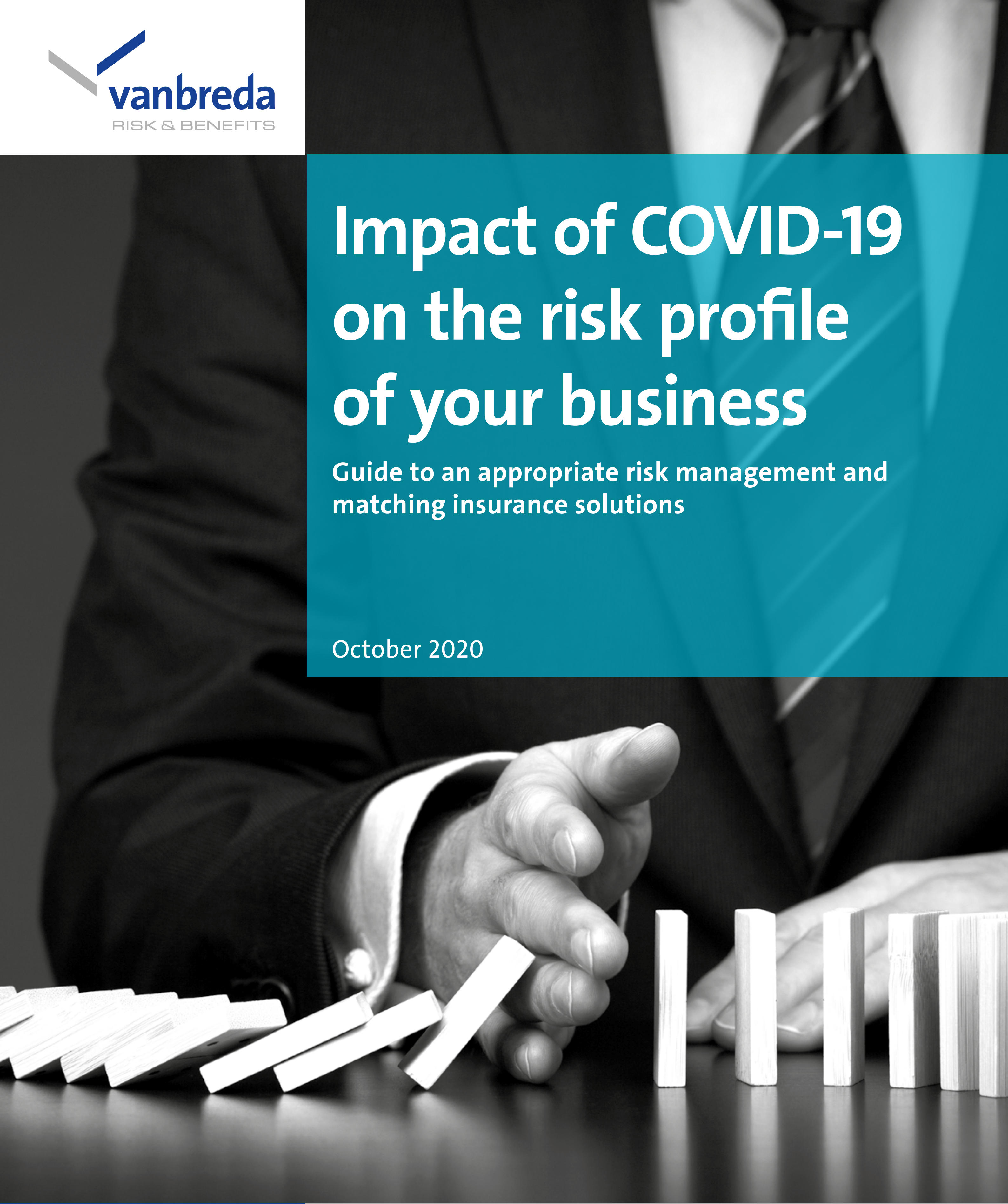

Impact of COVID-19 on the risk profile of your business

Guide to an appropriate risk management and matching insurance solutions

October 2020

Vanbreda Whitepaper

Introduction

The outbreak of COVID-19 presents huge economic challenges and has a strong impact on the risk profile of businesses. New risks emerge with respect to loss of earnings, liability, cybercrime issues and human resources. Companies should therefore, more than ever, dovetail their strategic growth plans with a sound risk management and vice versa.

In this white paper we will discuss the five tools that businesses use today to stay on the road to sustainable growth in the (post-)corona economy (see figure), with specific focus on the risk management aspect. We will examine the risk & insurance management that offers the necessary protection based on the corporate goals and Key Performance Indicators (KPIs).

Five tools for sustainable growth:

- Guaranteeing resilience and flexibility
- Ensuring profitability
- Seizing new opportunities
- Investing in technology
- Putting employees even more centre stage

This white paper is an instrument to help businesses align their risk and insurance management with the new reality and the challenges that this brings with it.

The experts of Vanbreda Risk & Benefits will be glad to assist you in this process.

