while wave after wave of bad news have been hitting the world economy during the coronavirus crisis, the globe's insurance giants and reinsurance behemoths have not constantly been in the front row of bad news during the pandemic—as opposed to banks, manufacturing, construction, real estate, hospitality, event, entertainment, tourism, and travel companies as well as all sorts of micro, small, and medium businesses. But insurance interacts with all these economic agents as well as with the, so far, significantly fewer sectors that are named as the best winning bets in the pandemic, such as pharma and biotech companies or online networking, communication, and entertainment companies.

Where then is insurance itself positioned in context of the global recession, and what can insurance mathematicians, or actuarial consultants, tell us about the changing risk landscape that nations have to navigate with painfully dwindling resources?

As a preamble to looking at those questions, two facts deserve to be noted: Insurance leaders and risk analysts have for years considered the increasing risk of a human pandemic. The threat level assessment of a pandemic, however, had been ridiculously low when viewed against the real unfolding costs of the current pandemic. Illustrating the limits of risk surveys and models are, for example, the annual risk maps compiled by the World Economic Forum, which in January of this year named climate risks, economic confrontations, and "domestic political polarizations" as the risks that were top on the minds of economic elites.

> The overall seasonal fatality numbers in Lebanon have not been reported anywhere to be in vast excess over those of previous years, contrary to what the statistics show for countries such as Italy, France, Spain, and the UK, and also are beginning to show for New York City in the United States.

But underestimation of pandemic risk by several dimensions of magnitude was found also in more specialized academic exercises such as the annual global risk assessment published by the Cambridge Center for Risk Studies (CCRS) in the UK. In the 2019 global risk index by CCRS, a human pandemic is the fourth-largest threat in a list of 22 modeled risks that threaten the economies of urban centers around the world. These urban productivity hubs collectively account for over 40 percent of the global economy by CCRS' reckoning.

Reiterating a warning from previous editions of the index publication, "Whether it is due to the global nature of supply chains, urbanization or climate change, we see that the potential for epidemics to extend their reach is increasing," CCRS noted, and stated further, "There is little doubt that a pandemic is due to occur again … but how it will unfold will remain highly variable and dependent upon emergency planners and the insurance community."

Given that the study's projected pandemic threat was quantified at $49.9 billion, accounting for 9 percent of the index's total global GDP at risk of $577 billion, the conclusion imposes itself that the risk of a pandemic was known but thoroughly misunderstood and insufficiently modeled by leading risk experts.

Acknowledging the caveat that the unprecedented experience of the coronavirus crisis complex trashes existing conventional wisdoms of economic leaders and nullifies the risk modeling capacities that are based on historic data inputs, the question becomes what economic burdens insurance and reinsurance companies will be faced with during and after the pandemic? The current perspectives of analysts are mixed with some bright spots being projected but the longer term outlook is highly uncertain with swathes of darkness.

For the immediate physical threat perspective of the coronavirus risks, insurance companies and insurance professionals are generally not in the vision line when compared with audience-facing economic activities during the pandemic. In an assessment of physically risk-prone professions during the coronavirus crisis in the United States, data visualization site and online publisher Visual Capitalist listed occupations with high risk exposure. The 40 most risky jobs in that list are top heavy in healthcare (with dentistry-related occupations taking up half of the lead group in riskiness), but also include flight attendants, bus drivers, kindergarten teachers, supermarket cashiers, municipal firefighters, food preparation supervisors, hairdressers, and supervisors of correctional officers.

In this context of coronavirus risk which does not include economic exposure, financial services providers, including bank tellers, would expectedly not be showing near the top of risky occupations, and teleworking insurance professionals are decidedly not considered to be in a high-risk occupation. But even when the attention turns to economic exposure, remoteness from the immediate risk landscape is generally perceived to apply to the insurance industry. Specialized agency Fitch Ratings said in April that it revised its general outlook to negative for all insurance companies/regions globally and specifically mentioned negative outlooks for the life insurance sectors of developed markets and the health insurance sector in the US. However, the agency kept its ratings outlook stable for global non-life, general reinsurance, and title insurance sectors.

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Also notably, the world's two largest reinsurers by premiums, Munich Re and Swiss Re, announced that their dividend payouts this spring would be as projected (and generous looking) as earlier in the year. The companies presented themselves optimistic but nonetheless acted cautiously, by postponing a share buyback program in case of Swiss Re, while Munich Re said in a press release it would not retain a projection of annual profit of €2.8 billion.

