

# Risk Management Webinar

8 October 2020



# Agenda



10:00 – 10:05

## **Chairman's Welcome**

Joanne Buckle

10.05 – 10.25

## **ORSA COVID scenario analysis**

George Barrett

## **Questions**

10.30 – 10.50

## **Operational resilience**

Fred Vosvenieks

## **Questions and wrap up**

# Covid-19 & the ORSA

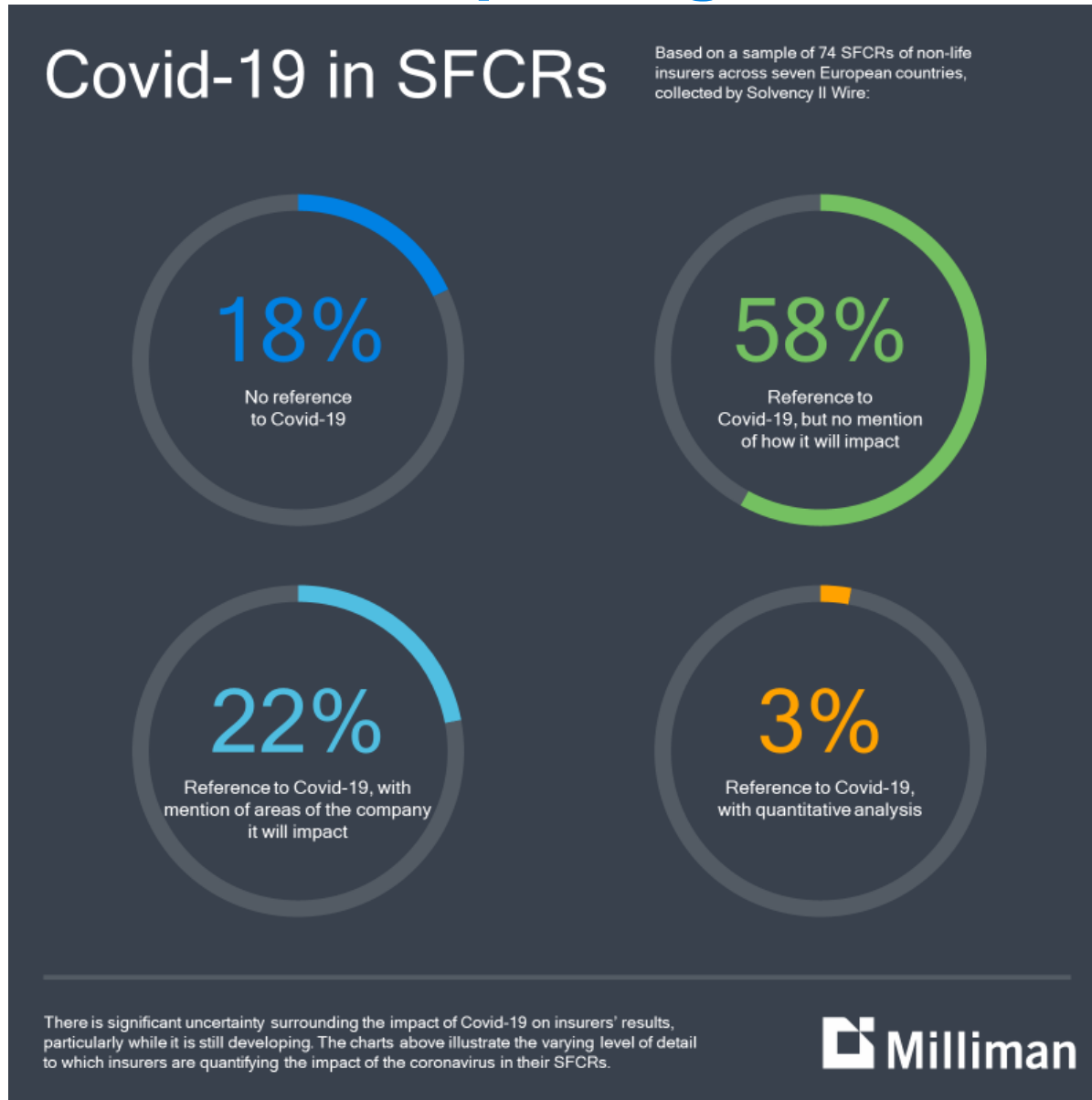
Based on the Milliman white paper

“COVID-19 ORSA guide: Understanding risk within the ‘new normal’”

