WORLD ECONOMIC FORUM

Building a More Resilient and Sustainable World: An action plan for the insurance and asset management industry

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IN COLLABORATION WITH BAIN & COMPANY

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Contents

3 Foreword

4 Statement of intent

5 Executive summary

7 Taking action: concrete steps for putting society on a sounder footing

7 1 A new "Societal Risk Compact" for anticipating, minimizing and mitigating catastrophic risk

10 2 Prioritizing resiliency in the corporate and investor agenda (on par with near-term goals)

13 Conclusion

14 Appendix

14 Industry Action Group – participating organizations

15 Acknowledgements

16 Contributors

17 Endnotes

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Foreword

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In April 2020, the World Economic Forum created the Insurance and Asset Management Industry Action Group (IAG). Comprised of 21 members operating in more than 140 countries globally, with collective assets under management (AuM) of $10 trillion, the purpose of the IAG was twofold: to provide a platform to convene insurers and asset managers to support the industry response to the COVID-19 crisis, and to define a path forward for the industry to best support broader societal efforts to recover from the impacts of future events.

The backdrop against which the IAG convened has been a stark reminder of the capacity of catastrophic shocks to disrupt the global economy, and the tendency for these shocks to reveal gaps in our preparation and mitigation strategies that put households, businesses and governments around the world in a precarious position in their aftermath. In many ways, the COVID-19 crisis is not a complete outlier. Catastrophic risk events occur far more frequently than is commonly assumed, with two "once-in-a-generation" events having taken place in just the past 20 years alone. Concurrently, the global insurance protection gap – the difference between insured losses and economic losses – had already climbed to more than $1 trillion globally before the current pandemic – and it continues to grow year after year. Overall, the current model by which society manages catastrophic perils is unsustainable. Ahead of the next crisis, it has become clear that we cannot operate with the same assumptions that defined our response to COVID-19.

Building greater resiliency is therefore a defining mandate of our time. This document represents a statement of intent from the members of the IAG to drive an ambitious resiliency agenda for the future, and a call to action for the insurance and asset management industries to play a central role in driving efforts to encourage a multistakeholder, multiyear dialogue on how economic and social models must evolve to ensure our societies confront the next major crisis on a sounder footing.

Underpinning this commitment is an action plan identifying a short list of important societal challenges and a potential set of actions the insurance and asset management industry might take to help address them – both individually and in partnership with the public sector. These actions are organized around two pillars where we suggest a new approach: constructing a new "societal risk compact" that redefines how stakeholders work together to plan for, and mitigate against, catastrophic risk; and developing a common language to discuss and justify investment in resiliency that places it at the heart of long-term shareholder value creation rather than viewing it as a short-term expense that must be justified to investors and regulators.

These two agendas are complex to deliver against and it will require sustained dialogue to get it right. Insurers and asset managers have a central role to play, but they will not achieve any progress alone. As the International Organization for Public-Private Cooperation, the World Economic Forum will continue to provide a platform that can amplify the message, coordinate efforts, integrate and advance thinking, and drive global implementation of the proposals set out in this document. But we recognize that myriad discussions are taking place in other fora around the globe on several of these topics already. It is our hope that we can join the IAG's efforts with these organizations and institutions to collectively build a more resilient and sustainable future for the post-COVID world.

Statement of intent

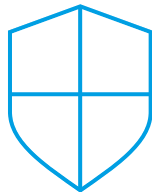
The members of the World Economic Forum Insurance and Asset Management Industry Action Group are committed to supporting the creation of greater resiliency for our customers and societies.

This document represents our commitment to help drive a multistakeholder, multiyear dialogue on how economic and social models must evolve in the face of inevitable future catastrophic risks.

