



Epidemic Risk Covers

Munich Re's solution to cover financial losses caused by disease outbreaks

Information for brokers

June 2020








Introduction

After events like SARS, MERS or Zika, the global outbreak of Covid-19 and the subsequent governmental orders to close down various sectors across the world has put many businesses in financial difficulties. Massively decreasing revenues and continuing fixed costs are already causing many companies liquidity problems, yet the full financial impact of the pandemic is still unknown.

In the context of trends like increased global mobility, climate change and urbanisation, future pandemics are expected to be more frequent and more severe. With several years of experience focusing on risk-transfers for disease outbreaks in a team of specialised international experts in several countries, Munich Re's Epidemic Risk Solutions team has designed several products that provide financial aid to cover losses caused by such events.

Various target clients

Whilst we would consider all sectors, we are currently focusing on the following:

- | | |
|---|--|
|  Retail |  Mining |
|  Hospitality & Tourism |  Real Estate |
|  Manufacturing |  Entertainment/Leisure
(excl. single events) |
|  Construction | |

Coverage for losses caused by an outbreak designed according to the client's need

Our products indemnify a client for an economic loss caused by an epidemic outbreak of a viral disease on an indemnity basis including a full claims settlement process. In exceptional cases, we also offer insurance products with a simplified claims process or financial derivatives.

Worldwide and regional covers

We design the policy depending on the individual exposure of the client. The geographical scope of the coverage is individually adapted to fit the client's risk exposure. For example, a construction company building a dam in Western Africa might be mainly interested in covering delay in start-up caused by a regional epidemic outbreak of Ebola, while an international corporation with worldwide dependencies might rather be interested in a cover for a pandemic global event similar to Covid-19.

The policy can be adjusted for different outbreak starting locations

Depending on the exposure of the client, cover can be designed for diseases that start either on the continents of the client's locations or anywhere in the world.

Business interruption (BI) and contingent business interruption (CBI) risks

We can provide cover for both direct BI losses as well as direct CBI losses caused by suppliers or customers (named CBI tier 1): For example, a small retail company might be interested in a cover against an outbreak in the direct surrounding area of their stores, while a hotel chain might also want to protect themselves against losses caused by outbreaks in an area where most hotel guests come from.

Capacity ranges from US\$ 5m to US\$ 50m

The capacity provided depends on the client's individual exposure and typically varies between US\$ 5m and US\$ 50m. However, for selected target clients Munich Re's share could go up to US\$ 100m. Larger limits can be arranged with Munich Re as the lead reinsurer.

Rates on Line in percentage range depending on client's exposure

The premium depends on the client's individual exposure. The Rate on Line is typically in the range of 3% to 10% with a minimum premium for Munich Re's share of US\$ 100,000.

Risk sharing to ensure alignment of interest

A co-insurance or a deductible held by the client is required.

Policy period of one year

We typically provide annual policies but also consider multi-year deals if necessary.

Different types of outbreaks can be covered

The policy covers outbreaks of both unknown and known diseases: the covered pathogen classes depend on the client's exposure. The current outbreak of Covid-19 is not insurable retrospectively but comparable future outbreaks are.

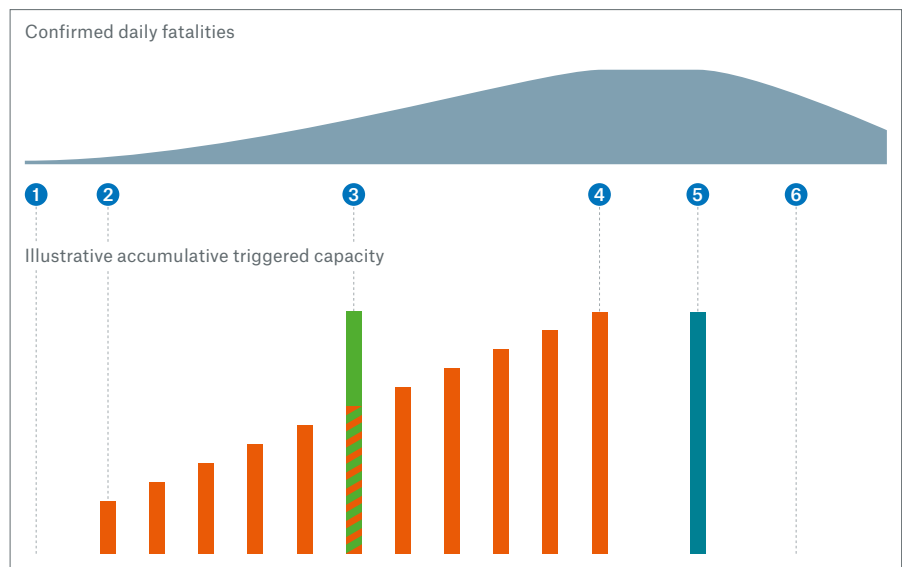
Covering economic impact even after the end of the policy period

We offer a variety of triggers with correlating payout structures depending on the client's exposure. All policies are occurrence-based and simply designed: if an epidemic event starts during the policy period, a window of 12 months opens during which the client can choose an indemnity period. As a result, the client can even be covered for economic losses that materialise after the end of the policy period.

