



Building Resilience - Lessons from Covid-19 -

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Fukoku Mutual Life Insurance Company

Agenda

- I. Introduction
- II. Revision of Stress Testing
- III. Building Resilience
- IV. Conclusion

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Life insurers had prepared for the pandemic expecting highly virulent influenza, had performed stress testing, and had developed the Business Continuity Plans (BCP). However, these measures did not work well for the Covid-19 pandemic because the virulence was different from the expectation. As a result, life insurers had to take actions not described in the BCP.

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1. Virulent of Viruses

Comparison of the Virulence of Viruses

	Highly Virulent Influenza	Covid-19 in Japan
Incidence Rate	25%	Less than 1%
Case Fatality Rate	2%	Less than 2%
	<p>500 deaths / 100 thousand</p>	<p>Less than 20 deaths / 100 thousand</p>
Epidemic Period	A Single Wave, Two Months	Several Waves, Unforeseeable
Behavior and Impact	<ul style="list-style-type: none"> ➤ Most people stay home due to concerns of infection. Consequently, many economic activities are temporarily suspend. ➤ However, the pre-pandemic vaccines prevent further spread, and the spread of infection ends in two months. 	<ul style="list-style-type: none"> ➤ Most people believe they will be asymptomatic or mild if they are infected. Consequently, many economic activities continue with infection control measures. ➤ In addition, a delay of vaccination spreads the infection.

Notes: Highly virulent influenza is based on "National Action Plan for Pandemic Influenza and New Infectious Diseases", Cabinet Secretariat, June 2013

2. Revision of Stress Testing

Extending the Epidemic Period

	Scenario
Scenario A	✓ Taking one year to end.
Scenario B	✓ Taking two years to end.
Scenario C	✓ Taking three years to end. <i>Source: "Projecting the transmission dynamics of SARS-Cov-2 through the post-pandemic period", Stephen M. Kissler et al., 14th April 2020, Harvard University</i>

During the Epidemic Period

- Waves of infection repeat. Financial Advisers (FA) are able to meet their customers only when the spread of infection becomes mild - consequently, new business declines.
- The number of FA decreases in proportion to the decrease of commission due to the decline of new business.

3. Findings from The Revised Stress Testing

- Robustness of solvency can be maintained even when the epidemic period is extended. Solvency margin works as a shock absorber against the market turmoil.
- The longer the epidemic period becomes, the more the number of FA decreases due to declining commissions from new businesses. As a result, the future profitability of the company becomes more fragile.

- Maintain the sales force.
- Find the way to approach customers even when the spread of infection becomes severe.
- Minimize the decline of new business.

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1. What is Resilience?

Resilience = Resistance + Recovery

Source: Logstaff et al., "Building Resilient Communities," *Homeland Security Affairs*, Vol VI, No.3, 2010

Resilience is defined as the ability of a system to maintain key functions and processes in the face of stresses or pressures by resisting to and then recovering or adapting to change.

