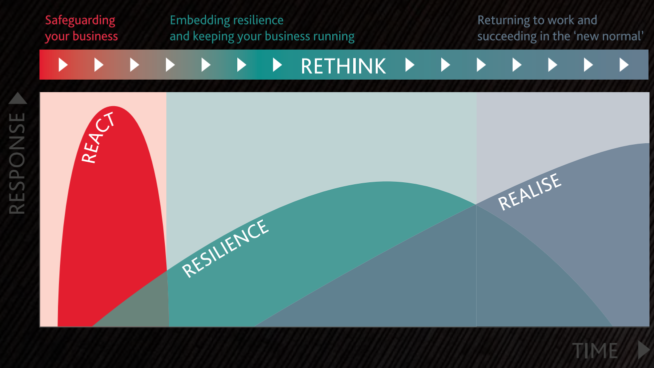
Rethink

RETHINK —
the Insurance Sector

October 2020



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CONTENTS

HOW IS COVID-19 AFFECTING THE INSURANCE INDUSTRY?

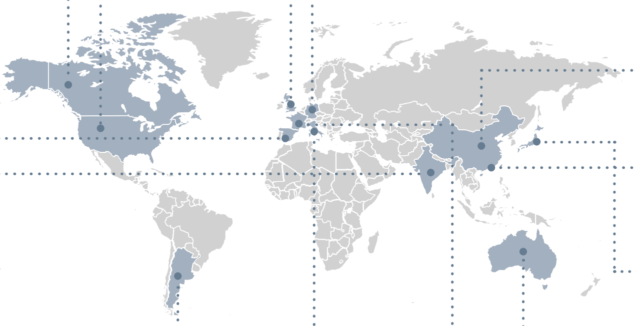
THE INSURANCE SECTOR FACES MULTIDIMENSIONAL CHALLENGES DUE TO THE COVID-19 OUTBREAK

Alex Barnes,
Head of Global Insurance

> *COVID-19 is the largest event to have ever affected the insurance industry.*

The COVID-19 outbreak affects insurers both directly, through underwriting shocks including increases in mortality and morbidity, and indirectly, via market issues including lower equity prices, higher credit spreads, widespread downgrades, and low interest rates. Insurers are responding to the COVID-19 crisis on multiple fronts — from employee and business continuity issues to client service considerations to the overall economic outlook.

The impact of COVID-19 as of June-September 2020[1]



USA
GDP growth rate ~ (-31.7%)
Interest rate ~ 0.25%
Business confidence ~ 56.0 p.
Coronavirus cases ~ 7,406,146

Canada
GDP growth rate ~ (-11.5%)
Interest rate ~ 0.25%
Business confidence ~ 67.8 p.
Coronavirus cases ~ 156,961

Spain
GDP growth rate ~ (-17.8)
Interest rate ~ 0%
Business confidence ~ (-9.1 p.)
Coronavirus cases ~ 758,172

India
GDP growth rate ~ (-25.2)%
Interest rate ~ 4.0%
Business confidence ~ 99.5 p.
Coronavirus cases ~ 6,223,519

Italy
GDP growth rate ~ (-12.8%)
Interest rate ~ 0%
Business confidence ~ 92.1 p.
Coronavirus cases ~ 313,011

Argentina
GDP growth rate ~ (-16.2%)
Interest rate ~ 38%
Consumer confidence ~ 40.3 p.
Coronavirus cases ~ 736,609

UK
GDP growth rate ~ (-19.8%)
Interest rate ~ 0.1%
Business confidence ~ (-1.0 p.)
Coronavirus cases ~ 446,156

France
GDP growth rate ~ (-13.8%)
Interest rate ~ 0%
Business confidence ~ 96.0 p.
Coronavirus cases ~ 550,690

Germany
GDP growth rate ~ (-9.7%)
Interest rate ~ 0%
Business confidence ~ 93.4 p.
Coronavirus cases ~ 290,466

China
GDP growth rate ~ 11.5%
Interest rate ~ 3.85%
Business confidence ~ 51.5 p.
Coronavirus cases ~ 85,384

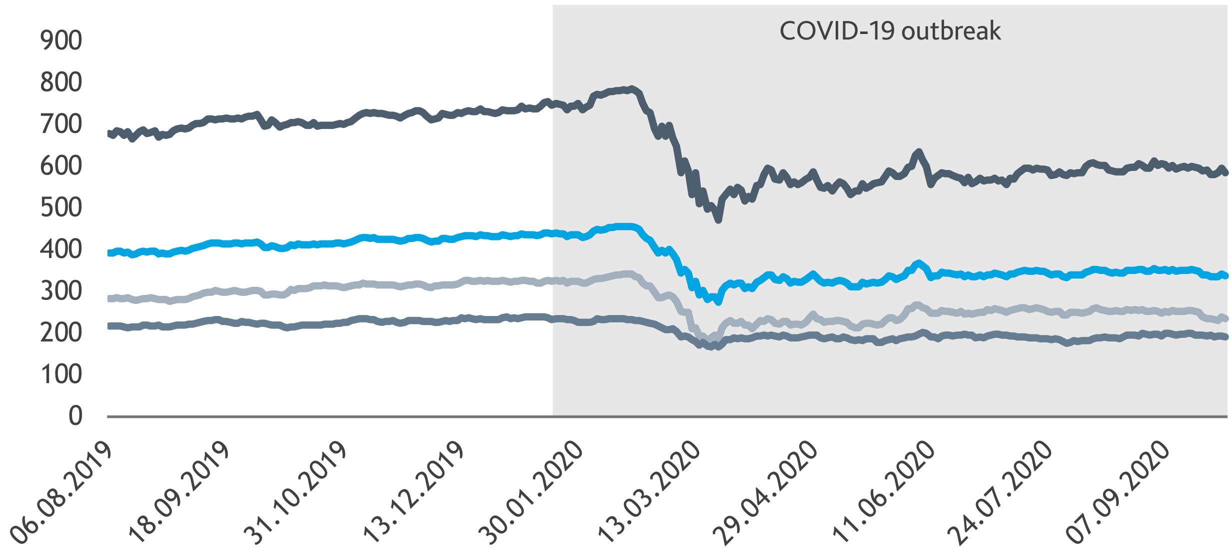
Hong Kong
GDP growth rate ~ (-0.1%)
Interest rate ~ 0.86%
Business confidence ~ (-11.0 p.)
Coronavirus cases ~ 5,080

Japan
GDP growth rate ~ (-7.0%)
Interest rate ~ (-0.1%)
Business confidence ~ (-34.0 p.)
Coronavirus cases ~ 82,494

Australia
GDP growth rate ~ (-7.0%)
Interest rate ~ 0.25%
Business confidence ~ (-8.0) p.
Coronavirus cases ~ 27,063

Source: Trading Economics website
Notes: (1) COVID-19 cases data as of 29 September 2020
Source: International Monetary Fund — Impact of COVID-19 on Insurers — [18 May 2020]

Current STOXX Insurance Index by region, Euro price:



STOXX® Europe 600 Insurance
STOXX® North America 600 Insurance
STOXX® Global 1800 Insurance
STOXX® Asia/Pacific 600 Insurance

Source: STOXX website

1. Global insurance premium volumes are expected to recover to pre-COVID-19 crisis levels in 2021.

2. Insurance demand might slow sharply in 2020 due to the pandemic, global life premiums would contract by 6% and non-life by 0.1%.