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vanbreda
RISK & BENEFITS

1. Resilience and flexibility become new core values

In the challenging and unpredictable times in which businesses have to operate today, resilience and flexibility are seen as important core values to remain successful. The coronavirus brings in its wake many new risks that can jeopardise the continuity of your business.

NEW RISKS

- A new lockdown or other restrictive measures will delay or halt business operations.

- Hacking by cybercriminals, who thanks to increased teleworking find additional ‘access routes’ to companies, puts extra pressure on the IT system or even renders business operations impossible.

- Greater dependency on the IT systems as a result of mandatory teleworking makes the IT network more vulnerable.

- Suppliers and other service providers are unable to meet their commitments for various reasons linked to the coronavirus.

- Major investments have to be postponed as suppliers are impacted by the crisis.

- Key people are not available due to the crisis, which jeopardises the business operations.

- Unexpected changes in the law or new government measures cause an interruption of business continuity.

- Unforeseen trade barriers have an impact on business processes.

- Rigid processes and procedures threaten business continuity and crisis management.

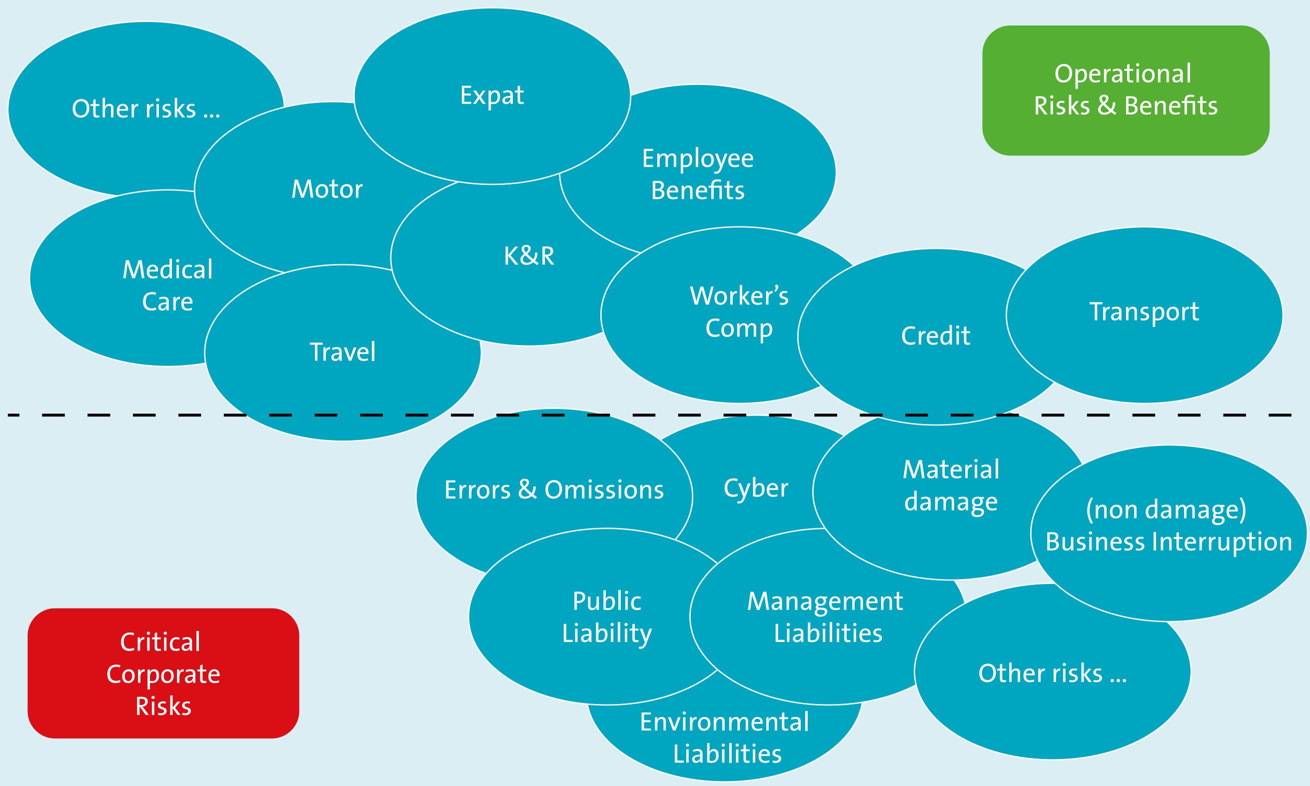
RISK MANAGEMENT

Present circumstances force businesses to focus on all their operational, strategic and critical corporate risks with financial impact, whether they are insurable or not.

The management's risk focus on the corporate assets, liabilities and human resources should lead to a clear understanding of the company's total risk cost and any adjustments that need to be made in the areas of health, safety and risk financing. This is not limited to insurable risks and business insurance, but goes much further: contract screening, limitation of liabilities, duty of care towards the staff, supply chain, etc.

An important role in this process is reserved for the risk and insurance manager(s) of the company. They can make the connection between the management (finance, legal, HR, etc.) and the business.

