



RISK ALERT
COVID - 19 – points for actuaries to consider

KEY MESSAGE

Recent, unprecedented, events relating to the COVID-19 outbreak will affect actuaries across a range of practice areas in a variety of ways.

There will inevitably be new issues and challenges to consider as a result.

This Risk Alert aims to help bring to the attention of Members some specific issues that have been identified that they may need to consider in the immediate term as a result of the outbreak. It does not provide answers or guidance on some of the more significant impacts of COVID-19 on the work of actuaries. Some or even all of these may seem obvious, but it is hoped that this list provides at least a useful starting point and reminder for our members as we all seek to navigate the current uncertainty.

It is anticipated that further, more detailed analysis, of individual impacts will be considered by relevant IFoA groups in the coming weeks and months and published in due course.

What are Risk Alerts?

A series of email alerts drawing Members' (and others') attention to specific issues where the IFoA asks Members to think carefully about the consequences of actions they are taking or not taking.

The information in the Risk Alert is published to support Members and to protect the public interest. The Risk Alert is not mandatory guidance.

This Alert is relevant for the following Members:

All Members (and others) who may need to consider issues related to COVID-19 and/or measures taken by governments around the world in response to it. It will be relevant in particular to actuaries involved in life and general insurance, pensions and investment.

The impact of COVID-19

COVID-19 has had an unprecedented impact on people across the world, with restrictions imposed that will likely have a significant effect on the future lives and finances of the public.

The IFoA recognises that COVID-19 will considerably impact the lives of its Members in a range of ways. This includes, potentially, affecting Member's own health and their personal and professional lives. A communication has been issued by the IFoA to explain its approach to regulatory compliance at this time, including some specific steps that it is taking to help with that burden.

The aim of this Risk Alert is to help raise awareness of some specific challenges and pitfalls that Members might come across in their work as a consequence of COVID-19. It is not intended to provide guidance or set out any requirements. Its aim is simply to flag issues that Members may wish to bear in mind in the context of their particular practice at this time. It is expected that some will be obvious to some of our members; it is unlikely however that all will be obvious to everybody and there is in any event, we hope, value in a reminder in a time of crisis.

Different groups across the IFoA will be looking at these and other issues related to COVID-19 and its impacts over the coming weeks and months, with relevant outputs from this work to follow in due course. It is clearly too early, for example, to assess at this stage the overall impact upon mortality rates.

Actuaries holding 'reserved role' appointments

- Those actuaries holding individual appointments, such as a Scheme Actuary to a relevant pension scheme or Chief Actuary to an insurer, might consider the contingency plans they have in place to cover for any sudden periods of absence. This may also extend to other key personnel, not just the reserved role holder.
- Those holding Scheme Actuary appointments should bear in mind the specific requirements under APS P1 to have in place 'appropriate arrangements' to cover absences.
- Measures are being put in place by the IFoA to help PC Holders with steps they need to take around contingency planning and further guidance will be provided shortly.

Financial markets

- COVID-19 and related measures have led to significant disruption and volatility in financial markets around the world.

- Actuaries involved in finance and investment work, may need to consider risks that are not specifically actuarial but are relevant to the way that advice is developed.
- Some areas that actuaries might wish to consider include:
 - the solvency impact of lower asset valuations;
 - the risk of downgrades and defaults on corporate bond holdings;
 - a potential reduction in market liquidity and greater costs of transacting assets;
 - the impact of a shift in market demand for lower risk assets (e.g. government bonds or higher rated bonds);
 - the potential for greater market volatility (and the impact on the cost of guarantees)
 - operational risks within asset markets, such as the suspension of trading, challenges on price discovery and/or greater frequency of collateral calls;
 - the need for liquidity in organisations that are reliant on asset income to meet benefit payments. There is a risk that income will reduce or cease due to the suspension of rental/coupon/dividend payments; and
 - the knock-on effect on the value and income from property portfolios (the property impact on rental levels, voids, rent holidays, insolvency of tenants, greater protection for tenants in the retail sector).
- There are also risks associated with the suppression of certain economic activity which, over the short or medium term are likely to have implications for economic and other models. Examples include the future progression of inflation and interest rates/curves. Actuaries may wish to explore these in model calibration and scenario planning.

Pensions

- The continued suitability of funding plans, and the ability to continue to rely on sponsor covenants will be an area of focus for many pensions actuaries. Actuaries may be asked to revise contribution schedules, change valuation dates and/or advise on the impact of suspending contributions. Actuaries should ensure Trustees receive comprehensive advice on these matters, taking into account relevant guidance that may be issued by The UK Pensions Regulator, the IFoA and others.
- Many of the issues mentioned above in relation to Finance and Investment will be relevant to pension schemes, in particular actuaries should exercise caution around quoted asset values, especially those of illiquid instruments.
- Actuaries may also want to consider the approach being taken to hedging liabilities and the extent to which LDI portfolios need to be rebalanced and/or inflation deltas updated.
- As ever, pension actuaries will be considering the appropriateness of models for setting discount rates. In the current environment it will be important to ensure that expected return assumptions reflect the most up to date information available, and that the margin for prudence remains appropriate in light of any changes to the sponsor's circumstances or the asset portfolio.
- Actuaries might consider reviewing the approach to calculating and settling transfer values and other member options in light of volatile market conditions and changing funding positions.
- It is unlikely that the longer term impact of COVID-19 on life expectancy of UK pension scheme members will be known for some time. Whilst actuaries are encouraged to consider emerging data on longevity in light of the virus, we would note the difficulty at this stage in assessing the potential future impact on life expectancy (either in terms of direction or magnitude).