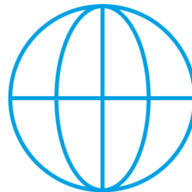
In order to…

1. Support development of a new "Societal Risk Compact", wherein companies, governments, insurers and investors all play a part in more proactively managing catastrophic risk, and
2. Further prioritize resiliency in corporate and investor agendas, including the development of a common language and metrics for describing exposures and mitigating investments

Collectively, we intend to…



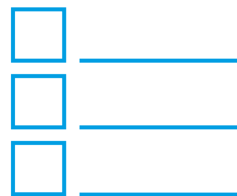
Work with our customers to **better understand exposure to catastrophic perils** and the holistic set of mitigating actions and investments available to avoid and alleviate them



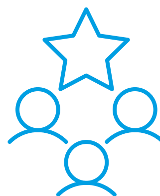
Partner with governments to apply risk engineering expertise to **shore up key vulnerabilities** in core infrastructure and systems

Support deployment of public-private partnerships and creative protection solutions to **enable enhanced relief efforts** when events do occur

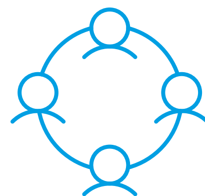
Use our position as significant allocators of invested capital to **promote increased resiliency** in the firms in which we invest



Encourage and participate in the development of a common language and reinforcing policy and regulatory framework to **raise the profile of long-term resiliency** within investor and corporate agendas



Continue collaborations in this and other forums to further define the roadmap, detail the solutions and mobilize against these imperatives



Invite additional stakeholders, including other insurers and asset managers, policy-makers, academics and others, to **join us in making this commitment** and drive progress on the effort

Executive summary

At a glance…

- Catastrophic risk events occur far more frequently than is commonly assumed. It is a certainty that there will be another disruption, even if its precise form and timing are unknown
- The model by which society currently manages catastrophic perils – with governments implicitly bearing the brunt of growing protection gaps – is unsustainable, as successive crises have severely strained public coffers
- Building resiliency is therefore the defining mandate of this time. Companies and governments must do more to put themselves on a sounder footing and anticipate and mitigate exposure to catastrophic perils before the next crisis occurs
- Two critical imperatives emerge:
  1. A new "Societal Risk Compact" is needed wherein companies, regulators, policy-makers, insurers, risk advisers and investors all play a part in more proactively managing catastrophic risk
  2. Resiliency must be better prioritized in corporate and investor agendas, with a new language for describing and justifying investments in corporate resiliency
- The insurance and asset management industries have a critical role to play, leading multistakeholder collaboration to put society on a sounder footing ahead of the next crisis. Insurers should assume a leadership role not just in risk transfer but also in risk minimization. Asset managers should play an active role in advancing resiliency in the corporate agenda and directing capital towards sustainable uses

Two decades into the 21st century, the global economy has already sustained two "once-in-a-generation" shocks – the global financial crisis and the COVID-19 pandemic. The economic disruption that resulted from each has shone a spotlight on the susceptibility of world economies to major systemic shocks and put households, businesses and governments around the world in an increasingly precarious position. While it is impossible to know what the next major disruption will be (pandemic, climate, cyber, geopolitical or otherwise), it is certain that there will be another.

However, the current model by which society manages catastrophic risks is fundamentally unsustainable. What is most striking about the current pandemic is how unprepared the world seemed to be for it. Public health experts and risk reports (including the Forum's Global Risk Report) have for years pointed to the possibility of a widespread flu pandemic. And yet the world's response to the crisis has been largely reactive. With regard to many aspects of public health, employee safety and fiscal response, many leaders are scrambling to define solutions on the fly.

Companies, for their part, have not adequately anticipated and protected against high-cost ("risk-of-ruin") perils. As a whole, businesses have underestimated the likelihood of such events, and shown limited understanding of their own exposures to them, relying on a relatively narrow set of protection tools (e.g. financial hedges), rather than a broader set of strategic and operational levers for building resiliency. And they have believed (thus far, correctly) that governments will ultimately pick up the tab, creating moral hazard and a tendency to dismiss such perils as being simply "uninsurable".

This model is not serving society well. During the past two recessionary cycles, US companies gave back over 60% of the shareholder value they had created during the preceding expansions. Between 2008 and 2019, governments spent roughly $10 trillion on fiscal stimulus and quantitative easing, vastly subsidizing the cumulative $22 trillion in corporate profits generated over the same period.[1,2] In many societies, this model may no longer be viable. Even before the COVID-19 crisis, public debt ratios in developed economies stood at 100% of GDP.[3] For many governments, backstopping another COVID-like event may be fiscally impossible.

