**Diese Analyse haben wir zusammen mit unserem Londoner Partner aufgrund gemeinsamer Recherchen am Lloyd's Markt seit Anfang Januar 2020 erstellt.**

**Gerne unterstützen wir Sie zu allen Fragen der Auswirkung von Covid-19 auf Ihre Organisation, bei Rückholungen, Sicherstellung von Lieferketten - auch AirCargo -, beim BCM, beim Neustart nach dem Lockdown und Aufbau von Resilienz.**

**Nur wer krisenfähig ist, ist auch krisenfest.**

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# The Covid-19 Outbreak

## Global Impact

### a White Paper

**by A. Kain and Partners LLP**

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## A statement from our founder

This is a crisis from which we will recover but life as we knew it will not be the same. The new paradigm, when it comes, is likely to be heavily focused on technology.

It seems likely that a new term will replace the negative references to “surveillance state”. It may be that with less movement both at work and in leisure, businesses, states and economies will have to accept such concepts as tracking apps and facial recognition technologies. Perhaps for practical purposes of “freedom”, we may go along with, and accept, “consensual surveillance” which will enable greater freedoms while reducing pandemic risk.

We need also to address the negatives of social media-induced panic—and acknowledge the frailty of major media.

Our politics must also change as covid-19 in today’s world demonstrates the interconnectivity, interdependence and shared risk within the global village.

It is perhaps also an opportunity for a new, dynamic, fairer and more resilient economic system.

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## Executive summary

- Twenty million people could die if this crisis is not handled properly.
- The economic fallout will be extensive, sustained and hugely disruptive.
- A number of industries will suffer; some will be changed forever.
- However, much of this change was already in action—the virus will simply accelerate it.
- Nonetheless, it will catch firms and governments off-guard and there may be serious ramifications for the political risk insurance sector.
- The coming months and years will see a massive shift in global thought on diplomatic co-operation, healthcare and the use of technology to manage travel and logistics.
- Governments and indeed whole political systems will be forced to change when public pressure intensifies, and it becomes clear how badly some countries have handled the crisis.

## Overview

The covid-19 pandemic is the seventh known strain of coronavirus to infect humans. The vast majority of cases are mild; many carriers will not show symptoms at all. Almost 100,000 people have already recovered from the virus at the time of writing.

The mortality rate is not exactly known but could be from as low as less than 1% to up to 6%. However, it is infectious, with unchecked carriers infecting at least 2.5 more people on average. The virus also spreads in most, if not all, known weather and climate conditions, from snow and frost to hot desert and humid jungle.

If left unchecked the virus could therefore theoretically infect a majority of the world's population and even kill 20 million people or even more.

The outbreak will put a burden on all existing health-care systems. Expect more shutdowns, border closures, business interruption and bankruptcies as governments take action to try and contain the spread. We will know which policies work, and which do not within months if not weeks. Certain policies are already proving to be either highly effective – as well as disastrous.



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# Facts, trends and figures

- Older people are more likely to die of covid-19.
- Those with underlying health conditions are also vulnerable.
- We don't yet know enough about pregnant sufferers or whether infection can harm unborn babies.
- Around 68% of sufferers will experience a cough.
- Around 44% of sufferers will experience a fever.
- Around 16% of sufferers will develop a serious illness.
- Around 5% of sufferers will experience nausea or vomiting.
- Fewer than 5% of sufferers will experience diarrhoea.
- The median incubation period is thought to be 4 days.
- It takes 2-10 days for infected people to become sick.
- Most known infections occur in households; other at-risk areas include crowded communal spaces.
- You are not infectious after completing quarantine, but the virus can possibly infect you more than once.
- We don't know how long it survives on surfaces for.
- We don't yet decisively know if humans can infect animals.
- Testing is not straightforward; not every country even has the ability to test for the disease.
- More than half of sufferers don’t experience a fever so temperature screening does not work.
- Medications don't work; antibiotics are ineffective; only treatments to lessen symptoms are useful while the sufferer’s body fights off the infection.
- A vaccine is in development but will not be available for many months at the very earliest.
- Social distancing and handwashing with soap are the most effective means of tackling the virus.
- Alcohol wipes and gels are helpful, as is covering your mouth and nose when coughing or sneezing.
- Touching your face increases your infection risk.
- Face masks can help but they are only effective for a few hours.
- When in short supply they are best conserved for caregivers and health-care workers.