3. In life insurance, saving products might be hardest hit, while in non-life insurance — travel and trade would be affected the most.

4. Led by China, emerging markets might underpin global market strength with total premiums up 1% in 2020 and 7% in 2021.

5. In addition to pandemic-related losses, investment returns will remain subdued as interest rates stay low for longer.

Source: International Monetary Fund — Impact of COVID-19 on Insurers — [18 May 2020]

GLOBAL RECESSION CAUSED A DECLINE IN THE WORLD REAL PREMIUM GROWTH IN 2020

The implications vary through all stages of the insurance value chain, including impacting directly on balance sheet assets and liabilities, as well as operational impacts with financial consequences.

The multi-faceted nature of these impacts are critical to insurers and their regulators. Business effects could be summarised in three main categories: those related to the obligations under insurance contracts, the impact of asset-market changes on values and on liquidity, and operational risks.

Insurance Obligations

- Increasing mortality
- Travel restrictions
- Property risk exposures change
- Fraud risk and cyber risk increases
- Evaluation of positive and negative impacts
- Valuation of long term liabilities increases as interest rates fall
- Consequent pricing changes
- Increasing of business interruption risks

Asset Values and Liquidity

- Stock markets are recovering
- Fixed interest valuations improve on reduced interest rates
- Credit exposure largely focused on corporates and investment grade entities deteriorating
- Potential for impact from Exchange Rate changes
- Liquidity, or lack of need for it, could be an advantage for life insurers

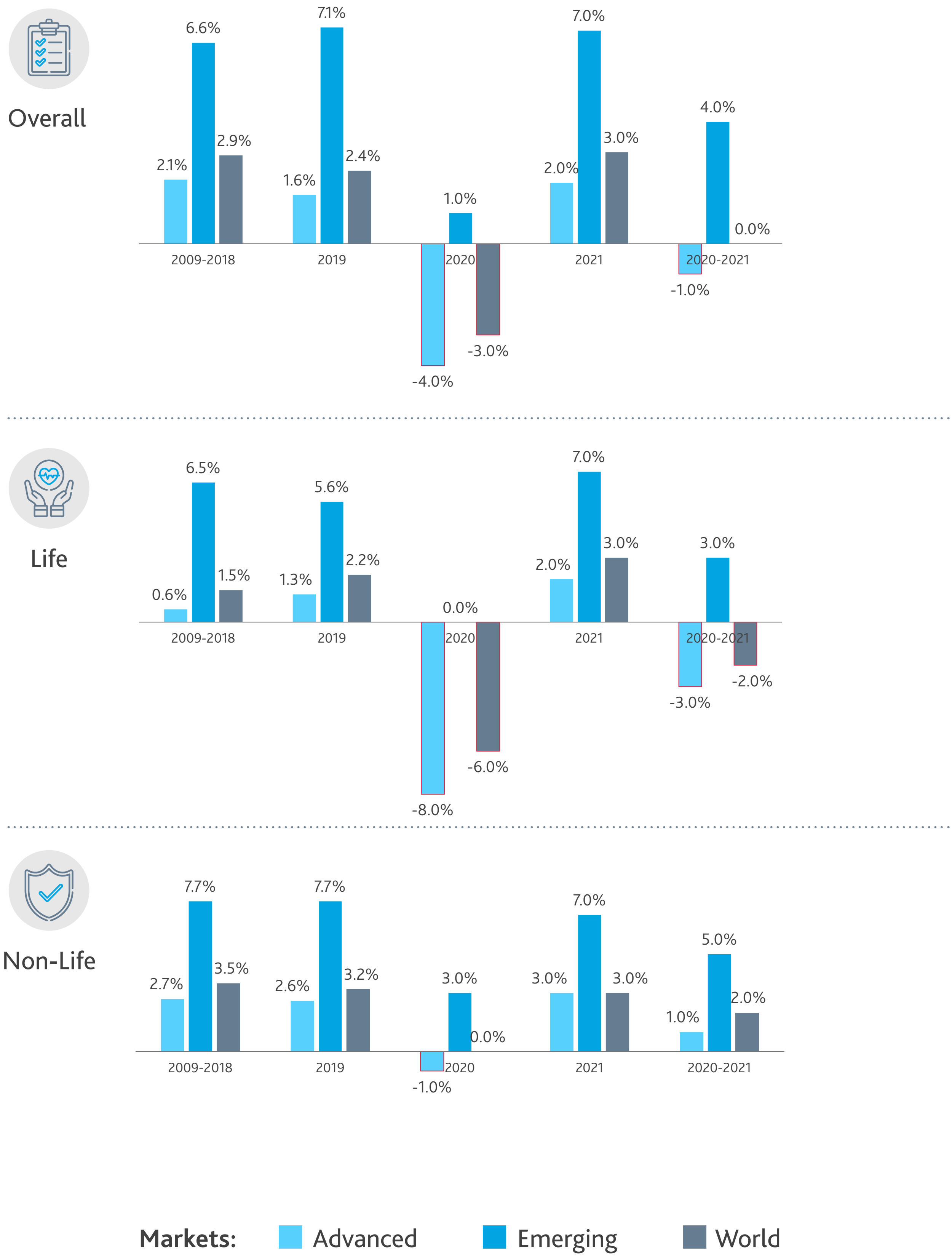
Operational Challenges

- Claim payment delivery
- Continuation of service delivery
- New business declines through inactive sales channels, and client base activity reduction during short-term closure phrases and subsequent real economy contraction

Source: World Bank; Marketwatch; MSCI

Source: World Bank — COVID-19 Outbreak: Insurance Implications and Response — [29 March 2020]; Marketwatch website; MSCI website

Real premium growth in 2019, vs average 2009-2018 and forecast for 2020-2021



Source: Swiss Re Institute

Source: World Bank — COVID-19 Outbreak: Insurance Implications and Response — [29 March 2020]; Marketwatch website; MSCI website

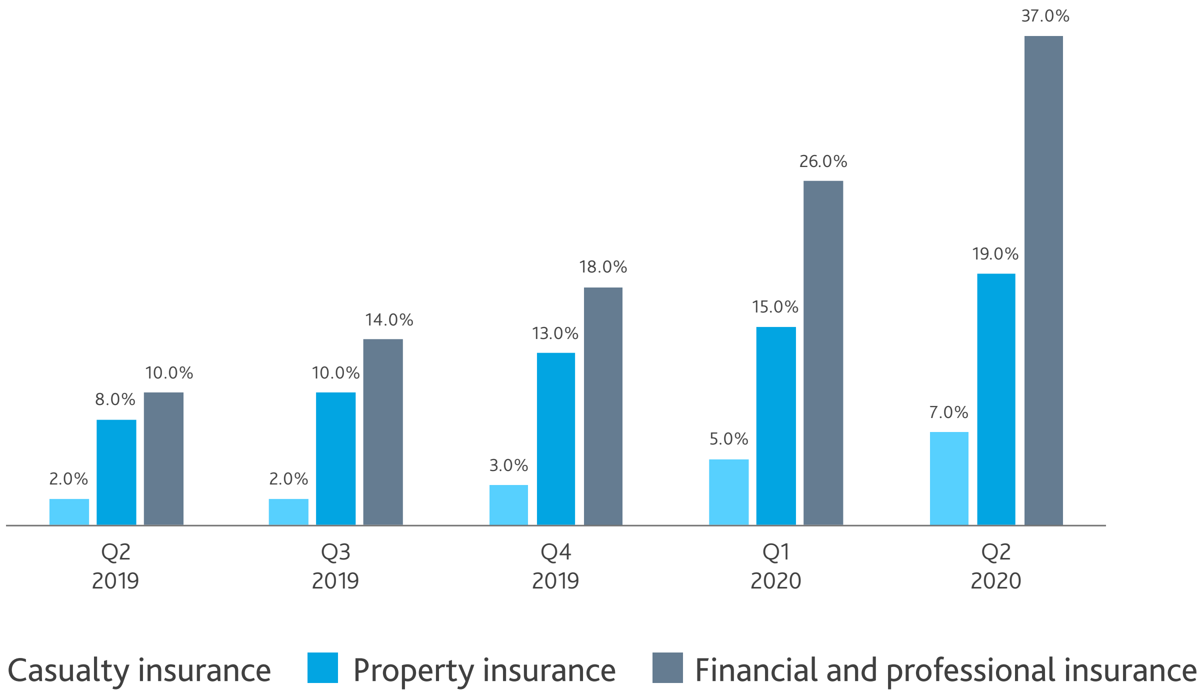
WHAT IS THE IMPACT OF COVID-19 ON NON-LIFE INSURANCE PRODUCTS?