The risk of a future pandemic-, climate-, or cyber-related shock remains real, even as resiliency – specifically, the capacity of companies and institutions to withstand disruption before government intervention is required – has been eroded. Rebuilding and enhancing societal

resiliency is therefore an urgent priority, and one in which both the insurance and asset management industry have a critical role to play. Two imperatives emerge where insurers and asset managers can assume a leadership role in preparing for the future:

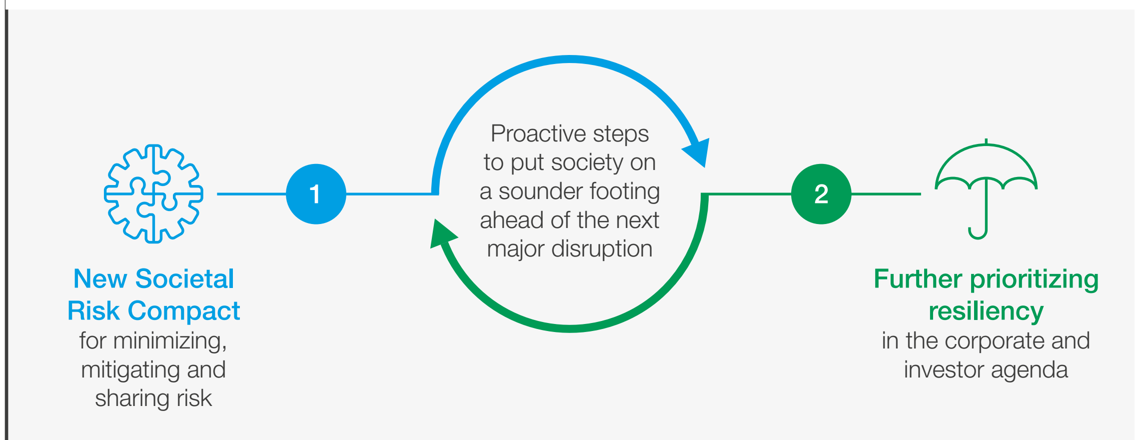
1. A new approach to managing catastrophic risk is needed. Imagine a new “Societal Risk Compact”, wherein companies, regulators, policy-makers, insurers and investors all play a part in a more proactive approach to managing catastrophic risk. Insurers, reinsurers, risk advisers and asset managers have a central role to play – creating new mechanisms for affordable risk sharing and transfer, partnering with governments to improve loss remediation and public-assistance schemes, and, most importantly, helping corporate and institutional clients do a better job of ex-ante risk avoidance and mitigation.

2. Corporate and investor agendas do not adequately prioritize resiliency, which too often takes a back seat to near-term efficiency goals. In the absence of a common taxonomy for disclosures and reinforcing policy and regulatory frameworks, chief executive officers, shareholders and regulators often find they lack a common language to discuss and justify investments in resiliency against events that may never occur. As stewards of significant capital, asset managers and insurers should lead in drawing a clearer link between resiliency and long-term value creation.

This document represents a potential path forward, outlining a series of steps that the insurance and asset management industry can take to help rebuild resiliency ahead of future crises. This paper also represents a call to action for the industry to work collectively and in concert with the public sector to help drive a multistakeholder, multiyear dialogue on how the world’s economic and social models must evolve in the face of inevitable future catastrophic risks.

This statement of intent has been informed by months of discussion in the Forum’s Insurance and Asset Management Industry Action Group (IAG) – comprised of 21 of the leading insurers, asset managers and risk advisers from across the globe. The members of the IAG recognize the pressing need for greater resiliency and are committed, together and with other stakeholders, to build a more resilient and sustainable world.

FIGURE 1 **A resiliency agenda to prepare for the future**



Taking action: concrete steps for putting society on a sounder footing

1 A new "Societal Risk Compact" for anticipating, minimizing and mitigating catastrophic risk

Catastrophic risk will continue to be a fact of life. Some perils, such as cyberterrorism, geopolitical fragmentation or social unrest stemming from persistent inequality and rising poverty rates, are taking on new and added urgency due to COVID-19. Others, such as climate change or subsequent pandemics, as highlighted in the World Economic Forum's 2020 Global Risk Perception Survey, may not be part of the current crisis, but society's resilience and ability to withstand those shocks have both been eroded substantially.