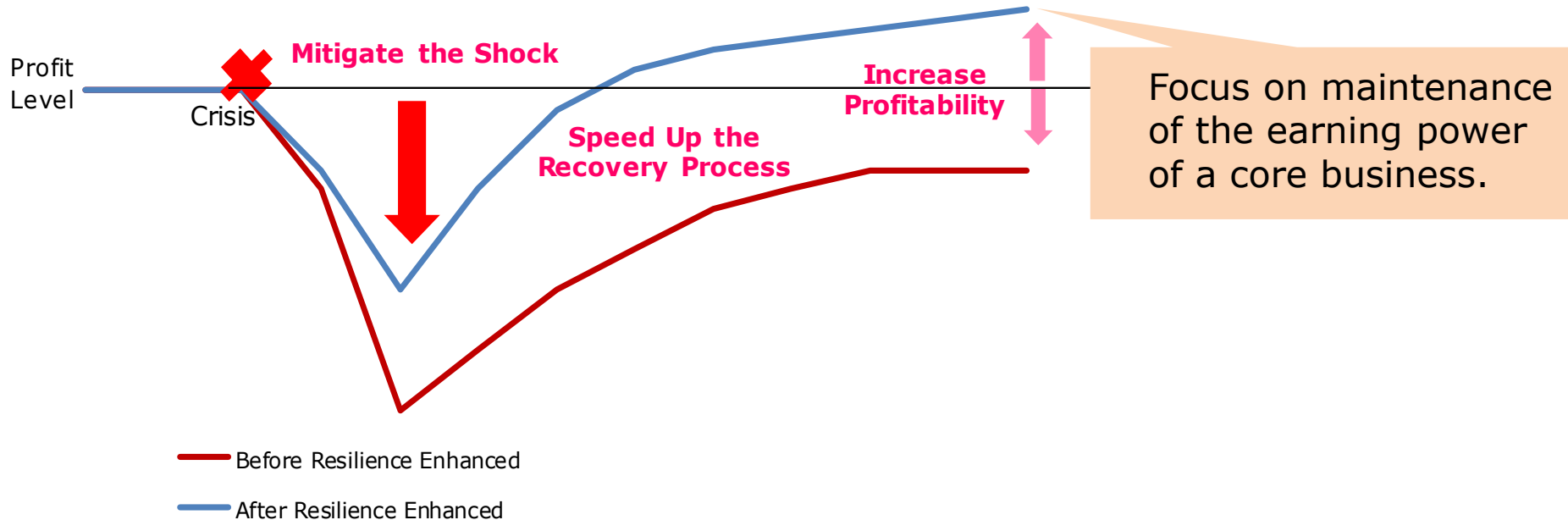
Source: Reef Resilience Network, <https://reefresilience.org/resilience/what-is-resilience/>

Strategic resilience is not about responding to a onetime crisis. It's not about rebounding from a setback. It's about continuously anticipating and adjusting to deep, secular trends that can permanently impair the earning power of a core business. It's about having the capacity to change before the case for change becomes desperately obvious.

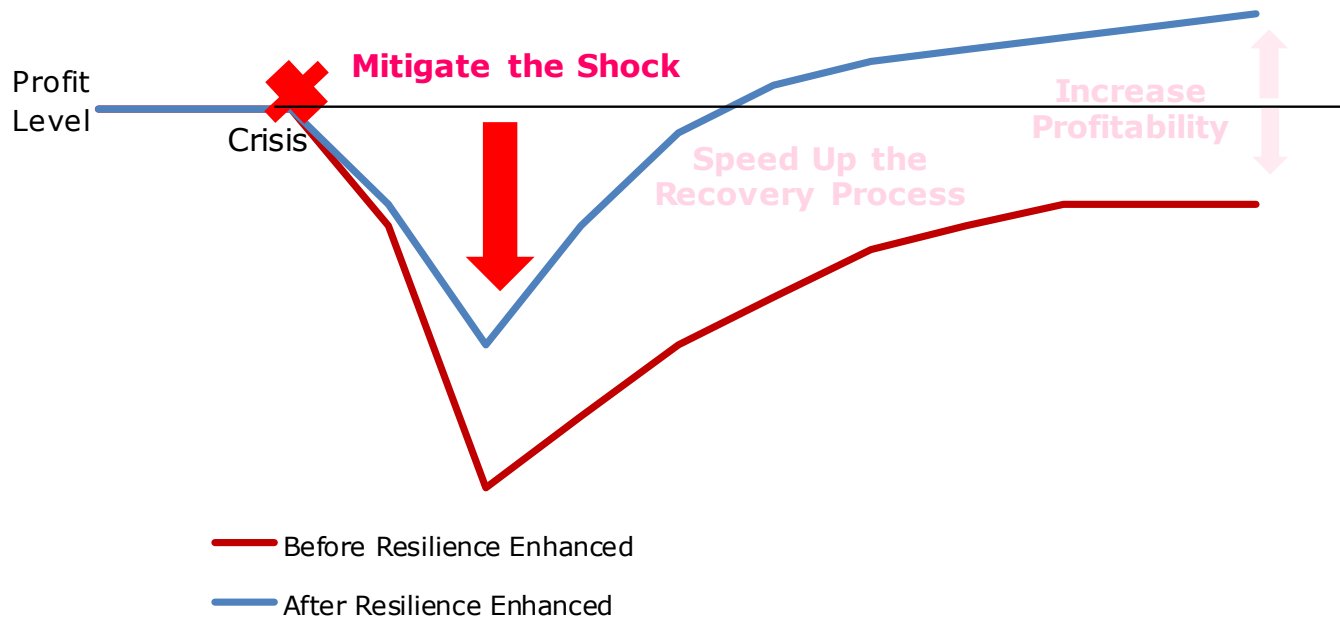
Source: "The Quest for Resilience", Gary Hamel and Liisa Välikangas, *Harvard Business Review*

2. Building Resilience

To build resilience, we aim to mitigate the shock, speed up the recovery process and increase profitability.



