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BOMA Canada Webinar: Preparing your building for return to work!

May 7<sup>th</sup>, 2020

# Risk, Insurance and Resiliency in Real Estate Through and Beyond COVID-19

May 5th, 2020



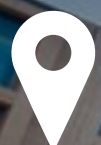




**Please contact relevant public health authorities for medical/public health advice. Neither BOMA Canada nor the individuals presenting herein are providing such advice.**







# Welcome from BOMA Canada



**Benjamin Shinewald**  
President and CEO  
BOMA Canada



# AGENDA

1

## Pandemic Perspective And Economic Impact



**Michael Lewis**

Managing Director, National Growth & Industry Leader

2

## Insurance Implications Of COVID-19



**Grant Williamson**

National Corporate Segment Leader



**Kendall Peart**

Managing Director, Real Estate Industry Leader

3

## Business Resiliency And The Path Forward



**Mark Aiello**

National Strategic Risk Advisory Services Leader

# AGENDA

## Pandemic Perspective And Economic Impact

**1**

**Current state COVID-19**

**2**

**Predictions for short and longer term Economic Impacts**



**Michael Lewis**

Managing Director, National Industry Leader

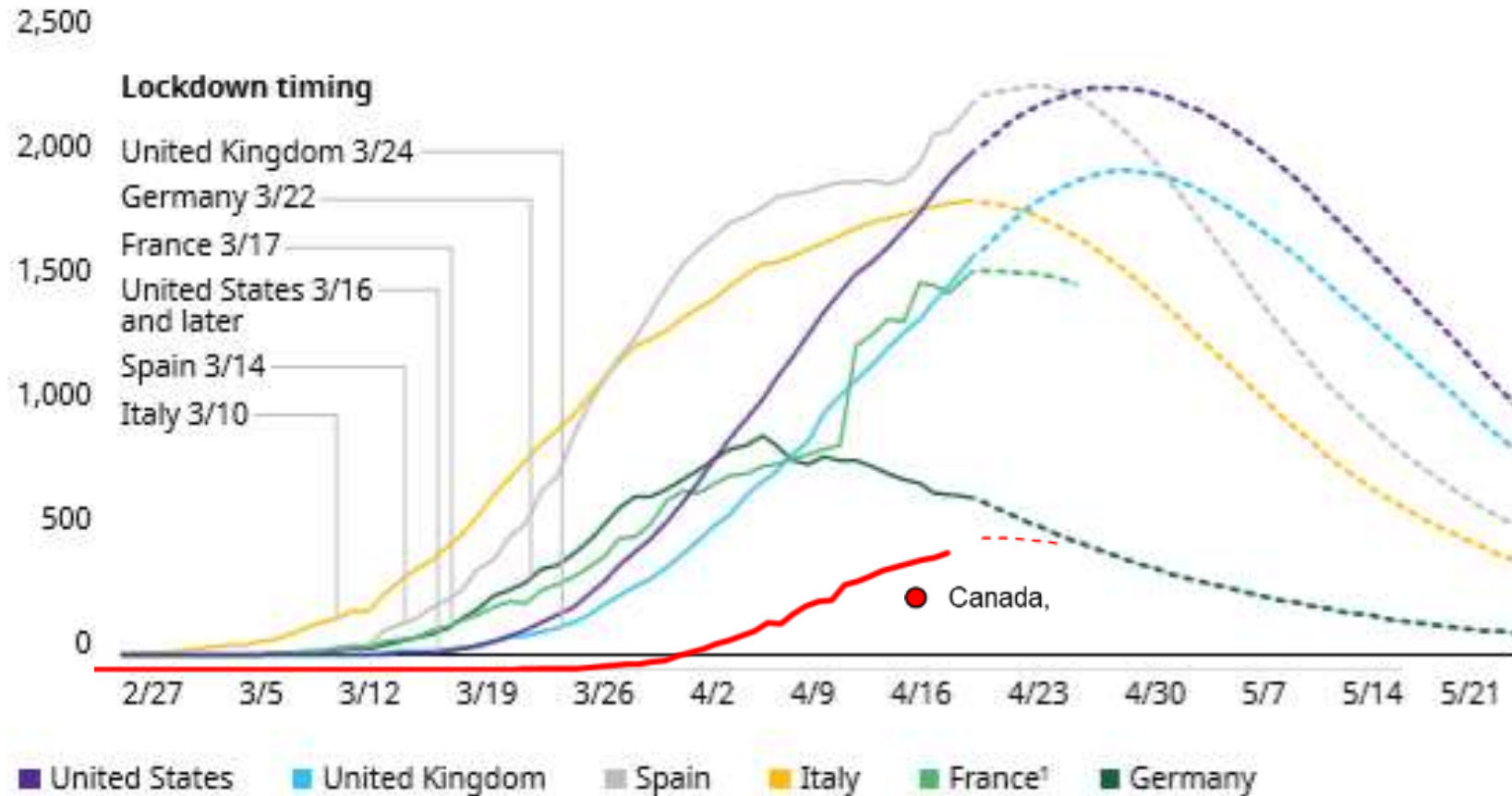
## Summary understanding of COVID-19 facts

