



## LESSONS LEARNT FROM COVID-19: ENHANCING RESILIENCE IN THE INSURANCE INDUSTRY

The Covid-19 pandemic is affecting the health of millions of individuals and businesses around the world. Even if no second wave of infections materialises, the pandemic has already become an economic and business crisis, as well as a health crisis.

The insurance industry is being disproportionately affected: claims have spiked in areas such as travel insurance, event cancellation and mortality. Volatile financial markets have made it almost impossible to steer the investment portfolio, and lockdown measures have kept staff at home while still struggling to cope with surging call and claim volumes. Meanwhile, there are pressures to be “flexible”, where “flexible” is shorthand for dishing out large amounts of money for claims which may or may not be covered.

Pending the outcome of the Business Interruption test cases currently being heard by the UK High Court, the insurance industry has continued with a semblance of business-as-usual (BAU), while also taking on the challenging task of rethinking certain products which have proven to be unsuitable, unsatisfactory or unsustainable – travel and auto insurance being only two cases in point.

How has the industry coped? While most UK firms seem to have weathered the crisis to date, it appears that few did so in the manner laid out in their pre-Covid-19 business continuity planning. With hindsight, the UK regulators’ focus on operational resilience, as opposed to simple disaster recovery planning, has thus proven to be prescient. It seems likely that regulators will soon expect firms to report – in some form or other – on their takeaways from the pandemic experience.

We at Crescendo Advisors thought there would be value in pooling and sharing the wider industry experience. We conducted 24 structured interviews with a selection of risk professionals from insurance firms. Our aim was to understand the impact Covid-19 has had on their firms and to assess how they responded, what they did well, what lessons they learned, and what changes they anticipate as a result of the pandemic experience.

The firms in our sample had a total turnover of about £120 billion in 2019, mostly in the UK. We spoke mainly with CROs and one Group CFO about their experience and perspectives. We have shared a detailed report with participants. This briefing summarises our findings.



# KEY FINDINGS AND CONCLUSIONS

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The headline findings from Crescendo Advisors' survey are:

- Most firms based their business continuity plans on assumptions around localised outbreaks. The severity of the lockdown forced them to adjust their plans swiftly and flexibly.
- All firms who viewed their lockdown experience as 'successful' attributed that success to excellent communication from senior management to all stakeholders.
- Most firms felt that the experience of Covid-19 validated their digital transformation initiatives.
- After the Covid-19 experience, firms expect many members of staff to continue working at least part-time from home, and hence plan on reductions in their office footprint.
- Firms are concerned with balance sheet management at a time when yields are being impacted by significant central bank liquidity (quantitative easing) and issuers are adversely affected by Covid-19.
- It is likely that some common insurance products will be re-designed and / or re-priced.

Interestingly, while most anticipated the need for a lessons learnt exercise, only one of them acknowledged that his firm was already kicking off such an exercise.

Our headline conclusions are:

- After the pandemic experience, regulators will expect firms to embed operational resilience within their BAU frameworks.
- Whereas firms had six weeks to prepare for the Covid-19 lockdown, they should avoid the (implicit) assumption that the next crisis will also give them such notice.
- The new world of working from home will pose challenges for the design, implementation and documentation of an appropriate functional control environment.
- Remote working is likely to change the cost-benefit dynamic of outsourcing / off-shoring so that many firms could find it beneficial and desirable to bring activities back in-house.

## HOW SHOULD BUSINESS RESPOND?

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There are wider potential implications including:

- The desirability of your own lessons learnt exercise.
- The need to meet regulatory expectations for operational resilience.
- Review the office footprint from a cost / convenience as well as from a risk management perspective.
- Ensure that the control framework remains appropriate if some staff continue to work from home while others return to the office.

## Crescendo Advisors

### *Lessons Learnt from Covid-19: Enhancing Resilience in the Insurance Industry*

- If re-shoring or in-sourcing business activities is economically viable, firms should consider if it is desirable from a risk management / enterprise governance standpoint.

It seems likely that the industry as a whole will be subject to increased public and regulatory scrutiny. Hence strategic and risk management decisions will need to be evaluated and documented to ensure that they stand up to critical review.

## HOW CAN CRESCENDO ADVISORS HELP?

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A lessons learnt exercise is a key tool in the Enterprise Risk Management kit. It identifies good practice, and the gaps between expectations and experience. Properly carried out and documented, the exercise enables the business to implement enhancements, which in turn makes the business more robust when the next “unknown unknown” strikes.

We at Crescendo Advisors have developed a series of structured tools which we can use to support the lessons learnt exercise, tease out the key messages, carry out qualitative benchmarking, and document both the findings and any resultant strategic or risk management changes.

The report that is thus generated can underpin fundamental review of the business and can also be used as a basis for reporting to stakeholders, boards, management and regulators.

## FURTHER INFORMATION

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If you would like to discuss further Crescendo Advisors’ findings or your approach to operational resilience, please contact Isaac Alfon ([isaac.alfon@crescendo-erm.com](mailto:isaac.alfon@crescendo-erm.com)) or Shirley Beglinger ([shirley.beglinger@crescendo-erm.com](mailto:shirley.beglinger@crescendo-erm.com)).

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