The figure below shows the main risks which organisations should focus on today to safeguard their resilience and flexibility. It is also important not to consider those risks separately from each other, but to detect and control their interaction. Example: a fall in revenue due to corona leads to cost-cutting. The result is redundancies with a possible impact on, for instance, directors' liability or less budget for fire safety, leading to increased risk of fire. This can, in turn, result in supply chain risks and consequently in even less revenue, etc. The three risk areas (assets, liability and human resources) are strongly correlated and also reinforce each other. The insurance solutions should therefore also complement and strengthen each other.



Enterprise Risk Management (ERM)

In the current economic climate there is a growing need for what is called Enterprise Risk Management (ERM). In short, ERM is a process that identifies, prioritises, reduces and monitors operational and strategic risks of a company in order to safeguard business continuity.

A robust ERM implementation involves, among other things, Business Continuity and Disaster Recovery planning. It also strongly emphasises the importance of IT security in the context of teleworking, access control and cloud security. ERM also focuses on supply chain risks. A modicum of ERM leads to more solid financials, putting one company in a better position to bear the financial impact of a pandemic than another.

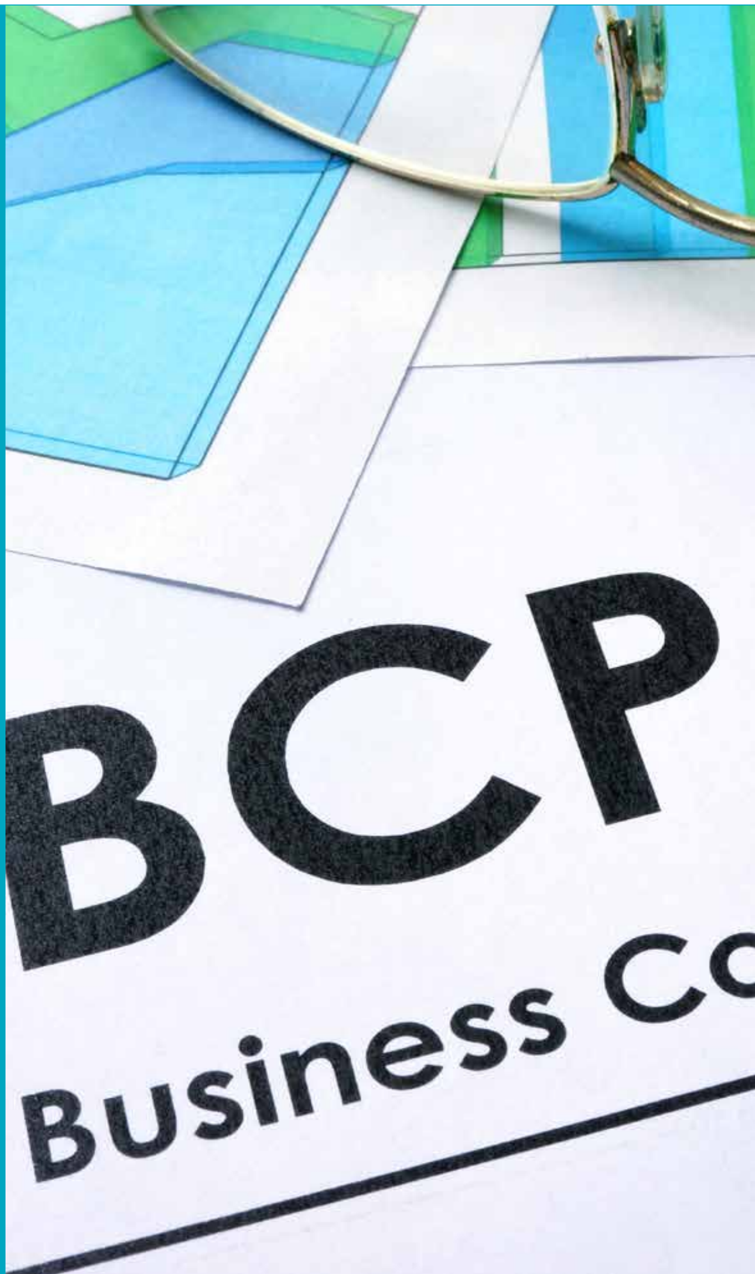
Create a Business Continuity Plan (BCP)

A Business Continuity Plan is a strategic plan that defines the potential disaster situations and their consequences as well as the measures that must be taken when such a situation or problem occurs. A BCP safeguards the continuity of a business after an (often) unexpected adverse event.

To draw up a Business Continuity Plan, it is important first of all that you identify the potential risks to your business and to what extent you can control those risks.

Given that a business may be confronted with different disasters, the BCP will comprise different scenarios. Not every event will have the same consequences for a business. Each scenario must therefore contain a detailed description of what the impact is of a certain type of risk for the business and how the business should deal with it.

The experts of Vanbreda Risk & Benefits will gladly help you to formulate the BCP for your company.