- COVID-19 is not just “the flu”
- New emerging estimates suggest that it is approximately **3 times more contagious<sup>(1)</sup>** than the flu and at least **4 times more deadly<sup>(2)</sup>**
- Case **fatality rates are trending at 6.0% globally<sup>(3)</sup>** (vs. 0.1% for the flu)<sup>(4)</sup>
  - Estimates for infected fatality rate are 0.3%-1.3% based on assumptions around the number of undiagnosed individuals<sup>(1)</sup>
- The **incubation period is a median of 5.5 days** (up to 14 days)<sup>(4)</sup>, while the annual flu is commonly a 3-day period<sup>(4)</sup>; data suggests that viral shedding continues beyond symptom resolution<sup>(1)</sup>
- Approximately **19% of confirmed cases are considered “severe” or “critical”**, requiring hospitalization, and 25% of those need ICU beds <sup>(1)</sup>

1. Oliver Wyman. 2. WHO 3. JHU. 4. CDC. 5. MedRxiv. “Clinical presentation and virological assessment of hospitalized cases of coronavirus disease 2019 in a travel-associated transmission cluster”. Mar 8. 2020.

We believe that in most geographies, social distancing measures are taking hold and the first wave of COVID-19 will soon or has peaked

Active cases per million as of April 17, 2020



1. Projections for France are abbreviated due to high volatility in recently reported cases

Source: Oliver Wyman Pandemic Navigator

# COVID-19 will exert its influence on our economy for many months ahead



## **PHASE 1**

Our current world

## **TRANSITIONING TO PHASE 2**

Not as easy as it looks

## **TRANSITIONING TO PHASE 3**

A major step forward dependent on breakthroughs



# Economic impacts of the pandemic: key considerations

**Massive  
macroeconomic  
impact – and  
uncertainty**

- Market observer forecasts show large drops in GDP in 2020 across many countries, with recovery to pre-crisis output not before late 2021
- 2020 will see the global economy's first recession since 2009, with a growth rate of -1.3% (after +2.5% in 2019).
- Governments have embarked on massive relief packages (6-10%+ of GDP)

**Operating  
environment will  
continue to shift  
dramatically**

- Pandemic evolution will depend on many factors, but disruption to the economy is likely to continue until a medical breakthrough is reached
- Substantial further government action expected from both public health and economic stimulus perspectives

**Large skews in  
industry and company  
performance**

- Some industries decimated by the lockdowns (tourism, hospitality, retail and transport) while others more resilient (telco, pharma)
- Companies will face their own unique impacts associated with geographic footprint, product mix, customer base and revenue streams
- Winners and losers will be further defined by planning and decision-making agility

## Change in Global Economic Outlook



1 Source: OECD.

2. Sources: Morgan Stanley (Apr 3), Bank of America (Apr 2), Oxford Economics (Mar 24), Bridgewater (Mar 19), UBS (Apr 2), Goldman Sachs (Mar 31), JP Morgan (Apr 3). GDP growth forecasts obtained as the median of estimates.