In the outlooks of insurance analysts, the issue of burdens on insurance and reinsurance companies actually has become a global concern. Health insurance is the obvious insurance line that comes to mind when thinking about immediate insurance implications of the coronavirus. In this regard, however, the cost of the pandemic to health insurers is from a global perspective not yet assessable. This is because of the large differences in healthcare systems and insurance components between countries and also because of uncertainty about treatment requirements, mortality and morbidity rates of the diseases, and their associated costs, writes Laura Hay, the global head of insurance at KPMG International.

The possibility of billions of dollars in short and medium-term costs for health insurers and reinsurance companies notwithstanding, Hay notes that the outlook for health insurance does not entirely exclude positive scenarios, pointing out that the shock of the pandemic will translate into a significant leap in health insurance awareness and demand, especially in developing countries with underinsured populations. A temporary spike in demand for critical illness policies occurred in Asia after the SARS epidemic, and a parallel phenomenon would be possible post-corona, "with rising sales of health insurance, critical illness, and even life cover around the world," Hay speculates.

Similarly, consultants Bain & Co wrote in early April that health insurance payers of COVID-19 covers face risks of long-term respiratory care costs, medical loss ratios, and weakening of returns on financial markets and assets. However, the expectations by Bain also entail upside risks. "In an overstrained clinical environment, most non-Covid patients will have challenges gaining access to care," write Bain partners Joshua Weisbrod and Vikram Kapur. "From a financial standpoint, payers will face significant pressure on their medical loss ratios. That shift will be offset by a severe decline in high-cost elective surgeries."

Moreover, increased health awareness can also, according to Bain, be anticipated under the pandemic's trigger effect. "In emerging markets such as China, we already see a significant rise in insurance penetration above and beyond the levels that followed previous pandemics such as SARS," the consultants observed.

Precedents for the catalytic effect of major disasters and man-made catastrophes on insurance demand reach from historic examples such as the Great Fire of London in the 17th century and the San Francisco earthquake at the threshold of the 20th century to contemporary examples. The latter, while not unilaterally positive from a business point of view, triggered a rethink of correlated catastrophe losses and terrorism insurance as issue of national concern after 9/11 or narrow/transitory demand increases for property and business interruption protection after flood events and changes in demand, risk, and claims of political violence insurance after occurrences of civil disturbance or popular unrest.

In contrast to a mixed outlook of highly probable near-term costs and possible long-term opportunities in health insurance lines, insurance experts from various organizations have rattled off warnings about the pandemic's impact on insurers and reinsurers, which could reach far beyond the cost of health insurance and life insurance claims. Thomas Wade, the head of financial services policy at the American Action Forum, a conservative advocacy organization in the United States, warned in mid-April against governmental attempts to make insurers pay claims for business interruption insurance that comes with exclusions for incidents related to pandemics. The expert argued that forcing such steps in legislation would be damaging to contract law, run counter to the fundamental business model of insurance as an instrument of risk mitigation by risk sharing, and altogether could kill insurance. "Were insurers to have to pay business interruption claims, it is likely that this would bankrupt the industry," Wade darkly augurs.

Citing risk modeling studies from the last few years, Joy Langford, a partner at international law firm Norton Rose Fulbright, warns that the pandemic could unleash a casualty catastrophe for reinsurers, meaning a scenario that extends across different geographies and involves claims from multiple policyholders across different insurance categories. In anticipation of years of needed clarifications and legal disputes over insurance covers on the global mega-event of the pandemic, Langford says that impacts of claims related to the coronavirus recessions could hit reinsurers not only in business lines of health, life, and pension insurance but also have significant general insurance impacts on liability, travel, credit, business interruption, workmen's compensation, and a number of lesser business lines. She refers to a hypothetical scenario paper produced for the CCRS (not part of the official threat assessment), which projected possible insurance losses of hundreds of billions of dollars in a pandemic. "What can be confirmed by the events of recent months is the accuracy of CCRS' hypothesis that a global pandemic could present the insurance industry with the type of casualty accumulation capable of rising to the level of casualty catastrophe," the lawyer points out.