Unquestionably, many catastrophic perils, by their very nature, will prove too costly for the insurance sector to underwrite alone. In the US, the 2020 economic cost of the pandemic has been estimated at $2 trillion,[4] whereas the policyholder surplus of the entire insurance industry combined tops out at no more than $800 billion.[5] A 2019 study found the global insurance protection gap of $1.2 trillion across three main risk pools: natural catastrophe, mortality and healthcare.[6] Governments will always play a foundational role in backstopping the most costly threats to society, but that should not be interpreted to mean that other stakeholders have no role to play at all.

Indeed, a new social compact may be needed – one in which all stakeholders work collaboratively and proactively to redefine how we share the burden for ensuring we are on a sounder footing ahead of the next major disruption, and in which businesses and policy-makers alike rethink how they can partner to better anticipate, minimize and mitigate their own exposures to such perils before they occur. This will help lower the overall cost to society and spread the burden more equitably.

We may think of a new "Societal Risk Compact", wherein government backstops are partially contingent on the ability of firms to demonstrate tangible investment and preventative action for a range of catastrophic risks (Figure 2).

Insurers, reinsurers, risk advisers and asset managers will continue to play a critical role in providing efficient mechanisms for risk sharing (for example, continued innovation in catastrophe bonds, recovery funds or recapitalization efforts). But beyond risk transfer, the industry has a vitally important role to play in risk minimization, avoidance and mitigation. Three opportunities emerge:

1. Helping companies to better understand and quantify the impact of their own exposures to catastrophic risk, and to prioritize and justify a broader range of mitigating investments

2. Collaborating with governments to engineer risk at a societal level, identifying and addressing vulnerabilities in vital infrastructure to a broader range of catastrophic perils

3. Partnering with governments through new public-private partnerships aimed at enhancing risk sharing and transfer mechanisms, and improving the speed, efficiency and effectiveness of future loss remediation and public-assistance schemes

FIGURE 2 | Societal Risk Compact for minimizing, mitigating and sharing risk

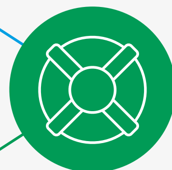
Companies

Publicly disclose assessed risks, impacts and corresponding protective actions

Make **required investments** (policies, operational, technology, live risk drills, etc.) to bolster resiliency

Methodically identify systemic risks **not protected against**

Participate in **standardized ratings/certifications**



Insurers and asset managers

Work with companies to identify and quantify **exposures and vulnerabilities** (including risk aggregation, diversification)

Develop a framework to **evaluate resiliency investments** and **risk-engineering** tools and products

Partner with rating agencies to develop standards for resiliency

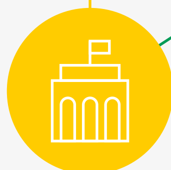
Support direct relief through **extended coverage**, **catastrophe bonds**, **recovery funds**, etc.

Governments

Subsidize extended coverage by providing backstop protection in return for resiliency investments by insurers

Work with insurers to understand **societal vulnerabilities**, employ **risk-engineering expertise** to mitigate, and design **win-win regulations**

Use **insurer capabilities** (payment rails, loss adjustment, etc.) for effective relief mechanisms



Helping companies better understand and engineer risk

Many businesses have long lacked a sufficiently thoughtful approach to protecting against catastrophic risk. Not only do they persistently underestimate the likelihood of external shocks, they are often unable to answer critical questions about the size and nature of their risk exposure, the appropriate level of protection to seek given their risk tolerance or the best way to build greater resiliency.

What is needed is a new framework for assessing catastrophic risks and evaluating mitigating investments across a wider range of financial, operational and strategic levers. Insurance and hedging will always be an important arrow in the corporate risk manager's quiver. Numerous operational investments, such as enhanced buffer capacity, diversified supply chains and technological investments, as well as strategic levers such as channel diversification or agile operating models, play an important role as well.

Insurers and risk advisers need to play an active role here. Understanding and quantifying the impact of these exposures, assessing a company's portfolio of vulnerabilities against the backdrop of its overall risk tolerance and applying a broader range of mitigating levers are all critical topics that the industry can help businesses navigate. This will require new frameworks and a strategic toolkit for catastrophic risk. Insurers might assume a leadership role in working with policy-makers, regulators, ratings agencies and institutional investors to develop and embed reinforcing certifications and standards.

