

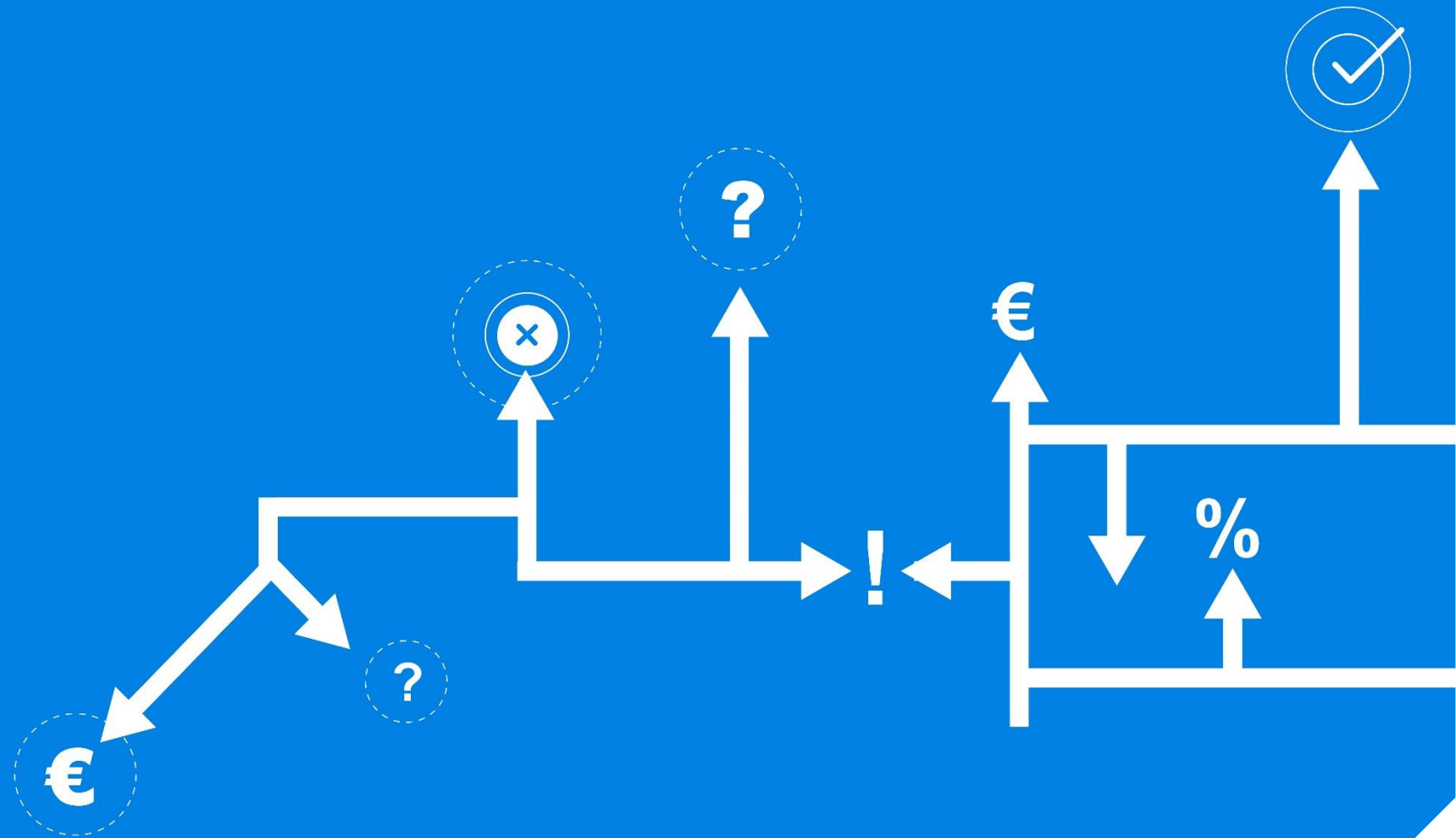
# Covid-19, Climate Risk and the ORSA

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# The ORSA



# The ORSA – a global requirement (almost)

- Singapore
- Malaysia
- Japan
- Australia
- EEA
- UK
- USA
- Canada
- South Africa
- Brazil
- China
- Mexico
- Bermuda