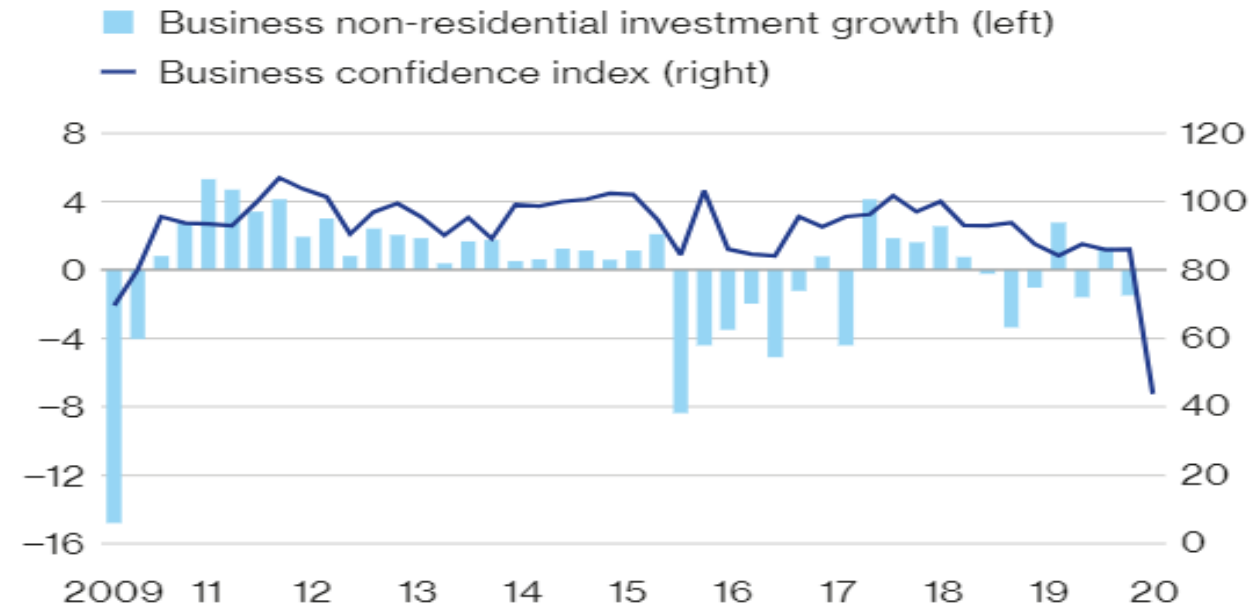
***The CBC is currently forecasting a retraction in Canadian GDP of between -4.5 to -8%***



## Business Confidence is the lowest ever recorded

### Index of business confidence

(investment, percentage change; index, 2014 = 100)

