MANAGING PANDEMIC RISK

INTERVIEW BY
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Esko Kivisaari is the Immediate Past Chairperson at Actuarial Association of Europe. He sat down with Jennifer Baker to talk about the impact of the COVID-19 pandemic on the industry.

What exactly is a pandemic from a risk point of view, including the loss of life, interruption of business and even insolvency?

Well, a pandemic, by definition, is a communicable disease that spreads all over the world. SARS had the potential of becoming a pandemic, but it was stopped. This time, like the Spanish flu, it has spread all over the world. So COVID-19 fulfills the criteria of being a pandemic.

The AAE did a study and it was mostly around the health risk. Even before COVID-19, it was very much understood that a pandemic is a health risk. What we are seeing with COVID-19 is that although there is a slight increase in mortality, the bigger risk is other political actions bundled with COVID-19 meaning that societies are closed down, which plays a huge role for many businesses. Therefore, certainly, business interruption is the big issue.

Nobody really understood how the situation would evolve, because if it had been understood, then certainly there would have been more insurance. There would have been more preparation on a societal scale on how to deal with such a situation. But I must say that we need to confess it came as a surprise how this evolved. What we can learn from this is that our tightly networked societies could encounter similar issues with other causes. One could imagine cyber risk evolving like this, for example space weather or disruptions in radiation in the atmosphere stopping networks functioning. In our highly networked societies there is a risk of disruption. This time it was the COVID-19 pandemic, the next time it might be something else that stops societies from working in one area or the other.

Likewise, this time it affected mostly the service sector and the restaurants and travel industry. The next time it might be something different, but societies and businesses are not really ready for this. There was not much insurance cover on offer – only in fairly limited situations, did existing policies cover anything like this – but had there been, there wouldn't have been much appetite from clients to get such cover.

Regarding insolvency risk, we certainly have insolvency risk within insurers, but it's been more about insolvency risk in other businesses – like the service sector having to shut down and being unable to survive. But for the insurance sector, I would say this is a minor issue. For insurers, it's something that current solvency regulation, current solvency buffers, were quite ready to withstand. Even though this summer's flooding in Central Europe and wildfires in Southern Europe were tragic events, they are not really an insolvency risk for most insurers today.

As you said, the pandemic is pretty much unprecedented in our lifetime and we weren't prepared. Obviously, there has been a very steep learning curve. Do you see any silver lining? For example in businesses' adaptability?

Well, yes, of course. The first thing to say might be that we are not returning to the old normal. What we thought was normal before COVID 19 will change and hopefully adaptation will be for the good. For example, remote working. Take me, I live in Finland, which means that every time I have a meeting in Brussels, Paris or Frankfurt, it's quite an effort to fly there and stay overnight and have a couple of hours meeting and then fly back. They are long days and are not good for the climate. So, what we have seen during this period is a huge development in the facilities we can use for working and the technology we can use for remote working. So, there are good things happening.

ESKO KIVISAARI

With the risk landscape, we are seeing something similar to what happened following the 9/11 attacks 20 years ago. When 9/11 happened, no one thought that anything that extensive could happen. Societies, businesses and insurers alike were caught off guard and the initial reaction was that this is not something you can insure. This was so exceptional, we had no statistics whatsoever, we could not assess the magnitude. But today, terrorism risk is quite well insurable.

What we need for the future is to really analyse the situation, to see what societies can do to mitigate the risks, to reduce the risks, to define the risks and to be prepared with faster output of vaccines etc. Analysis can help us work out what businesses can do, and how insurers should develop their products. Then you can have a situation like with 9/11 when terrorism risk became manageable.

A calamity is really a calamity if you don't learn anything from it. Of course it is tragic for so many lives to be lost, but we should be able to analyse and learn what we can do better next time.

You mentioned societies, individuals, businesses and the state. Is there anything in particular that you think governments should do to bear some of the risk?

I think, again, we should learn from the experiences of 9/11 when, at least in the US, preparations were spread across all areas of administration with no central organisation. So they created a system where somebody is ultimately responsible for all the measures taken. Similar measures have been taken in Europe. In my mind, societies should play a very high role in developing control systems that can stay slightly ahead of the curve when something happens.

We must also define who's doing what, who is responsible and how should that responsibility be shared. As the saying goes *'How do you eat an elephant? You do it in pieces.'* So, the role of states should be to cut this whole elephant, or the pandemic risk or any similar risk, into manageable pieces. Then you can define the role of the state, businesses, the individual and the insurance sector. If you leave it whole, the pandemic is, like the elephant, too big to manage in any meaningful way.

How much should consumers expect insurance exclusions?

I would say, initially, quite a lot. As long as the situation is obscure, as long as we don't have the measures I think are needed, then this risk is not insurable. But in the longer run, again like the previous analogy of 9/11, we should see a development where insurance against risks like this is commonplace. Then you'll have policies – even not too expensive ones – where you can manage the thing. After all, actuarial techniques or insurance is all about sharing a risk. You must be able to understand the amount of the risk, you must be able to bundle the same risks together. Then you can make something that is initially too expensive for any individual, to be financially manageable to many.

What is the impact on pension and social security coverage?

Very limited. Although there is some extra mortality, it's not much more than the normal variation because other things changed. For example, traffic stopped, so there were far fewer deaths because of traffic. With respect to pension systems and social security I'm sorry to say it, but the extra mortality was primarily among the older population. You could even very cynically say that some of it supported our social security systems. So I think the health risks associated COVID-19 were anticipated as Life and Health Insurance risks.

What's your message on how the actuarial profession might be placed to help?

Well the basic actuarial technique is the pooling of risks, creating sustainable ways of sharing risks that vary in many situations. In recent decades, the actuarial profession has become much more an overall risk management profession, meaning that you're dealing with the risk management aspects of not only insurers, but all other areas. So, the actuarial profession needs to be active in the areas where it has expertise – risk sharing or pooling– so that risks are managed in a good and scientific way.