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## Impact

***Politics***

The greatest threat we now face is not the virus, but the response of global leaders. We live in a time of stark global divisions, social polarisation and diplomatic animosity. Populism and identity politics are also driving many world leaders such as Donald Trump, Boris Johnson, Jair Bolsonaro and Andrés Manuel López Obrador into adopting highly reactionary positions, enacting policies based on reputation and governing style rather than science and fact. This does not bode well for containing the outbreak.

In 6-12 months, we will likely see data emerge that reveals which political decisions resulted in the best outcomes for populations – and which did not. Even now there are indications as to which measures are effective and which are decidedly not – even the reverse. Unsurprisingly, it is likely that the measures currently being criticised by scientists are the ones which are not going to be effective.

***Border closures***

Two failed policies stand out so far. Scientists from the Centers for Disease Control, which is the leading national public-health institute in the US, warned that closing national borders could actually worsen the outbreak – particularly if the measures apply to flights alone. It can encourage determined travellers (often people intent on returning home) to try and enter a country via other means, potentially overland via a third country, therefore evading detection. This puts the country at even greater risk because if an infected person arrives undetected, he or she could spread the virus without the authorities being able to identify the origin of the outbreak or contact those who might have been exposed.

Nonetheless, despite this knowledge, Italy banned all flights from China on January 31st. What followed was a very rapid lesson in history.

***"Herd immunity"***

A second policy, subject to widespread scepticism is the alleged UK government plan to achieve "herd immunity". This is when a proportion of a population (around 60%) is infected and becomes immune as a result. The outbreak is then significantly slowed because there are fewer potential victims to jump to, protecting the remaining 40% of the population.

However, not all covid-19 sufferers are guaranteed immunity from the virus. At least one person has reportedly contracted it a second time.

Furthermore, with a mortality rate of 1%, herd immunity in the UK would involve the infection of 40 million people and the deaths of 400,000 of them. This is a best-case scenario based on low mortality rates. It also assumes that the NHS would be able to provide a consistent level of care amid the infection of 10, 100, 100,000 and several million people, which is implausible.

In the event that the mortality rose to just 4% (in some studies it has even been as high as 6%), the pursuit of covid-19 "herd immunity"—an untested theory—could cost 1.6 million lives in the UK alone. If the whole world sought to pursue the same policy, this could result in 80 million deaths, which is greater than the combined military and civilian casualties of the second world war.



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***What is working***

It appears that the most effective measures are being implemented in countries with experience in outbreaks. East Asian countries, which went through the social and economic disruption of the SARS outbreak in the early 2000s, have rapidly enacted an array of measures, including social distancing, increased hygiene, information campaigns, public vigilance and extensive testing. Parts of West Africa also appear to have witnessed a rapid uptake of responsive policies, social awareness and screening, particularly around airports and major cities, as a result of resilience measures implemented following the Ebola outbreak, which began in late 2013.

After initially rapid outbreaks in South Korea and Japan, public campaigns appear to have quickly stemmed the spread of the virus. Taiwan's government was one of the first to respond. Despite its proximity to and extensive transport links with China, it has recorded just over 100 cases since the outbreak began, lower than many European countries.

Taiwan responded early, ordering protective measures and screening of international arrivals at its airports from December 31st. Taiwanese experts also conducted a fact-finding mission in Wuhan in early January and recommended that hospitals in Taiwan begin testing and reporting cases by the middle of that month. Taiwan activated a disease-focused crisis-response centre on January 20th to coordinate efforts. Regular communications were dispersed to the public with hourly public-service announcements containing facts, advice and other useful information.

