ZURICH RISK WATCH

Recovery and growth in the post-COVID-19 world

March 2020

Welcome to the March edition of the **Zurich Risk Watch**, your **Zurich Risk Room** newsletter!

In this edition we take a deeper look at COVID-19 and its implications for the business sector. We look at the currently required immediate response actions, as well as on potential long-run recovery and growth strategies for the post-COVID-19 world. Using the Zurich Risk Room, we aim to provide senior managers, C-suite and Board members with COVID-19-specific country risk insights in order to facilitate strategic decision making. Using the Zurich Risk Room, these scenarios can be further modified according to each organization's corporate environment and strategy.

If you would like more information, please contact us at riskroom@zurich.com and we'll be happy to help you.

Enjoy this edition of the Zurich Risk Watch!

Your Zurich Risk Room team

For further information about the Zurich Risk Room, please also visit our website.

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COVID-19: A global crisis

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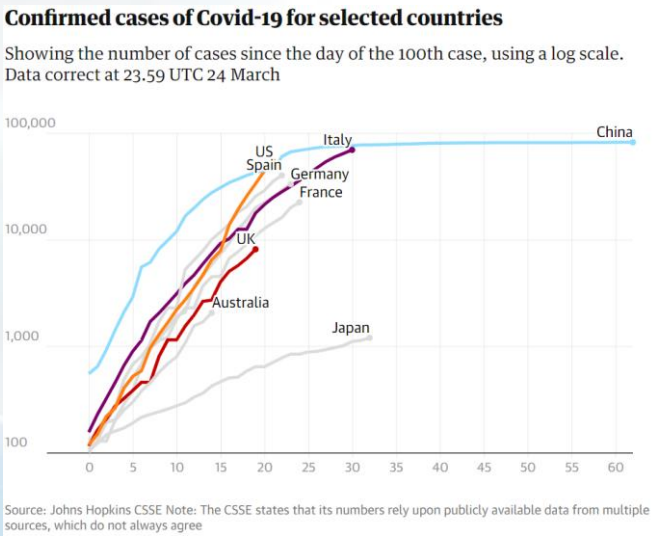
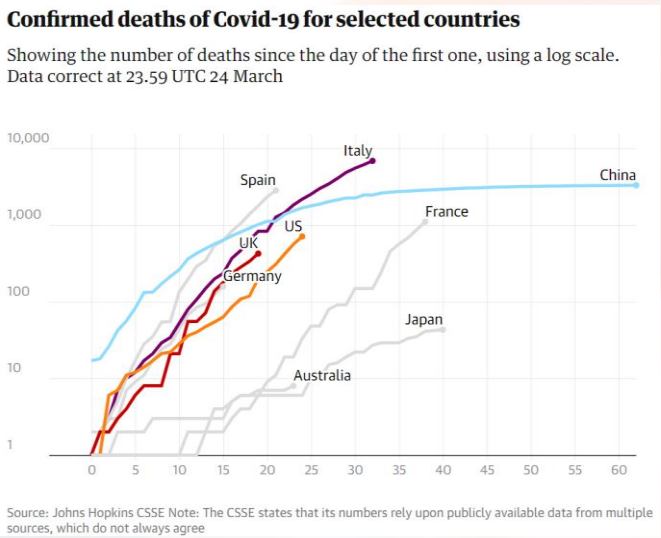
OVERVIEW

COVID-19 became a **global crisis with drastic social impact…**

- Outbreak **started in China**, now spreads **around the world**
- World Health Organization declared Coronavirus outbreak a "**pandemic**" on 11 March
- More than **430'000 reported infections**, more than **19'000 deaths** as of 25 March…and numbers **increasing**.
- But also more than **110'000** people already **recovered**!
- China, U.S. and various European countries currently **most affected** by COVID-19, Italy now with highest number of deaths





Source: The Guardian; 25 March 2020

IMPACT

Political

- Macron declares France **"at war" with virus**, as E.U. proposes 30-day travel ban (New York Times)
- **Stress test** for the U.S. and the E.U. (Washington Post)
- Xi Jinping sought to **portray China's efforts** as an example for the world as infections spread globally (New York Times), **Iran** to struggle (New York Times)