NON-LIFE INSURANCE INDUSTRY IS EXPERIENCING PRICING GROWTH DURING THE OUTBREAK

Andrea Mezzadra,
Head of Global Insurance

> *The insurance market has proved its ability to operate pretty seamlessly away from offices during the pandemic. Will this fundamentally change how the insurance market operates going forward?*

Global composite Non-life insurance pricing change — by coverage line



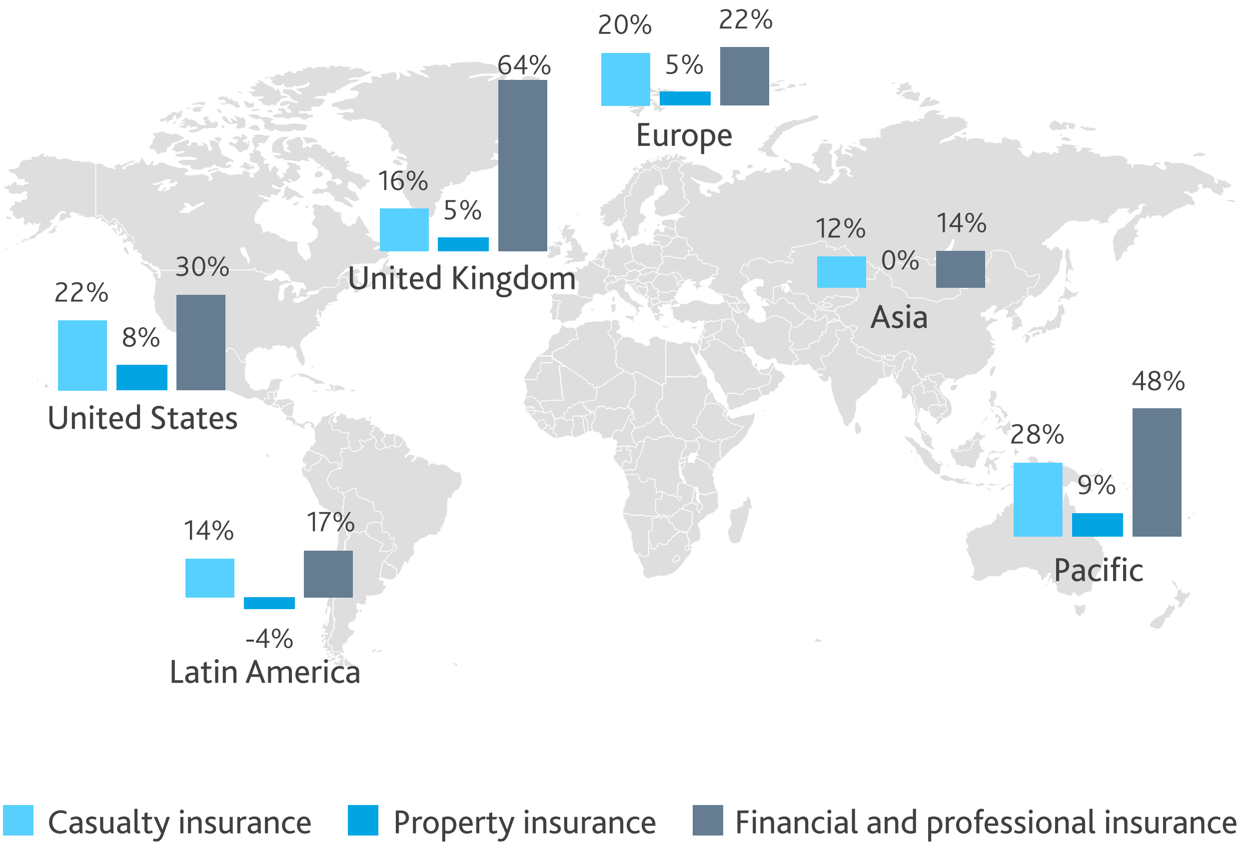
Composite insurance pricing in Q2 2020 increased in all geographic regions. Much of the growth was driven by property pricing, enlargement of financial and professional lines, and directors and officers (D&O) rates

Since the launch of the Global Insurance Market Index in 2012, the largest non-life insurance pricing increase was observed in Q2 2020

Average price increases were driven principally by the growth in property insurance as well as financial and professional lines

Source: Marsh — Global Insurance Market Index Q1 2020 Report — [August 2020] S&P Global Ratings — COVID-19 Weakly Digest — [16 September 2020] Investing website

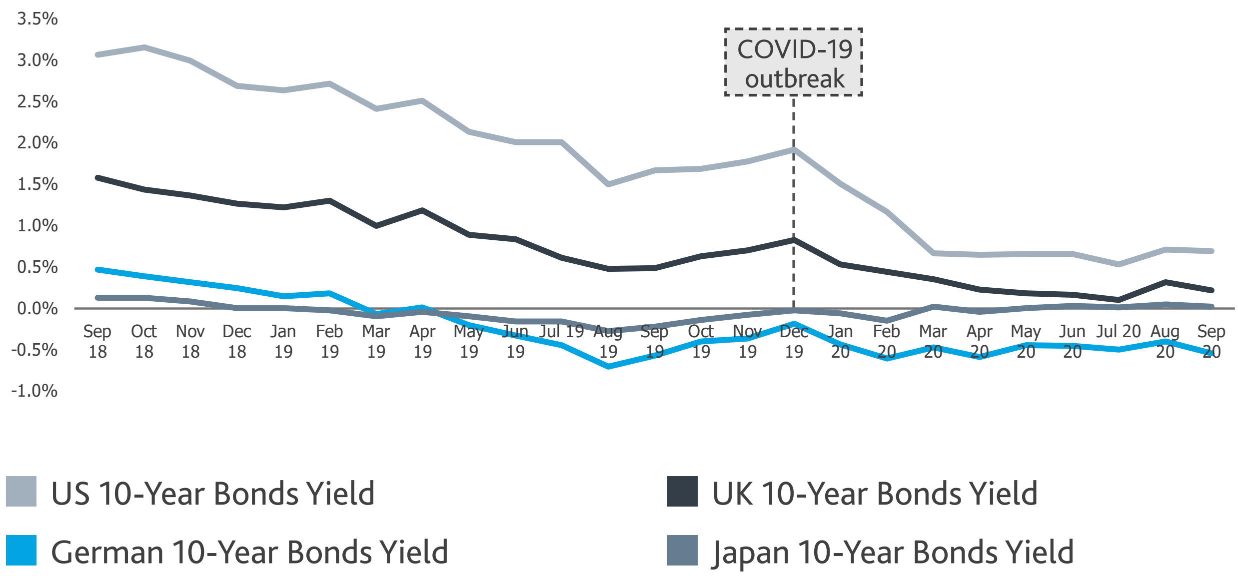
Non-life insurance pricing change — by major coverage line in Q2 2020



Source: Marsh

Source: Marsh — Global Insurance Market Index Q1 2020 Report — [August 2020] S&P Global Ratings — COVID-19 Weakly Digest — [16 September 2020] Investing website

Selected long-term government bonds yields



Extremely low interest rates makes investment decisions more challenging and could harm insurers' solvency positions, with rising present values of long-term liabilities.