3. Mitigate the Shock



3. Mitigate the Shock – Our Stance on Covid-19

The revised stress testing had indicated the necessity of further considerations not described in the BCP. **First, we established the fundamental principle to prevent the infection. Second, we decided to implement the actions mitigating the shock.**

Fundamental Principle to Prevent the Infection

- Life matters most.
- Never infect others and yourselves through business activities.

Actions Mitigating the Shock

- Maintain the Sales Force
- Accelerate Digital Business Transformation
- Revise Medical Insurance
- Carefully Monitor the Stock Market

3. Mitigate the Shock - Maintain the Sales Force

Our earning power profoundly depends on FA. So we have to maintain the sales force in terms of both quality and quantity.

➤ **Distribute infection prevention equipment**

The company provides face shields, rubbing alcohol and masks.

➤ **Institute a salary floor**

The company temporally institutes a salary floor which differs by prefecture depending on the severity of the infection.

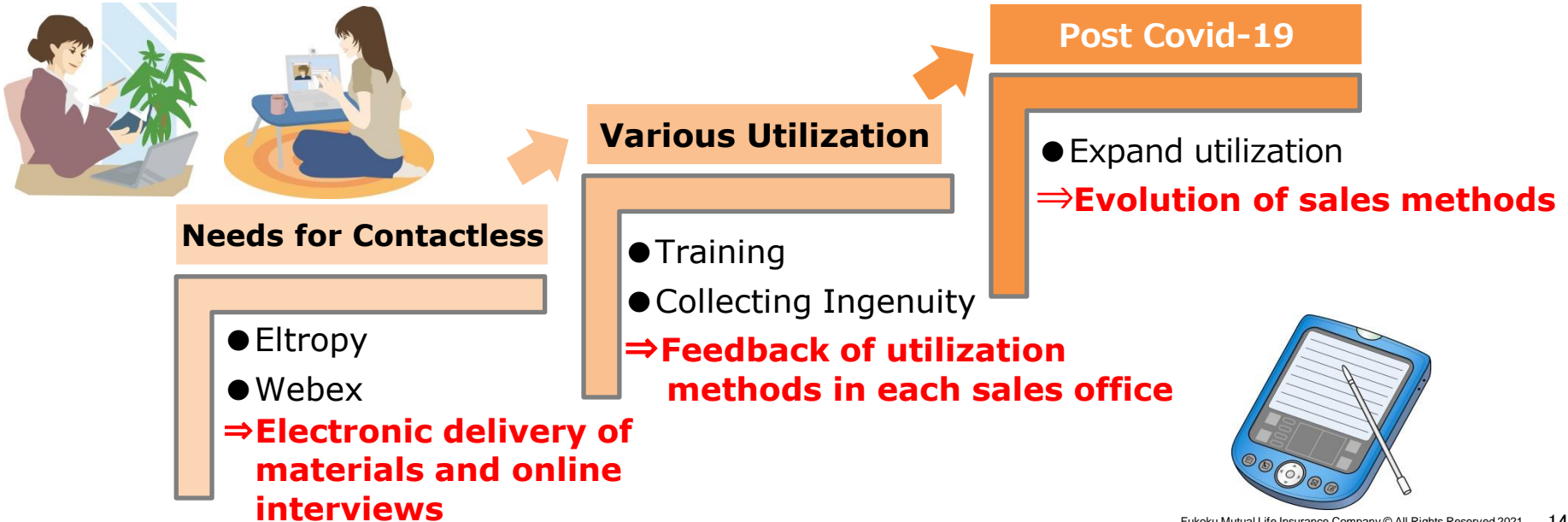
➤ **Enforce flexible working styles**

The company enforces flexible working styles, as children's school closures force FA to stay home.