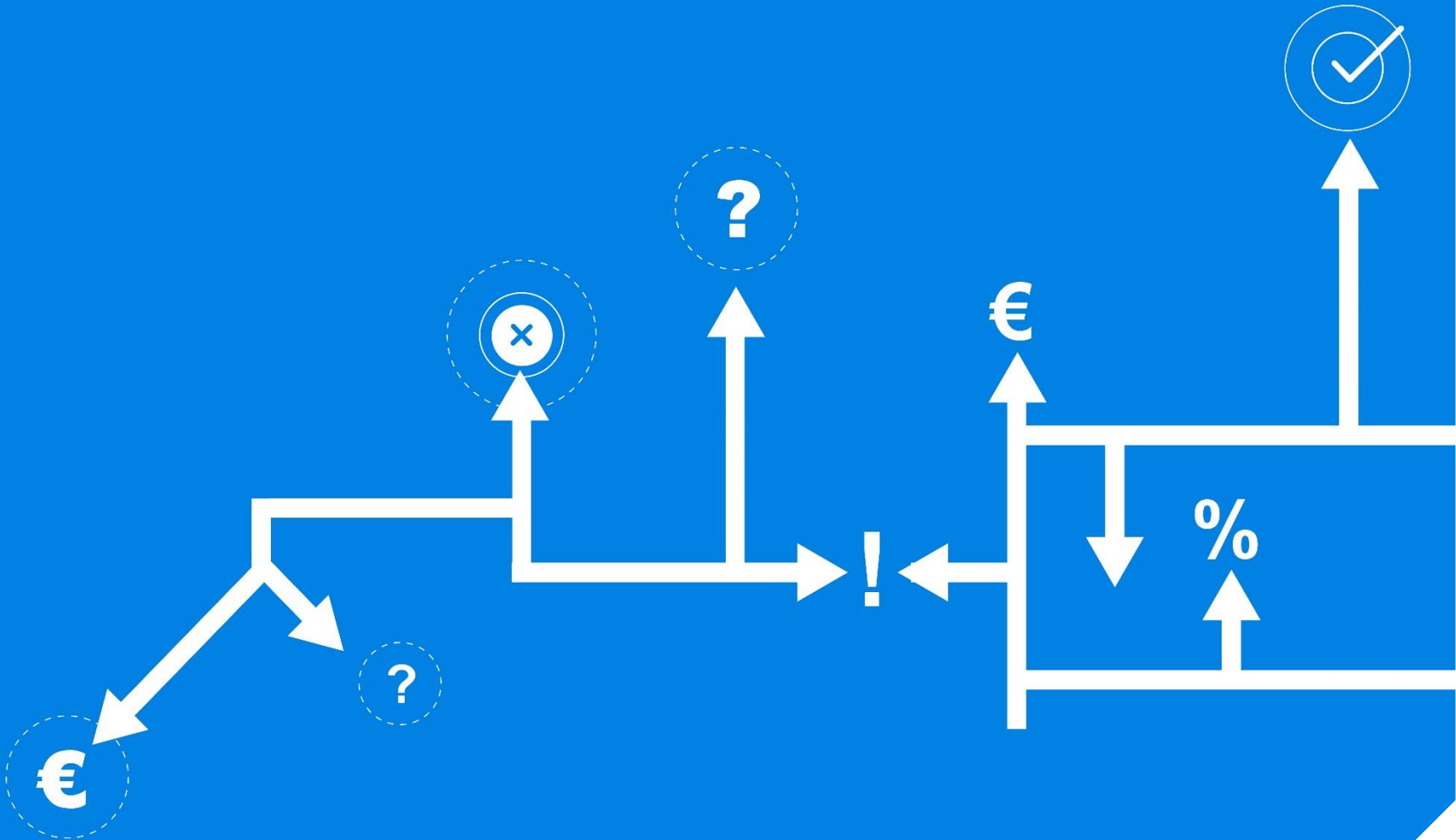
▪ Many more  
 **Milliman**



# ORSA overview



# Covid and the ORSA



# What can Covid teach us about the ORSA?

Disruption to data

Sales impact

Economic / market impacts

Vaccine timelines

Regional differences

Increase in claims costs

Short term v long term

Impact of pandemic on non-pandemic health activity

Operational resilience

Delivery of services

Regulatory / legal impacts

# Challenges arising and lessons learned



In a complex situation the position can change very quickly. The risk management environment, and the ORSA process need to be more dynamic.