Source: Investing website

Corporate bonds market

171 ▲	Corporate defaults now total 171 issuers since the beginning of 2020 – the highest number since the Global Financial Crisis in 2009.
1.024 ▲	S&P Global Ratings took 1.024 COVID-19 related downgrades on global corporate non-financial and financial issuers.
848 ▲	S&P Global Ratings revised 848 outlooks to negative due to COVID-19 crisis on global corporate issuers.
130 ▲	S&P Global Ratings took 130 COVID-19 related placements on CreditWatch with negative implications.

Source: S&P Global Ratings

Source: Marsh — Global Insurance Market Index Q1 2020 Report — [August 2020] S&P Global Ratings — COVID-19 Weakly Digest — [16 September 2020] Investing website

NON-LIFE INSURANCE PREMIUMS ARE SET TO STAGNATE IN 2020 DUE TO COVID-19 IMPACT

Global market size of non-life insurance in 2019 and impact of COVID-19 recession on premiums and claims

The COVID-19 outbreak severely affects premium volumes and significantly increases the number of claims worldwide:

- Commercial lines such as commercial motor, marine, aviation, workers' compensation and other are more sensitive to variations in the turnover of companies or the workforce that could lead to a stronger decline in commercial insurance premiums
- As COVID-19 consequences are yet to be clearly defined, there is great uncertainty around how large growth of the claims burden triggered by COVID-19 will be

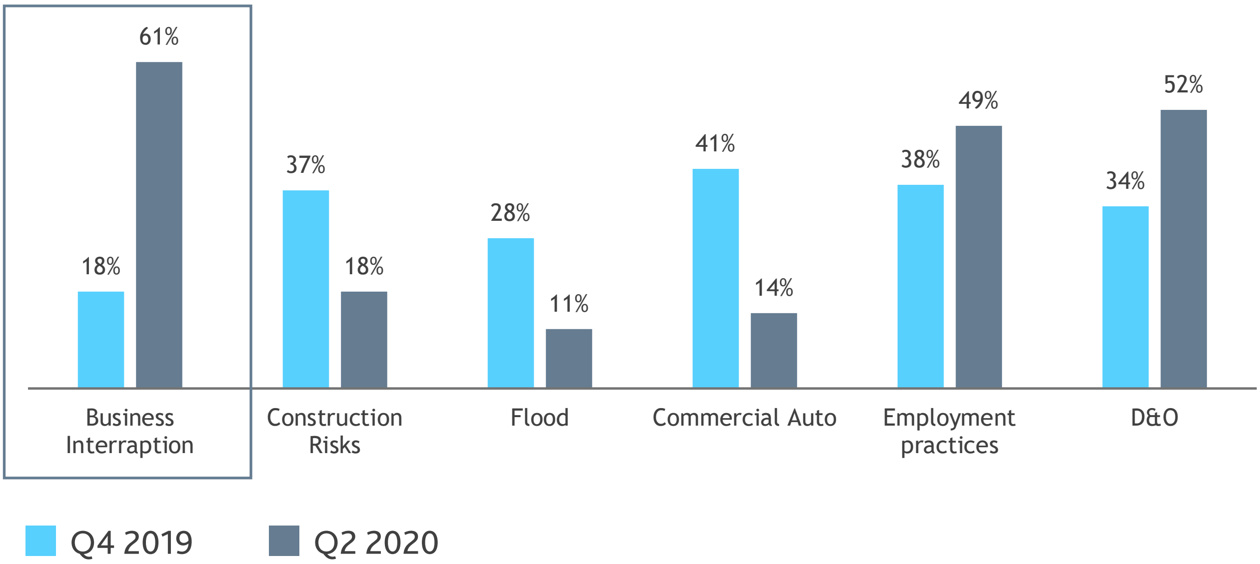
Premiums	Type	Market size, Bn Euro[1]	Claims
Negative	Medical insurance	1,246	Negative
Negative	Personal motor	534	Positive
Negative	Other accident and health	240	Very negative
Negative	Commercial property	196	Very negative
Neutral	Personal property	187	Neutral
Negative	Liability	178	Negative
Negative	Commercial motor	160	Positive
Very negative	Workers' compensation	53	Negative
Negative	Credit	27	Negative
Very negative	Marine	27	Neutral
Negative	Engineering	18	Neutral
Very negative	Aviation	4	Neutral
Negative	Event cancellation	<1	Very negative

Positive   Neutral   Negative   Very negative

Source: Swiss Re Institute

Notes: (1) ECB exchange rate 2019: 0.89 Euro per 1 USD
Source: Swiss Re Institute — World insurance: riding out the 2020 pandemic storm — [2020]The Council of Insurance Agents & Brokers — Commercial Property/Casualty Market Index Report — [May 2020]

Increase in demand on non-life insurance in the USA by type



Demand on commercial lines on the US market, the biggest insurance market by total direct premium volume in 2019, experienced a significant shift in Q2 2020[2]. The negative effect of COVID-19 became even more evident in Q2 2020 compared to Q1 2020. Business Interruption in particular has witnessed considerable growth in demand, which might be the consequence of the upheaval from the pandemic, even though a typical Business Interruption policy is still unlikely to respond to losses caused by COVID-19.

Notes: (2) According to the Council of Insurance Agents & Brokers survey
Source: Swiss Re Institute — World insurance: riding out the 2020 pandemic storm — [2020]The Council of Insurance Agents & Brokers — Commercial Property/Casualty Market Index Report — [May 2020]

WHAT SUPPORT ARE INSURERS GETTING?

REGULATORY MEASURES HELP INSURANCE PROVIDERS WITHSTAND FINANCIAL UNCERTAINTIES

Andrea Mezzadra,
Head of Global Insurance

The insurance market needs insurance events to arise to prove its value. This is largest insurance event to have hit the market. It is leading to new opportunities.