3. Mitigate the Shock - Accelerate Digital Business Transformation

Accelerating Digital Business Transformation is the key to adapt to changing environment due to the Covid-19. For example, we quickly shifted to minimum contact face-to-face sales approach.

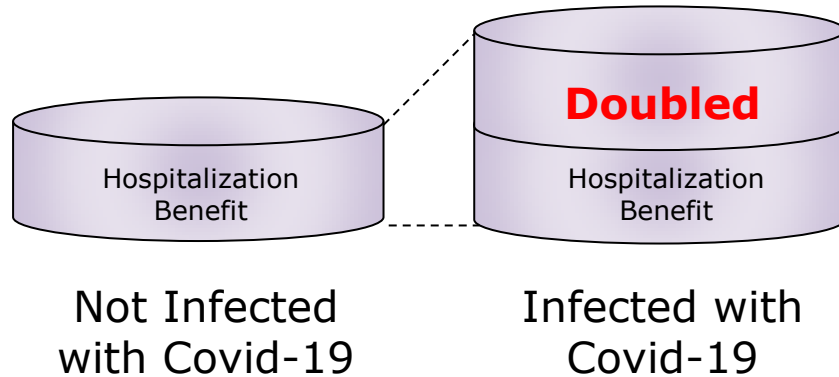
Improving Productivity of FA in Fukoku Life



3. Mitigate the Shock - Revise Medical Insurance

We revised medical insurance in order to cover the additional cost of Covid-19 infection. This revision appealed very well to the customers.

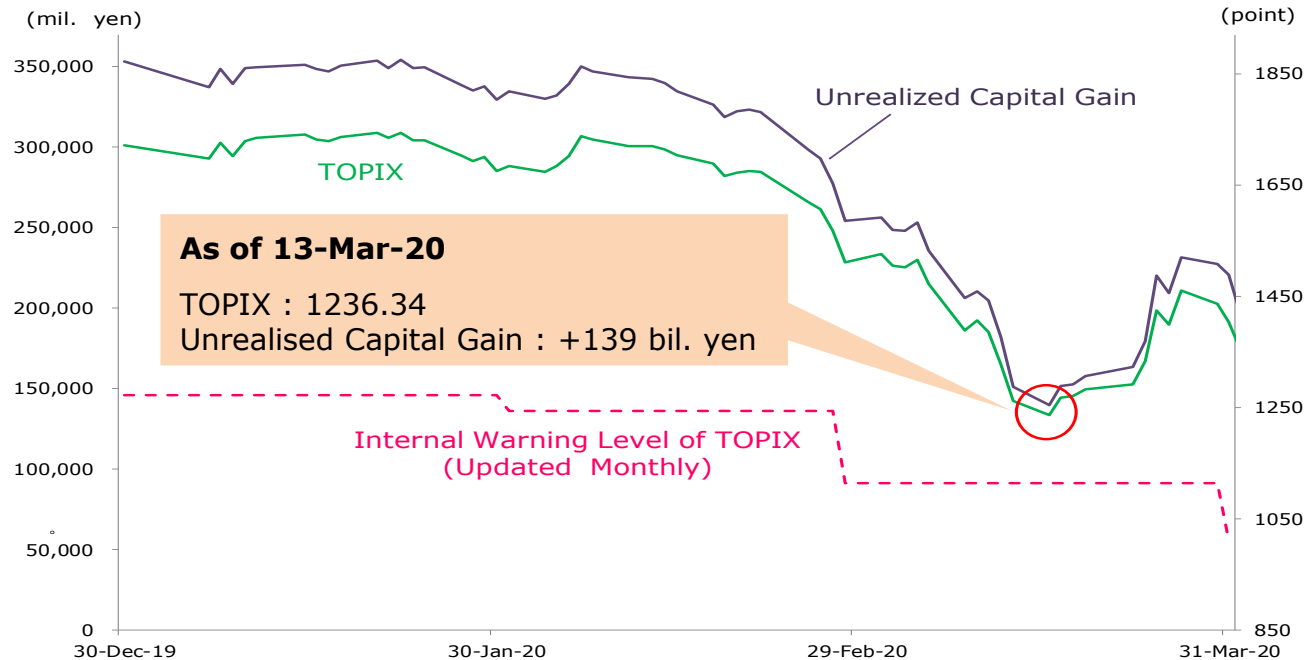
Revise of Medical Insurance in Fukoku Life



- Promotion of staying home or remote working declines accidental hospitalization. Therefore, the decline can offset the risk premium for the additional benefit. As a result, **we can provide the revised medical insurance without extra charge.**
- The additional benefit shall be valid from 28-Dec-20 to 31-Jan-22. We evaluated the profitability by stress testing.