# Covid and the immediate ORSA challenges

## Claims

- Vaccine efficacy and take up rates
- Regional variations
- Availability of data
- Pent-up demand?
- Longer term impacts
- New variants

## Sales & renewals

- Wider economic activity
- Pent-up demand
- Employee mobility
- Competition impacts
- Product design and benefit implications

## Other

- Operational model / resilience
- Availability of capital options / reinsurance
- Regulatory expectations
- Timing / dynamism of ORSA process
- Overall allowance for uncertainty

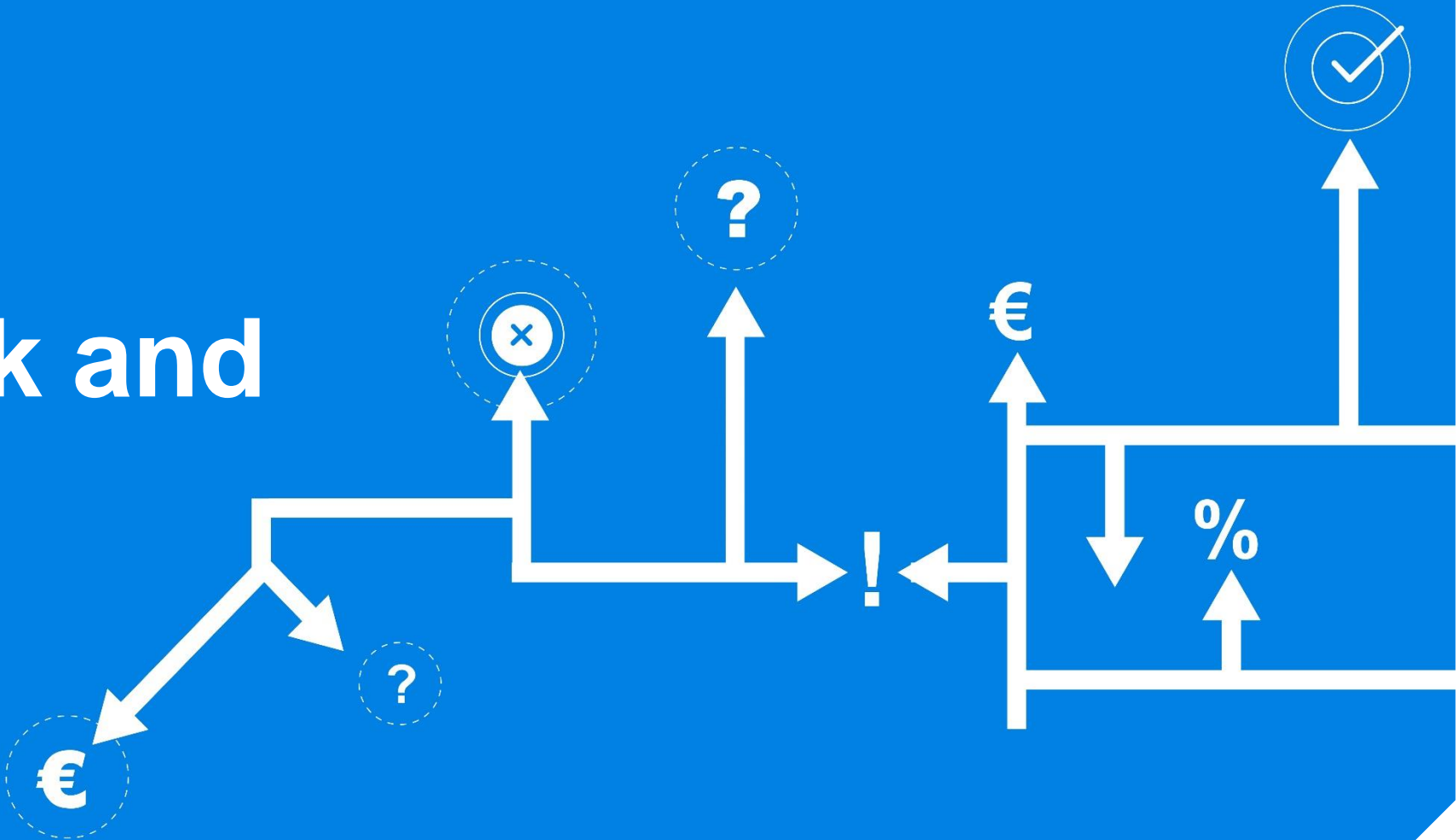
Best Estimate?

