

COVID-19: Dealing With the Crisis

Operational Management From an Actuary's Point of View

By Institut des Actuaires

Editor's note: Our second COVID-related article assesses the impact of the ongoing pandemic on the operational aspects of everyday insurance business.

The complete analysis from the French Institut des Actuaires (Institute of Actuaries) is available in French through this [link](#). The article published here is an English translation of the executive summary for that report. It presents the main topics discussed in the broader report: lessons learned, actions needed and questions that still need to be answered when it comes to operational management in uncertain times.

The Observatoire actuariel de la crise du coronavirus (Actuarial Observatory of the Coronavirus Crisis) is a unique initiative of the Institut des actuaires (Institute of Actuaries) consisting of the establishment of a process of qualitative sociological surveying during [France's] shutdown and the two weeks following it.

Based on an idea originating from the Accroche-com agency, it was implemented by the PhD Talent team, in collaboration with the Institute of Actuaries.

The Actuarial Observatory of the Coronavirus Crisis aimed to collect, in real time, the perceptions and analyses of actuaries, women and men of all generations and from all professional backgrounds, of this unprecedented crisis.

This analysis, which was based on a sociological approach, was led by Pauline Vessely, doctor in Sociology of Culture and associate researcher at CERLIS.

The collection of views was done through:

- weekly collective interviews carried out with 10 representative groups; and
- self-administered questionnaires.

All the data collected will give rise to several types of feedback.

This report reproduces the observations made with respect to operational matters:

- How did the companies continue to operate?
- What are the consequences for the sectors?
- How will they manage the induced risks?
- What are the expectations for the future?

WHAT LESSONS?

Continuing Business Activities: Business Continuity Planning (BCP) and Risk Management

- BCPs are essential:
 - Remote working was a new reality for 90 percent of the workforce, mobilizing adaptability and responsiveness.



- The implementation was all the more effective than the constraint had been anticipated (in material, managerial terms, etc.).
- Risk management procedures have limitations:
 - the difficulty of assessing the risks in an emergency situation;
 - the multiplication of processes subject to human hazards;
 - the means made available in the event of the occurrence of risks; and
 - the interconnection of risks.
- Remote working itself generates new risks:
 - psychosocial, linked to the reconciliation of professional activity and personal space;
 - security/confidentiality, for the same reason; and
 - cyber: data protection, multiplication of flows, use of personal equipment.

Impacts on the Insurance Sector

- Beyond the operational aspects, the crisis will have significant effects on individual sectors, expected on the 2020 results, but especially 2021 and, probably, 2022.
- The impacts will be different depending on the diversification of activities and products, and dependent on:
 - the resumption of economic activity,
 - the level of contributions/charges, and
 - the postcrisis relationship with policyholders.
- The crisis has revealed new needs in insurance, and also in terms of insured relationships, which could impact the businesses.
- The quantification of impacted activities (losses and gains) will not reach a relevant level of confidence until the last quarter of 2020.

ACTIONS TO BE IMPLEMENTED NOW

Since the impossible is no longer so, prepare for it:

- by generalizing and refining the BCPs, integrating an urgent, qualitative and quantitative investigation of cyber and psychosocial risks linked to their implementation;
- by expanding the monitoring of risks: no longer just what we have observed, but what we could observe; and
- by developing a transversal approach to risks, to improve operational management.

At the Level of the Individual Sectors, Reflections to Be Initiated Without Delay

- On products and contributions, customer relations:
 - New risks and new organizational contexts call for a rethinking of the guarantees offered to policyholders.
 - As a corollary, the question of their financing arises.
 - An expected improvement in the insured relationship calls for new services and new approaches.
- Monitor future impacts on the activity:
 - Compensation for operating losses (if applicable), work stoppages, partial unemployment, health portability and especially asset portfolio, are the main reasons for concern.

Within Organizations, a Functioning Office Will Be Reinvented

- Working from home: a relevant tool but carrier of new risks
 - The introduction of widespread and intensive remote working has stimulated new ways of working.
 - In terms of profitability, improvements should be anticipated for both companies and individuals.
- New risks must be considered:
 - the psychosocial risks already mentioned;
 - cyber risk, to be understood urgently via:
 - ◊ a qualitative analysis;
 - ◊ an analysis in terms of time and availability;
 - ◊ a differentiated analysis by economic sector.
- Digitalization, a development that has become urgent:
 - Digitalizing a maximum of tasks/functions would facilitate the management of health risk by optimizing the possibility of remote work.
 - Digitalization is therefore returning to the top of the agenda.

QUESTIONS TO ASK FOR THE FUTURE

The call for a *proactive* rather than reactive approach to risk management

- The crisis calls for in-depth reflection on how to manage temporality on two levels:
 - How to build scenarios without historical data?
 - How to combine action and reflection in times of crisis?
- Risk mapping is deemed useful, with two avenues to follow:
 - the documentation and
 - the imagination.

- The observed interconnection of risks suggests a transversal reading, and not a global one.
- Documenting the recent experience should make it possible to adapt the BCPs, with the aim of improving the operational management of such events.

Questioning Models—to the Heart of Actuarial Science

- One observation: The models are far from the reality of such an extreme crisis.
- Transformations are therefore inevitable, especially in terms of:
 - taking into account the interconnection of risks,
 - impact on mortality tables, and
 - simultaneity of pandemic risk/decline in assets.
- Beyond that, there is a need to revisit the culture of figures, the limits of tools and methods:
 - How to produce figures that resonate with human reality?
 - How to open up actuarial science to other disciplines (in general and throughout professional life)?

Contribute to the Reflection on the Positioning of the Sector

- The reputation of the insurance industry has suffered from the crisis. Actuaries can take part in its overhaul:
 - by promoting (and enhancing) virtuous behavior for both insurers and policyholders; and

- by teaching insurance and how it works.

- Adapt the regulatory framework to better serve the general interest
 - The regulatory framework contains a paradox: stability, but also a relative “rigidity” of the system.
 - It should, in the future, motivate the reflection of all stakeholders to take into account, in particular, the possible occurrence of such a context.
 - The involvement of actors on the ground with regulators, perceived as too limited, will need to be strengthened.

Work Toward an Open-Minded Culture of Risk and Its Businesses

- The crisis has changed the approach to risk:
 - observation of a paradox of the precautionary principle, which reinforces the need (real or perceived) for control, even though reality contradicts the possibility of eliminating all risk; and
 - appearance of new risks arising from risk aversion (sedentary lifestyle vs. health risk), which must be monitored.
- Risk education is becoming a new collective issue: actuaries can contribute to the dissemination of a “reasonable” risk culture, also conducive to a better understanding of the issues and professions.
- Science (actuarial science in particular), its approach and its resources can and must be useful for enhanced decision making: How to communicate it better? ■