Economic

- **USD 1 trillion** global economic loss expected in 2020 (United Nations)
- **Slow-down** in global GDP growth to 1-1.5 percent and **recession risk** expected (S&P Global)
- Substantial **economic stimulus packages** in the U.S: (Washington Post), Europe (Financial Times) and other parts of the world

Business

- **Supply chain disruptions** around the world, full impact yet to come (McKinsey)
- Falling passenger demand to cost airline industry **up to USD 29.bn in 2020** (The Guardian)
- US small businesses **at verge of collapse**: "Please send money fast or we'll be out of business" (NPR)

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Recovery and growth in the post-COVID-19 world

Zurich Risk Room country risk insights to facilitate strategic planning

As senior decision-maker in your organization, the current COVID-19 crisis confronts you with the challenge to understand the COVID-19 risk environment and how this impacts on your business. You also need to implement prompt actions to manage and steer through the crisis, and at the same time conduct long-term strategic planning for subsequent recovery and growth. In order to help you managing these challenges, we provide you with COVID-19-specific risk insights and how these impact across your countries of operation by using the Zurich Risk Room. You can reconcile and further amend these risk insights according to your company-specific requirements by using your version of the Zurich Risk Room. We also provide you with a number of possible, immediate response actions, which we derived from a recent Gallup survey across 100 of the world's largest companies. Finally, we also provide you with potential implications to be considered for your long-term strategic planning.

METHODOLOGY

COVID-19 risk categories → Risk assessment → Business implications

Define COVID-19-specific risk categories

- Healthcare and wellbeing
- Governance, institutions and sovereign risks
- IT infrastructure and technology
- Crisis response and resilience

Assess COVID-19 risks across selected countries

Choose 30 largest countries worldwide based on their GDP

Rank countries according to COVID-19 risk category and across all categories

For each COVID-19 risk category, provide...

...immediate response actions

- *How can we protect our employees?*
- *How and what do we communicate internally and externally?*
- *How do we keep our operations running?*
- *How can we rearrange our supply chain and production processes?*

...potential long-term strategy implications

- *In which countries are we most at risk, where do we need to focus?*
- *How can we keep our customers and win new ones?*
- *What does this imply for our supplier network?*
- *What did we learn and how can we protect us against future crises?*

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Recovery and growth in the post-COVID-19 world
Overview

The following overview ranks the 30 largest economies in the world (as measured by their GDP) according to their COVID-19 exposure – both at the level of each COVID-19 risk category and overall. You find details for each risk category as well as potential implications for your business on the following pages.

	Country risk*	Healthcare and wellbeing	Governance, institutions and sovereign risks	IT infrastructure and technology	Crisis response and resilience	Overall
HIGH (Max – Q2)		India, Turkey, Nigeria, Iran, Algeria, Thailand, China, Russia, Saudi Arabia	Argentina, Mexico, Turkey, Iran, Algeria, Brazil, Nigeria	Argentina, Iran, Algeria, Nigeria	Russia, Algeria, Nigeria, Iran	Brazil, Russia, Iran, Algeria, Nigeria
MEDIUM (Q2 – Q1)		South Korea, Argentina, Mexico, Indonesia, Brazil	Spain, Saudi Arabia, China, Italy, Indonesia, Thailand, India, Russia	Indonesia, Turkey, Mexico, Brazil, India	Mexico, Turkey, India, Brazil, Italy, Argentina	Indonesia, Italy, Thailand, Saudi Arabia, Mexico, India, Turkey, Argentina
LOW (Q1 – Min)		Norway, Australia, Switzerland, Netherlands, Sweden, Austria, Germany, U.K., Canada, Belgium, France, Italy, Spain, Taiwan, Japan, U.S.	Norway, Switzerland, Netherlands, Sweden, Germany, Canada, Australia, Austria, Japan, U.K., Kingdom, Belgium, Taiwan, South Korea, U.S., France	U.S., Germany, China, Sweden, Japan, Netherlands, U.K., France, Switzerland, Taiwan, South Korea, Norway, Australia, Canada, Belgium, Austria, Saudi Arabia, Spain, Thailand, Italy, Russia	Switzerland, U.S., Japan, Germany, Sweden, U.K., Norway, Netherlands, Taiwan, Austria, Canada, Australia, Belgium, France, South Korea, Saudi Arabia, China, Thailand, Spain, Indonesia	Switzerland, Norway, Germany, Sweden, Netherlands, U.S., Japan, U.K., Australia, Canada, Austria, Taiwan, Belgium, France, South Korea, Spain, China