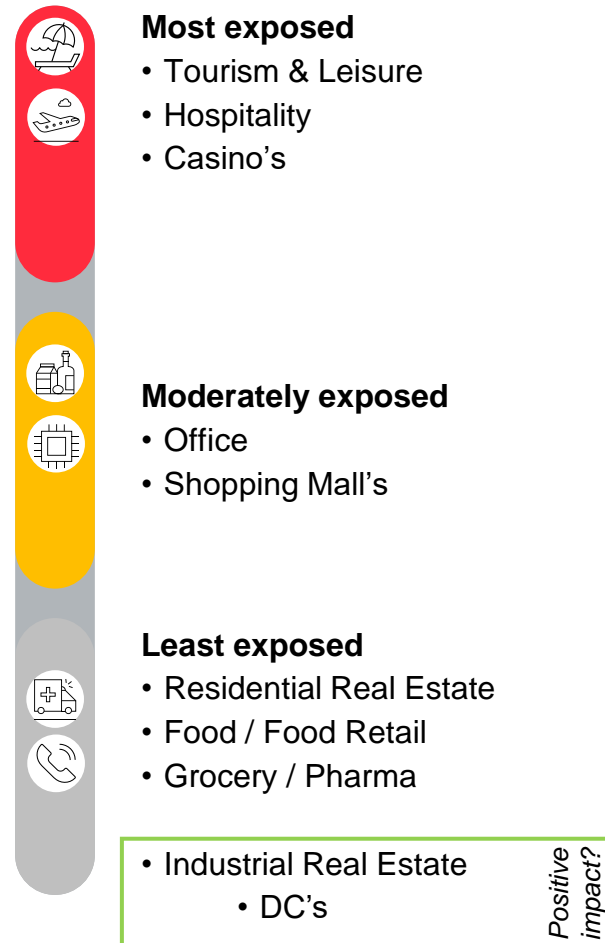


Source: The Conference Board of Canada.

***Business Confidence is the lowest ever recorded***

# Real Estate Industry Impact of COVID-19 spread and economic impact scenarios

## Potential sector-level impacts



*What does the new normal look like and how are you going to respond?*



# AGENDA

## Insurance Implications of COVID-19

1

**Global Insurance Market Dynamics Pre & Post COVID-19**

2

**Pandemic and Firming Insurance Market - Considerations for Real Estate**



**Grant Williamson**  
National Corporate Segment Leader



**Kendall Peart**  
Managing Director, National Real Estate Industry Leader

# Global Insurance Market Dynamics Pre COVID-19

## Capital Supply



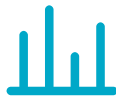
The industry remains well capitalized even after the catastrophes and loss creep

## Changing Risk Appetite



Insurers changing perspectives on risk classes, specific industries, and coverage availability  
Real Estate property portfolios were amongst the most impacted

## Profit Levels



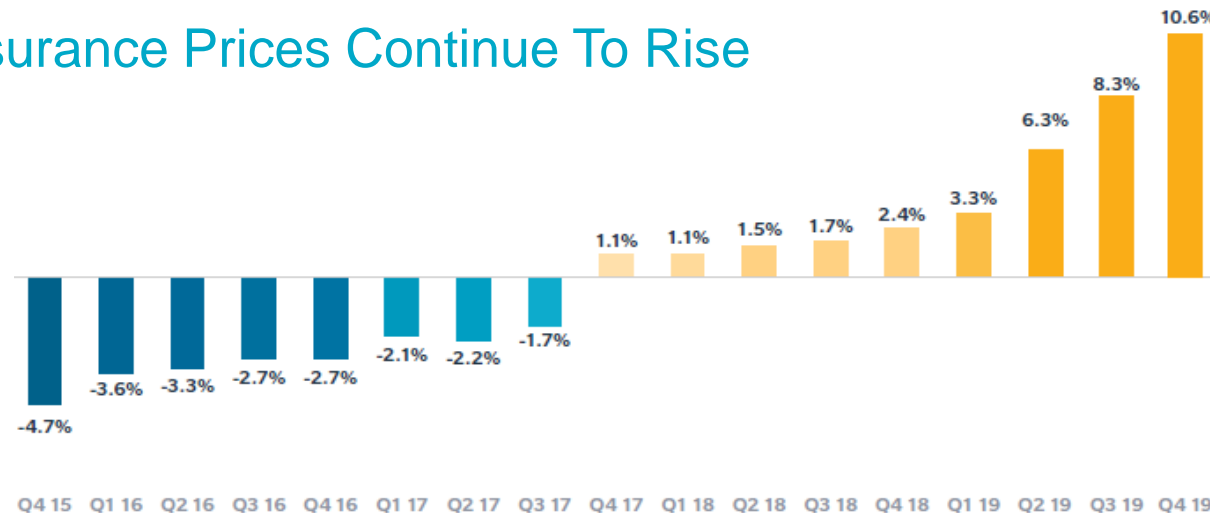
Significant increases in losses. Many insurers have operated with combined ratios over 100% for past 2 years

## Environment



Tax and regulation reform are driving behaviour of insurance/reinsurance companies