3. Mitigate the Shock - Carefully Monitor the Stock Market

As for the stock risk management, TOPIX and unrealized capital gain are daily monitored. Unrealized capital gain held even when 2020 stock market crash.



3. Mitigate the Shock - Carefully Monitor the Stock Market

We carefully monitor the stock market by tracking the Risk-Return Curve. The observed regimes guide us to an appropriate decision even when the market is upset.



Observed Regimes and Actions

Turmoil

Enhance the hedging

The market bottomed out

Carefully evaluated the impact on solvency ratio

Recovering

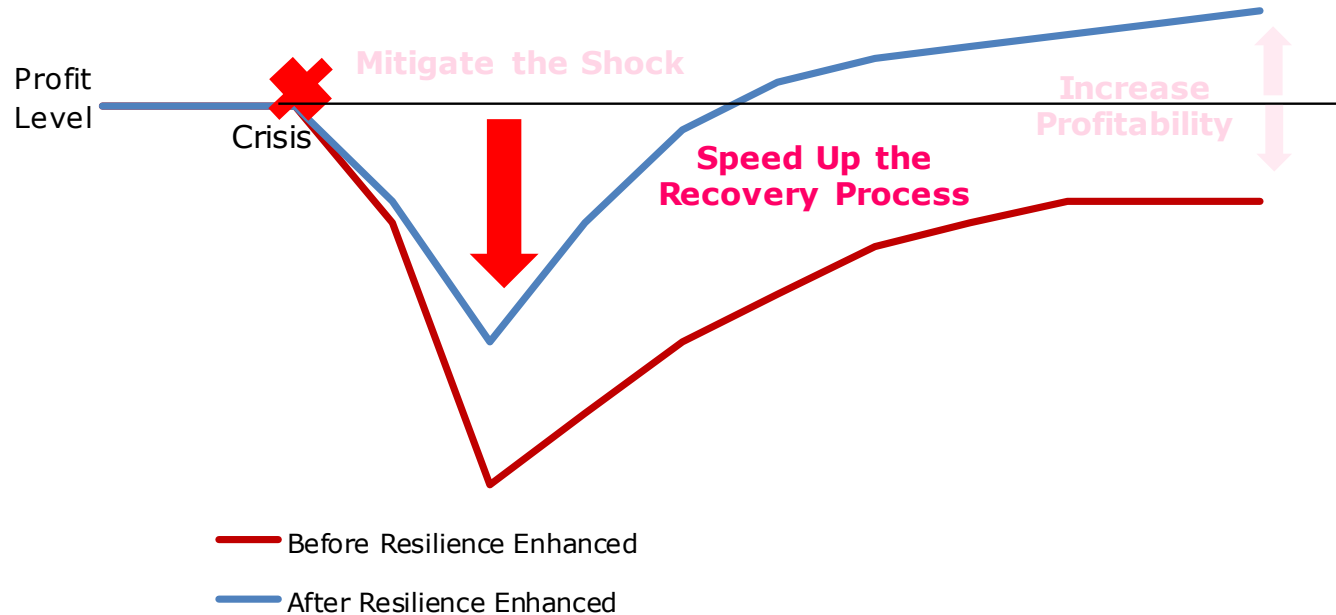
Revise the stock portfolio

The market has gradually calmed down

Back to the ordinary operation

Notes: The evaluation is based on the 60-days moving average of the Nikkei 225.
The rate of change from the previous day to close is indicated in national logarithm.