General insurance (GI), Life and Health claims

- Actuaries may wish to consider how they can work closely with their underwriting, pricing and claims teams to understand the potential impact of COVID-19 on claims.
- For GI actuaries, closer working could include understanding the impact of COVID-19 on various products such as travel insurance, business continuity and medical malpractice. This could be directly from claims or associated issues such as inflation within the supply chain.
- For Life actuaries, understanding the impact on increased individual protection, group life, critical illness and health insurance claims, as well as the impact on annuity reserves will be important.
- These discussions may then feed through into the setting of reserves where actuaries will be advising their boards on the likely impact of COVID-19 and the range of uncertainty.
- Actuaries may wish to give due consideration to these issues in relation to future pricing and contract wording.

Capital requirements

- Actuaries may need to consider whether there is an impact of COVID-19 on capital models and, where they have internal models, whether there is a need for re-calibrations and/or potential additions in lieu of calibration changes. For firms on Standard Formula, they may need to evaluate whether the standard formula stress tests adequately cover the current environment.

Underwriting and pricing

- Actuaries may be appropriately involved in reviewing underwriting and pricing practices in light of COVID-19. This is a specific requirement for particular actuaries under Solvency II.

Reinsurance

- Actuaries may be appropriately involved in reviewing reinsurance arrangements in light of COVID-19. This is a specific requirement for particular actuaries under Solvency II.

Impacts in relation to health and care

- There may be an impact on the distribution of protection products in a work from home environment. In terms of underwriting and pricing, actuaries may need to review the appropriateness of medical and group scheme underwriting. Consideration of any impact in terms of restrictions on access to medical information may be required.
- For in-force portfolios, actuaries might be expected to consider the potential impact on existing portfolios of protection business from both an incidence and lapse perspective. This might involve identifying portfolios that are particularly impacted and also supporting consumers to reduce the risk of losing protection benefits.
- Consideration may need to be given to whether products are able to continue to provide the benefits they were designed for and whether reasonable customer outcomes are to be anticipated. For example, with medical insurance where the individual insured will not be able to claim on other medical events.

Publications relating to COVID-19 by UK regulators

A number of UK regulators have published guidance and/or changes to their requirements in recent weeks in response to COVID-19. These include measures to address some of the challenges of COVID-19 in terms of complying with statutory requirements.

Those involved in relevant work are encouraged to read them and to keep an eye out for further updates.

For Members who are not based in the UK, it is hoped that they find the below examples of material to be helpful. Members may find further similar guidance from relevant local regulators.

Please note that the below references are subject to change and updates.

Those include:

Bank of England - Statement on supervisory and prudential policy measures

<https://www.bankofengland.co.uk/news/2020/march/boe-announces-supervisory-and-prudential-policy-measures-to-address-the-challenges-of-covid-19>

The Pensions Regulator – Statement for Trustees

<https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider>

Joint Statement of the PRA, FCA and Financial Reporting Council

https://www.bankofengland.co.uk/prudential-regulation/publication/2020/joint-statement-by-the-fca-frc-and-pra-on-covid-19?utm_source=Bank+of+England+updates&utm_campaign=c0d8d9cb23-EMAIL_CAMPAIGN_2020_03_26_09_33&utm_medium=email&utm_term=0_556dbefcdc-c0d8d9cb23-113515561

Impact upon professional judgement

We also recognise that, in these pressured times, where resource may be stretched and actuaries are adjusting to unusual ways working, the application of professional judgement may be tested more than usual.

The IFoA has a set of principles based professional standards (including the Actuaries' Code, Actuarial Profession Standards (APSs), Technical Actuarial Standards (TASs) and various pieces of guidance), which are designed to encourage Members to take proportionate and outcomes-focused actions. They enable Members to navigate these sorts of challenges and help them to make decisions and apply professional judgement in a way that still meets the ethical and technical standards expected of them.

Actuaries may be likely to be called upon on to make swift decisions in these unprecedented circumstances and they may find it prudent to take extra care to ensure they have appropriate knowledge, skills and peer review, for example.

Further information and support

Members who have specific professional questions or concerns should send those to the regulation team at regulation@actuaries.org.uk. Members can also get support on ethical or technical issues through the [Professional Support Service](#).

If there are any concerns related to contingency planning and IFoA Practising Certificates then please get in touch with the [IFoA team](#) who can help you to find a solution.

Practising actuaries' may wish to refer to the [IFoA Pandemic Hub](#) as a source of IFoA and other COVID-19 related material, and the IFoA [COVID-19 Action Taskforce](#), which is facilitating research and thought leadership on key aspects of the pandemic's impact on areas of actuarial practice.