Taiwan banned flights from Wuhan before anywhere else in the world. Yet while the government introduced border-control measures, it was well aware that these would only be partially effective.

Temperature checks were set up at airports—but with the knowledge that these would only pick up a proportion of cases. Follow-up testing of passengers continued in the weeks after their journey, even on those who had initially tested negative.

QR codes were put in place for passengers to quickly report their travel history and any symptoms online, without having to crowd around points of entry, potentially worsening the spread. Enforced stay-at-home quarantines were placed on everyone returning from high-risk areas. Failure to comply resulted in a hefty fine.

The temperature checks were easy to implement because the infrastructure was already in place following the SARS outbreak.

Individuals were also encouraged to regularly take their temperatures at home before going out into public. This was particularly encouraged with parents who tested their children before sending them to school each morning. Businesses also checked employees arriving at work.

Increased hygienic measures were implemented such as the disinfecting of public spaces including public transport, lifts and other places with a high footfall of people.

Central funds were allocated to manage various social, logistical and economic issues related to the outbreak. Additional personnel were mobilised to help fight the outbreak by various means, including manufacturing



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equipment and sanitary products in factories. The face-mask industry was quickly regulated. Exports were banned, prices were fixed, and supplies were rationed.

The country also has an extensive public health-care system. Potential victims were not worried about being billed for a hospital check-up so willingly reported symptoms and had themselves checked to make sure they did not pose a risk to others.

The fast action and semblance of orderly control exuded by the authorities further instilled a sense of calm across Taiwan, not seen in many other parts of the world. This reduced issues such as hoarding and panic-buying and encouraged an overall commitment to social conformity and compliance.



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## Non-payment risks by sector

Below is an initial indication of how the covid-19 outbreak and its wider implications could affect non-payments risks in a non-exhaustive selection of different sectors, focusing on those more likely to be covered in the Lloyd's of London insurance market. The situation is, however, rapidly evolving and is likely to change further. Just a few weeks ago, for instance, it was largely considered to be a Chinese issue, whereas now it is looking certain to push the entire world into recession.

In general, what is now clear is that the impact of the virus on businesses will be similar to that of the virus itself on people: virtually everyone in the world will be affected in some way, those in better health may suffer few symptoms but for those with pre-existing difficulties it could be fatal. A key deciding factor for whether a business or other entity will be able to survive it will be the quality and timeliness of government-support measures, which will vary from country to country.

The outbreak will also accelerate trends which were already in motion. A faster shift towards a cashless economy and paperless business; rapid expansion of the delivery sector; and a collapse of retailers which failed to shift their business online are all likely to be triggered by the outbreak.

***Aviation***

Aviation will likely be the worst-affected sector. Governments around the world will have to intervene to protect national carriers amid the near shutdown in routes. Those owned by states with the highest credit ratings are likely the safest. Those with weaker guarantors will be more at risk, particularly in economies most hit by the virus (ie, those which are less diversified and/or more reliant on at-risk sectors such as international tourism). Smaller airlines and those in already stressed financial positions may go bust.

***Banking***

With the sudden and sharp contraction in economic activity, many individuals and businesses will struggle to make loan repayments to banks on time. All classes of assets held by banks are also losing value. This will naturally lead to a deterioration of asset quality on banks' balance sheets, even in spite of the tax holidays, liquidity support and various other support measures being introduced for businesses by governments around the world.

The effects on banks will vary between different countries and institutions. Variables will include how badly affected a bank's country is by the virus (in both health and economic terms) and the bank's basic strength to start with in terms of measures such as NPL ratio and capital-adequacy ratio. Also important will be the intent and capacity of a bank's home government to support it.