Range of outcomes?

Scenarios?



# Climate risk and the ORSA



# What is “climate-related risk”?

RISK	DEFINITION
Physical risk	<p>Physical risks are risks associated with the <b>direct impact of climate change</b>. Physical risks can be divided into two further categories, <b>acute</b> and <b>chronic</b>.</p> <ul style="list-style-type: none"><li>• Acute physical risks are event-driven, including increased severity of extreme weather events such as cyclones, hurricanes, or floods.</li><li>• Chronic physical risks arise from longer-term shifts in climate patterns, e.g. sustained higher temperatures that may cause rising sea levels or heatwaves.</li></ul>
Transition risk	<p>Transition risks arise from the <b>transition to a low-carbon, greener economy</b>. This transition could result in large changes in value of certain assets or higher costs of doing business. Regulation and reputation risks can also arise as a result of this transition.</p>

# Why is climate-related risk different?

- **We can't look to the past to inform the future.**

Historical data is rarely relevant: metrics must be forward-looking in order to capture the evolving nature of climate risks.

- **High level of uncertainty.**

Huge uncertainty associated with probability and impact. Future development will more than likely be driven by political decisions.

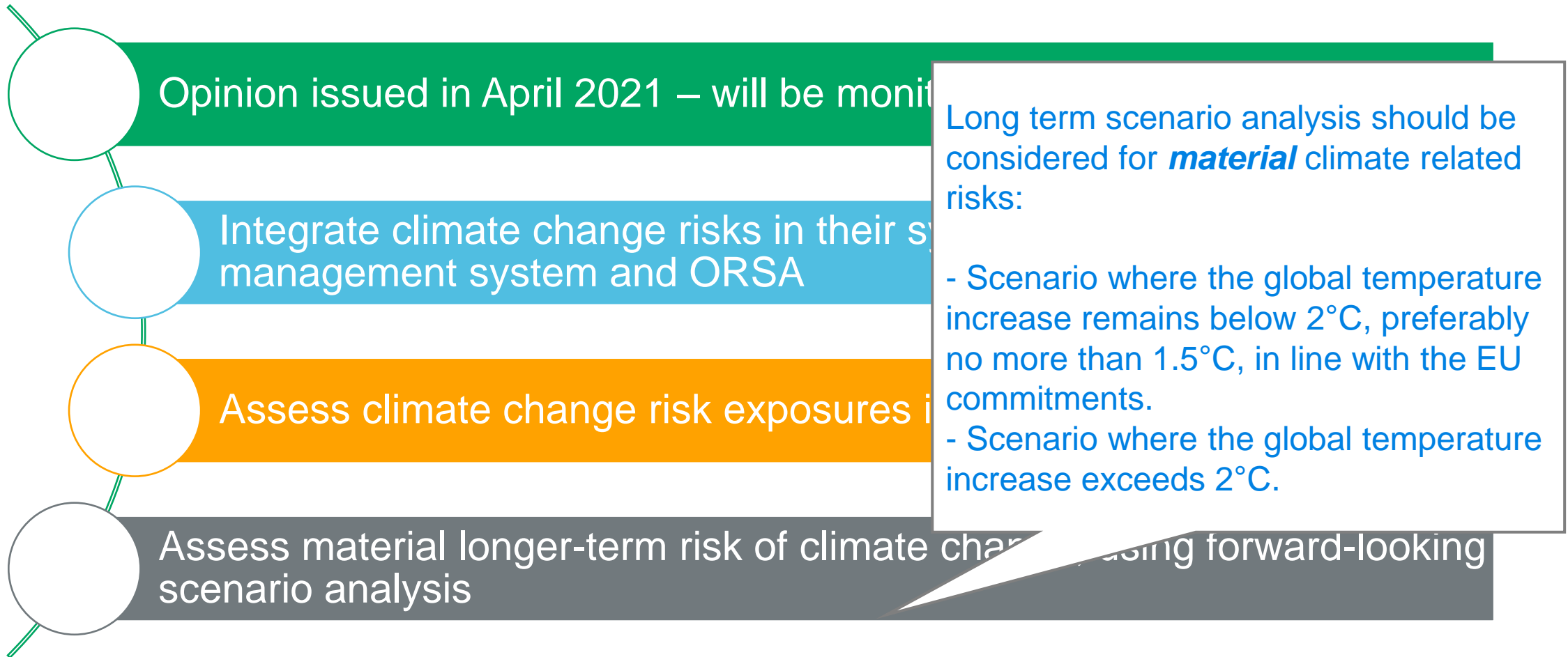
- **Climate change is an emerging risk, where best practice is developing.**

We might not be able to align risk exposure with risk tolerance immediately.

- **Time horizons matter.**

Some risks may be long term in nature, but the political landscape and consumer sentiment can change suddenly.

# EIOPA Opinion on the supervision of the use of climate change risk scenarios in ORSA



# Climate related risk exposures for health insurers

Examples of potential risk exposures to consider

