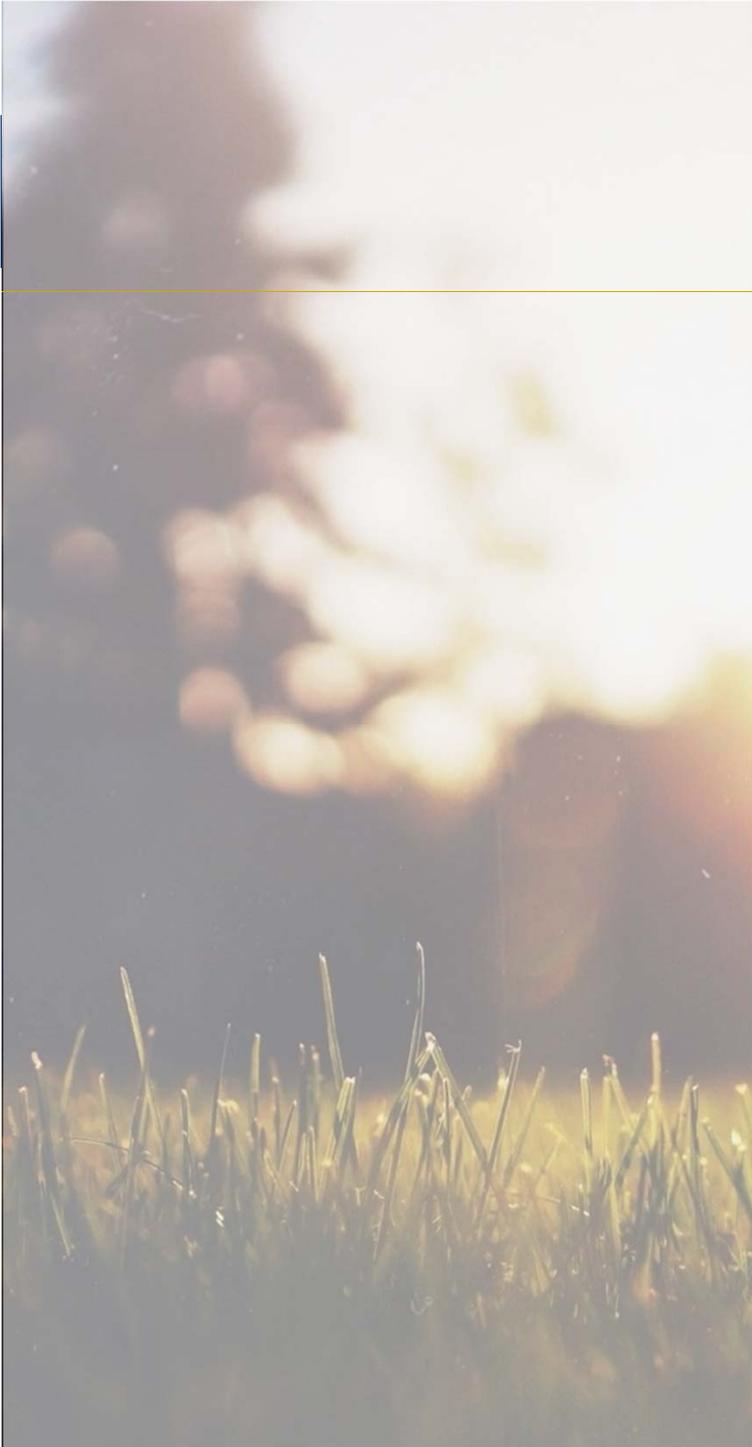




Risk Management Practices During a Pandemic

ERM Committee

NZSA Conference 2021



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Introduction

The COVID-19 pandemic has and continues to trigger unprecedented changes in the risk environment for businesses worldwide, and the New Zealand insurance industry is no exception.

An effective risk management process is crucial to ensure that the related risks are identified, considered and therefore able to be addressed appropriately.

During this presentation, ERM Committee members would like to provide some insights from their own experiences for how risk management practices are being used by companies during the COVID-19 pandemic, e.g.:

- Identification of the pandemic related changes in the company's risk profile and the uncertainties introduced;
- Assessment of the immediate and emerging adverse impacts with the use of risk management techniques where possible, e.g. stress and scenario analysis;
- Identification of response strategies and evaluation of effectiveness of mitigating actions;
- Ongoing review of the changing risk profile, impact assessments and response strategies.