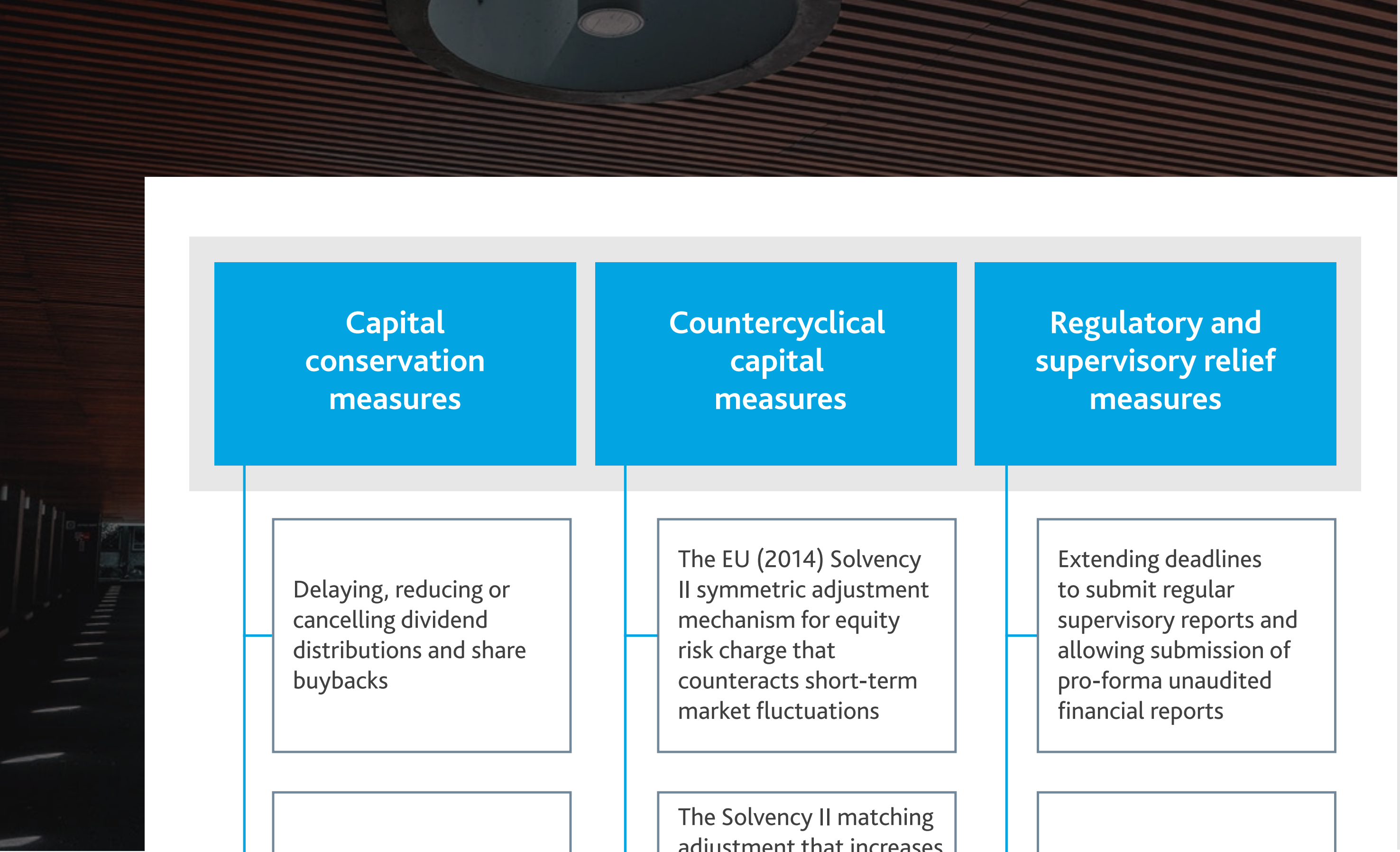
Insurance supervisors highlight a need to strengthen requirements to protect insurers from financial uncertainties

Some regulators have set out expectations for insurers to conserve capital through the prudent exercise of dividend and variable remuneration policies. The aim is to enhance resilience against the uncertainties from the potential COVID-19 fallout.

Supervisors have responded mainly by taking measures to provide operational relief to insurers from regulatory and supervisory requirements so that they could continue providing insurance services. These measures will also help insurers enhance risk monitoring of their COVID-19 financial exposures.

Other capital-related measures should relieve supervisory pressures and reduce the tendency of insurers to manage their investments accordingly to the overall state of the economy. These measures include extending the supervisory intervention ladder, triggering the countercyclical lever and recalibrating capital requirements.

Source: Financial Stability Institute of the Bank for International Settlements — Insurance regulatory measures in response to COVID-19 — [April 2020]



Capital conservation measures	Countercyclical capital measures	Regulatory and supervisory relief measures
Delaying, reducing or cancelling dividend distributions and share buybacks	The EU (2014) Solvency II symmetric adjustment mechanism for equity risk charge that counteracts short-term market fluctuations	Extending deadlines to submit regular supervisory reports and allowing submission of pro-forma unaudited financial reports
Reviewing variable remuneration policy and consider postponing disbursements	The Solvency II matching adjustment that increases discount rates to limit the impact of spread movements from bonds or other similar assets that are held to maturity	Postponing public consultation of new or revised regulatory and supervisory measures
	Temporary increase in limits on investments issued or backed by financial institutions and relaxation of accounting rules for certain fixed income and real estate investments	Extending the deadline for penalty payments or proceedings and lowering of licensing

Regulatory measures that insurance supervisors have taken to achieve three objectives:

1. Preserve capital adequacy of insurers
2. Mitigate excessive procyclical investment behavior
3. Provide temporary relief from non-essential requirements

Source: Financial Stability Institute of the Bank for International Settlements — Insurance regulatory measures in response to COVID-19 — [April 2020]

INSURANCE SUPERVISORS WORLDWIDE ADJUSTED MEASURES TO PRESERVE THE WHOLE SECTOR

Area	Example of measures to preserve the provision of insurance services
Product design, coverage and pricing	• Reviewing products that may be impacted by COVID-19 to ensure they continue to meet customers' needs (EIOPA, United Kingdom) • Relaxing pricing requirements to improve affordability of certain insurance products (China, Thailand) • Extending coverage period of certain types of products without additional charge to compensate for the movement restrictions period (China, India, Tunisia) or reduce premium rates (selected US states) • Expanding insurance coverage for COVID-19 risks (India, Singapore, Thailand), hard-hit business lines (China, Hungary) • Adjusting insurance coverage due to movement restrictions (selected US states) • Providing accident, health, pension, medical and other insurance services on favourable terms to staff on the frontline of COVID-19 prevention and control (selected US states, China) • Reducing cost-sharing of medical insurance (selected US states)
Underwriting and product distribution	• Relaxing the requirement for insurance intermediaries to undertake face-to-face financial needs analysis (Hong Kong SAR, Korea, Thailand) • Requiring or allowing more extensive use of technology and remote authentication to replace face-to-face underwriting processes (China, Poland, Thailand, selected US states) • Requiring insurers to be flexible in providing or extending insurance coverage without complete paper documentation (Russia, the United Kingdom)
Policy servicing	• Allowing deferral of premium payment or revising premium payment schedule without lapsing insurance policies of financially distressed individuals and businesses (Belgium, EIOPA, Hong Kong SAR, India, Japan, Malaysia, Peru, Korea, Russia, Singapore, South Africa, Thailand, Turkey, selected US states) • Avoiding triggering of policy cancellation, non-renewal of policies or denial of claims due to movement restrictions (the United Kingdom, selected US states) • Requiring insurers to clarify policy exclusions for pandemic events such as COVID-19 (Chile, EIOPA, India, Ireland, Portugal, the United Kingdom, selected US states) • Requiring insurers to clearly explain the implications of cancelling life insurance policies with significant investment/savings component (Portugal, the United Kingdom) • Allowing deferral of loan (including mortgage) repayment for financing facility taken from insurers (Belgium, China, Thailand) • Extending the period within which insurers need to respond to complaints or queries by policyholders (Italy, Poland, Portugal)
Claims processing	• Adjusting operational processes to accommodate virtual interaction with policyholders including simplifying or exempting requirements for paper-based claims submission (Belize, China, Hong Kong SAR, India, selected US states) • Expediting the processing of valid insurance claims arising from COVID-19 including waiving waiting periods or providing flexibility in accepting proof of claims (India, Malaysia, Peru, Portugal, Russia, selected US states) • Extending claims notification period by policyholders (Peru, selected US states)

Source: Financial Stability Institute of the Bank for International Settlements — Insurance regulatory measures in response to COVID-19 — [April 2020]

WHAT IS THE CULTURAL SHIFT OF COVID-19 IN THE INSURANCE MARKET?