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UNDER PRESSURE

In a picture that is getting increasingly complicated, insurers in recent weeks have been facing mounting pressures—up to the level of American presidential pressures—that they should honor claims irrespective of their validity under existing policy stipulations. At the same time insurers were operating in environments that led several providers to support emergency workers by giving them privileged protections and also issue rebates on

i.e. Muhanna & co COVID-19 DATA ANALYSIS TOOL

Part of a growing scene of coronavirus visualizations and tracking tools created in intellectual hubs around the world, a research tool developed by Lebanon-based actuarial firm i.e. Muhanna & co looks at the coronavirus impact through the lens of social policy-making.

Analyzing 66 days of data in the January to March 2020 period, the actuarial firm first released a policy note in early April to show that four research variables—confirmed infections, nominal GDP per capita, total number of hospital beds per 1,000 inhabitants, and age structure of the population—all had significant impacts on the development of country-specific trajectories of mortality rates connected to the COVID-19 disease.

Upon encountering follow-up inquiries from clients, the firm subsequently made the tool accessible on its website to interested researchers and the general public, to enable analysis by region, age group, health sector capacity, and the economic condition of individual countries or country groupings.

According to Ibrahim Muhanna, the founder and CEO of i.e. Muhanna & co, the firm's actuaries and data experts invested more than 100 hours of pro-bono work in development of the tool and initially published the policy note on their findings to open the eyes of policy-makers to the correlations of different factors that can help in decision-making during the coronavirus crisis.

Reliance on numbers is very dangerous when driven by only one pertinent angle among several, Muhanna pointed out, such as lockdown or social distancing policy decisions made irrespective of national specificities in countries with very young populations and large informal sectors where up to 80 percent of working people survive on daily incomes. "Are policy-makers trying to save lives at the expense of killing the economy?" he asks. "What is the right balance? We found interesting correlations looking at the health sector, the economy, and the age [structures] of countries and observed moving trends."

As the early April policy note observed: "Simple cross-country regressions show that, all other things being equal, death rates decline with the level of GDP per capita and the number of [hospital] beds per capita and increase as a function of the average age of the population." It confirmed the strong correlation between new infections and mortality rates, which makes the number of infections per capita the main predictor for the observed number of deaths and controlling the number of cases the main instrument by which countries can reduce the future number of deaths, but followed this observation by warning that, "Because policies that control the number of cases – social distancing – also have impact on jobs and labor productivity, the optimal [strategy] might not be to suppress the virus but to mitigate the contagion."

According to the policy note, 4.6 billion people, or 62 percent of the world population live in countries where the median/average age is in two age brackets between 30 and 39 years but lockdown decisions are heavily influenced by countries with a high share of people above 60. Countries where the average age is higher by five years see additional 3.5 deaths per one million inhabitants, Muhanna tells Executive. This group of 37 countries with average age above 40, which has an aggregate population of 821 million (11 percent of world population), is driving policy decisions on coronavirus together with China (a country in the 35-39 bracket for average age), whereas global coronavirus policy trends appear to not at all be driven by countries with average populations aged 20 to 29 years or even less, which are 50 plus countries in Africa and South America.

The tool that facilitates analysis of coronavirus trends with actuarial techniques is updated continually and has been made freely accessible at muhanna.com/en/research/ (but is best accessed in desktop environments).

motor insurance premiums in lockdown periods. On the other hand, windfalls were pocketed by health insurers due to reduced numbers of elective surgeries, not to mention that the expectations regarding reinsurance are of protracted legal disputes over the coverage of non-life claims that are part of recession events.

In business concepts of insurance, the downside question is how badly the industry will be impacted and driven down by weakened financial markets and elevated losses in multiple lines from life, health, and pension insurance to general lines including business interruption, workmen's compensation, credit, liability, and specialized lines. As far as the upside, the question is if and how profitably insurance companies will be performing as high-power players in the rescue and resuscitation of the global economy.

In considering these polar questions, one can disagree if the insurance industry is systemically important for the function of the long-term financial system of a capitalist society. Or, when taking account of insurance stereotypes and thinking in terms of urban dictionary-type utility, one can wonder if insurance is just boring and thus superfluous for society, or if it is boring on the surface and sexy beneath—like the proverbial accountant or librarian whose hunky or voluptuous qualities are very well concealed.