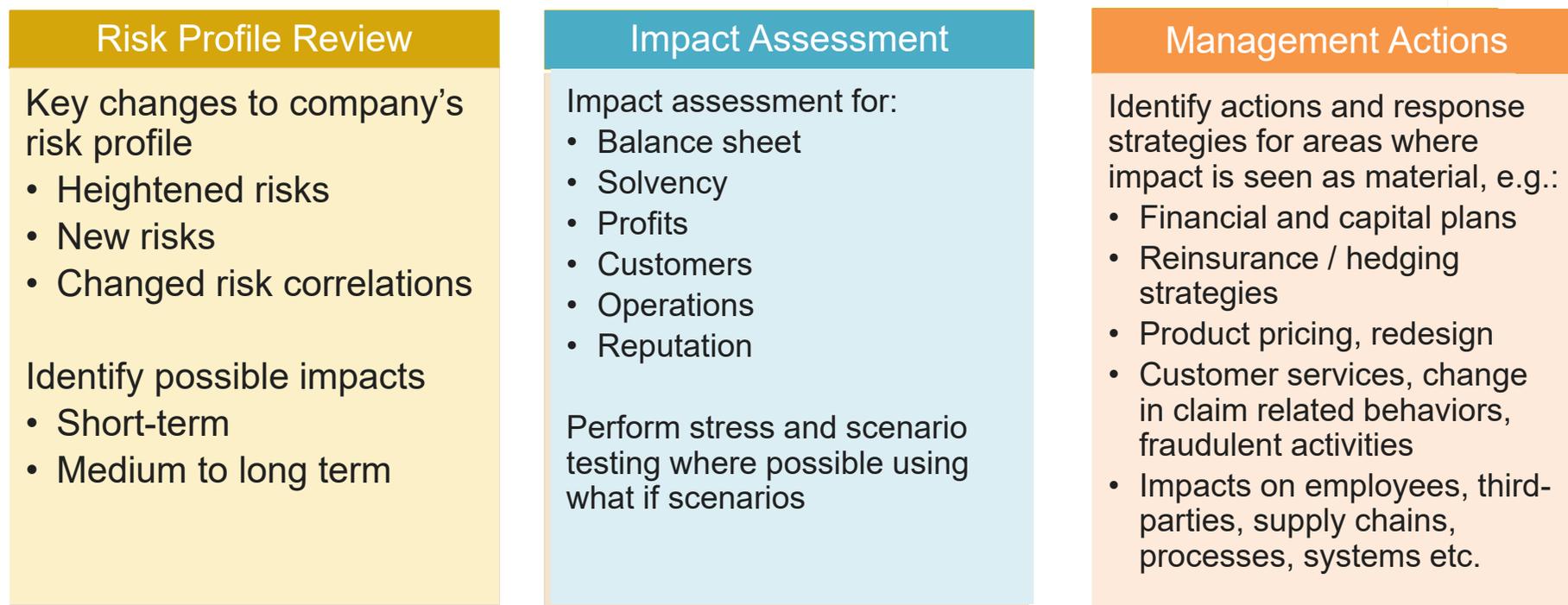




Pandemic Risk Profile Review



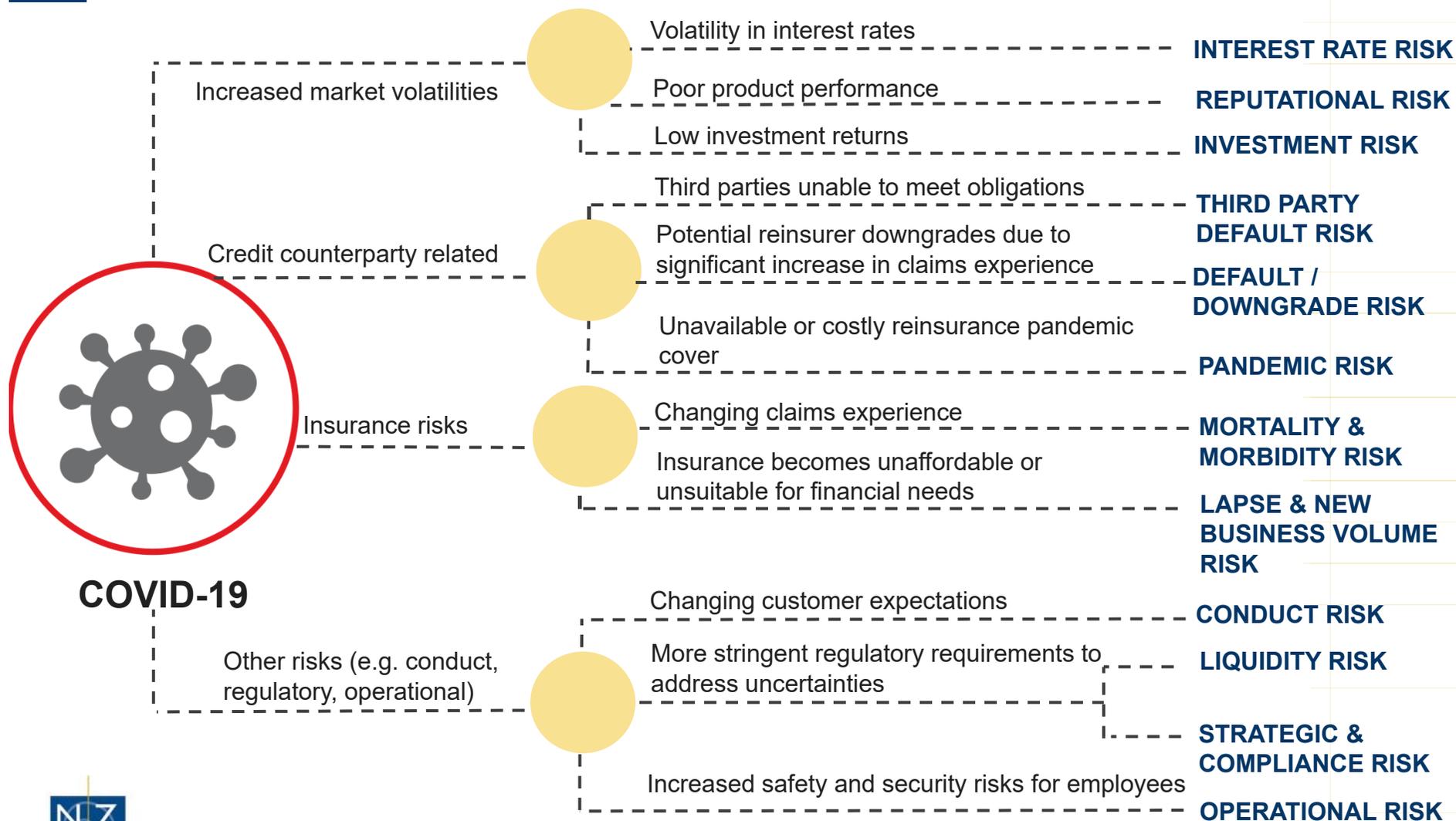
Use of RM Tools during a Pandemic



Review of pandemic developments and the changing risk profile every 3-6 months



Risk Profile Change Example due to COVID





Deep-dive Risk Reviews

Example scenarios from NZ insurers



Market Risk: Volatility in Financial Markets

Risk Scenario	Short term Impact	Long-term Impact	Management Actions
Volatility in Financial Markets (Interest rates, CPI, stock market, etc.)	<ul style="list-style-type: none"> Increased volatility in solvency and regulatory capital from volatility in rates Increase in lapse rates with investment products and challenges in determining fair exit values 	<ul style="list-style-type: none"> The long term impacts for NZ insurers will be dependent on the NZ government's funding strategies and the success / or otherwise of these. The potential business impacts from a period of very low (possibly negative) interest rates and inflation environment followed by an increase in rates and inflation would be helpful to investigate Similarly for Participating businesses, the long term affordability of future bonuses and possible challenges with managing longer term P/H expectations can be investigated 	<ul style="list-style-type: none"> Regular monitoring of solvency Ongoing stress testing for rates up / down scenarios, including negative rates Investigating whether the