## Global Insurance Prices Continue To Rise



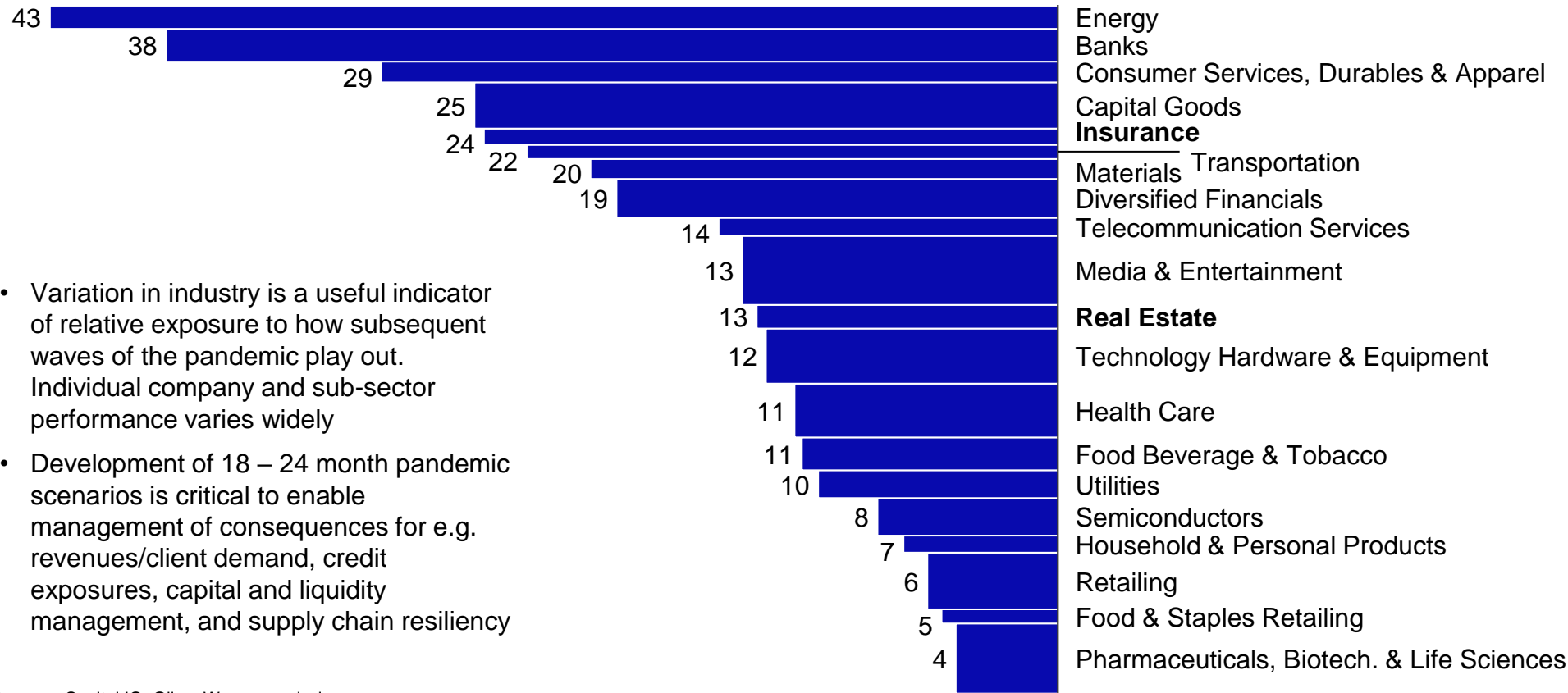


# Global Insurance Market Dynamics Post COVID-19

## Impacts to Date Have Varied Widely Across Industries

### Negative YTD market return of S&P 500 sectors





*The bar width represent current S&P 500 market cap (as of April 8, 2020); length represents negative YTD Index Return (as of April 8, 2020)*



- Variation in industry is a useful indicator of relative exposure to how subsequent waves of the pandemic play out. Individual company and sub-sector performance varies widely
- Development of 18 – 24 month pandemic scenarios is critical to enable management of consequences for e.g. revenues/client demand, credit exposures, capital and liquidity management, and supply chain resiliency

Sources: Capital IQ, Oliver Wyman analysis

## Global Insurance Market Dynamics Post COVID-19

<b>Client Focus</b> 	Communications, flexibility, and contract certainty
<b>Coverage Reviews</b> 	Exclusionary language introduced. Case by case approach to changing client risk profiles
<b>External Factors</b> 	Creating uncertainty and impacting financials, resources in an already stretched industry.
<b>Changing Risk Profiles</b> 	Future risk landscape demanding insurers to again reimagine and reform to remain sustainable.