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* Country risk is measured by "ZRR Rank" which is the rank of each country among all 174 countries in the Zurich Risk Room. Countries in the first (rank 1-43) and second quartile (rank 44-87) of the total country distribution are considered low and medium risk respectively. Countries in the third and fourth quartiles (rank 88-174) are considered high risk.

Recovery and growth in the post-COVID-19 world
Healthcare and wellbeing

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DESCRIPTION

COVID-19 affects healthcare systems worldwide, pushes these close to (and often beyond) their capacity limits, and severely threatens their ability to care for their patients – affected by COVID-19 and other diseases alike. Countries, which already had poor healthcare systems before the crisis, generally higher health risks in combination with a relatively old population are usually most affected by the current outbreak. Likewise, a country's social capital, including its degree of social cohesion and engagement, and community and family networks, is a key factor that impacts on how well the current crisis can be managed. When operating in such markets, you need to be aware of such factors in order to understand how you can best protect your employees, both in getting medical help if required and in being socially integrated to go through the crisis.

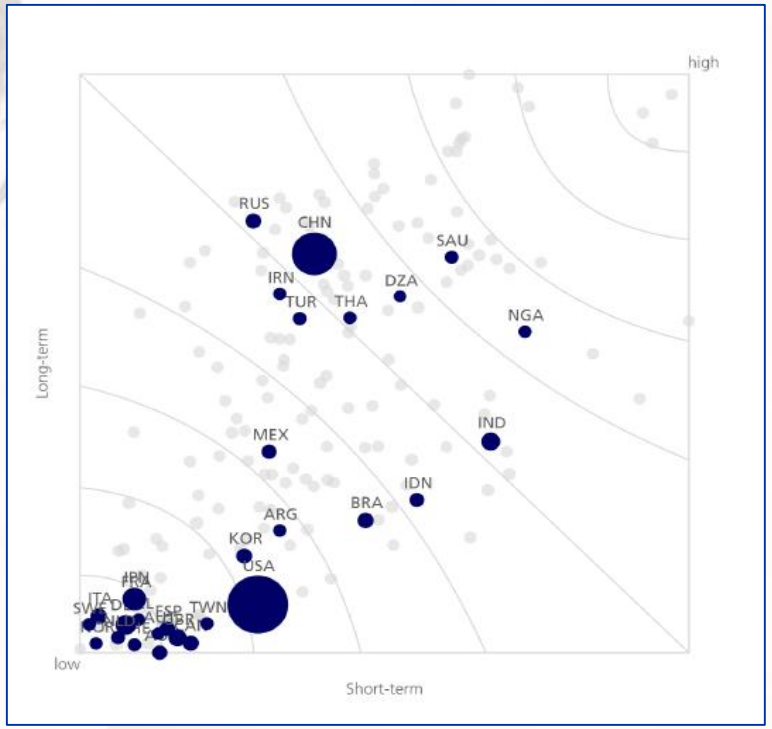
IMPLICATIONS FOR YOUR BUSINESS

Immediate response actions

- Promote social distancing in the office space and adopt flexible work schedules in order to avoid busy commutes and enable childcare if schools are closed.
- Promote home office, restrict business travel and advise against personal travel.
- Establish protocols to be followed if an employee is diagnosed with COVID-19. Ask employees to log contact in order to inform others about potential exposure.
- Offer options for paid or unpaid time off, and consider employee mental health services for stress management.
- Approve budget for additional paid time off while revising employee compensation and benefits.

Long-term strategy implications

- Implement employee hygiene and disease awareness programs, incentivize employees for participation.
- Identify key people risks to ensure that every employee has at least one fully qualified deputy, facilitate documentation of key operational processes and periodic handover exercises.
- Address the needs and requirements of employees with potentially higher disease exposure, for example by assigning less exposed office space and more flexible working models.
- Revise your company's physical infrastructure, such as air ventilation systems, air conditions, office, factory and canteen spaces, etc. in order to limit exposure to bacteria and virus circulation.
- Invest in onsite medical teams – depending on your company size also in collaboration with other companies residing in proximity – for immediate medical support, screening and testing.