George Barrett



# Introduction: Covid-19 & Reporting



# The Covid-19 ORSA Guide

## Aims

- Framework for considering Covid-19 related risks within central and stressed business planning.
- Examples of possible events which could influence business outcomes.
- Identify key explicit & implicit variables:
  - Future spread & resurgence
  - Governmental reaction, policy-making, and political disruption
  - Economic impacts
  - Adaptations of the insurance industry

# The Covid-19 ORSA Guide

## Covid-19 and business planning

- Financial projections are a key part of the ORSA
  - 3-5 years
  - 12-18 months of unprecedented immediate uncertainty
  - Explicit financial assumptions contain **implicit** assumptions about Covid-19
  - ORSA can be used to explore the uncertainty and confirm robustness
  - Not sufficient to just be purely prudent
- Changes to risk management frameworks
- Changes to business practices and operations

# The Covid-19 ORSA Guide

## Key implicit variables

- The virus
  - How does it spread? How can it be identified?
  - Will treatments and preventative measures be available, and when?
- How will governments and other bodies respond?
  - How will day-to-day life be affected?
  - What will the response of regulators be?
  - How will the public respond?
- What will the wider economic impacts be?
  - Recession, and nature of recovery
- How will the insurance industry adapt?
  - Digital transformations accelerated
  
- These are not typically parameters in the ORSA model, so need to be considered when setting other assumptions, and tested accordingly.