While some smaller banks in higher-rated countries may struggle as governments direct support measures to larger and systemically less important lending institutions, the problems will likely at first at least be concentrated in countries whose banking systems are already weak and whose governments may lack the fiscal space to bail out struggling lenders. Examples among larger economies include India, Kazakhstan, Vietnam, Italy and Bangladesh.



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***Commerce***

Retail, bars, restaurants and outlets catering for entertaining groups of people will be hit hard. Many may also trigger business interruption insurance policies, putting a significant strain on the insurance sector, although many are thought to be uninsured and may therefore face bankruptcy or require costly state bailouts.

***Construction and real estate***

Construction and real estate are, unlike oil and gas or metals, sectors that are generally more linked to national-level rather than international conditions. The impact of the virus will therefore vary between countries. Activity on pre-existing projects and approvals of new projects will contract around the world due to logistical disruptions, government-enforced shutdowns and general economic uncertainty.

As the virus and associated restrictions recede in various places, activity will pick up, particularly in countries such as China that tend to encourage fixed-asset investment in their fiscal stimulus measures. In the meantime, however, construction and real-estate firms with fragile liquidity positions will come under significant pressure.

***Food supplies***

Regulation of certain practices are likely to be tightened as a result of this covid-19 outbreak, such as the sale of live, wild animals in markets with poor hygiene. The Chinese authorities will likely be able to clamp down on various practises with public support, whereas before they would have turned a blind eye so as not to provoke public disquiet.

Otherwise, agriculture is likely to be somewhat affected, particularly in terms of delays at shipping ports and other points of entry for goods being transported internationally. There may be an increase in localisation of supply and demand in the food industry as a result. However, processes are likely to become streamlined in the coming months, particularly in time for events such as wheat harvests in key markets.

The fishing industry has been highly interrupted, but this may be relatively short term. Seafood collected by British fleets is predominantly consumed in Spain, China, Italy and France, locations where restaurants have all but closed temporarily. Demand may return in the future but both restaurants and fishermen may have gone out of business by then.

***Manufacturing***

Like many other sectors, the economic disruption of covid-19 could lead to reduced demand for products and services, which in turn will hamper the manufacturing sector around the world. The slowdown in Chinese manufacturing has in particular had a knock-on effect on regional economies closely linked to Chinese production, including the supply of parts and raw materials. As such, even countries which are less affected by the outbreak are still suffering economic ramifications.

Otherwise, factories in many countries have asked office-based employees to work from home and many have temporarily shut down operations. An outbreak at one facility can quickly interrupt the just-in-time supply chains in place in many countries and across borders, as is emerging in southern Europe. However, there is evidence that with the slowdown in cases in China, manufacturing may begin to pick up again once individual countries have managed to contain their outbreaks. However, a sustained global economic downturn as a result of the pandemic could lead to fewer sales of manufactured goods and suppressed demand overall for a lengthier period of time.

***Metals and mining***

*Base and ferrous metals*

Prices for industrial inputs such as steel, copper, nickel and aluminium (and their ores) have all fallen sharply in recent weeks, particularly as they are closely tied to demand from China's manufacturing sector. Further declines are likely as economic disruption continues to spread beyond China.

The drop in prices will not likely be as steep as those of oil, however, as most metals markets are under far less supply-side pressure, and global supply may ease if individual mines are forced to significantly cut production for virus-control or logistical reasons.

Furthermore, with the apparent containment of the spread and gradual resumption of industrial activity in China in recent days, the overall outlook for Chinese demand and overall performance of the mining sector could improve over the coming months.

Prices may in particular recover as China brings in new fiscal stimulus measures, which are typically based around infrastructure investment and therefore boost demand for metals such as steel and copper. However, China's traditional stimulus measures may not have the same efficacy as they have had in the past and the government may be hesitant to introduce a package as large as the one instigated in 2009 due to longer-term concerns about debt across its economy.