existing product features can cope with possible negative rates Review of asset liability management (ALM) strategies under a sustained low interest rate environment Ongoing monitoring of NZ government actions, NZ economic downturn and knock-on impacts from global financial markets

L&H Insurance Risk: Disability Income Product

Risk Scenario	Short term Impact	Long-term Impact	Management Actions
<p>Poor claims experience due to:</p> <p><u>Scenario 1:</u> Decreased ability to close DI claims</p> <p><u>Scenario 2:</u> Increase in DI incidences</p>	<ul style="list-style-type: none"> • OPAT • Capital • Capacity to manage claims • Impact of lockdowns on rehab services • Reputational risk of assessing DI claims under a stricter definition of “unemployed” • Reputational impact of closing claims when claimant is able to work but cannot find a job (Scenario 1 only) 	<ul style="list-style-type: none"> • Premium increases • Drop in new business volumes • New uncertainties introduced to current assumptions for both pricing and claims (increases in redundancies, longer periods of unemployment, surge in mental health cases) • Low interest rate impacts on Open Claims reserves 	<ul style="list-style-type: none"> • Reinsurance • Ongoing scenario testing • Monitoring of possible interdependencies (e.g. increase in unemployment rates) • Mental health support services • Seek government support • Review of product design / pricing with changes to DI experience