Source: Zurich Risk Room

ZRR RISK FACTORS

Short-term risks	Long-term risks
Workers' Rights	Social Capital
Access to Healthcare	Human Rights
Overall Health Risk	Life Expectancy
Demographic Shifts	

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Recovery and growth in the post-COVID-19 world
Governance, institutions and sovereign risks

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DESCRIPTION

The role of governments is key in times of crises such as the current COVID-19 pandemic. Governments around the world are taking drastic measures to restrict or at least slow down further spreading of the virus. Governments' ability to act is not only bound by their budget, but also by the quality and stability of political institutions and their populations' willingness to follow official rules. The political environment, including the risk of politically motivated unrest, but also sovereign debt risks will critically impact a country's ability for managing the crisis. As a company you often strongly depend on local governments in helping the economy survive the crisis financially as well as ensuring a politically stable environment for recovery. It will be key that businesses are able to access state instruments effectively and that the measures taken are sustainable.

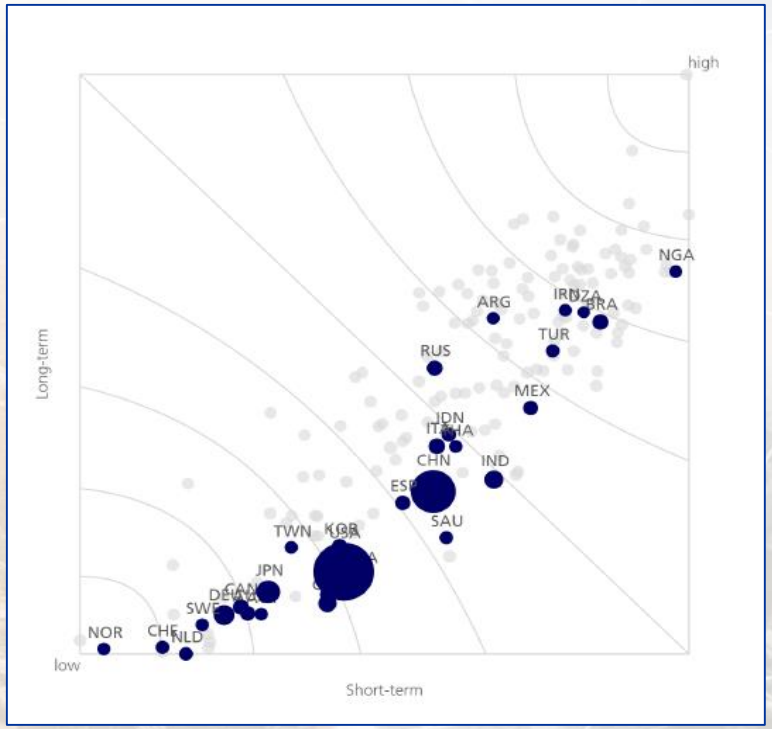
IMPLICATIONS FOR YOUR BUSINESS

Immediate response actions

- Utilize short-term disability, family leave or other existing benefits.
- Use back-up care programs, childcare subsidies or other dependent care benefits.
- Pay for time spent under quarantine.
- Adjust work schedules due to school closures.
- Issue FAQ guides, including links to authorities and external organizations such as the Centers for Disease Control and Prevention, the World Health Organization, Johns Hopkins University, local governments and outbreak maps.
- Remind workers to get information from credible organizations and urge employees not to panic or spread rumors.

Long-term strategy implications

- Monitor your exposure to sovereign debt and inflation risks.
- Assess your business' dependency on state aid and put countermeasures in place in order to offset declining financial support and adverse measures imposed by local governments.
- Effectively engage in industry groups and other bodies in order to keep dialogue with local governments and regulators ongoing, and go through times of crises, recovery and subsequent growth together.
- In case you deem political violence to be a possible outcome, put measures in place that will keep your employees safe and enable them to work remotely.
- Raise awareness among your employees to the dangers of corruption and crime during fragile economic recovery.