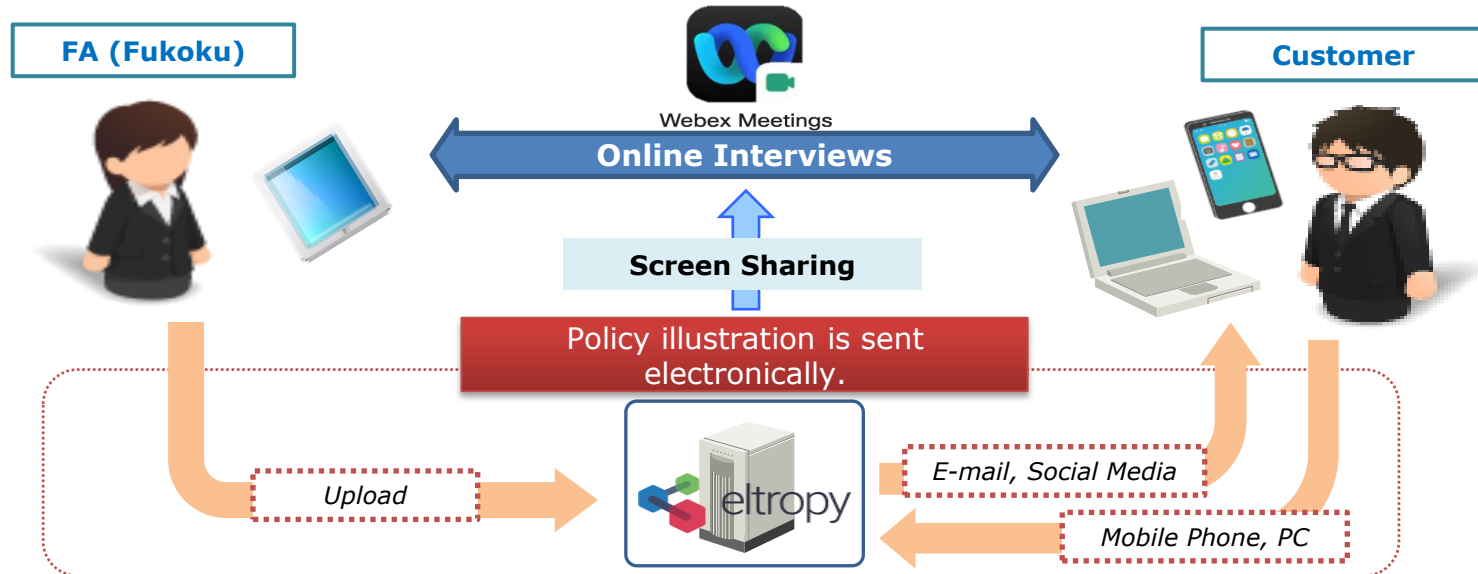
4. Speed Up the Recovery Process



4. Speed Up the Recovery Process – Promotion of Hybrid Sales

We have started online interviews and enhance minimum contact face-to-face sales by IT since Jul-20. We are aspiring to “High Tech With Human Touch”.

Hybrid Sales in Fukoku Life



4. Speed Up the Recovery Process – Adjust the Risk Control

We cannot step on the accelerator unless the brakes work properly. We adjust the risk control to adapt to the changing environment.

Promotion of remote auditing

- Remote auditing enables us to conduct auditing even when an infection spreads.

