RISK MANAGEMENT, RECOVERY AND RESILIENCE

COVID-19 Survey Report 2020

40+ YEARS

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About FERMA

FERMA brings together 22 risk management associations in 21 European countries. They represent nearly 5000 professional risk managers active in a wide range of business sectors. FERMA acts on their behalf at European level and promotes the risk management profession.
At the time of writing the COVID-19 pandemic is an ongoing event. Many EU Member States are under their second national lockdown. Many businesses are closed temporarily, some have closed permanently, and the human toll of the Coronavirus crisis is stark. However, there is some good news on the horizon about successful trials of vaccines.

Despite the good news, it is fair to say we are still not in recovery mode. At both company- and political- levels, efforts are concentrated on dealing with the present situation.

This means making time for reflection is difficult. Nonetheless, FERMA used the period after the summer recess to survey the European corporate risk and insurance management community on their experience of the COVID-19 crisis so far. Since the survey took place during the crisis, the reflections here should be treated as ‘initial reactions’ that are likely to be developed and refined over time.

At various stages this pandemic has been described as a ‘known unknown’—i.e. an (unlikely) unpredictable event with extreme consequences. What we aimed to do with our questionnaire was to get a sense of where risk managers were pre-crisis and during the crisis, and ask them to look ahead.

As well as contributing a point-in-time look at how organisations have handled the crisis, this is, as far as we know, the first Europe-wide look at risk and insurance management during COVID-19. This survey shows that risk managers have made important contributions to their organisations, including into areas that would probably not be in their normal day-to-day work. At the same time, this survey also reveals that certain tools in the risk manager’s toolbox can be crucial in times of crisis.

An objective of this survey is to provide a quantitative contribution to the policy discussion on this pandemic and large catastrophic events taking place at EU and national levels. While this survey is not — and could not be — exhaustive in terms of content, FERMA has provided an important and timely contribution to these discussions. We look forward to our continued interaction with policymakers on this important issue.

Dirk Wegener,
President of FERMA
FERMA’s COVID-19 survey shows that risk managers have made important contributions to the resilience of their organisations during the ongoing pandemic.

In the immediate response to the crisis, respondents made a clear prioritisation of people — ensuring a quick pivot to teleworking, facilitating health and safety measures for staff. They participated in task forces and crisis units, promoted communication, took a strong role in maintaining business continuity and, where possible, pursued insurance recoveries.

Preventing or limiting interruptions to business processes and activities is an integral part of any Enterprise Risk Management (ERM). Risk management tools such as a business continuity plan (BCP) provide a framework for building organisational resilience against disruptive events, such as this pandemic and the resulting government actions, e.g. lockdowns.

Simplified Business Continuity Framework

1. Disruptive event
   Emergency response
   This phase is an organisation’s immediate response to the pandemic and the resulting government actions.

2. Continuity
   In this phase organisations are attempting to ensure operations can continue

3. Recovery
   In the recovery, organisations hope to resume ‘normal’ operations, although it will not be the same business-as-usual.

Source: adapted from ANZIIF & FERMA, RIMAP – European Risk Management Certification Block 3
The results from our survey underline the value of ERM and the range of tools in the risk managers’ toolbox. BCPs were in place in the majority of respondents’ companies (74%), and helped to mitigate impact of the COVID-19 crisis.

BCPs and other measures help to explain why the vast majority of respondents (90%) said their organisations had been well or reasonably prepared to manage the pandemic, even though pandemic was only on a minority of risk registers (31%).

BCPs being one tool of the risk manager, so too is the thought process on risk transfer. However, in this pandemic, for our respondents, insurance coverage during the crisis so far has not matched organisational needs. 67% of respondents found that insurance did not provide their organisation with sufficient coverage from the business interruptions that resulted from this pandemic and subsequent government actions.

There is, however, demand for increased financial protection among the organisations surveyed. Approximately 60% of respondents have either a reasonable or very great interest in a non-damage business interruption (NDBI) insurance product.