INSURANCE

With proper risk management, businesses can limit many of the risks with which they are confronted. Usually, however, no risk can be ruled out entirely. For that reason, taking out the right insurance policies will be the crucial tailpiece of a sound and balanced risk management.

First, it is important to adapt the existing insurance policies to the changing risks with regard to business continuity and to take out additional covers and/or insurance policies where necessary. The hardening market with which we are being increasingly confronted in the insurance industry can complicate this updating exercise. This also applies to the coronavirus exclusions that we see emerging in some insurance policies.

Businesses that want to remain resilient and flexible today need to focus primarily on insurance policies that protect the continuity of their organisation (critical business risks). Various business insurance policies for high-risk categories such as assets, liability and human resources qualify for this.

Experience from the past months of the pandemic shows that the following risks pose the biggest threat to companies:

- **Staff sickness/prolonged absence**
- **Loss of earnings/continuity/failure to supply**
- **Cybercrime/fraud**
- **Reputation/Management liabilities (e.g. D&O)**

Every organisation is vulnerable, but small and medium-sized businesses are so in particular because they have less resources. Nevertheless, they can also plan in advance and judge the impact of a major risk, especially as their size renders them more liable to suffer from high-impact risks than large companies that are often more resilient. SMEs are therefore advised to plan well in time and work together with professional risk & insurance experts. This pandemic is a wake-up call for them to start thinking about their internal risk and insurance strategy right now.

2. Revenue protection and profitability become even more important

The COVID-19 crisis is putting pressure on the revenue and profitability of companies. As revenue and profitability protection becomes even more important for businesses, a proper understanding of the many new risks that this crisis brings with it is essential.

NEW RISKS

- The changing market has an impact on operating revenue.
- As consumer demand, behaviour and needs change, revenue can suddenly come under threat.
- Incorrect and misleading news can give rise to bad decision-making.
- Diminished cash flow leads to liquidity problems.
- The recession/depression reduces investor confidence and support.
- The recession/depression leads to diminished access to financing.
- Exchange rate fluctuations have an impact on companies' capacity to engage in international trade.
- Omissions and disputes lead to contractual penalties and termination of contracts.
- There is a greater risk of internal and external fraud.

RISK MANAGEMENT

The coronavirus crisis is putting pressure on business revenue. That is why it is all the more important to protect margins and stay profitable. First, we need to look where cost savings can be achieved in a proactive way. Secondly, it is important to develop a sound risk management with regard to the profitability of the business. The following actions are crucial in that respect:

- Managing the cash flow by strict monitoring and planning.
- Optimising the working capital.
- Identifying potential scenarios and their impact on profit and loss.
- Thorough screening of the investment portfolio.
- Mapping the dependence on suppliers.
- Extra focus on processes to prevent external and internal fraud.
- Taking sufficient care over proper internal and, where appropriate, external communication about the financial health of the business.

Especially when it comes to safeguarding profitability, companies are advised to carefully identify the total insurable risk cost. This cost comprises not only the insurance premiums that the company pays each year, but also the losses that are not covered, deductibles, health and safety costs, management cost, etc. It is important to offset this total risk cost against the financial balance and strength of the organisation, as well as against the financial risk tolerance of the business. On the basis of that information, it can be determined which insurance cover is required for which residual risks and up to what insured limits, deductibles, etc. All of this requires a sustainable and strategic risk management in the company.

INSURANCE

To close the risk circle and so protect the profitability of your business, there are a number of crucial insurance policies that every company should have. They contribute to a sound and balanced risk management:

- Credit insurance and factoring protect your business against the risk of payment default. The Belgian government supports credit insurers in 2020 through reinsurance. This means that the government covers most of the losses when things really go wrong. In return, the government asks insurance companies to support the economy by maintaining coverage as much as possible.
- Coverage for political risks enables you to keep exporting to more 'difficult' countries.
- Insurance against fraud protects your company against (direct) financial damage resulting from fraud committed by third parties and/or by your own staff.
- In times of crisis, companies and their directors may also be confronted with employees, co-directors or investors who challenge decisions or contest them in court, for instance wrongful dismissals, investment errors, etc. Director's liability insurance will protect a director's personal assets against, for example, claims from shareholders who hold him responsible for decisions which in their view are detrimental to the company. This coverage may also contain an insurance cover for the company itself.

Pedro Matthynssens

Vanbreda makes a case for pandemic insurance

By far most of the Belgian insurance policies against loss of earnings contain an exclusion for 'non-material causes'. In practice, this means that loss of earnings resulting from direct physical damage such as fire or flooding is covered, whereas loss of earnings due to an epidemic is not. There is a good reason for that. The financial resources of insurance companies are not unlimited, and catastrophic risks such as epidemics, natural disasters, nuclear disasters or terrorist attacks cause so much damage that insurers would immediately collapse financially if they were to cover those risks in their policies.