Capacity is triggered at various stages of an outbreak

Depending on the client's risk profile, we offer three different trigger options:

- 1 First cases observed**
Epidemic outbreak starts, issuance of "disease outbreak news" by WHO
 - 2 Local transmission confirmed**
Transmission in covered area, fatalities exceed pre-agreed threshold
 - 3 PHEIC confirmed**
Issuance of a "public health emergency of international concern" by WHO
 - 4 Constant level of new cases**
Outbreak starts getting under control
 - 5 Civil Authority Lockdown confirmed**
 - 6 Settlement**
Settlement of claim
-
- Option 1: Severity
 - Option 2: PHEIC
 - Option 3: PHEIC + Civil Authority Lockdown



Option 1: Severity

How it works

The policy limit is linked to the severity of an event – the capacity released is directly proportional to the severity of an event (measured by fatalities in a covered area).

Exposures

This policy responds regardless of the announcement of a Public Health Emergency of International Concern (PHEIC) or a lockdown and is recommended for clients with exposure towards local outbreaks that do not reach international extent.

Example

Past epidemics like SARS and MERS have led to economic losses for clients exposed in Asia before any PHEIC is announced or a lockdown was ordered.

Option 2: Public Health Emergency of International Concern (PHEIC)

How it works

The cover responds in a case where the WHO announces that the disease is declared a “public health emergency of international concern (PHEIC)” and there is a local transmission within the covered area linking the global alert to the client’s exposure.

Exposures

This type of insurance cover is recommended for businesses that incur losses based on the public perception of a disease. For example, during the Zika event, the hospitality industry was already severely suffering from reduction in tourists even before countries experienced any significant number of confirmed cases.

Example

Past PHEIC announcements for viral diseases include the outbreaks of SARS, Zika, Ebola and Covid-19.

Option 3: PHEIC + Civil Authority Lockdown

How it works

The cover responds in a case where the WHO announces that the disease is declared a “public health emergency of international concern (PHEIC)” and a civil authority of the covered area orders a lockdown.

Exposures

This trigger is recommended if a client wants to cover extreme events that often have a global scale and are unable to continue operations due to a lockdown.

Example

The outbreak of Covid-19 prohibited the operation of many sectors in various countries to avoid a spread of the virus.

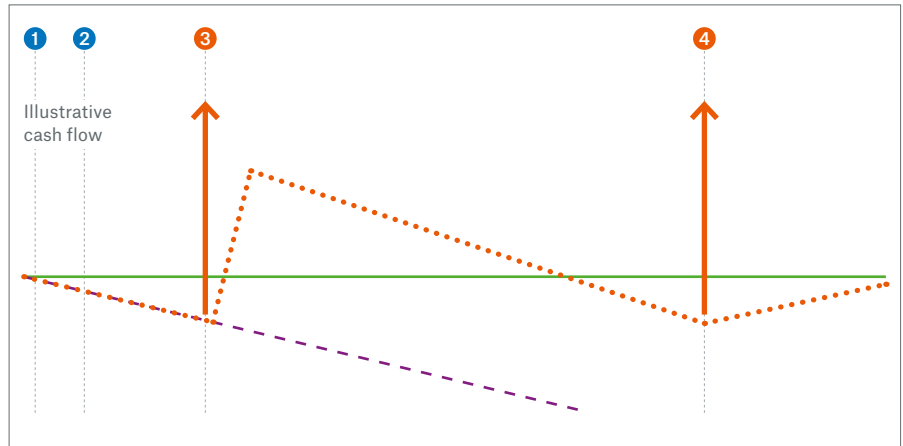
Possible coverage extensions

Liquidity option: Provisional payment to maintain liquidity before full loss details are known

Our standard policy pays out on an indemnity basis after a loss assessment. A special variation we offer gives an extraordinary benefit: in order to avoid a liquidity squeeze for our clients, all trigger options mentioned can provide provisional partial payouts at a very early stage, as soon as one of the presented triggers is hit. In this case, capacity is provided before the full loss amount is known while a loss adjustment at a later stage assures that there is no betterment and insurance regulations are adhered to.

The example of that extension together with “Option 3: PHEIC + Civil Authority Lockdown” illustrates that – once a lockdown is confirmed, the client immediately receives a provisional payout to cover ongoing expenses quickly:

- 1 First cases reported**
Epidemic outbreak starting and general human to human transmission confirmed leading to decrease of cash flow
 - 2 Covered area affected**
WHO confirms human to human transmission in covered area
 - 3 Declaration of PHEIC**
WHO confirms “public health emergency of international concern”
 - 4 Settlement**
Loss adjustment to assure no betterment
- ↑ Insurance payout**
- normal
... with insurance
- - - without insurance



Crisis management extensions: Financial support and expert advice

Should a client’s business be threatened by an outbreak, we provide expert advice to better understand the exposure and support mitigation measures. Additionally, we can provide financial support at a very early stage of an outbreak to support loss reduction efforts.

Do you want to know more?

This flyer serves as a general introduction to the product only. If you want to know more, please get in touch. To facilitate the underwriting, please prepare some basic information on the client’s past loss experience and the causes for that.

After an introductory call with you as a broker, it is vital for the underwriting process to directly speak to the client (CFO and/or Risk Manager) to better understand the needs and offer a product that suits the risk requirements.

Whom to contact

In case you have further questions or a client our product might be interesting for, please contact us.

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