Lastly, those surveyed are in favour of EU intervention in this area. Risk managers (85% of those surveyed) would welcome an increased role by the EU in the management of a future pandemic or other large systemic event. Perhaps this is driven in large part by their view (72% of respondents) that EU-policy interventions during this crisis have had ‘no impact’ on their organisations.
Policy Recommendations

The results from this survey have provided us with some quantitative information that will contribute to the ongoing policy discussions.

FERMA believes that a public-private insurance-based solution*, based on a sound foundation of risk management, is essential to support European enterprises against future systemic and large catastrophic events. It is also our view that European-level involvement is necessary to create resilience across the Single Market.

Based on the responses to our COVID-19 survey, FERMA puts forward the following recommendations to policymakers:

- **Build capacity to build resilience.**
  Corporate risk and insurance managers play a key role to enhancing risk awareness. They can, for example, promote greater risk awareness with their suppliers, which are often SMEs.

  Risk management training would be impactful for organisations. By providing risk management training, processes such as business continuity management, become an integral part of an organisation's strategy and day-to-day management and not an add-on.

  Public authorities could support the development of a BCM culture within organisations. This could be done though fiscal incentives to encourage investments in resilience or financial support for training programmes, for example.

- **Interconnected risks need more attention.** Risk and insurance managers identified several interlinkages of risks in areas ranging from cyber to the climate. A key lesson is that measures that are sufficiently flexible, such as a robust BCP, can create resilience for organisations to different systemic or major catastrophe risks. Even so, these measures have needed to be adapted to take into account the effect of actions by public authorities. This complex interaction needs to be embedded into risk management and loss prevention measures and assessment models going forward. It is clear that we have to look at risks in a new way, and the EU can support this exploration in its policy responses.

- **The insurance market should be part of the solution.**
  As this survey has shown, there is insufficient financial protection from the insurance market for organisations in the face of systemic events. There is demand for such protection, especially some for non-damage business interruption (NDBI) coverage, but it is not available. At FERMA, we think this problem is best addressed in the form of a public-private partnership (PPP) that works to make financial coverage more widely available at an affordable rate.

- **There is a clear role for the EU to play.** FERMA has long-called for clear and integral involvement of the EU in any solution to large risks. The evidence from our survey is unequivocal on this point: risk managers believe the EU should play an increased role in the management of a future pandemic or other large catastrophic risk. FERMA argues that the EU should coordinate responses across the Single Market as a first step. Second, there is a role for the EU in supporting a PPP-based financial protection regime that can build resilience in the face of large, systemic risks.

Methodology and survey respondents

- The data in this report was collected from an anonymous web-based survey distributed through FERMA's 22 member associations between 28 September and 21 October 2020.

- Responses were received from 314 respondents in 21 countries. The countries with the highest number or responses were France (98), Italy (39), Sweden (36), Germany (28) and Belgium (21).

- These responses came from a broad variety of sectors, 20% from manufacturing, 12% from utilities/energy, then telecommunications, technology, internet & electronics 9%; transport 8% and retail 8%.

- Insurance managers make up 39% of all respondents. Over one-third (34%) define themselves as enterprise risk managers, and more than a quarter consider themselves to be both insurance and risk managers.

- There were 22 survey questions, divided into four sections: Profile questions (Q1-3; 3 questions) Before the pandemic questions (Q4-8; 5 questions) During the crisis questions (Q9-15; 6 questions) Questions on their outlook (Q16-22; 8 questions)

- The number of respondents varies from one question to another. In addition, some questions allowed multiple choices, so the responses may add up to more than 100% in some cases.

- Questions 15, 21 and 22 were ‘free-text’ questions. This means that, in theory respondents could write whatever they wanted. The number of responses was uneven.

- Further, to make a graphical representation of the trends of the responses in these three questions, we undertook an iterative mapping and categorisation exercise. We first looked for trends in the free text by searching for words that occurred more than once, e.g. cyber, and then grouped according to these key terms. This process required a high level of interpretation. Some examples of the category-answers are given as illustrations beside the relevant charts below.
SECTION 1: BEFORE THE PANDEMIC

One year ago, was a pandemic part of your organisation’s risk register?