Aside from revenue pressures caused by price volatility, companies involved in the mining, processing and trading of mineral ores may suffer more directly from the covid-19 outbreak. While it is expensive and complicated to completely shut down many facilities, this may become necessary for some of them (which are often in remote areas with poor medical facilities) in the event of an on-site outbreak or due to government directives or supply-chain disruption.

*Gold*

Gold prices usually rise during periods of economic uncertainty due to the metal's reputation as a "safe haven" asset. As the covid-19 outbreak spreads and global economic activity grinds to a near-halt, prices will continue to experience some short-term volatility, particularly as investors are selling even holdings of gold and other safe-haven assets to raise cash to cover losses in other markets. In general, however, gold prices will likely be far more resilient than those of most other metals.

***Oil and gas***

The energy sector faces more disruption than most over the coming months. Not only is global oil consumption about to experience its biggest-ever contraction in history, but the world market is in the process of being flooded with supply as Russia and Saudi Arabia play a dangerous game of "who can bear low prices longer?" following the collapse of negotiations over cutting production.



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As of mid-March, oil prices have already dropped below $30 a barrel, approaching levels not seen since 2002. They were around $67 on January 1st. Unless Saudi Arabia and Russia can reach some kind of détente—which is currently not looking likely—prices are set to stay very low for at least the next few months, potentially the rest of the year and even beyond.

A protracted period of low oil prices will naturally hit oil producers hard, primarily by eating into their revenues. Firms primarily engaged in exploration will also experience asset write-downs and/or be forced to put new projects on hold.

Downstream firms such as refiners and marketers usually benefit from lower crude prices. However, with economic activity restricted around the world, the impact of the decline in demand for finished petroleum products such as gasoline may offset their gains from lower input prices.

Smaller firms without sufficient oil-price hedging mechanisms in place and/or with already weak liquidity positions will suffer the most.

***Shipping***

The collapse in global economic activity and trade will hit the shipping industry hard by weighing on demand—dock activity in major container ports in China, the world's biggest exporter, has already dropped by more than 50%. Attempts by governments around the world to limit the spread of covid-19 will also create logistical challenges, as cargo ships and their crew members become caught up in border closures.

The virus-related disruption will compound the challenges of what is already a stressed industry. A spike in shipbuilding during the easy-credit years of the early 2010s led to the build-up of a capacity glut that has yet to dissipate, weighing on prices. New international regulations introduced in January to limit the level of sulphur content in bunkering fuel have also pushed up costs for shipping firms. Small or medium-sized firms with pre-existing vulnerabilities may go bust.

However, the crash in oil prices will offset some of the challenges faced by the shipping sector, while firms that own or operate oil tankers are already benefiting from the sudden glut of crude on the international market.

***Telecoms***

Telecoms will be one of the least-affected sectors. It may even benefit from an uptick in the use of mobile-telecoms and broadband services during lockdowns, although a preponderance of subscription-based revenue models in developed countries and a lack of capacity could limit the benefits from any increased demand.

However, weak—or negative—economic expansion rates will cause uncertainty for business planning and are not positive for longer-term revenue growth in the sector. Fixed-asset investment programmes such as 5G rollouts and repair and upgrade work will be put on hold due to logistical and supply-chain disruptions and to delays in securing government approvals.



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***Tourism***

Country lockdowns, closed borders and airline bankruptcies will cripple global tourism, travel, leisure and hospitality. The country's most vulnerable will be those where tourism contributes the greatest amount of GDP. This includes Mexico, Costa Rica, Cambodia, Croatia, Greece, Hong Kong, Iceland, Jamaica, Lebanon, Morocco, Panama and even Thailand—a country long seen as having one of the most resilient tourism sectors to disruption and turmoil.

Other economies with significant tourism sectors include Austria, Jordan, New Zealand, Nicaragua, Portugal, Spain, Tunisia, Turkey, Vietnam and the Dominican Republic. Island economies from Malta to the Maldives and from Fiji through most of the Caribbean will also be hit hard. In the event of further spreading of covid-19, these islands may be better equipped to effectively seal their borders than other countries, but they often lack the hospital facilities of larger countries to deal with an outbreak.