Our CEO, Pedro Matthynssens, believes that a public-private solidarity mechanism may be a solution. "At the time of the terrorist attacks in Zaventem in 2016, an effective insurance mechanism came into operation for which the legal basis had already been laid in 2007. Acts of terrorism resulting in claims up to 1.3 billion euros per year are covered in Belgium today by a public-private partnership between the Belgian insurance industry and the government. Virtually all insurers and reinsurers in Belgium cover terrorism risks in mutual solidarity for claims up to 910 million euros. The remaining 390 million euros are covered by the Belgian government."

Both in the social and economic interests of Belgium, Pedro Matthynssens calls for the urgent development of a similar solution for epidemics and pandemics. "This should be a type of insurance that is affordable for all businesses and is made compulsory for all. There must be no exclusions: for example, it must not happen that a flu epidemic is covered but an infectious lung disease is not. All insurers must apply the same premiums and conditions, and the insurers and the government should jointly underwrite this risk."

An insurance policy against epidemics and pandemics should preferably be a parametric insurance policy. This means that a clear threshold is defined from which moment compensation is paid that is the same for everyone. In the case of a pandemic, this threshold could be the moment when the government declares a pandemic.

3. Looking for new opportunities is a priority

The coronavirus crisis urges many businesses to seek out new opportunities and to actively take them up. Developing new activities can of course also entail new risks.

NEW RISKS

- As consumer demand, behaviour and needs change, businesses find themselves outside the market and suddenly have to tap into new opportunities to survive.

- Companies make the final switch to manufacturing new products or providing services that fall outside their familiar expertise and core business, or temporarily change over to products and services that are necessary to combat the crisis. For example, the specific case of pharmaceutical companies where the development of new vaccines and medicines holds certain risks (i.e. health risks).

- Companies that put innovations on the market become targets for ill-intentioned individuals who engage in patent fraud.

RISK MANAGEMENT

When a company develops new activities, creates new opportunities, or taps into new markets, it is important to find out to what extent the risk profile in the three known risk areas (assets, liability and human resources) changes as a result. Based on the adjusted total risk cost, we can verify to what extent the existing insurance approach and strategy need to be adapted.

The table below gives, by way of example, a schematic overview of the impact of new opportunities and activities on the three main risk areas:

New opportunities /activities	Assets	Liability	Human resources
New risks	Change of locations Change of countries Change of production processes of suppliers Change of health & safety measures Impact on severity and/or frequency of damage New credit risks New transport risks ...	Change of operational and product liabilities Change of current legislation Change of corporate purpose Change of director's liability ...	Change of activities with impact on safety, availability, liability of staff ...