# The Covid-19 ORSA Guide - Central Views

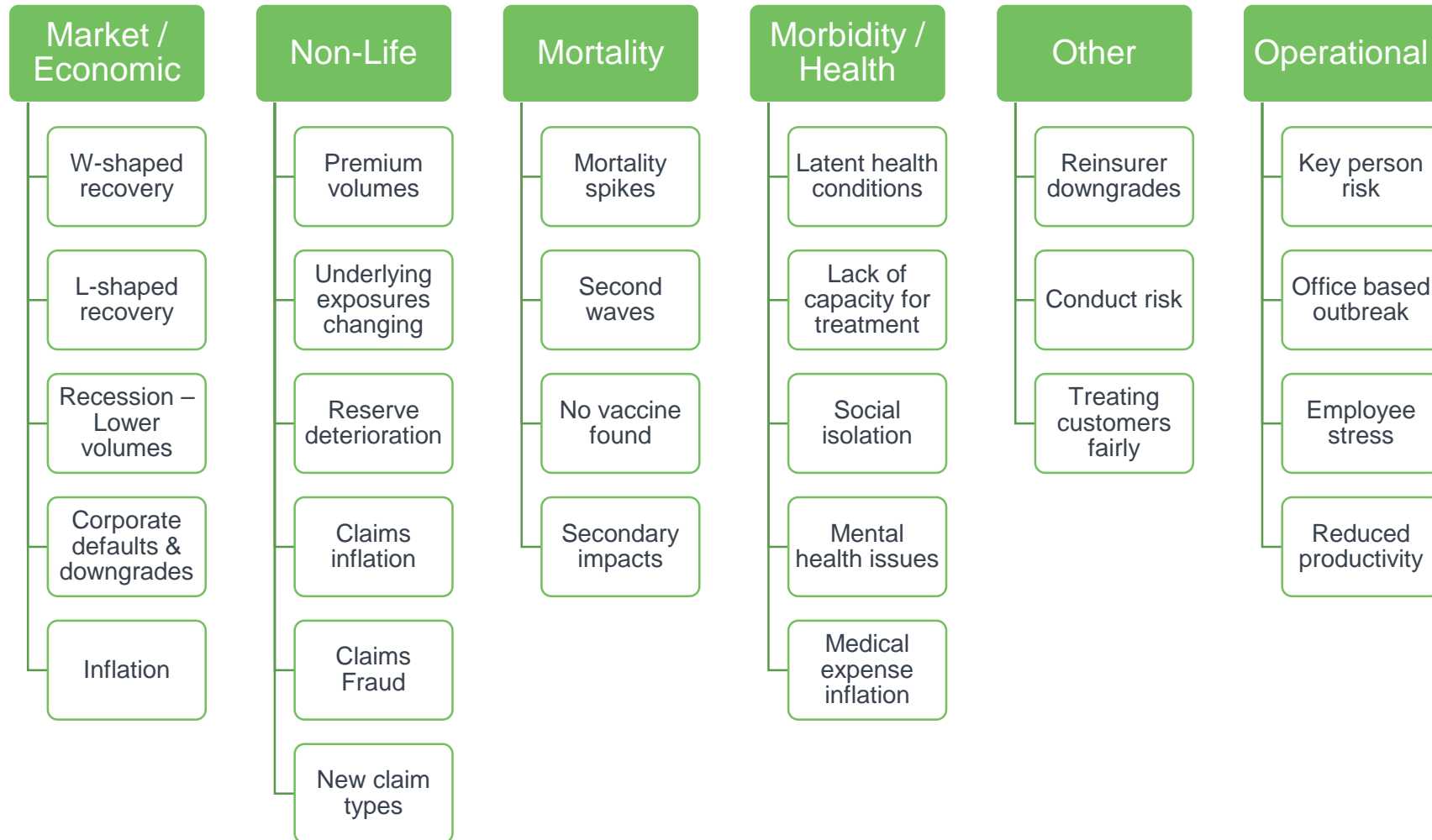
## Actual vs Expected

Expected	What has happened since	Future outlook
Sharp, deep recession	UK economy shrunk by 20% in Q2 US shrunk by 30% (annualised)	Recoveries observed following initial dips, but further drops could follow further lockdowns.
Increased bankruptcies/defaults	S&P: European corporate defaults have surpassed their Great Financial Crisis levels and reached a historical high of 23.	Challenging conditions set to continue.
Structural unemployment	UK unemployment rate remained constant from 2019.	Situation likely to worsen if furlough schemes are not extended.
Restrictions in cross-border movement of people and goods	Countries introduced selective travel corridors, and mandatory quarantines.	Appear to likely to be in place over the medium term, with policies rapidly changeable.
Short term reduced inflation	CPI index fallen since 2019	Uncertain, supply shortages due to the recession could lead to higher inflation.
Increased mortality + morbidity	61,400 excess deaths in the UK since the start of the COVID-19 pandemic, but deaths in August remain around historic average levels.	A second wave of the virus, of any magnitude, could lead to further excess deaths.
Drop in premium volume for some non-life business	US 2020Q2 figures show 8% drop in earned premiums, and 6% drop in losses from 2020Q1.	Line-specific, but companies now have 6 months of data to feed into business planning.
Adverse claims and reserve movements for some non-life business	Total Covid-19 related losses estimated in the tens of billions.	Depends largely on the amount of time for which the virus persists.
Increased cyber-breach activity	Difficult to quantify, but industry publications suggest increases in attacks – particularly phishing attacks and ransomware.	Would be expected to continue to be linked to the extent of home working.



# The Covid-19 ORSA Guide – Stressed views

- Scenarios for each company will be different, and depend on the key variables to their business plans & models.



# Developments since the Guide was written

## Looking forward

- Second wave of cases across Europe but lower mortality rate.
- US first wave remains consistently high, although deaths peaked in April.
- Governments taking action into winter to restrict spread.
- Covid-19 business interruption test case initial judgments found in favour of policyholders in majority of key issues.
- Many business have closed doors.
- Individual lifestyles adapted, may not revert back.
- Wide array of publications and sources to inform judgements.

# The Covid-19 ORSA Guide

## Framework

- Develop a central narrative:
  - 3-5 years
  - Virus characteristics, economy, society, environment
  - Bring implicit assumptions to the fore
- Identify variables of greatest impact, uncertainty and of greatest risk to the objectives
- Build scenarios:
  - Design stresses and scenarios to reflect the uncertainty in the business plan
  - Develop novel scenarios that involve aspects or dynamics that the business has not previously considered
- Iterate and improve
- Capture and use new data