*“Businesses must actively respond to the pandemic while continuing to plan and prepare for future effects.”*

## Pandemic and Firming Insurance Market – Impact to Real Estate

- **COVID-19 accelerant to existing trends across the industry**
  - Certain asset classes already experiencing upswing changing consumer preferences, will rise further; conversely negative forecasts for **retail** could be hastened based on current climate. **Industrial** fortunes were rising, with increased virtual shopping, near shoring of supply chain, could see demand rise.
  - Impact to **office** remains uncertain, as organizations contemplate office footprint given ease with which many organizations shifted to remote working environment. Effects will be moderated by increased scrutiny of open concept, densified office environment, and increased tech appetite for space.
- **Multi-family**
  - Reputation in Canada of stability – will be tested in May as unemployment increases, calls for rent strikes become more prevalent.
- **Hospitality**
  - US visitors account for 75% of our international travel.
  - In China – 90% of hotels have reopened, but occupancy remains an issue.
- **Liquidity**
  - A focus across all classes, as firms park long term strategies, focus on present, and preserving cash.

## Coverage Considerations - Property & Business Interruption (BI)

- Property policies are generally triggered by physical loss or damage in order to access loss of rents coverage.
- Ongoing and heated debate as to the traditional interpretation of physical damage.
- A select number of Canadian law firms suggest prior case law opens the door for potential coverage.
- Estimate of monthly business interruption losses for small business in the US is \$380B- impact to insurance companies would be devastating.
- Insurance industry is lobbying government to provide a financial backstop.



**In the US –  
certain states  
are going  
further still –  
introducing  
legislation that  
would force  
insurers to  
cover the loss,  
regardless of  
policy language  
/exclusions**



# Coverage Considerations

- **General Liability**

- Bodily injury claims typically require that they arise from an “accidental occurrence”- also require allegation of negligence.

- **Directors’ and Officers’ (D&O)**

- In the context of COVID-19, public companies may face “event-driven” shareholder or derivative actions for any number of reasons.

- **Cyber**

- To the extent cyber criminals are able to exploit weaknesses from the surge in remote connections, claims under cyber policies may arise.

- **Claims Considerations and Recommendations**

- How coverage applies will depend on policy language, insurers’ interpretations, and the facts of a claim.



## Insurance Policy Elements to Focus On

- Definitions of covered losses and other terms
- Coverage extensions and their provisions- certain CRE firms enjoy specific extensions for Human Infectious disease
- Policy endorsements

## Claims Best Practices

- Collect appropriate documentation
- Present claims to insurers in a prompt and timely manner
- Review policy terms and conditions

## Proactive Steps for better insurance outcomes

- **Start as early as feasible/possible – and consider the following**
  - Difficult insurance market causing many insureds to seek alternate terms
  - Flight to quality – better data, updated risk control recommendations, detailed COPE information, business continuity plans etc. help differentiate your risk
  - Review vacancy allowance within existing wordings, negotiate extensions if shuttering of certain locations expected longer term
  - Be prepared to address reopening controls and safety procedures
  - Review Business Interruption values, reduce as needed, look to negotiate audit at policy end - to allow for return premiums if rents down further than expected
  - Consider looking to adjust GL premiums on revenues, rather than square footage- more accurate proxy for exposure
  - Detail any locations switching to non-traditional uses
  - Review options to stretch premium payment terms with carriers.

