

Covid-19: the Good, the Bad, the Unexpected and Back to the Future

SIAS presentation
12th January 2021

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Agenda

1. Crescendo Advisors' Survey
2. The Good
3. The Bad
4. The Unexpected
5. Back to the Future
6. Questions

1. Crescendo Advisors' Survey

- Explore the insurance industry readiness for the crisis
 - ✓ 24 in-depth structured discussions between May and June
 - ✓ 18 CROs and / or direct reports
 - ✓ Aggregate £120 billion turnover in 2019
 - ✓ Mixture of large and smaller companies, London based and regional
- Aims of the survey:
 - ✓ How did the industry cope with this event?
 - ✓ What can we learn for the future, including the next crisis, from the management of this event?



2. The Good

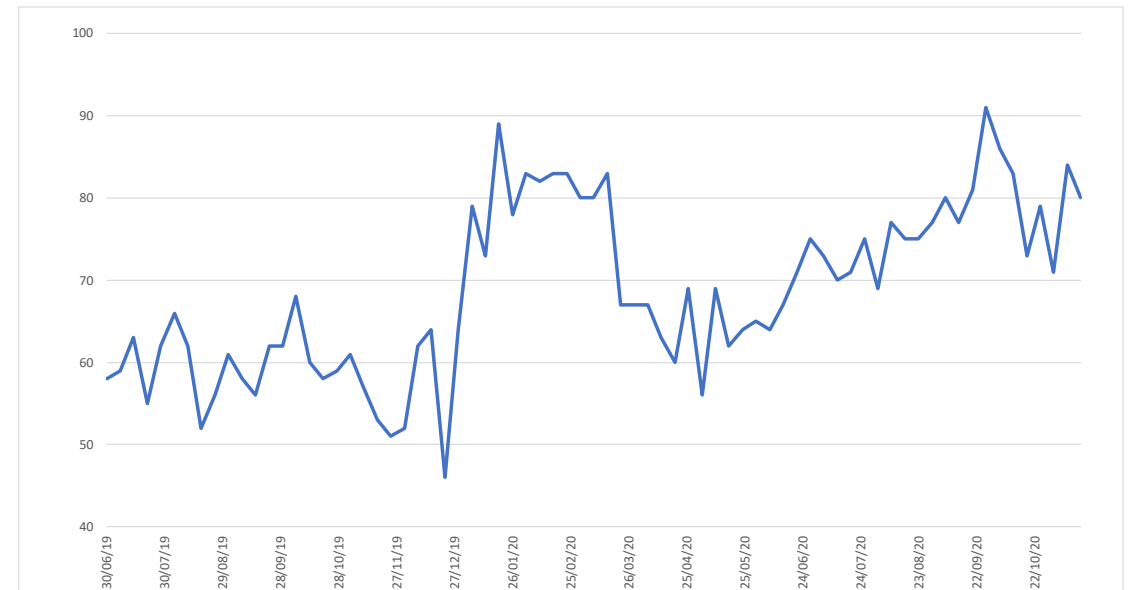
- Everyone assumed pandemic would be a major life insurance loss event
 - ✓ in fact, governments stepped in long before industry mortality expectations were met
- Most insurers transitioned smoothly to WFH
 - ✓ our study found that all recipients thought they'd had “a pretty good lockdown”
- Services continued “as normal”, although there were concerns about data security when those services were delivered from the kitchen table
 - ✓ staff communication was key to firms' sense of implementing a ‘successful’ lockdown
- Many companies now considering full or partial WFH for BAU
- Some participants considering whether offshored work could be brought back if the office is no longer central to service delivery

3. The Bad

- Stress testing and scenarios did not anticipate something similar
 - ✓ pandemics happened elsewhere, had mainly mortality impact and limited financial / economic impact
- Pandemic will be a major GI loss – first estimates run into the £billions
- Insurers never expected to pay out for pandemic-related Business Interruption
 - ✓ first legal challenge by the FCA on behalf of insureds went swiftly to the Supreme Court
 - ✓ large commercial policyholders will mostly likely NOT benefit from that decision: expect further commercial cases
 - ✓ reinsurers will challenge any payment that looks like Ex Gratia
- Claims reserves will be uncertain – hence unwelcome volatility in insurance balance sheets
- Lesson learned for actuaries / risk managers
 - ✓ mind the gap between what you meant to cover and what your policy document says!

4. The Unexpected

- Most insurers expected to learn some painful lessons from lockdown
 - ✓ they had 6 weeks' warning, they dodged a bullet, so nothing to learn?
- So actually WFH is not a risk management disaster...?
- We didn't need those expensive disaster recovery sites
 - ✓ money saved?
- Renewed interest in insurance / protection?
- The stock market is roaring
 - ✓ all of our dire predictions about asset valuations were gloriously wrong ...?



Source: Google Trends data downloaded 24 Nov)

Note: Search for Life Insurance in the UK. 'Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular.'

5. Back to the Future

Implementation of FCA / PRA requirements for Operational Resilience

- Covid-19 a valuable base camp training for operational resilience but there are limits ...

Type of failure vs. scope of failure	IT systems failure	Other business failure
Idiosyncratic	Customer applications unavailable	Failure of IT upgrade
Generalised	Major cloud operators fail	Covid-19

- Three tips:
 - ✓ Crisis Management: readiness for the unknown unknowns
 - ✓ Stress Testing: combine operational and financial stresses
 - ✓ Dependencies on third parties: enhanced oversight needed

6. Questions

- Thanks for your interest. Any questions?



6. Crescendo Advisors' Team

Isaac Alfon founded Crescendo Advisors after more than 20 years in financial services, regulation and consulting. Isaac has a track record for delivering risk management solutions covering all aspects of a risk management framework and internal model approval. He is currently exploring the challenge of climate change financial risk.

He was Enterprise Risk Director at Bupa Group and had senior risk roles with Prudential and Aviva. He worked on banking and insurance regulation with the FSA and HM Treasury. Isaac has a PhD in economics from University College London and is a member of the Board of a Housing Association.

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Shirley Beglinger is an Advisory Board Member at Crescendo Advisors. She has more than 20 years' experience in insurance, reinsurance and risk management, including expert witness work in contract disputes.

Shirley is the previous chair of the National Pharmacy Association insurance company where she led a significant turn-around in financial stability and sustainability while preparing for Solvency II implementation. She has worked with Swiss Re where she spearheaded the recognition in the Basel 2 process for insurance as a mitigant of operational risk. Shirley also had senior roles in Aon and Marsh where she led their work on operational risk for financial institutions.

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