COVID-19 ACCELERATED THE ONGOING CHANGESTOWARDS DIGITALISATION IN THE INSURANCE INDUSTRY

Digital transformation matrix of the insurance industry

The COVID-19 outbreak has accelerated digital transformation and the Insurance industry could experience revolutionary change in the next 5 years.

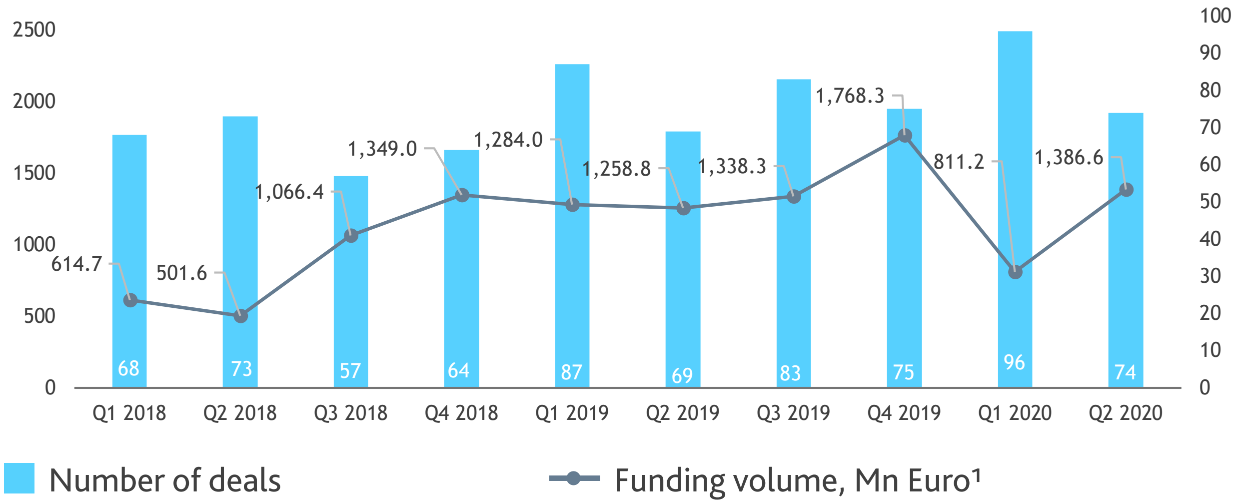
	0 to 2 years	2 to 5 years	5 to 10 years	10+ years
Revolutionary		Full life-cycle API management	Digital business technology platforms IoT platforms Digital experience platforms	Intelligent process automation
High	Digitally-engineered underwriting	Next generation personal health records	Conversational platforms Behavioural analytics Electronic health Record data extraction Genomics and epigenetics	Autonomous vehicles
Medium	Insurance wallets Reward and loyalty platforms	Digital advisors Advanced analytical solutions	Administration or management SaaS	

- L&H related technologies
- P&C related technologies
- Productivity related technologies
- Sensing & analytics related technologies
- Customer interaction related technologies
- Customer loyalty/wallet related technologies

Source: Swiss Re Institute; Media overview

Source: Swiss Re Institute — Data-driven insurance: ready for the next frontier? — [2020]Williis Towers Watson — Quarterly InsurTech Briefing Q 2020 — [July 2020]

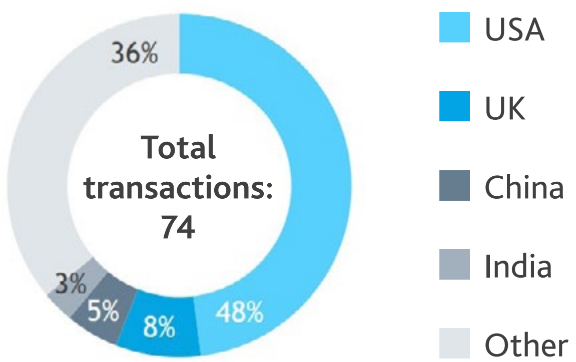
Quarterly Insurtech funding volume and number of deals



The number of deals in Insurtech grew by 7.2% in Q2 2020 compared to Q2 2019, while the funding volume increased by 10.2% for the same period.

Insurtech transactions by target country in Q2 2020

- Total number of transactions in Insurtech in Q2 2020 amounted to 74 with a funding volume of 1.386,6 Mn Euro
- The USA remained the main target country with 48% of all transactions in Insurtech in the Q2 2020 far ahead of other target countries



Source: Williis Towers Watson

Notes: (1) ECB exchange rate 2019, Q2 2020: 0.89 Euro per 1 USD; ECB exchange rate 2018: 0.85 Euro per 1 USD
Source: Swiss Re Institute — Data-driven insurance: ready for the next frontier? — [2020]Williis Towers Watson — Quarterly InsurTech Briefing Q 2020 — [July 2020]

IMPLEMENTATION OF INNOVATIVE INSURTECH SOLUTIONS IS A WAY TO SUCCEED AFTER COVID-19

The availability of high-quality underlying data will make it easier to create products with digital triggers and will speed up the adoption of digital and data-driven insurance.

Insurance products growing into a comprehensive risk service

1. The first wave of digitalisation has made the insurance value chain more efficient. However, multiple digital records remain unconnected and information is compartmentalised in silos.

2. In the future, critical processes will be connected, and insurers will progress from being ‘digitalised insurance providers’ to ‘digital insurers’.