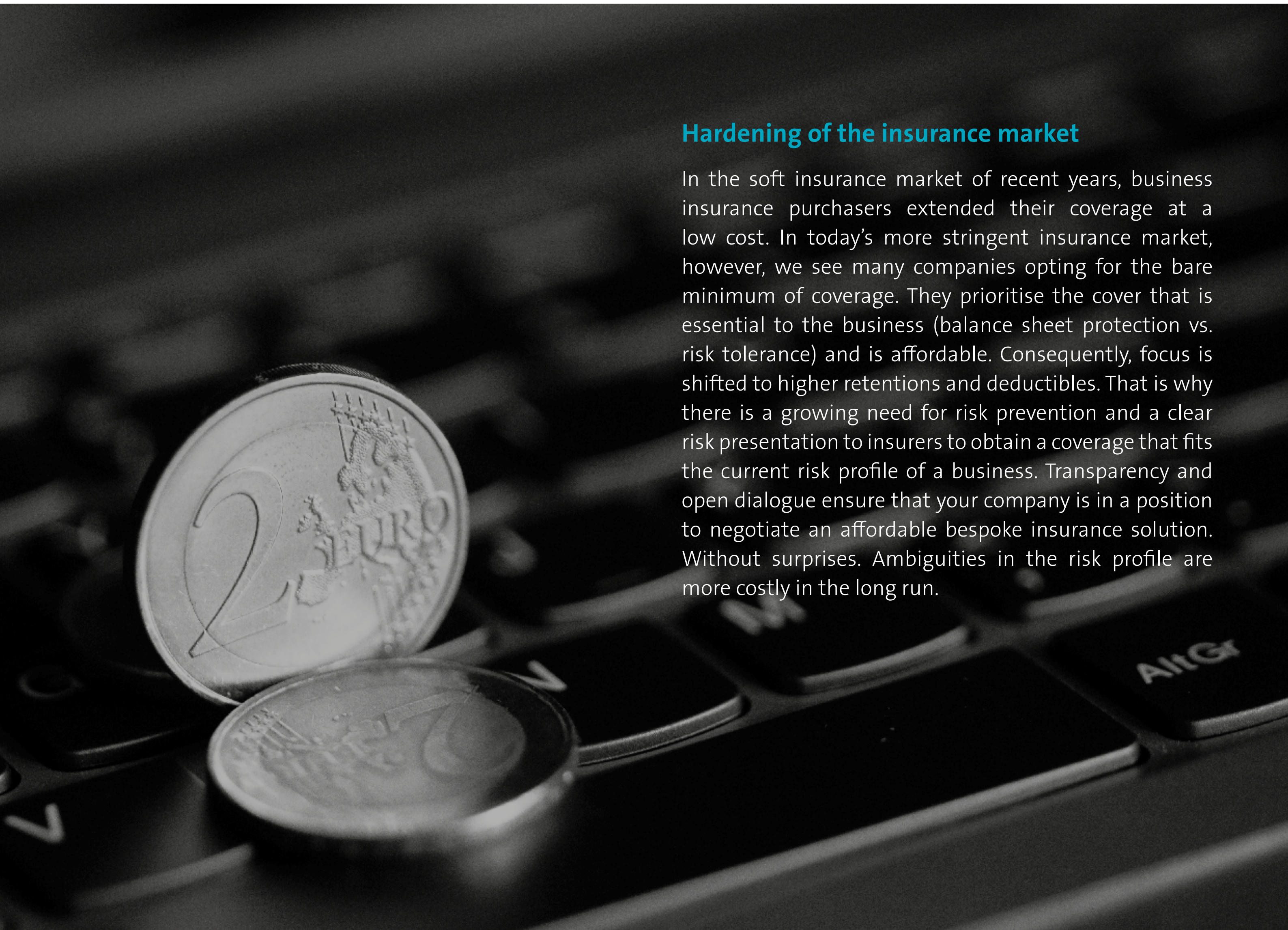
INSURANCE

When you invest in new opportunities and activities, it is important first of all to take a careful look at the current insurance policies of your business:

- Do you need to change the insured limits, deductibles and exclusions?
- Are there new activities to be insured?
- Are staff members still adequately protected by their existing package of personal insurance policies?
- Is it possible to conclude long-term contracts?
- ...

It is also important to find out whether it is necessary to take out new insurance policies to complete your risk management. The following types of policies may be considered:

- Intellectual property insurance offers broad protection for all kinds of intellectual property, such as patents, trademarks, copyrights and trade secrets.
- Credit insurance or factoring protects your business and the director(s) against payment default, loss and other credit risks.
- Marine or transport insurance protects your business against every possible transport and/or logistics risk.
- Overseas insurance policies protect new overseas activities and/or branches.
- Legal aid insurance provides assistance in all disputes involving.



Hardening of the insurance market

In the soft insurance market of recent years, business insurance purchasers extended their coverage at a low cost. In today's more stringent insurance market, however, we see many companies opting for the bare minimum of coverage. They prioritise the cover that is essential to the business (balance sheet protection vs. risk tolerance) and is affordable. Consequently, focus is shifted to higher retentions and deductibles. That is why there is a growing need for risk prevention and a clear risk presentation to insurers to obtain a coverage that fits the current risk profile of a business. Transparency and open dialogue ensure that your company is in a position to negotiate an affordable bespoke insurance solution. Without surprises. Ambiguities in the risk profile are more costly in the long run.

4. Evolution to 'technology company' accelerated by COVID-19 crisis

The use of technology and the success of e-commerce have gained even greater momentum during the COVID-19 crisis. Many businesses are jumping on the digitisation bandwagon, yet this also brings new risks with it against which they can be insured.

NEW RISKS

- The development of new technologies such as 3D printing, robotics, Internet of Things, etc. holds new risks.

- E-commerce increases dependence on the IT system and alters the logistic process. The risk of an almost total business interruption in the event of an IT system outage is huge.

- Customer expectations in terms of physical or digital reachability, product delivery times or general service cannot be met during the crisis.

- Employees working from home become less efficient as they lack the infrastructure which they have at the office.

- The IT infrastructure available to teleworkers often falls short of the high quality standards that the employer's IT system does meet, which puts them at greater risk from hacking, spyware and other viruses.

- Phishers also detect fresh opportunities by presenting themselves to employees as, for example, an IT manager of the company wanting to test the IT system or as a staff member of the World Health Organisation.

- So-called 'bogus companies' sell online products that are in high demand during the crisis, such as face masks and disinfectant devices, without actually delivering them.

- Cyber attacks and data leaks lead to fraud and theft of sensitive company data. By clicking on a manipulated link to read an update on local coronavirus infection cases, for example, an employee can unwittingly give cybercriminals access to company information.

- Companies do not have the right profiles to properly manage the evolution to a technology firm.

RISK MANAGEMENT

The evolution of a business to a technology company, which has accelerated with the outbreak of the coronavirus pandemic, has a major impact on the risk management of a company. If we look at the three risk areas, potential changes are primarily situated in the corporate assets and the liability situation, although the impact on human resources should not be underestimated either.

Besides the risk of cyber fraud, cyber theft etc., the fact of no longer being able to operate as a business - business interruption or failure to supply - is the biggest corporate risk in the area of IT technology. The risk management should therefore focus primarily on that area.