Reinsurance Risk

Risk Scenario	Short term Impact	Long-term Impact	Management Actions
<p>One or more of the key reinsurers default or are downgraded due to a spike in mortality/morbidity experiences and the business disruptions globally, resulting in significant increases in reinsurance claims.</p>	<ul style="list-style-type: none"> • Capital / solvency impacts (downgrades and / or defaults by reinsurers) • Reduced support from reinsurers for initiatives such as premium suspension benefit 	<ul style="list-style-type: none"> • May require recapturing or renegotiation of reinsurance treaties on noticeably different terms. • Negotiations for the new treaties and for the re-pricing of the existing ones will likely be harder. • Pandemic and catastrophic reinsurance renewals might be very expensive or might not be available. • There may be reduced appetite from reinsurers due to their own increased exposures 	<ul style="list-style-type: none"> • Review exposures due to possible concentration risks to reinsurers • Perform stress testing to review potential impact of downgrades / defaults of main reinsurers • Consider putting ongoing monitoring in place for mortality and health effects from COVID-19 globally • Evaluate impacts from possible changes to future treaty pricing, e.g. due to increased cost base for the reinsurers

P&C Insurance Risk: Motor Insurance

Risk Scenario	Short term Impact	Long-term Impact	Management Actions
COVID-19 impacts on personal motor insurance	<ul style="list-style-type: none"> • Fewer claims reported as cars are driven less • Supply chain issues and challenges, e.g. third party service providers shut due to lockdowns • Changes to operational processes and procedures under different alert levels • Reduced customer service with staff relocating to work from home 	<ul style="list-style-type: none"> • Product innovation required to meet changing customer expectations (e.g. usage based insurance) • Persistent changes in claims experience due to behavioural changes (e.g. with more people working from home and driving less) 	<ul style="list-style-type: none"> • Monitor customer service standards and respond accordingly • Estimating the “true” impact on future claims costs (e.g. costs from delays in reporting, changes to number of claims, the overhead cost increase per claim) • Consider possible refunding / rewarding strategies for under-usage / low claim policies

Operational Risk

Risk Scenario	Short term Impact	Long-term Impact	Management Actions
COVID-19 impacts on employee wellbeing and productivity	<ul style="list-style-type: none"> Increased mental health issues due to isolation, working from home situation (e.g. children and dependents), and financial uncertainty Reduced annual and sick leaves during lockdowns Employee health & safety compromised by working from home environment <ul style="list-style-type: none"> Increase in 'slip/trip/fall' hazards and occupational overuse type issues Lack of appropriate home office set up (e.g. ergonomics) 	<ul style="list-style-type: none"> Lack of employee engagement due to individuals being disconnected and WFH Adverse impact on company culture Increase in sick leave 	<ul style="list-style-type: none"> Encourage social connectivity via collaboration tools Provide training for leaders to lead remotely Employee Assistance programmes available remotely Develop WFH policies, tools and guidance including provision of equipment Employees required to assess home working environment. Company to ensure remedial action taken where required.



Moving Forward





Immediate learnings from COVID-19

A large scale pandemic is a known risk (albeit very infrequent, e.g. 1 in 100 years) with serious consequences globally.

The challenge is to react but not to over-react; learn from it and become more resilient, agile and adaptable.

Unlike natural catastrophic events, a pandemic happens over a longer period, possibly years and consequently, we need to appreciate that the impacts from a pandemic will emerge, change, develop over time.

COVID-19 is no exception to this with the evidence emerging for major changes in the early predictions e.g.:

- The technology of mRNA has proven to work well in vaccination trials which meant a much faster roll out of global vaccination programmes
- Evidence of the variants emerging somewhat differently to the common experience with infectious diseases, e.g. more infectious and more deadly
- Extensions to government policies for border closures and / or restrictions to entry will continue
- Global economic impacts will continue to emerge for many more months
- Long term health effects will only be understood in their entirety possibly after many decades

The key learnings for management include:

- Continuous reassessment of the company's risk profile; both to help mitigate emerging risks but also to identify business opportunities.
- Developing Pandemic Management Plans and updating Business Continuity Plans (e.g. managing different levels of lockdown, wearing masks, social distancing)





Future learnings and ongoing uncertainties

Understanding the need for a multi-disciplinary approach for a continuously changing risk landscape and new interdependencies between risks

Continue to review emerging evidence from COVID-19 cases, e.g. long-COVID syndrome, types of disabilities caused post-treatments

Continue to review possible scenarios for paths to normality:

- Coverage (or otherwise) of pandemic triggered losses (e.g. DI, business disruption)
- Reputational issues for insurers for not covering pandemic triggered losses
- Reduced reinsurance appetite to cover pandemic triggered losses
- Scenario of when COVID ceases to be a pandemic by WHO and what this will mean for COVID-19 related claims
- Adverse test case rulings for insurers and how this could influence future insurance policy wordings in relation to pandemics
- What will the new norm look like for office spaces and WFH arrangements and what new measures will need to be introduced by companies; e.g. new health & safety and mental wellbeing policies and practices