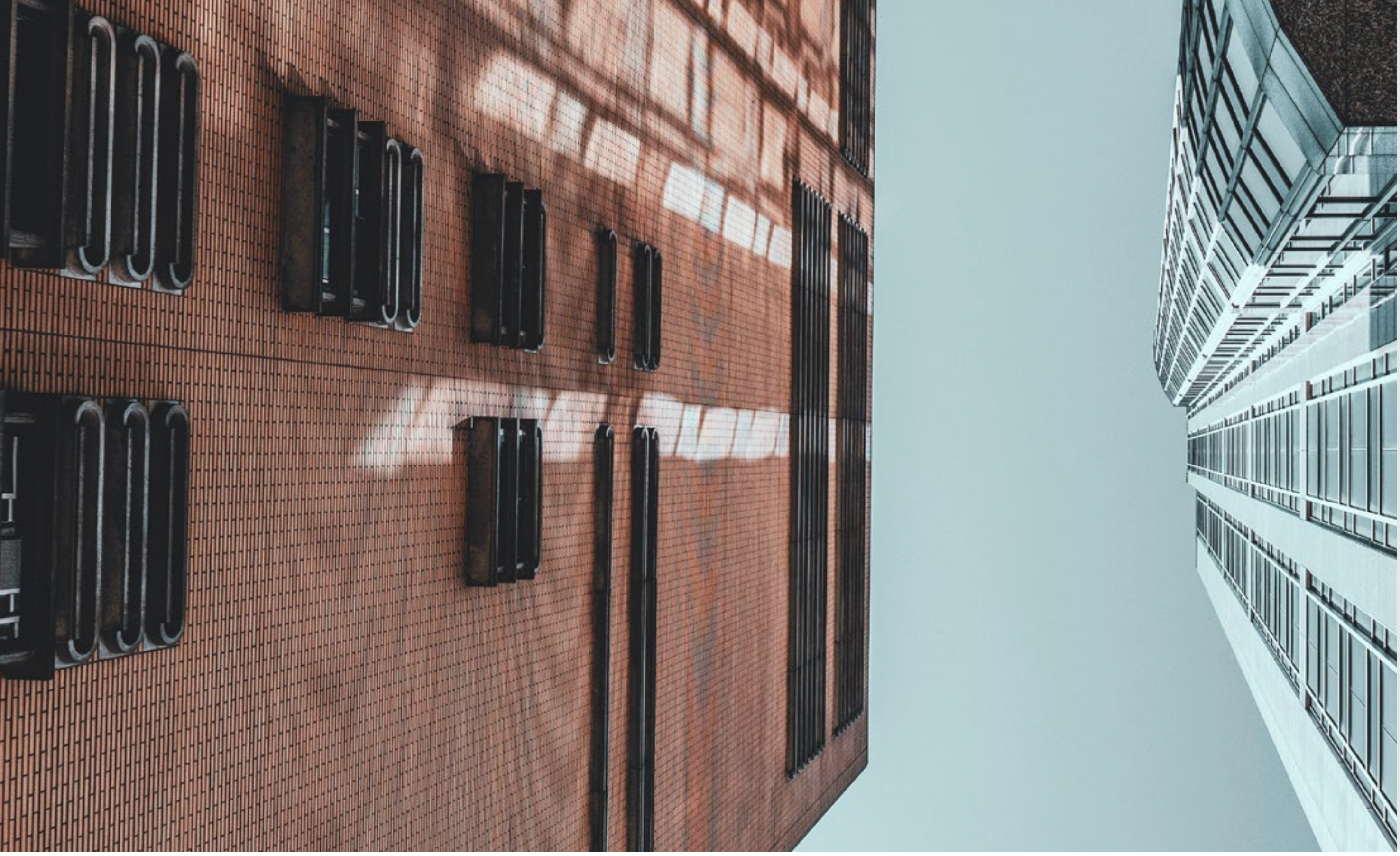
3. In the future, critical processes will be connected, and insurers will progress from being ‘digitalised insurance providers’ to ‘digital insurers’.

Developments in cognitive technologies will help insurers integrate learning to adapt value propositions in real-time, thereby providing a holistic and unique customer experience.

Insurance	Product management	UWR pricing	Marketing & sales	Claims management	Customer service
Digitalised insurance	Product management	UWR pricing	Marketing & sales	Claims management	Customer service
Digital insurance	Product management	UWR pricing	Marketing & sales	Claims management	Customer service
Data and AI-driven insurance	Product = service				

Source: Swiss Re Institute

Source: Swiss Re Institute — Data-driven insurance: ready for the next frontier? — [2020]



4 advantages of digitalisation for insurers

1. Digitalisation provides faster feedback to insurers by leveraging a range of daily interactions across mobility, health, and recreational behaviour.

2. Digitalisation gives insurers the opportunity to understand risks more dynamically. Insurers may discover uncovered exposures that they can seek to close due to digital collection and analysis of data and risk factors.

3. New data sources and analytical capabilities provide an instant in-depth view of risks, which facilitates quicker risk assessment and allows insurers to propose innovative and relevant coverage.

4. Big Data and sophisticated models allow risk pricing at increasingly granular level. Emergence of new risks create new underwriting and portfolio risk management techniques.

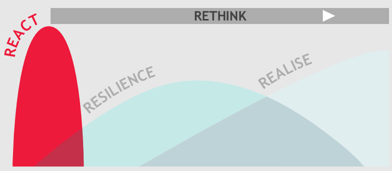
Source: Swiss Re Institute — Data-driven insurance: ready for the next frontier? — [2020]

THE KEY 3 STAGES OF RETHINK: REACT | RESILIENCE | REALISE

BDO CAN PROVIDE FIRST-AID SUPPORT FOR INSURERS TO RESPOND TO THE COVID-19 ISSUES ARISING

Stage 1:

React: Safeguarding your business



General description:

The COVID-19 crisis continues to have a significant impact on individuals, society, business, and the wider economy across the globe. The insurance industry's role is to deal with negative shocks and uncertainty, and insurers need to respond appropriately to the crisis. As the global economy recovers and responds to the pandemic, insurers will face a number of challenges but also see new opportunities in the medium to long term. The COVID-19 outbreak reaffirms the Insurance industry's relevance as a safe harbour in times of uncertainty. For that reason, it is essential for insurance companies to react to the coming challenges with a multifaceted well-developed strategy.

Impact on insurers:

Customer behaviour

In most countries, face-to-face interaction has effectively ceased, with many customers now using digital channels (although in some countries financial services are deemed 'essential' and offices and branches remain open). On the whole, customers are being re-directed to digital channels for information, service and queries, wherever possible.

Financial performance and stability

The economic and broader societal activity downturn will impact insurers' financial performance. Investment income and interest rates as well as overall market volatility will impact profitability and growth prospects. Insurers are experiencing liquidity and solvency challenges and considerations.

Claims and claims processing

A larger volume of claims in certain areas (e.g., business interruption cover), complex specialty coverage in transport (e.g., marine cargo insurance), and the hospitality sector is expected and might need to be processed efficiently and securely. Indications are that trade credit insurance claims might also ramp up as the pandemic progresses.

Expenses and the cost agenda

The impact of COVID-19 on insurers' profitability might focus them on expenses. This might re-focus insurers on the cost transformation agenda, including (not exhaustive): short-term staff salary and benefit decisions; contractor costs; location and service delivery models; digitalisation agenda; third-party provider spend, supplier management, and supply chain risks.

Areas of action in focus:

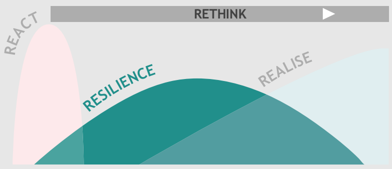
- Advice on digitalisation and cybersecurity
- Accounting and reporting issues (IFRS 16, IAS 36, IAS 1, COVID-19 disclosures, Solvency II disclosures and stress tests)
- Audit services, accounting and tax advisory
- Systems and control manuals, post-implementation systems reviews

Source: OECD — COVID-19 may curb the positive premium and investment income growth of insurers — [June 2020]; Deloitte — Impact of COVID-19 on the insurance industry — [April 2020]; McKinsey — Insurance resilience in a rapidly changing coronavirus world — [29 April 2020]

DIGITALISATION OF BUSINESS PROCESSES IS A MUST FOR THE MAINTENANCE OF OPERATIONAL RESILIENCE

Stage 2:

Resilience: Embedding resilience and keeping your business running



General description:

Insurers must not lose sight of longer-term imperatives — even as they focus on meeting immediate-term customer needs, maintaining solvency, and ensuring operational resilience. Insurers should make large-scale transformation investments — in redefining core value propositions, optimising operations, updating technology, building a workforce of the future, and meeting new regulatory requirements. COVID-19 only underscores the importance of these programmes and will likely spark a rapid need for many of them.