The table below gives, by way of example, a schematic overview of the impact of the evolution to a technology company on the three main risk areas:

New opportunities /activities	Assets	Liability	Human resources
New risks	New technology, IT processes Interconnection with third parties Increased cyber risks Increased logistic and supply chain risks ...	New delivery conditions New operational and product liabilities Changing Service Level Agreement (SLA) conditions Increased cyber and fraud risks ...	Limited availability and accessibility of IT systems Risks associated with teleworking Data leaks ...

INSURANCE

In the evolution to a technology company, it is important first of all to take a careful look at the current insurance policies of your business:

- Do the policy terms and conditions need to be adapted to the e-profile of the company?
- Do all existing policies dovetail with each other as the business increasingly becomes a technology company? Have any gaps appeared in the coverage?
    - Where a cyber policy has already been taken out, does it still dovetail with the property and business interruption policy?
    - Are the corporate liability policies (public, products, professional, environmental,... liability) and director's liability policies properly aligned with each other?

It is also advisable to find out whether it is necessary to take out new insurance policies to complete your risk management. The following types of policies may be considered:

- A cyber insurance offers IT, PR and legal assistance when cybercriminals strike. You are also covered against financial loss resulting from a cyber attack as well as against any damage to third parties.
- Insurance against fraud protects your company against (direct) financial damage resulting from fraud committed by third parties and/or by your own staff.

Insuring intangible assets

The growth of digital business models during the coronavirus crisis leads to a further increase in the intangible assets of companies. It is very important that risk managers also incorporate those assets in their risk models, since they would otherwise risk becoming a blind spot in their risk management.

There are already numerous insurance solutions on the market today that offer protection against risks relating to reputation or intellectual property.

5. Good staff proves more important than ever

In challenging times such as these, companies have come to realise yet again how important their staff are. By properly looking after their own people, organisations assure themselves of the best service to their customers. Nevertheless, the coronavirus crisis has also brought with it certain new risks to the human capital of a company.

NEW RISKS

- The health of employees is affected by the virus, by postponing important medical treatments and consultations, or by isolation.

- The large-scale working-from-home trend increases the risk that staff members at home or 'outside the office environment' are involved in a work accident.

- Government decisions have an impact on the work situation and financial health of workers, for example compulsory teleworking or temporary unemployment.

- Because of the crisis, employees are required to carry out other duties for which they are not trained and/or insured. For example, a dermatologist who is suddenly asked to help out at intensive care.

- Workers are faced with uncertainty as business revenue experiences a spectacular decline or the company threatens to go bankrupt. This has an impact on their mental and financial health.

NEW RISKS

The coronavirus causes sickness through infection, accidents while teleworking, considerable medical expenses, in some cases permanent disability and even death.

The coronavirus pandemic has an impact on the staff and therefore also on the agenda of the HR and risk & insurance managers.

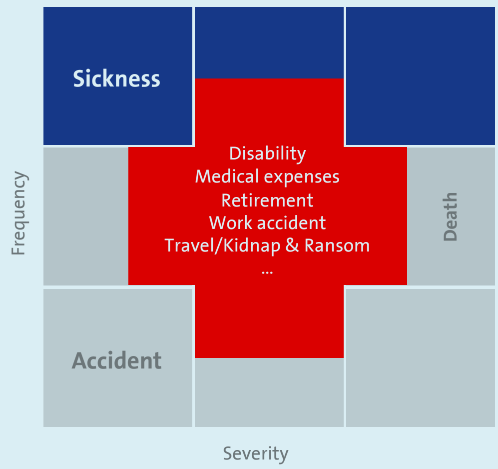
They monitor the severity and frequency of COVID-related sickness, accidents and even deaths. According to the needs of the staff and the company, business-level arrangements need to be made for teleworking, business travel, etc.

Not only for the well-being of the staff, but also as part of the 'war & care for talent', a corona-proof 'Employee Risk Management' is recommended (see figure).

Nowadays, a comprehensive risk management for the staff that comprises both the risk aspects and the benefits is more important than ever, and is part of your duty of care as an employer.

Duty of Care is the obligation you have as an employer to look after your people. This no longer applies just in the workplace and during working hours, but far beyond as well. In a society where the boundaries between work and private life become increasingly blurred, we see that workers are willing to go the extra mile for their employer. In turn, they expect their employer to act with due and proper care and to protect them financially against contingencies such as sickness or an accident.

Covid-19 and HR triggers & consequences



Employee Risk Management (ERM)

A well-balanced HR policy is also crucial when it comes to paying sufficient attention to matters such as loss of team spirit or sense of belonging, and the general well-being of employees. Those aspects should also be incorporated in an optimised risk management approach.

INSURANCE

A kind of Employee Risk Management is essential nowadays. This is relevant for tailor-made insurance such as for work accidents (automatic coverage for occasional and structural telework) and business travel insurance with appropriate cover for cancellation and repatriation in the event of a pandemic.

There are also many other types of personal insurance that are relevant within a Duty of Care approach. It is important that they are well aligned in order to avoid irregularities, lacunae or duplications. The experts of Vanbreda Risk & Benefits are specialists in this area and will gladly assist you.