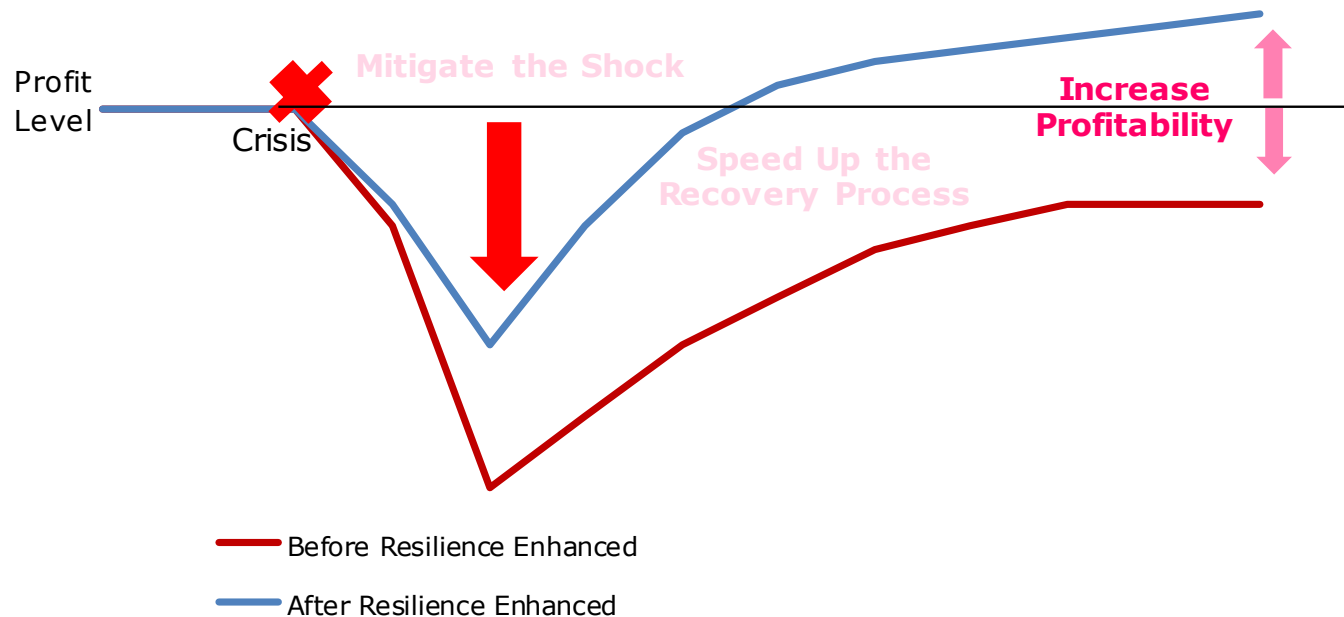
Enhancement of cyber risk management

- We are conducting various training in anticipation of cyberattacks.
- We will conduct penetration test regularly.

Vaccination to employees

- The company strongly encourages employees vaccination to prevent the infection by a virulent variant of coronavirus.

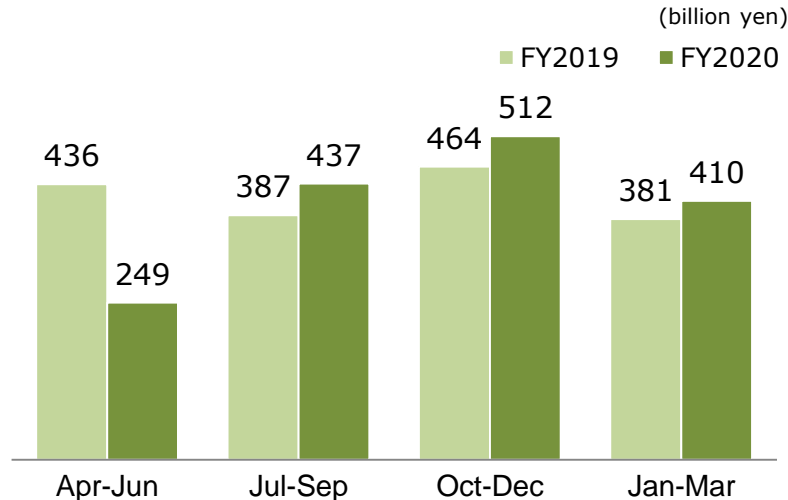
5. Increase Profitability



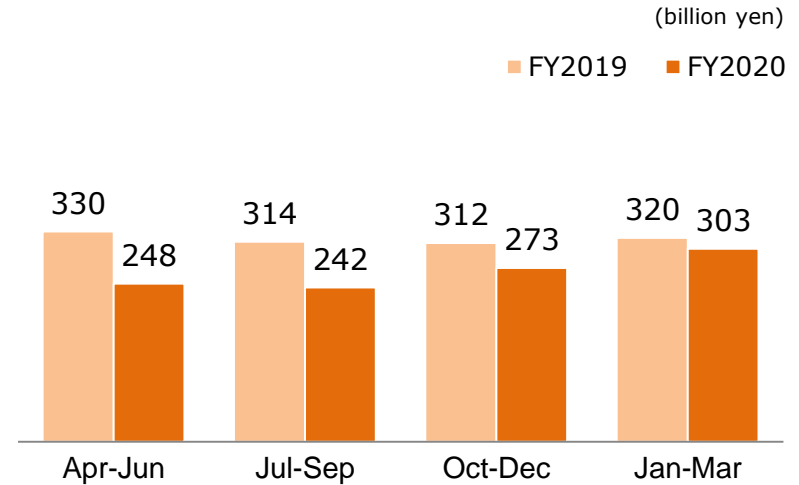
5. Increase Profitability – Business Performance

Recovery of sales and improvement of surrender/lapse increase profitability. The surrender/lapse decreased due to promotion of follow-up against policyholders to recognize insurance needs.