As part of this new societal compact, governments might consider making eligibility for some kinds of corporate assistance contingent on public disclosures of catastrophic risk exposure and demonstrations that preventative action has been taken. At a minimum, public rescue packages might give precedence to companies that have done so. Such contingencies have been used before. The African Union's African Risk Capacity (ARC) national catastrophe (NatCat) and outbreak protection scheme, for example, makes eligibility contingent on tailored risk assessments and detailed operational plans that meet predefined ARC criteria.

Partnering with governments to engineer risk at a societal level

In much the same way, risk engineering can also help to lower exposures at a societal level. COVID-19 has served to illustrate just how vulnerable many essential systems are to unforeseen disruptions. Critical infrastructure of all kinds (energy, healthcare, food supply, water, communications, etc.) remain vulnerable to external shocks. Insurers and risk advisers have the expertise to help analyse these vulnerabilities, considering the potential nature and ramifications of various catastrophic perils for society. Reinsurers, in particular, shoulder much of the risk and thus have a special interest and the long-standing know-how to promote resilient solutions to these vulnerabilities. Both groups should further invest to build additional risk engineering talent and capacity. This kind of thinking has been broadly applied for some topics, such as climate change (with wide variation around the world), but there has been far less public attention paid to other sources of risk.

The insurance and risk advisory industry should actively seek out opportunities to partner with public stakeholders to evaluate potential points of societal vulnerability and to prioritize mitigating strategies. Such measures might include large-scale preventative investments such as nature-based solutions, seawall construction or emergency warning systems, response readiness (contingency planning, stockpiling of critical inputs and supplies) and "building back better" post-crisis (e.g. New Zealand following the Christchurch earthquake). Regulatory changes can help prioritize and accelerate these investments.

Again, there is precedent. The Insurance Development Forum (IDF) is a public-private partnership that has successfully supported governments in risk assessment and mitigation. An IDF-supported study in San Salvador identified several mitigating opportunities to avoid 25% of the cost of flood damage, which in turn could serve to reduce flood insurance premiums by up to 35%. Similarly, the Munich Climate Insurance Initiative – a charitable organization initiated by insurers, research institutes and NGOs – has partnered with a number of developing countries (Togo, Benin, Viet Nam and various Pacific Island nations) to develop and implement adaptation strategies that reduce climate and weather risk.

Forging public-private partnerships to ensure effective relief mechanisms for the next crisis

The above notwithstanding, governments will continue to be called upon to provide financial assistance during catastrophic events. Here, too, there may be an opportunity for the insurance industry to add substantial value.

In each of the past two crises, one of the biggest challenges was how to quickly, efficiently and effectively disburse financial aid. The logistical challenges of determining need, validating loss, identifying fraud and transferring funds are all enormous. In recent months, the US Small Business Administration loan programme has faced a number of significant execution challenges, including insufficient capacity and overwhelmed systems.

The insurance industry is well suited to serve as a partner in this effort. Insurers have pre-existing relationships with a broad swathe of household and commercial customers, including financial connections and payment rails that could allow for rapid fund disbursement. They also bring a valuable combination of impact-confirmation and loss-adjustment capabilities.

The aftermath of the 2011 Tōhoku earthquake serves as an instructive example. Close collaboration between the insurance industry and the Japanese government greatly accelerated relief efforts. Remarkably, while insured losses exceeded 1.2 trillion JPY ($11.3 billion) and 780,000 households were affected, more than 90% of claims were settled within 90 days.[7] Public-private coordination across a number of dimensions was vital: simplified claim-assessment standards using insurers' loss adjustment capabilities, standardized products with common language about earthquake protections and government-backed reinsurance, all formalized in a public-private partnership that was agreed upon long before the crisis actually occurred.