The following insurance types are very important today:

- The Workmen's Compensation insurance (compulsory in Belgium) contains essential coverage for... protheses, temporary and permanent disability to work, and death.

- By 'employee benefits' (such as group insurance or hospitalisation insurance) we mean all the fringe benefits which you as an employer offer your employees to give them better protection against financial risks resulting from hospitalisation, retirement, sickness, accident or death.

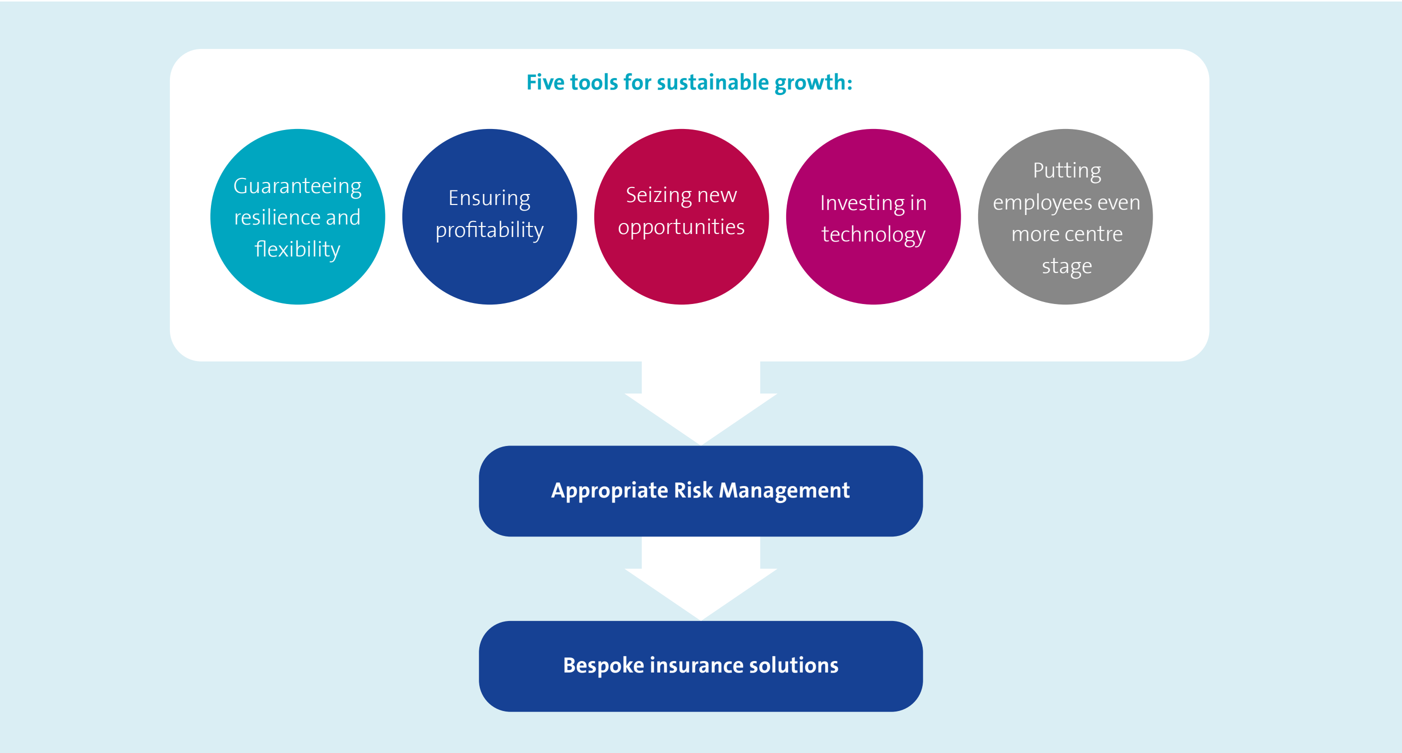
- Guaranteed income insurance offers financial protection for employees in case of prolonged absence with loss of income. As the benefits paid by the sickness insurance fund are limited, prolonged incapacity for work means loss of income, which is detrimental to your employee's living standard.

The experts of Vanbreda Risk & Benefits will gladly help you to put together an insurance package that is tailored to your business and your workforce.

Conclusion

Insurance is about financial planning which needs to be given sufficient attention beforehand and not at the time when the risk, such as a pandemic, actually occurs. Insurers can no longer cover business risks that are certain to occur. This constitutes a major challenge in the coronavirus crisis, especially in the case of a next wave. It is therefore crucial to keep sufficient focus on the changing risk profile of your business.

In this white paper we discussed the five tools that businesses use today to cope with the outbreak of the pandemic. It is now up to companies to identify the new risks that are involved and to tackle those risks with the right insurance solutions.



The experts of Vanbreda Risk & Benefits will be pleased to help you with a close examination of your risk management and your insurance policies on the basis of the outline given above. Together we will ensure that your organisation can continue to do business with an easy mind in these challenging times.

More information is available from your single point of contact at Vanbreda Risk & Benefits or from Wim Lanclus (wim.lanclus@vanbreda.be).

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