# AGENDA

## Business Resiliency and the Path Forward

1

**Organizational Resilience**

2

**Navigating a Recovery**

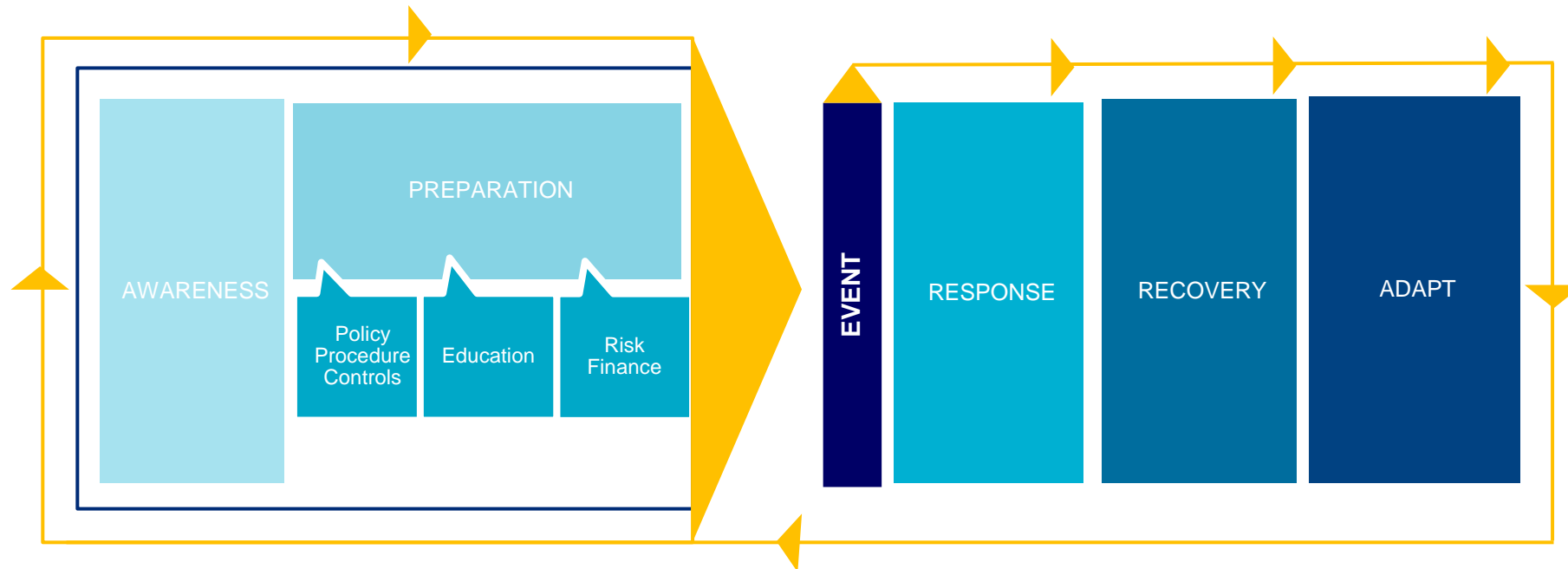


**Mark Aiello**

National Strategic Risk Advisory Services Leader

# Organizational Resilience

## Effective risk management enables organizational resilience

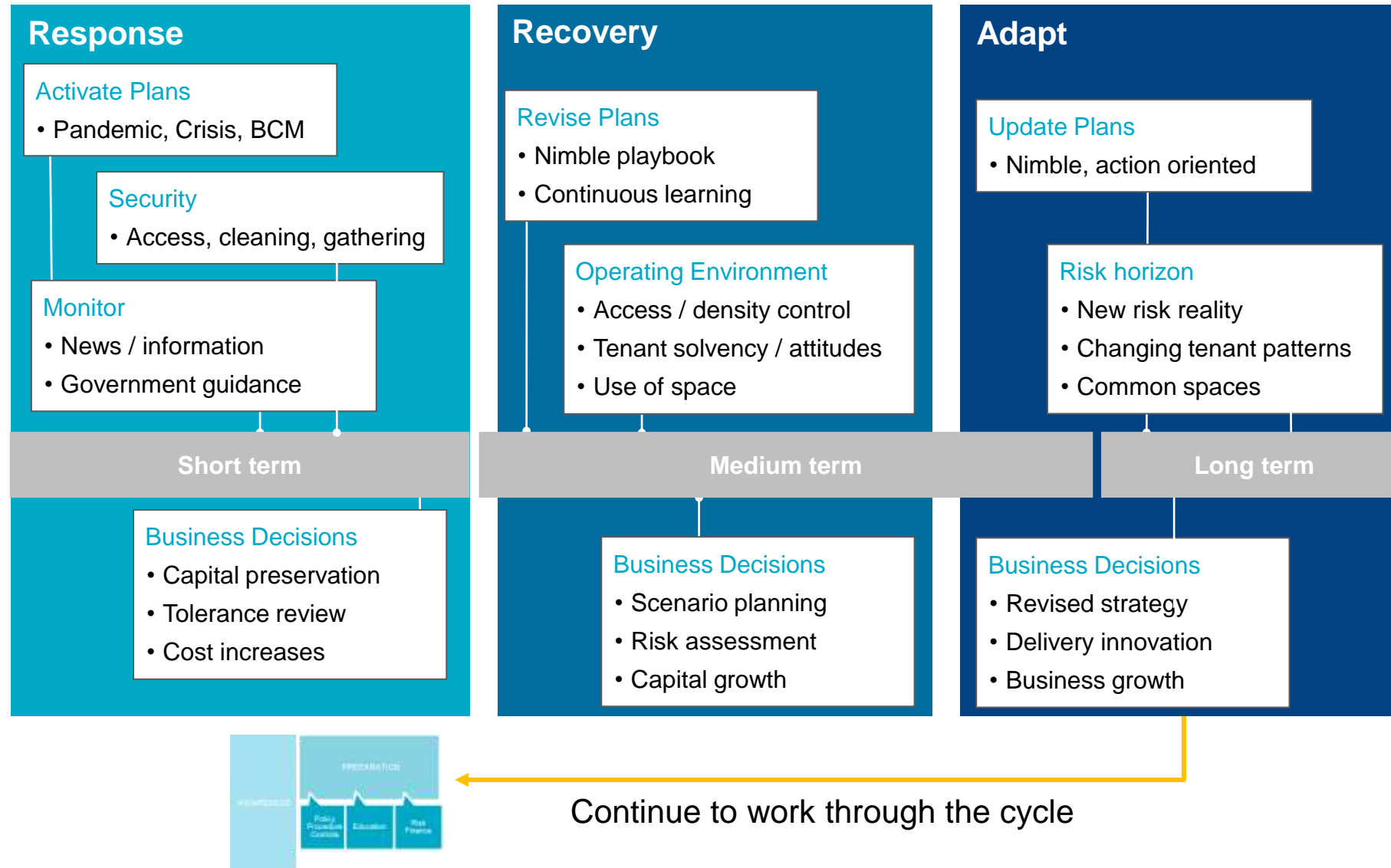


- Investment in pre-event risk management supports greater post-event efficiency
- Adapting to the new reality is critical
- Pragmatism is the key to successful action



# Navigating a Recovery

## Effective response in a time of crisis



# Pandemic Preparedness Check

## Scan the QR code below...

**A Pandemic Preparedness Check** is designed to assess and validate established controls and provide recommendations on how best to implement the essential elements of pandemic planning within your organization. **Following the assessment, you will receive a report containing:**

- A dashboard highlighting areas that have been or need to be addressed.
- An overall score of your preparedness that can be used to measure improvements in the future.
- Detailed implementation recommendations to better prepare and respond to a pandemic or outbreak affecting your operations.

### How to scan a QR Code

- 1) Grab your smartphone and open the Camera app
- 2) Hover over the QR code with the camera on
- 3) Click the link that appears





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functionality on the webinar



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## UP NEXT!

BOMA Canada Webinar: Preparing your building for return to work!

Thursday, May 7<sup>th</sup>, 2020

1:00 – 2:00 p.m. Eastern

Contact [info@bomacanada.ca](mailto:info@bomacanada.ca) for the registration link