Policy-makers should make it a priority to proactively design and institute relief mechanisms before the next crisis hits. Public-private partnerships with insurers and other financial institutions must be part of that dialogue. The approach above will work best in developed markets with high insurance penetration; in emerging markets, partnerships aimed at promoting affordable pre-disaster financial risk transfer mechanisms will be critical. For some perils, such arrangements have already taken shape (for example, Pool Re and Flood Re in the UK). Already several pandemic-specific schemes, such as the Pandemic Risk Insurance Act (PRIA) in the US, are entering advanced design discussions. Still, many industry participants recognize the need to do far more, as outlined in recent proposals by Chubb[8] and Lloyd's of London.[9]

2 Prioritizing resiliency in the corporate and investor agenda (on par with near-term goals)

The era of shareholder primacy may be coming to an end. The past 20 years have seen a steady and dramatic rise in corporate profitability, buoyed by abundant labour, globalization, relaxed regulatory regimes and a relentless focus on efficiency. Net income growth in developed economies grew twice as fast as GDP in that period, resulting in a sharp rise in returns on equity across regions and sectors.[10] And yet, just weeks into the COVID-19-induced economic shutdown, businesses of every stripe found they lacked the capital buffers or operational flexibility to remain solvent without massive government intervention.

How did we get here? How did a vast rise in corporate profitability, culminating in the longest sustained economic expansion in modern history, still leave us so exposed to disruption? Two concurrent forces undermined corporate resiliency.

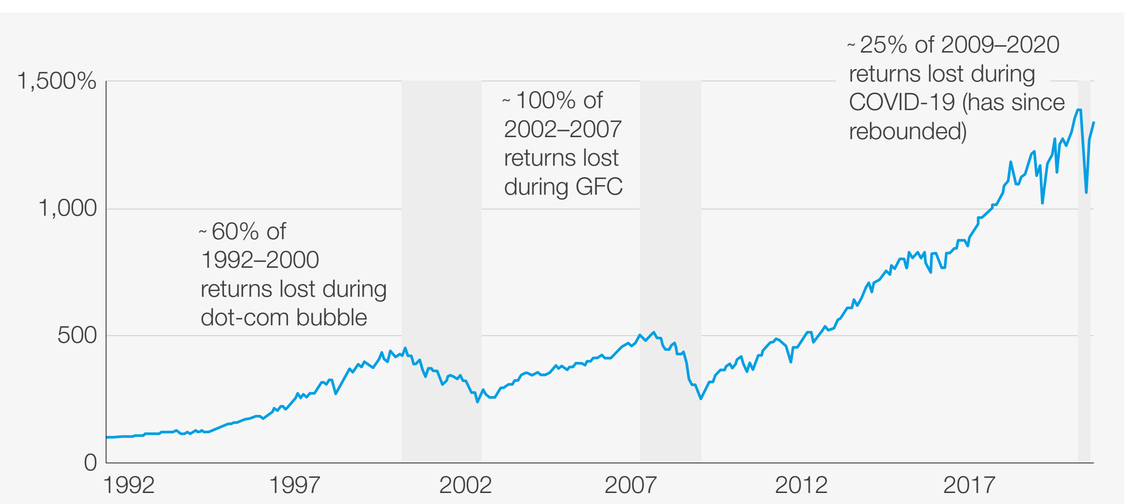
First, shareholder distributions rose much faster than capital generation. As a percentage of net income, distributions have doubled since 1980, particularly in the form of share repurchases (which have seen a fivefold increase over the past decade).[11] In 2018 alone, US companies bought back a record $806 billion in shares.[12] In parallel, reinvestment ratios suffered, with the percentage of free cashflow going towards investments in capital expenditure and R&D declining by nearly 80% over the same period.[13]

The second factor was rising corporate indebtedness. Two decades of historically abundant capital and cheap credit led those same companies to take on record levels of debt – a trend that only accelerated following the global financial crisis. This rise was most pronounced among smaller firms; debt loads for non-financial companies under $1 billion in revenue tripled over the past decade, to nearly six-times earnings before interest, taxes, depreciation and amortization (EBITDA).[14] While it is not unreasonable for companies to take on more debt in a low-rate environment, doing so excessively or for non-productive purposes erodes corporate resiliency by raising exposure to tightening credit conditions.

In short, companies across the globe traded off longer-term resiliency for near-term shareholder return. They failed to build the resiliency in the good times that could help them weather the inevitable downtimes to come. Prioritizing resiliency in corporate and investor agendas (on par with other near-term goals) is a top priority.