# Operational resilience

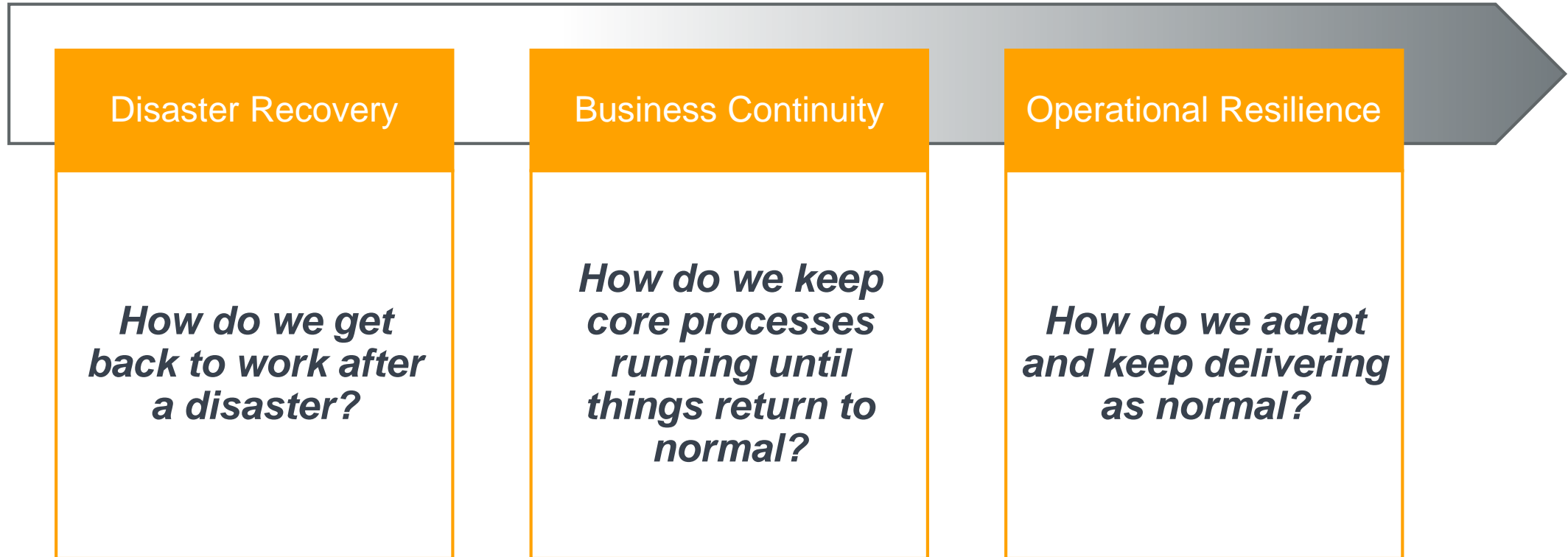
Insight from the COVID-19 crisis

Fred Vosvenieks



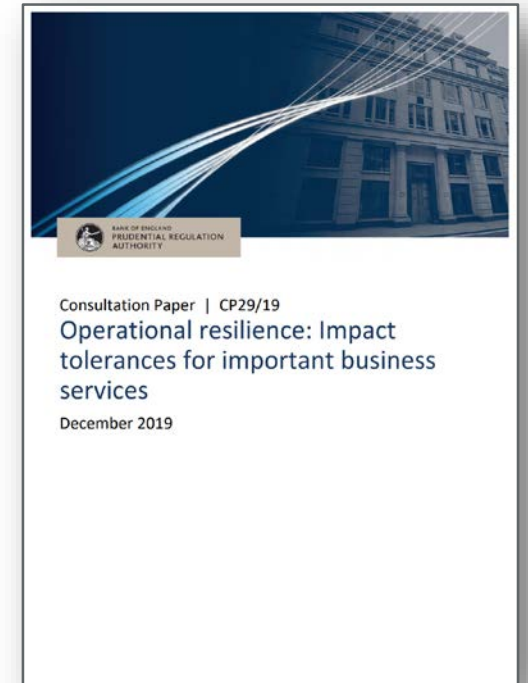
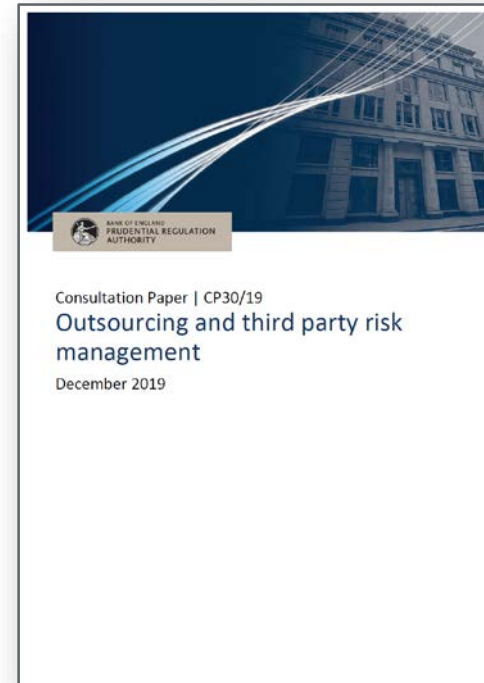
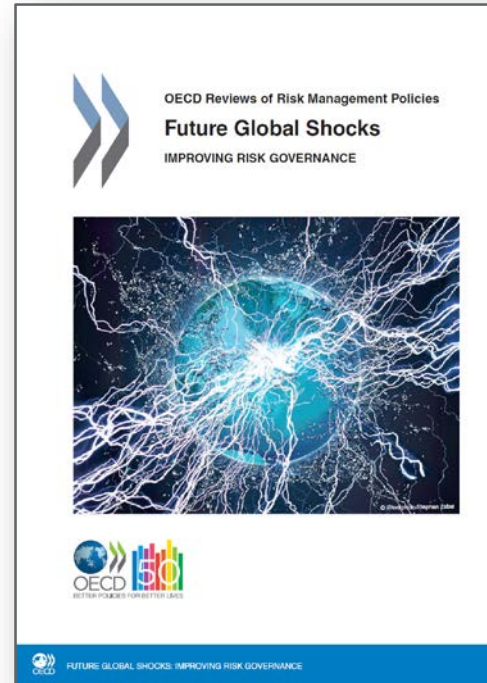
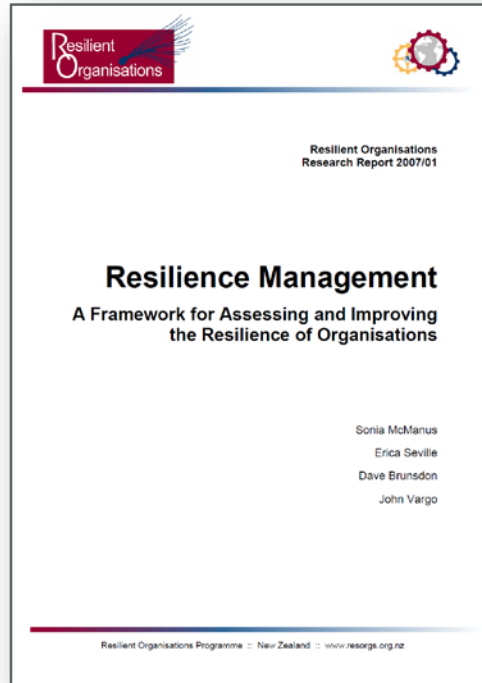
# Operational Resilience

*OR in context*



# Operational Resilience

*Industry insight and regulatory expectations*



# Operational Resilience

*Dimensions of OR*



# COVID-19 and Operational Resilience

*3 key phases to consider*



## Lockdown

- some firms waited too long to act
- operational risk profile and resilience changed overnight
- insight: vulnerabilities, underlying assumptions, critical services
- challenging to be in crisis management mode and plan for the future

## Transition

- uncertain start point
- gradual / staggered transition
- could go backwards (quickly)
- phasing out of temporary measures

## New Normal

- what does the new business-as-usual look like?
- desire for reduced costs and more efficient operating models need to be balanced against resilience and flexibility



# Operational Resilience

*Lessons from the COVID-19 crisis*

Business  
Model

Operational  
Change

Governance

Human  
Capital

BCP

# Operational Resilience

## *Implications for Risk Management*



# Operational Resilience

*What does a good OR Framework look like?*

- OR perceived as driver of a success not a barrier to revenue and growth
- Not a discrete exercise where OR is periodically revisited and enhanced
- Doesn't really matter where ownership of OR "sits", need to ensure:
  - resilience is continually monitored and assessed... using multiple lenses
  - new narratives about the future are generated on an on-going basis
  - meaningful input is obtained from all parts of the business
  - approach recognises that both the 1<sup>st</sup> and 2<sup>nd</sup> lines have a role to play



# Thank you

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# Speaker Contact Details



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## Operational resilience

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