Impact on insurers:

Operational resilience

Business continuity plans did not envisage the full social distancing and requirements for back-up facilities. Despite this, indications are that the bulk of insurers responded well to some challenges regarding contact centre staff. Insurers have now established cross-functional crisis task forces to respond to the evolving situation.

Service operations and technology

Many manual processes lead to slower turnaround times, increased prevalence of errors, and increasing backlogs of work that cannot easily be cleared. Insurers also have to consider their integration with intermediaries. There is an increased focus on cybersecurity and handling of customer data given the highly confidential nature of information managed by insurers.

Workforce

Remote work has been a relative culture shock for many insurers. Certain roles have been reassigned to support key activities such as contact centres — workforce planning and realigning resources and skills to high demand areas. Some roles may have specific regulatory requirements and insurers continue to monitor these requirements.

Intermediaries (agents, brokers and financial advisers)

Insurers who have already invested in digital capabilities supporting intermediaries are in a better position in responding to communicating, servicing, and providing activities. Expectations are that intermediary renewals might not be challenging, but new business activities might be troubled by closedown restrictions.

Source: Deloitte — Impact of COVID-19 on the insurance industry — [April 2020];

BDO PROVIDES PROFOUND SUPPORT FOR INSURERS IN KEEPING BUSINESS OPERATING

Stage 2: Resilience: Embedding resilience and keeping your business running

Areas of action in focus:

Enforcing business continuity by implementing IT systems & solutions:

- Assess IT systems, highlighting the areas that require attention and making practical recommendations for action
- Provide IT application procurement support, by running procurement process, evaluating a short list of suppliers, and reviewing proposed agreements
- Support major IT projects, such as a new finance or ERP systems, by ensuring the correct levels of governance and cost controls are in place
- Deliver IT due diligence across a wide range of business sectors for various business requirements, including acquiring a new business
- Offer outsourced 'IT Director Service' providing expert assistance and strategic advice on the technologies, processes, and resources required to meet the business needs now and in the future
- Provide services to help companies achieve compliance with the GDPR including GDPR compliance assessments, privacy engineering, policy & procedure development, and much more
- Deliver a range of on-demand services to support business 24/7 resilience that enables expansion capacity when it is most required
- Offer several proprietary models for developing companies' resilience posture by establishing compliance and building a proactive approach to effective security risk management

Implementing sustainable finance for the future stability:

- Support pension funds, insurers, and investment firms in relation to ESG-relevant investment guidelines and processes
- Valuate and assist M&A transactions (financial, regulatory, tax, legal due diligence) with a special focus on financial institutions
- Deliver asset valuation and transaction assistance on investments in ESG-relevant asset classes including photovoltaic, wind power, hydropower, healthcare
- Offer debt and equity private placement advisory services (DCM, ECM)
- Provide advice on compliance with regulatory requirements

Building operational resilience for the post-COVID period:

- AOffer a full range of restructuring advice to maximise value and keep companies out of formal insolvency, including the following services
  - Restructuring M&A
  - Operational advisory
  - Debt advisory
  - Pensions advisory
  - Independent business reviews
  - Cash and liquidity / working capital management
- Design and construct innovative and bespoke financial models across a range of industries and sectors and bring together expert understanding of different operational and capital structure metrics and International Accounting Standards
- Assist companies to achieve reliable performance and continuous improvement of their operations by providing controls optimisation, business process enhancement, and improvement services

Focusing on investment and cash management:

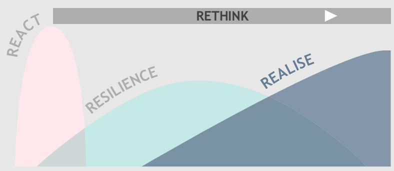
- Provide independent advice across the full spectrum of debt markets including strategic analysis of the optimum capital structure and available sources of finance
- Advise companies on raising finance from:
  - Private equity providers — for development capital, MBOs and partial sale of shares
  - Banks and alternative debt providers — for M&A and refinancing
  - Capital markets — by preparing companies for IPO and further share issues
- Perform project management and guidance through a fundraising process, including:
  - Strategic advice on the client's financing objectives
  - Reviewing the optimum capital structure
  - Assessing the available sources of finance
  - Negotiating structure and terms with funders
  - Negotiating with due diligence providers
  - Assistance with legal documentation

Source: McKinsey — Insurance resilience in a rapidly changing coronavirus world — [29 April 2020]

BDO CAN PROVIDE FIRST-AID SUPPORT FOR INSURERS TO RESPOND TO THE COVID-19 ISSUES ARISING

Stage 3:

Realise: Returning to work and succeeding in the 'New normal'



General description:

Insurance company leaders must act decisively to overcome the disruption created by COVID-19. In addition to approaching the landscape across the RETHINK framework, insurers could employ frontline engagement, execution discipline, and organizational culture to help rebuild momentum and make their changes stick even in this most challenging times. The ultimate goal would be to build more resilient operations as insurers adapt to the next normal.

Impact on insurers:

Customer, product and distribution

Non-life insurers have priorities related to customers, products, and distribution. That means consistent communication around coverages, through future product needs and distribution preferences. Life insurers must support business while adapting rapidly to the new normal. That means managing risk within the investment book, while meeting obligations to policyholders.

Capital, liquidity and investments:

Low interest rates, wider spreads, and lower equity values are significant threats to solvency. Firms are taking steps to optimise hedging and protect capital. Proactively engaging regulators may help ease liquidity pressures as cash flows are squeezed by premium holidays and margin calls. Earnings pressures are likely to rise due to shrinking revenue and increasing claims.

People, operations and technology:

Insurers face operational threats and challenges. Some service providers are struggling to work remotely and to handle the high volume of enquiries. To overcome challenges related to remote working, insurers are adopting tools to foster collaboration and keep their people engaged. Control and security frameworks are being hardened to deal with increased cyber threats.

Financial reporting and operations:

Financial reporting and operations might feel the strain from COVID-19, too. Overall market volatility means a greater need for judgment from skilled finance and actuarial teams, as well as more complex off-cycle reporting to boards, regulators, and investors. COVID-19 will not stop IFRS 9 and 17 implementations; indeed, it might only increase the scrutiny on key metrics.

Areas of action in focus:

- Issuing of opinions required by law or regulators
- Fully outsourced and co-sourced internal audit and compliance services
- Sustainability services
- Advice on financial instrument standards and obtaining regulatory approval for changes

Source: PwC — COVID-19: Insurance impact and response — [June 2020]

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BDO Global

BDO, as a global network spanning 167 countries and territories, address both domestic and international needs. BDO's Financial Services Practice helps clients in the financial services sector succeed in a changing landscape that is marked by regulatory reform, disruptive technology and new service-delivery channels. The services, including governance, risk, compliance, business process reviews, and more, are tailored to meet the unique needs of financial services organisations.

BDO expertise in Insurance sector

- Audit services
- Financial, tax, legal and actuarial due diligence
- Accounting advisory
- Fully outsourced and co-sourced internal audit and compliance services
- Tax advisory
- Systems and control manuals
- Issuing of opinions required by law or special rules
- Post-implementation systems reviews
- Valuation of insurance companies
- IFRS accounting
- Advice on obtaining regulatory approvals or changes
- Advice on all aspects of financial instrument standards
- Advice on digitalisation and cybersecurity
- Sustainability services