***Utilities***

On top of operational difficulties caused by staff sickness and enforced isolation procedures, reduced economic activity will lead to the accumulation of significant arrears on payments owed by household and industrial customers to water, gas and electricity distributors (the non-payment chain will also affect firms involved in power transmission and generation). Utilities and the prices they charge are usually tightly regulated, which leaves them with limited scope to make up for a sudden drop in payments received.

Governments around the world will prioritise maintaining stable operations at utilities, most of which are crucial to social and economic stability. However, in emerging or frontier markets, governments may lack the funds or institutional capacity to conduct rescue operations in a timely and orderly manner, which could lead to utilities facing serious operational and financial difficulties and even becoming insolvent. Private firms may also be allowed to fail as scarce resources are directed towards state firms.

***Sovereign payment***

Declining government revenues due to reduced economic activity and a need to redirect spending towards tackling the covid-19 outbreak will combine to increase fiscal pressures on virtually every country. As is the case in most crises, those countries that suffer the most will be the ones who are in fragile positions to start with.

This includes countries with structurally weak economies, insufficient fiscal buffers, limited institutional capacity and/or narrow-based economies that are overly reliant on covid-19-affected industries (such as tourism) or commodities (particularly hydrocarbons) as sources of foreign-currency earnings and government revenues.

The IMF has pledged to support countries coming under pressure from covid-19. Countries already in IMF programmes can access additional funding (or receive temporary reform waivers) under their pre-existing facilities, and there are also two mechanisms available for providing rapid-disbursement short-term relief to, respectively, low-income and emerging economies facing imminent balance-of-payments pressures or debt-repayment difficulties. These funds are respectively worth $10bn and $40bn.



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Other multilateral lenders are also offering additional support—the World Bank has made $14bn available, while the Asian Development Bank (ABD) has pledged to provide $6.5bn. Developing countries may also be able to receive some form of debt relief on existing concessional borrowing (such as maturity extensions and extended grace periods).

Commercial investors, however, are unlikely to be so forgiving, particularly as many of them are already facing liquidity squeezes. Wide-ranging downgrades to sovereign credit ratings and a shock to international investor confidence in higher-risk—or even all—assets are likely to create challenges for countries reliant on international borrowing to support deficits and maintain government spending. Countries that for political or other reasons have more difficult relations with the IMF will also struggle to access emergency funds.

Countries that are facing very serious repayment difficulties at the sovereign level include Ecuador and Lebanon (which recently entered default on its international obligations).

A wide range of countries are likely to face elevated difficulties in meeting sovereign-payment obligations. These include Angola, Nigeria and the Ivory Coast in Africa; Mongolia, Iraq, Azerbaijan and Pakistan in Asia; and Argentina and El Salvador in Latin America.

However, their challenges will vary according to their various government's relationship with international creditors and the structural make-up of their debt loads (e.g. concessional vs commercial, maturity dates, external vs domestic). For at least some of them, international support and/or a prudent macroeconomic-policy response to the covid-19 outbreak will help stave off a full-blown crisis.

Countries which are not facing immediate balance-of-payments crises but for which covid-19 and associated economic impacts will likely accelerate a trend of continual fiscal weakening include South Africa, Bahrain and Oman.



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## Political risk insurance perils

***War and Political Violence (PV)***

Clear data is already starting to emerge over which government policies from around the world have been effective and which have not. When it transpires that the actions of some governments have led to higher numbers of fatalities and/or company bankruptcies there is the potential for a rise in strikes, riots and civil commotion, ranging from work sit-ins and work stoppages by distressed employees to public protests with the potential to turn violent.