For more serious aficionados of the purpose of insurance, a reasonable assumption globally might be that the coronavirus crisis and deep worldwide recession will add to already existing pressures. These business-revolutionary pressures have been building throughout the last ten to 15 years toward reinventing the way in which this industry addresses digitally enabled economies, how it responds to changing behaviors of millennial generations in terms of things such as personal mobility and the sharing economy, and to new cyber risks. Insurance companies' recent behaviors during the crisis in this sense have been hinting at changes in the sector's culture and need for further changes.

The prospects of changes in international insurance culture notwithstanding, it is an unanswered and unanswerable question if such a hoped-for global insurance revolution and adoption of socially more harmonious modes of operations would infuse new life into the Lebanese insurance sector. In the past 20 years, the local culture in insurance was more neighborly than if it was solely determined by paradigms from international markets but the sector was also marked by less innovativeness than one would expect, given the quality of insurance talents in the country. However, ignition of digitally innovative thinking and alignment with a reborn global insurance culture is, in any case, not an immediate concern that Lebanese insurers can afford to ponder. The challenges of demand destruction and the immediate to mid-term financial future are much more pertinent concerns on the tables in the approximately 50 corner offices and boardrooms of Lebanon-based insurers.

To give an example, the country's sole specialized insurance provider for trade credit insurance, LCI, is by default on the daily pulse beats of trade and also an operator of an insurance line that is highly sensitive to local and international fluctuations in the real economy. As CEO Karim Nasrallah confides, LCI took drastic measures already in October and November of 2019 because of the erupting economic crisis. These measures proved efficient for the situation but will not provide indefinite relief. "We took very drastic measures in terms of lowering exposures, cutting down on risks, and not taking on new business," Nasrallah tells Executive. "Our business is also sharply down because it is based on sales by our customers. Thus in our Lebanese operations, we are working on a very, very slow pace. As you can imagine, this will trigger many payment defaults and issues, which are still manageable but we will have a big problem in the market here if the situation gets stuck for a long time."

> Even if one hypothesizes a gap between actual infections and confirmed infections to be in the thousands of cases, or upward of 1000 percent, it seems simply implausible that a high cresting of severe COVID-19 infections would have gone unnoticed across the entire (very small) country.

Like every business leader that Executive communicated with in the past six weeks, Nasrallah sees the dual economic and coronavirus crisis as a very heavy burden on Lebanon. The crisis massively includes the insurance sector and is in urgent need of a sustainable solution. "As a country, we are very much exposed; we have to hope for the best," he says.

In the description of acting insurance commissioner Nadine Habbal, some immediate problems of the Lebanese insurance sector are being addressed, specifically the challenges which sector companies face with regard to executing international transactions for payments of their quarterly reinsurance dues. However, longer term issues such as the implementation of the upcoming IFRS 17 regulation, will require large investments in the sector and mandate massive consolidation of the overpopulated provider field, she tells Executive.

Due to the implications of the much debated haircut in the Lebanese banking sector, the highly banking-exposed insurance companies already face near-term prospects of asset write downs, says Lebanese actuary Ibrahim Muhanna (see Q&A page 76). He explains that in a pessimistic scenario, the shareholders' equity of up to 17 insurance companies would be completely depleted if insurers' assets in the banking sector would be subjected to a 50 percent haircut on large deposits. Another 31 companies would maintain positive shareholders' equity but would need to inject further capital, especially if they write long-term business.

Moreover, associated liabilities of insurance companies will have to be revalued in light of the new economic circumstances in Lebanon, which could leave some companies with increased liabilities and others with decreases, in addition to spelling bad news for small life insurance policyholders. "Insurers' total earmarked assets for unit-linked life policies amount to around $700 million which match the companies' associated liabilities," Muhanna says. "Therefore the tens of thousands holders of these policies will be taking all the hit that comes as a consequence of any implemented haircut … In short, I expect a massive impact on the insurance sector in Lebanon and a large role for risk professionals and actuaries to play as they help navigate the upcoming systemic shocks."

There is, in sum total of the accounting of the coronavirus crisis impact on insurance from a Lebanese vantage point, absolutely no certainty about the future incarnations of global insurance culture and still less certainty on the local market question how many insurance companies will still be active one year onward from what one might call the great Lebanese crisis of coronavirus, everything economic, and politics. Also the question how the local provider landscape will be composed and oriented in terms of companies that are independent local, bank-affiliate, or units of international firms, will only be answered with time.