At the heart of this challenge is the fact that we simply lack the language to discuss long-term resiliency in the same way as we do for near-term goals such as growth and profitability. The way in which investors define and measure corporate performance tends to be short-term in nature. Yet a narrow focus on in-period performance can lead to a substantial overestimation of the value companies are actually creating for shareholders. During the last two recessions, from 2000–2001 and 2008–2009, share prices gave back 100% and 60% of the total return generated over the preceding bull markets, respectively (Figure 3).[15] In each instance, it took years to regain the lost ground. This myopia is further exacerbated by the activist-investor community. While a minority, it can be both more vocal and have a shorter investment horizon than pensions, endowments, insurers and other long-term mandate investors, which represent 60% of global AUM but tend to be far less vocally activist.[16] While we tend to think of resiliency as coming at a near-term cost, the data indicates that firms with greater investments linked to a long-term environmental, social and governance (ESG) agenda tend to outperform, including during crisis periods.[17]

FIGURE 3 **S&P 500 total returns index price, indexed to 1992**



Source: Bloomberg

If the "Societal Risk Compact" described above is to be a reality, companies and investors will need to do their part to make investments in long-term corporate resiliency, even if this comes at a near-term cost to profitability. Ultimately, though, chief executive officers and investors too often find they lack a common, standardized framework for how they might describe long-term risk exposures and evaluate and justify mitigating strategies and investments. As a result, leadership teams' approach to risk management is disproportionately near-sighted.

Asset managers and insurance companies have a central role to play in reshaping the discussion. Globally, they control more than $90 trillion of discretionary assets under management,[18] affording them both enormous clout as debt and equity investors and potentially a leadership role in raising the importance of resiliency on the corporate agenda. This should take a number of forms:

1. Helping to standardize public disclosures about risk exposure and investments in resiliency
2. Encouraging and informing the development of reinforcing policy and regulatory frameworks
3. Exerting clout as large corporate investors, ensuring resiliency is appropriately prioritized in strategic decision-making, capital allocation and investor conversations

Developing a common language: standardizing disclosures about risk exposure and resiliency

Given how diverse individual companies' exposures to catastrophic risk can be and the difficulty of estimating them, developing a standardized set of disclosures will no doubt prove a challenge. But it is no less needed.

Risk estimation and engineering, including for lower-probability perils, are at the core of the insurance industry's expertise. Insurers and risk advisers should work with policy-makers, regulators, ratings agencies, corporate clients and the investor community to define a common set of pragmatic principles for describing resiliency. This should include a common view of the main perils (pandemics, cyberterrorism, natural disasters, etc.) and risk dimensions (financial, operational, supply chain, employee, etc.) that can be used universally by all firms.

Likewise, the industry might also establish a common set of metrics and measurement methodologies to ensure meaningful comparability across companies and industries. This is needed if we are to arrive at a common approach for evaluating the expected return on investments made in corporate resiliency.

Efforts to date around the ESG agenda may provide a roadmap for how to do this. ESG has already begun to arm executives with a language for describing and justifying longer-term investments whose objectives are not exclusively financial in nature. Resiliency plays a role in each aspect of this agenda; perhaps ESG should be the framework through which we enrich and amplify discussions of corporate resiliency against disruption.

If this is to be the case, a few challenges will need to be navigated. Disclosures will need to be meaningful without being overly burdensome; they (and the guidelines that govern them) should exist inasmuch as they facilitate an informed dialogue between leaders and shareholders, and consistency across jurisdictions and sectors will be important. Pragmatism will be vital. Moreover, care should be taken not to slow down, undermine or further politicize efforts to align on a single set of ESG standards (which have thus far proven challenging).

Encouraging the development of a reinforcing policy and regulatory framework

Universal standards for resiliency will be vital to compliance. Policy-makers and regulators will need to ensure that the right set of incentives and guardrails are in place. These should govern both the form and format of corporate disclosures about resiliency and the minimum acceptable levels of resiliency.

In fact, greater oversight may already be on the way. Regulators might look to financial services regulation in the wake of the financial crisis as a potential roadmap for other industries. Heavy government intervention on liquidity and reserve provisions, government-led stress testing and comprehensive disclosure and compliance obligations do appear to have strengthened the banking sector, with US banks holding up remarkably well (at least thus far) through the current crisis. Tier 1 common equity tier (CET) ratios have remained twice as high through the pandemic as they were in the decade preceding the global financial crisis.[19] And, while banking returns on equity (ROE) have fallen 40% from their pre-crisis peaks, evidence suggests that long-term total shareholder returns have actually increased, both in absolute and relative terms.[20] While these measures may prove too drastic for all industries, it is not hard to imagine a future in which corporate resiliency features more prominently in regulators' agendas.