Given that large gatherings will likely be poorly attended when the risk of public infectiousness remains high, those who would otherwise protest may also seek different means of expressing their discontent. Some groups, including rapidly formed communities connecting online (especially during public lockdowns) may seek to take more radical action than simple protests. As a result, cyber security protests such as the hacking of official websites may take place. We could see the emergence of new civil action groups which could become relevant actors in the global PV environment long after the current outbreak has been contained.

Radical Islamist groups such as those affiliated with the Islamic State movement have warned their members to avoid infectious areas for the time being. Coupled with a reduction in attractive Western targets (such as areas where large numbers of people gather), this is likely to temporarily lower the risk of mass-casualty attacks.

It will be near impossible to contain the virus in conflict zones. This will have varied impacts. In some situations, long-standing threat groups could be critically weakened. Senior leaders could succumb to the virus and leave their organisations in disarray. From drug cartels in Mexico to the remnants of Islamic State in Iraq and Syria, we could see disruption to many organisations—as well as the security forces and governments trying to tackle them.

The global economic turmoil could also spur on the US industrial military complex to seek new sales opportunities for weaponry and other military services. Fomenting a conflict in a region such as the Persian Gulf would serve this purpose. While the covid-19 outbreak may have temporarily distracted the world from tensions in the region it might not be long before we see a return to the risk of conflict and conflagration, affecting not just Iran, Saudi Arabia and the US, but also Iraq, Syria, Yemen, the Gulf monarchies and a range of international economic and diplomatic dynamics. The result of this will be a global shift away from supporting the US towards a more cohesive global order—unless of course the president of the US over the coming five years drastically alters the trajectory of the country's diplomatic, economic and domestic strategic direction—which remains a distinct possibility.

***Confiscation, expropriation, nationalisation and deprivation (CEND)***

The combination of urgency, public pressure and economic difficulties could prompt some governments to take drastic action against the private sector, including the forced nationalisation of entities deemed strategic or the requisition of private-sector assets deemed necessary for virus-response efforts. This could include airlines, healthcare facilities, transport infrastructure, utilities, telecoms companies, pharmaceuticals manufacturers and firms engaged in the production, transportation and distribution of various essential goods.



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Countries with solid fiscal positions and governments that are generally respectful of private property rights will provide appropriate levels of compensation to affected investors and/or undertake such action within pre-existing legal frameworks, lowering the risk of actions that could be covered under a CEND policy.

However, for countries that are institutionally weak, lack the fiscal resources to provide sufficient compensation, are ruled by governments ideologically predisposed towards seizing private assets or have vague legislation covering expropriation in times of national emergency, there is a greater potential for state-investor disputes. Many of the disputes may not emerge for some months, when the crisis has begun to recede and negotiations over how to calculate losses and compensation become challenging.

***Currency inconvertibility and exchange transfer (CI/ET)***

The rapid spread of covid-19 has sparked a range of emergency state interventions in economies around the world. In some countries, this could include restrictions on buying foreign exchange or on moving it out of the country in order to prevent excessive currency depreciation and an associated spike in inflation due to imports becoming more expensive.

Emerging economies with current-account deficits supported by regular short-term capital inflows are most vulnerable to currency depreciation as international investors flee assets perceived as risky. A spread of covid-19 throughout the developing world could amplify this effect, particularly if it occurs at the same time as the situation in developed countries begins to stabilise. Countries dependent on oil exports to earn foreign currency will also suffer.

Within this group, countries ideologically or historically predisposed to controlling capital flows are more likely to introduce new restrictions, as are countries dependent on imports for essential items such as food, fuel and medicine. Countries with pegged or semi-pegged currencies and low levels of foreign-exchange reserves will be particularly incentivised to restrict foreign-exchange outflows.

Countries for which there is a higher risk of currency inconvertibility include those where there is significant recent precedent, such as Argentina, Nigeria and Angola. Potential cases for unprecedented actions are Turkey and Oman.

***Contract frustration (CF)***

Fiscal pressures, economic uncertainty and logistical disruption will force many countries to cut public investment. Infrastructure projects considered non-essential and of low priority could be mothballed. Defence procurement could be put on hold.