However, a very pertinent question remains with view to the culmination of the coronavirus and economic crisis in Lebanon and elsewhere: Can insurance wisdom and actuarial risk assessment provide value to countries that are deciding on their path out of their respective medical and economic crisis scenarios? (See box above). As the ICC's Habbal noted in a conversation with Executive (see page 74), each country has a specificity that must be properly understood and addressed if the aim is to reach an optimum path of sustainability.

It emerged, as a generally agreed upon perspective during the coronavirus crisis, that lives count more than money. While, as IMF head economist Gita Gopinath noted in April, "there is no trade-off between saving lives and saving livelihoods" in the sense that countries need to enable health systems to cope with the disease as condition upon which resumption of economic activity can occur, however, countries also can ill afford to have their economies die and kill scores of people in the process while enterprises are waiting for the virus to be controlled.

> For corporate strategists and investors, the challenge is to limit sunk costs, identify sustainable opportunities that emerge in the wake of the pandemic, reorient teams from old economic nags to new stallions, and also assess risks of the coronavirus recession that might manifest with a delayed fuse.

This means that careful, balanced, and constructive navigation of the coronavirus crisis' medical and economic cliffs is essential. As economic cliffs may loom very large in countries with overwhelmingly young populations and large informality in the economy, there may be urgent needs for immediate income as well as productivity gains. Such economically needy societies are not found in old Europe or among the two largest economies on planet earth, but they exist in places like Africa and South America—and, with a unique other specificity, in Lebanon. Adequately addressing these nations' specificities and needs for recovery and new growth will need a lot of investment money, probably debt forgiveness too, but much more than that: smart policies, accountable politicians, and custom-tailored coronavirus solutions.

By Thomas Schellen

LEBANESE INSURANCE IN TIMES OF CORONA

Q&A with Nadine Habbal, acting head of the Insurance Control Commission

Lebanon's insurance sector is highly fragmented, featuring extreme competition between small local players, bank-affiliate insurers, providers that are parts of multinational insurance giants, and—outside of the regulated sphere of commercial insurance companies—even quasi-insurers with competitive privileges that are categorized as mutual funds. The diverse and overpopulated sector, mired in opacity of companies, has not been able to achieve significant consolidation and has, for the last 30 years, rarely been able to find a unified voice that would have enabled to address public concerns and deliver insurance as a public good. Throughout the last few decades, the need for an adequate insurance law has moreover loomed large over the disjointed industry. Frequently faced with greatly diverging opinions from within the insurance sector and having to tear down attitudinal walls of vested interest as part of challenges it encountered, the Insurance Control Commission (ICC) has, since the early 2000s, incrementally implemented increasingly effective financial oversight over the sector and also gradually expanded its advocacy in support of insurance clients. Executive inquired with Nadine Habbal, the—by now long-term—acting head of the ICC about the oversight institution's perspective on the dilemmas of the COVID-19 pandemic for the insurance sector.

E ***The ICC has published a list on its website of insurance companies that provide coverage for treatment of COVID-19 for all or part of their insured members. Is the list accurate and comprehensive as far as including all details, and what is the meaning of the phrase "all or part of their insured members"?***

As listed on the ICC website, a number of insurance companies provide cover for pandemic diseases to their entire portfolio. Some companies decided to waive exclusions on pandemic diseases and cover their policyholders. There are also companies whose health insurance portfolio is divided into two parts: some policies that don't exclude pandemics and the remaining policies that exclude pandemics. This is the reason why we put a note on our website that they cover part of their members. Finally, some insurers exclude pandemic risks entirely.

E ***When looking at Lebanese insurance companies in terms of their coverage response to COVID-19, what is proportionally the largest group among the categories you mentioned?***

The ICC numbers indicate that up to 55 percent of insured members have no exclusions, and are consequently covered for pandemic diseases—I am telling you our estimation. The remaining 45 percent have policies with pandemic exclusions; they do not have coverage.

E ***Is the coverage that you are discussing related specifically to in-hospital treatment of COVID-19 or is testing for the coronavirus also covered by the insurance companies under their health policies?***

The coverage may change depending on your policy. Our efforts focus on policyholders that require in-hospital treatment. Testing is covered for policyholders with outpatient coverage and no pandemic exclusion. Our aim primarily is to cover the cases that require treatment, and these are divided into three categories: mild, moderate, and severe (requiring intensive care units).