Source: Zurich Risk Room

ZRR RISK FACTORS

Short-term risks	Long-term risks
Political Violence	Independence of Judicial System
Government Effectiveness	Rule of Law
Good Governance	Future Orientation of Government
Fiscal Austerity Risk	Public Debt Dynamics

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Recovery and growth in the post-COVID-19 world
IT infrastructure and technology

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DESCRIPTION

COVID-19 has drastically changed our current way of living and working across most countries worldwide. Social distancing and remote working have become the "new normal", at least for months to come. This emphasizes the importance of information technology to enable continued communication and collaboration, as well as reliable electricity supply. You need to be aware of technology factors, such as coverage with internet access, available bandwidth and mobile phone subscriptions, in your countries of operation in order to understand how well your company can navigate through the current crisis. Likewise, you need to consider aspects of a country's innovation openness and capacity, and its capability to adopt new technologies as these will be critical factors for how quickly a country can navigate through and out of the crisis by new innovations.

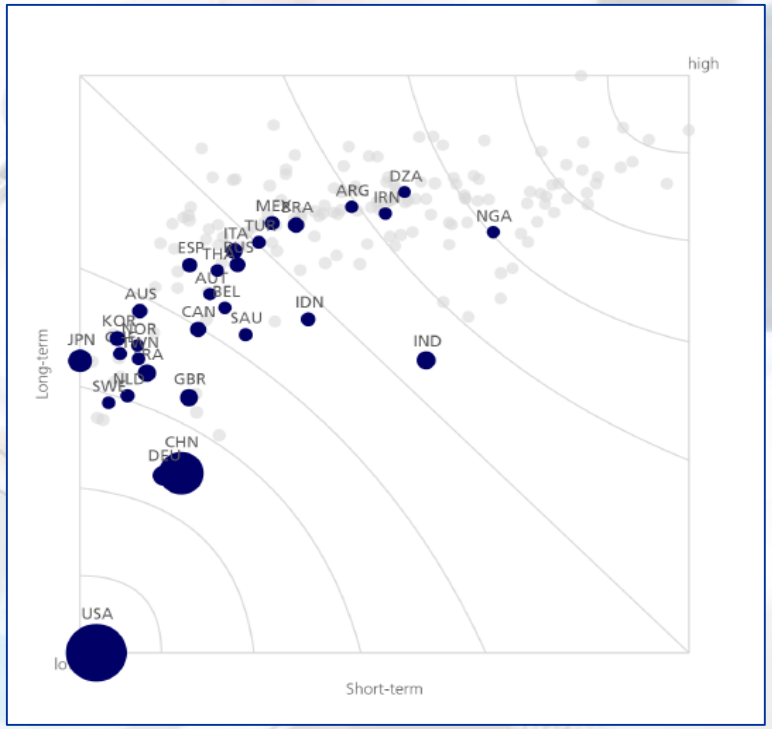
IMPLICATIONS FOR YOUR BUSINESS

Immediate response actions

- Conduct business using virtual, video or audio capabilities.
- Enable technological (e.g. remote work) capabilities, emergency notification systems and update employee contact information.
- Instruct employees to take their laptops or other portable equipment home each night.
- Devote IT staff to help employees set up remote connections at home, if necessary on employees' personal computers.

Long-term strategy implications

- Implement a long-term IT innovation strategy, including earmarked innovation budget and a Chief Information Officer reporting directly into the Executive Board of your company.
- Stress test your IT infrastructure by conducting periodic, holistic home office / remote working exercises. Identify IT weaknesses and critical interdependencies, resolve these by additional IT investment and infrastructure diversification. IT resilience shall become a regular part of your BCM exercises.
- Scrutinize your entire supply chain for potential innovation bottlenecks, ensure that your supply chain can accommodate short-term capacity constraints and adjustments to production processes.
- Engage with industry peers, government agencies, universities and other research centers in order to build innovation clusters in order to enable mutual IT and other technology support, as well as joint innovation in times of crises and beyond.