Weakening sovereign finances in many countries will harm governments' abilities to bail out state-owned enterprises, particularly those in industries deemed less important to tackling the covid-19 outbreak or supporting basic economic activities. Explicit or implicit state guarantees for payment obligations of state-owned enterprises will lose their value, which could lead to downgrades of state firms' credit ratings.

The risks will be more pronounced in countries whose economies are more exposed to the fallout from the crisis, those that already have weak fiscal positions and those under governments with a track record for—or political inclination towards—taking a lax approach towards their contractual obligations.



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Contractual disputes could also emerge as both investors and states use the covid-19 outbreak as an excuse to avoid meeting obligations they had already been trying to escape.

***Comprehensive contractors plant insurance (CCP)***

The closure of borders could trigger CCP claims in the event that assets become inaccessible in certain jurisdictions. While different countries grapple with the spread of the virus, many are likely to be caught off guard and will struggle implementing the raft of measures that can help tackle the outbreak (such as testing, tracking, monitoring and the provision of healthcare). Extended border closures may therefore be seen as a necessary step for governments struggling with other options. This in turn could leave assets stuck, as well as un-monitored, unprotected and vulnerable to neglect or even criminality and political violence.

***Business Interruption (BI)***

Forced government shutdowns could trigger a range of business interruption claims. However, companies in strategic sectors where employees are able to obtain permission to continue going to work in non-crowded conditions with a lower risk of infection (such as the oil and gas sector) are much less likely to be affected.

***Event cancellation***

Naturally, international clampdowns on movement, plus the high risk involved in gathering large numbers of people will incur a major risk for events management. Cultural, religious, sporting and entertainment events will all be vulnerable to cancellation, both at short notice, as well as for months into the future.



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## Response and resilience

***Health-care systems***

The stress of the covid-19 outbreak will starkly reveal which countries have the best health-care systems. As a result of likely damning reviews in certain countries, electorates may increasingly vote for parties and politicians that advocate higher healthcare spending in the future. There could be a significant change in attitudes towards public spending in both the UK and US for example.

Remote working may increasingly apply to the healthcare profession, for both doctors as well as patients. Many interactions will increasingly take place online, at least for things such as initial screenings and consultancy.

Public responses to future outbreaks will likely be swifter in the future. There will be more acceptance of the need for rigorous standards of hygiene, better individual-level planning and acceptance of disruption.

***Cultural impact***

Bosses will be forced to accept more widespread flexible working policies. Indeed, many will embrace it as it eventually leads to benefits such as lower overall operating costs and reduced turnover of staff.

Telecommuting will become increasingly normal. The need, and indeed desire for shared physical workspaces and face-to-face interactions between colleagues and clients will certainly not dissipate. Relationship building and the range of tasks which excel with non-verbal communication (everything from business development to activities on the Lloyd's of London underwriting floor) will still be enhanced by face-to-face interaction. Nonetheless, working remotely will become more acceptable for many job roles.

***Company resilience and crisis management***

A reported 88% of British SMEs have continuity planning in place. However, less than half of those firms have actually tested the plans. Untested plans are not worth the paper they are printed on. Furthermore, upon testing these plans it quickly becomes evident to any organisation that there is no such thing as a one-size-fits-all crisis-management plan. It needs to be as unique as the people, processes, vulnerabilities and vital assets of the organisation.

A. Kain and Partners LLP has years of experience guiding organisations through the crisis management process. Our intelligence-led approach helps our clients prepare thoroughly for the scenarios most likely to interrupt their business. If you would like to contact us to discuss our intelligence products, crisis management planning or any of our other risk mitigation services you can reach us at +44 (0)1432 513108 or office@akpllp.com.

*The contents of this white paper are the result of our initial analysis on an extremely complex, wide-ranging and fast-changing situation. If you require any further analysis or more specific research, please get in contact.*