E ***Did the ICC receive many requests over its hotline for insurance-related inquiries and complaints?***

ICC-Care is recording situations related to insured persons requiring in-hospital treatment as a result of COVID-19 and we are resolving such cases based on the stipulations of the respective insurance contracts. Our interventions differ on a case-by-case basis.

E Are the phones ringing off the hook, meaning are many cases that need supervisory investigation being brought to your attention simultaneously, or is the situation moderate in terms of number of complaints and inquiries about how the coverage of COVID-19 cases is handled, either from the side of hospitals or the side of insurers?

The situation so far is manageable and we are able to accommodate and resolve all requests. The number of policyholders who require in-hospital treatment is limited; an estimated 80 percent of the cases are either asymptomatic or very mild, and do not require hospitalization. Altogether, and in as far as the insurance sector is concerned, the projected population of insured members who are infected and require in-hospital treatment is not large.

E Are you playing a role as mediator in discussions between insurance companies and hospitals?

ICC Care recorded cases where hospitals are not automatically admitting an insured member. We investigated such cases as part of our supervisory role and found out that such insured members were [being] required to make an advance deposit before being admitted. In our opinion, such practices are not fair, because they infringe the policy conditions. Therefore, we entered into discussions with hospitals to understand the reasons for the implementation of such procedures, and to defend the rights of policyholders. When COVID-19 is covered, patients should be treated as if they are admitted for any other disease. We requested that usual admission and treatment procedures should be uniformly applied for COVID-19 patients, as the case is for other services such as for heart surgeries for example. In case hospitals decide, for whatever valid reason, to apply alternative procedures, then the ICC, the insurance companies, and the public in general should be made aware of such alterations.

Our role is to protect the rights of policyholders and the sustainability of the insurance sector, and we acted with this perspective in mind. We engaged in discussions with the private hospitals in order to reach an agreement on fair tariffs that hospitals can charge for COVID-19 treatment, taking into consideration that some of the hospitals undertook investments in order to enhance their capacity to admit and treat COVID-19 patients.

One further note is that hospitals are minimizing admissions of [patients for] non-emergency procedures, and people are tending to postpone non-essential medical treatments. There is a major change in the dynamics of supply and demand of healthcare services.

E What is the ICC's aim in the current time where people are so deeply impacted and concerned with the issue of COVID-19? Do you have updated plans or targets in light of the fact that you previously talked of provision of universal healthcare as a major need and long-term target for Lebanon?

If we had universal healthcare with a primary or basic cover funded by the public sector and a top-up from the private sector, the situation would definitely have been better. The alarming situation that we reached provides strong supporting arguments for the urgency of the reforms needed to establish universal healthcare with a public-private partnership. We cannot postpone tackling this issue any further. Even now, with the recession and all the economic challenges that we are facing, this is the right time, especially as we consider the post COVID-19 period.

During a conference call that I attended with other insurance regulators in the region, there was a consensus that the main concern presently is not about how to fund the cost of healthcare services for COVID-19. The estimated costs are well established and documented, and the estimated incidence in the Middle East is so far largely manageable. The statistics indicate that the direct impact, especially in Lebanon, is much lower than Europe and North America. Nonetheless, we need to worry about what we are going to do post-corona, after the medical emergencies have been dealt with. This is an alarming issue that needs particular attention in Lebanon. What will happen to the people who became unemployed, and the businesses that had to stop or shift to survival mode?

> "The ICC numbers indicate that up to 55 percent of insured members have no exclusions, and are consequently covered for pandemic diseases—I am telling you our estimation."

Going back to your question, and as part of our efforts to improve the medical insurance offering in Lebanon, a ministerial decision was issued on April 15 requiring insurance companies to introduce a compulsory pandemic cover in every new or renewed policy. This will enhance the insurance protection for existing and new insured members, and would present a better value proposition that is uniform for all.