Source: Zurich Risk Room

ZRR RISK FACTORS

Short-term risks	Long-term risks
IT Infrastructure	Innovation Capacity
Electricity Supply	Openness for Innovation
Telecom Infrastructure	Government Procurement of Advanced Technology Products
Capacity of Technology Adoption	

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Recovery and growth in the post-COVID-19 world

Crisis response and resilience

DESCRIPTION

The nature and flexibility of a country's business environment and its financial sector impacts on how well crises such as COVID-19 can be managed by your business and how quickly recovery could take place. Recognizing potential opportunities and anticipating upcoming challenges is key to successfully manage and grow out of the crisis. You need to be aware of the local, regional and global supply chain exposures of your business, the competitive structure as well as financial markets in your countries of operation. This will enable you to start revising your supply chain, maintaining your customer base and adapting to the nature of the business environments in which you operate. After the COVID-19 crisis, and once consumption and the overall economy will reboot this will enhance your companies' ability for timely delivery at the right level of quality.

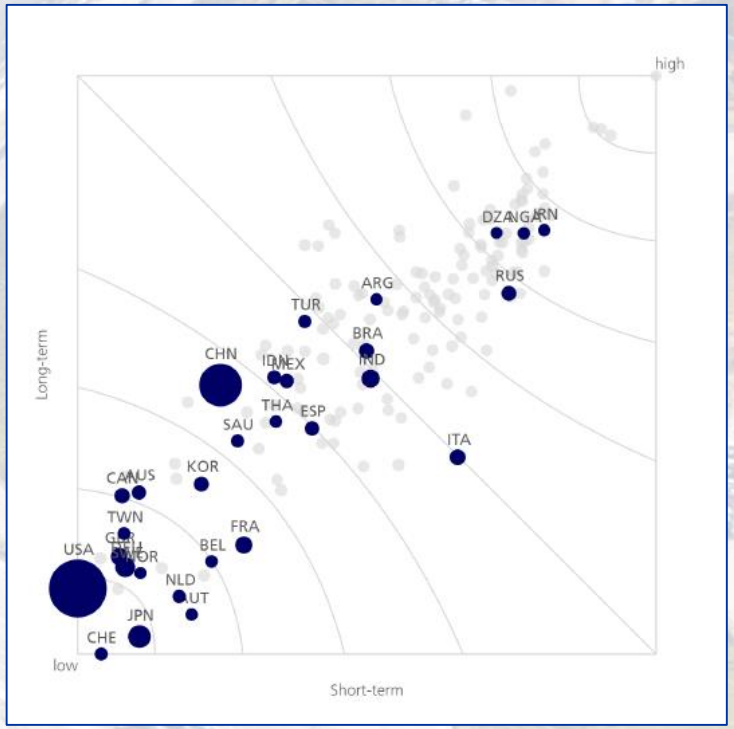
IMPLICATIONS FOR YOUR BUSINESS

Immediate response actions

- Set up task forces for COVID-19 awareness, prevention, management and hygiene practices.
- Internal and external communication related to organization's COVID-19 response.
- Reduce to business-critical operations only, move critical operations to unaffected regions.
- Document business-critical processes or procedures and cross-train team members to perform critical functions.
- Develop succession contingencies for all major executives, establish management protocols and business continuity plans for current and future responses.
- Prepare for shortages, additional budget for supplies, transportation delays or communication delays.

Long-term strategy implications

- Diversify supplier base, consider insourcing of business critical functions.
- Monitor your supply chain to identify potential upcoming gaps, ensure forward looking and diversified capacity planning and stock building.
- Define and invest in your competitive advantages, related to your customers, employees and competitors.
- Proactively communicate with investors, banks and credit facilities, reassuring them of your strategy and business model to convince them of continued support even in periods of prolonged distress.
- Continuously update existing customers to keep them during the crisis and for the time beyond.
- Diversify your customer base, explore new business opportunities and flexible operating models.
- Periodically assess your exposure to finance partners and monitor indicators such as your banks' and trading partners' solvency, which enables you to react timely in case of increased default risks.



Source: Zurich Risk Room

ZRR RISK FACTORS

Short-term risks	Long-term risks
Financial Market Development	Nature of Competitive Advantage
SME Financing	Production Process Sophistication
Logistics Performance	Soundness of Banks
Non-performing Loans	Quality and Quantity of Local Supply

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