In addition, regulators and industry might seek out "win-win" strategies to lower costs and remove barriers to building resiliency. Examples might include data sharing or open data access arrangements aimed at enabling better risk measurement or simplified and streamlined permission processes for building infrastructure intended to promote resiliency.

Ensuring a good balance between recapitalization and a fair return to the providers of that capital will be a tricky needle to thread. Here, too, is an important role for the insurance and asset management industry. Given its expertise in risk and its prominent role as a steward of global capital, the industry should seek to play an active and vocal role in shaping and informing this public debate. Legislation, regulation, credit assessment and tax policy will all be important considerations in recapitalizing businesses and encouraging a healthier balance of debt and equity financing over the decade to come.

Exerting clout as investors to ensure resiliency is prioritized in corporate agendas

As stewards of significant long-term-oriented capital, asset managers and insurers can exert their influence in the boardroom to help raise the prominence of resiliency in the corporate agenda. This could include adopting a more vocally activist role as shareholders and differentially allocating capital towards resilient companies. In practice, this means promoting corporate resiliency-building activities (for example, contingency planning or addressing operational vulnerabilities), as well as supporting financially prudent decisions (including increasing cash reserves or adjusting payout ratios) when appropriate. Asset managers should look to incorporate resiliency into their investment and portfolio management strategies in such a way that it improves long-term shareholder value creation.

Conclusion

The COVID-19 pandemic has once again highlighted the need to put companies and institutions on a sounder footing ahead of the next crisis. While not exhaustive, this document introduces a series of commitments the industry can make to that end. Much work remains to be done to implement these concepts.

Doing so will require significant coordination across multiple public and private stakeholders, likely over a long period of time. These are global problems, but the solutions will, in many cases, be local. To get started, efforts should focus on mobilization of multistakeholder coalitions in two or three countries aimed at defining this new approach to catastrophic risk. Additionally, global forums (including this one) will play a critical role in amplifying the message and coordinating these efforts across geographies (for example, sharing learnings on critical perils, trigger mechanisms or future funding models).

Raising the prominence of resiliency in the corporate and investor agenda is an equally long-term and multistakeholder imperative. But there are steps that asset managers and insurers can begin to take now to initiate structured dialogues between corporate management teams and institutional investors. Investor alignment will be critical. Already, asset managers are under pressure to be more activist even as industry margins compress rapidly. If they are to build the capabilities to do so, they will require the support of the investor community they serve. The industry might also take the lead on articulating a common set of principles to describe resiliency in a more meaningful way – for example, by working alongside other industry alliances such as the World Economic Forum's International Business Council (IBC) or FCLT Global. Over time, asset managers and insurers can work with legislators, regulators and ratings agencies to establish reinforcing regulatory frameworks in a handful of jurisdictions that can serve as proof points for broader adoption. With their balance sheets, general accounts, retail accounts and access to other sources of flow capital, they will play a pivotal role in supporting efforts to recapitalize businesses and shift to more sustainable capital structures.

To be sure, discussions are underway in myriad forums across the globe. But those efforts are often fragmented or too narrow in scope. Much time is being spent on the topic of pandemic readiness. However, it is equally vital to address the host of other catastrophic perils that remain. There is a need for global coordination, alignment and sharing of effective methodologies.

The World Economic Forum's Insurance and Asset Management Industry Action Group will continue to use the Forum platform in support of these objectives. It will not only drive dialogue over the coming months and years at an industry level to identify how ideas can be turned into action, it will also invite the collaboration and participation of other industry and public-sector bodies to promote the multistakeholder initiatives that deliver on the ambitious mandate outlined in this document.

Appendix

Industry Action Group – participating organizations

Aegon

Allianz

AXA

Fidelity International

Fubon Financial Holding

Generali

The Guardian Life Insurance Company of America

Hanwha Asset Management

Invesco

Manulife

Marsh & McLennan

Ping An Insurance (Group) Company of China

PZU

Reinsurance Group of America (RGA)

RenaissanceRe Holdings

State Farm

Tokio Marine Holdings

Unipol Gruppo

WanaArtha Life

Willis Towers Watson

Zurich Insurance Group

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