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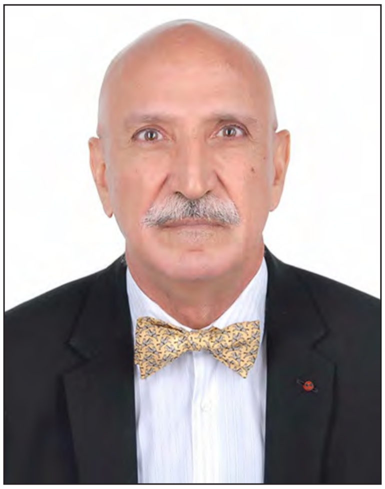
THE INSURANCE SECTOR'S EXPOSURE TO BANKING



Q&A with actuary Ibrahim Muhanna on insurance liabilities amid economic crisis

Practically every private household in Lebanon relies on one or other insurance service, beginning with the mandatory protection of motorists under third-party liability insurance or savings schemes offered by life insurers. Services such as health and pension insurance are becoming focuses of attention as the country's healthcare and employment systems are increasingly challenged. Commercial lines from property to credit insurance feature in prudent business planning of an increasing number of enterprises. To understand better what risks and threats the Lebanese insurers are facing in the coming months, EXECUTIVE inquired with Beirut-based international actuary Ibrahim Muhanna about his expert perspectives.

E *What is your assessment of the financial situation of the Lebanese insurance sector?*

Looking at the balance sheets of the insurance industry as of 31/12/2018 and their exposure to the banking sector in Lebanon [reveals] that the total assets of insurance companies in Lebanon are in the neighborhood of LL7,500 billion, which translated into about $5 billion (see table below). From that amount, roughly $2.7 billion is exposed to the financial sector. Simply stated, local insurance companies have a huge exposure to the banking sector.

As an example, if the industry loses 50 percent of its assets that are currently at the banks, because of some form of a haircut, that means that there could be $1.35 billion in losses across the industry. Which would be roughly $29 million per company on average. Obviously, not all companies have the same level of exposure or the same assets. I have calculated that the estimated average exposure of insurance companies to the financial sector is around 55 percent of total assets, with the company with the least exposure having 11 percent and a maximum of 96 percent for the company with the highest exposure.

> "Simply stated, local insurance companies have a huge exposure to the banking sector."

E *If we use this representative number to get a first concept, such as $29 million per company, what does this exposure imply in context of the Lebanese banking scenario today?*

If the banking industry takes a hit of 50 percent on deposits above $100,000, which is what is being

LEBANESE INSURANCE SECTOR ASSETS & LIABILITIES

Lebanese insurance sector as of 31.12.2018	*Total in LL (mil)*	*Total in $ (1000)*
Within the financial sector	4,099,930	2,720,591
Unit-linked contracts investments	1,047,626	695,173
Others	2,275,377	1,509,872
TOTAL ASSETS	**7,422,933**	**4,925,636**
Paid up capital	637,026	422,711
Shareholders' equity	1,816,011	1,205,050
Technical reserves (Non-Life)	1,536,758	1,019,747
Technical reserves (Life)	2,161,017	1,433,986
Unit-linked technical reserves	1,070,829	710,570
Others liabilities	838,318	556,283
TOTAL LIABILITIES	**7,422,933**	**4,925,636**
Exposed to the financial sector	4,099,936	2,720,595
If a haircut of 50%	2,049,968	1,360,297
Shareholders' equity after haircut	(233,957)	(155,247)

Source: i.e. Muhanna & co

discussed, this means that the insurance industry may take a hit of $1.35 billion on their assets in the banks. Calculating these $1.35 billion, which companies may lose from their assets in banks, against shareholders' equity in Lebanon's insurance sector of $1.34 billion means they may be short by about $145 million and their capital may be completely wiped out.

E ***Would that mean the companies with shortfalls in shareholders' equity will be bankrupted by a potential haircut of 50 percent of large deposits?***

In a pessimistic scenario, up to 17 insurance companies would have their equity completely depleted if a 50 percent haircut is implemented in some form. In that scenario, the other 31 companies would maintain a positive shareholders' equity. However, they may need to inject further capital, in particular insurance companies that write long-term business. What I said so far about the assets, however, is not really the full story. We know that if there is a devaluation of the assets, the associated liabilities of these companies will also have to be revalued. Technically speaking, it cannot be said that the insurance industry is bankrupt because their liabilities in some cases may decrease as well. What is very interesting here is that out of the $2.7 billion in total assets there are about $1.4 billion in assets for the life portfolio, which does not include unit-linked policies (NB: savings-cum-life insurance contracts that are linked to specified assets and are exposed to upside and downside risks. Returns of such plans are linked to market performance and the investment risk in investment portfolio is borne entirely by the policyholder). Insurers total earmarked assets for unit-linked life policies amount to around $700 million, which match the insurers' associated liabilities. Therefore, the tens of thousands unit-linked policyholders are the ones exposed to any haircut and will be the ones affected.