Transition Risk	Transition Risk	Physical Risk (Acute)	Physical Risk (Chronic)
<ul style="list-style-type: none"><li>• <b>Market Risk:</b> Increase in carbon taxes / reductions in admission rights negatively effects investments in carbon intensive sectors</li><li>• <b>Market Risk:</b> Late government intervention to transition could disrupt financial sector and impact asset values and interest rates</li></ul>	<ul style="list-style-type: none"><li>• <b>Strategic Risk:</b> Transition to low carbon economy could reduce demand for products in carbon intensive sectors</li><li>• <b>Strategic Risk:</b> Shift in consumer sentiment for sustainable companies could reduce demand for products if company cannot demonstrate sustainable practices</li></ul>	<ul style="list-style-type: none"><li>• <b>Underwriting Risk:</b> Climate change increases the frequency / impact of extreme weather events, resulting in higher claims</li><li>• <b>Counterparty Risk:</b> Higher frequency / impact of extreme weather events reduces credit standing of reinsurers or results in reinsurer defaults</li></ul>	<ul style="list-style-type: none"><li>• <b>Underwriting Risk:</b> Higher frequency and severity of epidemics and pandemics or extension of transmission season / range of infectious disease can create claims volatility.</li><li>• <b>Operational Risk:</b> The impact of rising sea levels or increased pandemics can impact operations and / or increase costs.</li></ul>

Source: Annex 4: Mapping of climate change risks to prudential risks – Life insurance, including health, EIOPA Opinion

# Thank you

If you are interested in getting involved further in the work of the IAAHS Health Risk and Risk Capital project team, please contact Kevin at the email address below.



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