New Business



Surrender/Lapse

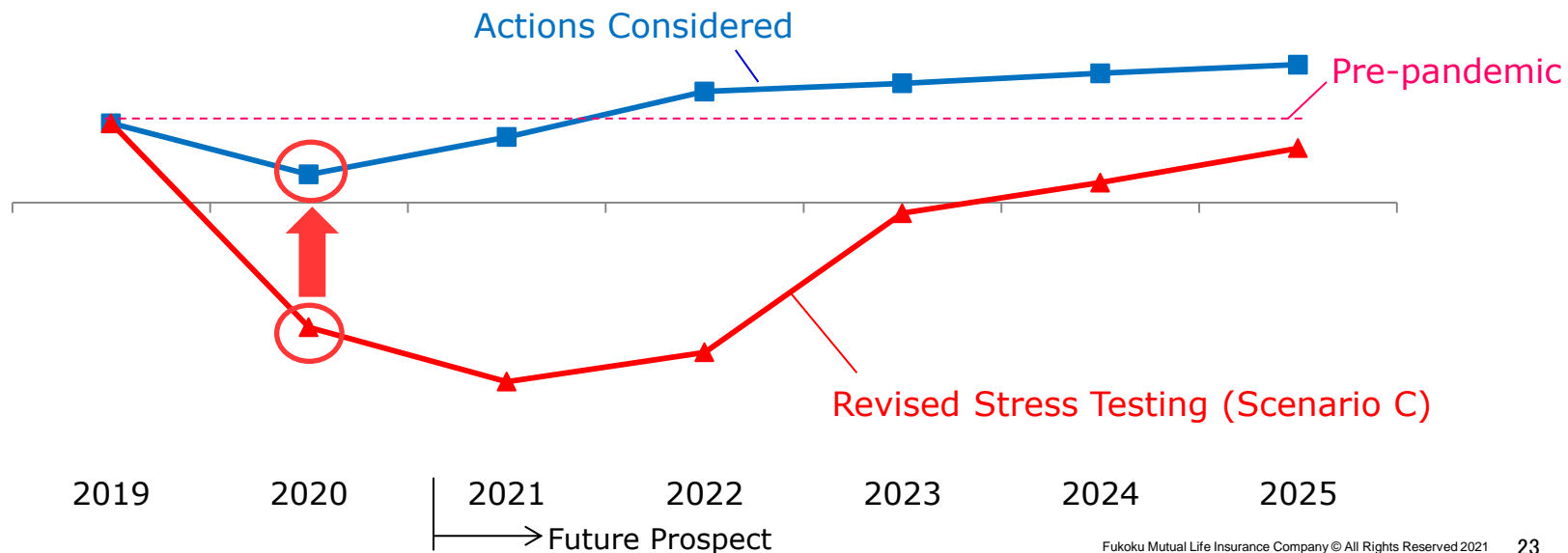


Notes: Face amount of Fukoku Group

5. Increase Profitability – New Business Value (NBV)

The NBV of FY 2020 has dramatically improved from what was projected in the revised stress testing. Moreover, future NBV will expand beyond the value of pre-pandemic.

Future Prospect of New Business Value (Fukoku Life)



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Conclusion

"We could not do beyond what we had prepared. Furthermore, just being prepared was not enough".

The Ministry of Land, Infrastructure, Transport, and Tourism in Japan lessoned us from experience after the Great Eastern Japan Earthquake in 2011. Faced with the Covid-19 crisis, we keenly recognized that the lesson was true. As a result, we had to take actions which were not described in the BCP to adjust to the changing environment and, consequently, to build resilience. Resilience, we believe, is critical concept to the contemporary ERM.

Thank you for your attention!

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