> "In a pessimistic scenario, up to 17 insurance companies would have their equity completely depleted if a 50 percent haircut is implemented in some form."

E ***Then holders of unit-linked combined life-and-savings insurance contracts will be hit heavily?***

That is right. But it can be mitigated, even when there is a financial crisis. To give an example from the time when the financial crisis hit Cyprus in 2011, our firm was managing pension funds of different syndicates. When capital controls were introduced in Cyprus, we said [to the authorities] that we have seven such accounts with about €500,000 each but these are not really seven accounts. They represent 1,000 individual sub-accounts because each deposit account/fund account is for hundreds of individual members of the total pension fund. Each member's contributions to the pension fund and rights to the fund are for example in one case €17,000 or in another €56,000. We identified all these contributors, submitted their cases to the central bank, and were able to renegotiate the capital control of certain funds.

E ***Would that be a route that insurers in Lebanon should take in your opinion?***

I think that it can be one of the possible options to study to mitigate the risk. You and I know very well that most of the life policies in Lebanon are sold in dollars. If someone has a cash value of his policy of $17,000 or of $26,000, whether in unit-linked or in endowment form, these people should not be hit under the capital controls. They can be safeguarded. We in the insurance industry have an opportunity right now to proactively say that these total amounts are really for our thousands of individual policyholders. They can earmark these amounts and protect and ring-fence these values.

As a consulting firm, we have consulted in different jurisdictions on such situations and ways that insurance companies can protect their assets and their policyholders' funds. Had the levels of exposure to the banking sector been reduced by other admissible assets, the solvency margins might have been sufficient to safeguard both the policyholders' and the shareholders' funds. I am very surprised that few insurance companies were exposed to the banks above 50 percent of their total assets without holding reserves against this risk.

E ***What is the average exposure of insurance companies to banks in other jurisdictions by your experience?***

Twenty percent to the banking sector.

E ***How do you think the economic crisis will impact the insurance companies in Lebanon on the demand side? Will market demand for general insurance lines, health insurance, and life insurance hold up or do you expect destruction of demand?***

On the medical side, the demand will be maintained, because people buy insurance out of fear. Whether they can afford to buy it or not is a different ballgame. But the appetite to buy [health] insurance will be there. In other products, whether motor or fire, household or marine, demand will be affected tremendously because of the economic crisis.

E ***Going forward a bit into the future, there will be the IFRS 17 regulation as the new global accounting standard for insurance. A first seminar on the new standard was conducted in Lebanon last fall by the Insurance Control Commission. Even if IFRS 17 will now come into force in January 2023 as per the latest delay announced only weeks ago will the new accounting standards also have an impact on the Lebanese insurance companies?***

> "If the banking industry takes a hit of 50 percent on deposits above $100,000, which is what is being discussed, this means that the insurance industry may take a hit of $1.35 billion on their assets in the banks."

It is right that regarding IFRS 17 everything is being postponed internationally. I would think, however, that before talking about IFRS in general, this time is an opportunity for the insurance industry to reflect and figure out how they can survive this crisis—the financial crisis in Lebanon, compounded with the corona crisis. Those who will emerge from this crisis will be very few companies in my opinion.

E ***So you expect that if there is the long overdue merger wave of Lebanese insurance companies, it will be bound to happen before IFRS 17 kicks in, rather than after?***

Definitely. Now that all the cards are on the table, people will have to view the situation. I think within the next month or so, things will be clarified. In short, I expect a massive impact on the insurance sector in Lebanon and a large role for risk professionals and actuaries to play as they help navigate the upcoming systemic shocks.

E ***You are an actuary and also have long been very active in consulting on pensions. Is it possible in your opinion to create a sustainable pension system for the people of Lebanon?***

I was very happy to hear that they are talking about seriously reforming the pensions of the civil service and the military because that is costing the government quite a bit. Certainly if there is more [done about] the electricity authority, they can in my opinion easily balance the budget but they have so much to worry about right now that I don't know what priority they are addressing.