For 31% of respondents, a pandemic was part of their organisation’s risk register just over a year ago, i.e. in September of 2019.

It is unlikely a global pandemic scale risk would have made it into top-5 risks of most European based organisations. In general, organisations would have prioritised high-probability risks. A pandemic and the subsequent government measures likely would have been considered as a low-probability and high (or unknown) impact.

In many cases, the risk of epidemic/pandemic would have been analysed through the lens of the supply chain or other third-party providers.

Did your organisation already have preventive measures in place before the outbreak of COVID-19?

Nearly 60% of respondents had preventive measures in place before the outbreak of COVID-19.

These preventive measures may have been associated with other risks, but were then adapted to the needs of the pandemic, such as health and safety measures as well as teleworking policies.
Did your organisation already have a Business Continuity Plan in place before the outbreak of COVID-19?

Over 70% of risk managers had a Business Continuity Plan (BCP) in place before the outbreak of the pandemic and the related government actions.

For the 26% who said they did not have a BCP, we believe that they are likely to have similar processes, but with other names.

Organisations use BCPs to plan out a way of ensuring the continuity of operations, activities and processes. Within BCPs, respondents mapped out their critical assets and functions, and possible interdependencies, and considered the aggregate impacts at group level.

BCPs could, therefore, be put into use at the trigger of the pandemic, even if they were not created with pandemic specifically in mind.
Before the outbreak of the virus, did your organisation have a risk transfer mechanism in place for pandemics, such as an insurance policy?

The great majority of respondents had no risk transfer instrument in place for pandemics. 16% said they had a risk transfer instrument in place going into the pandemic; 12% self-insured.

There is no overlap between the two responses. We understand ‘Yes’ responses to mean that those risk and insurance managers had purchased some form of coverage from the insurance market. The question did not specify what type. In some markets, products such as ‘event cancellation’ insurance did respond to losses.

Similarly, credit insurance also responded to the pandemic in certain markets. However, this is not the case across all markets nor all business lines.

Some words on policy wordings - Financial Conduct Authority (FCA) Test Case

- Many businesses in the UK could not operate during the first nationwide lockdown as a result of government action.
- The ‘business interruption’ this caused led many of these business-owners to look to their insurer for compensation via business interruption (BI) insurance policies.
- Some insurers refused to pay out on the basis that certain clauses in the contracts excluded this specific scenario.
- Typically, when property insurance policies for SMEs include BI, it is only as a consequence of property damage. Some policies, however, included BI from other causes, for example, infectious or notifiable diseases (‘disease clauses’) and non-damage denial of access and public authority closures or restrictions (‘denial of access clauses’).
- Due to a perceived lack of clarity and certainty in the wordings, policyholders and insurers have disputed whether there is liability.
- The Financial Conduct Authority (FCA) brought a test case to the UK High Court regarding the lack of clarity and certainty for policyholders making business interruption claims. The proceedings began on 9 June 2020, and were heard in the High Court in July 2020.
- The FCA sought legal clarification using a sample of policy wordings issued by eight insurers.
- While the Court reached different conclusions in respect of each wording, it found in favour of the FCA on the majority of the key issues — but not all — in particular in respect of coverage triggers under most disease and ‘hybrid’ clauses, certain denial of access/public authority clauses, as well as causation and ‘trends’ clauses.
- At the time of publication, the decision of the UK Supreme Court was awaited early in 2021.*
Before the outbreak of COVID-19, to what extent was your organisation prepared to manage a pandemic?

In the preparedness-for-pandemic self-assessment question, respondents felt relatively well-prepared to manage a pandemic. However, it must be stressed that the question did not ask if respondents were also ready to manage the subsequent government actions.

Nevertheless, a large majority of respondents considered their organisation was prepared to respond to a pandemic to either fully (2%), ‘to some extent’ (65%) or ‘a large extent’ (23%).

This demonstrates that while organisations may not have had pandemic specifically on their risk register, they had flexible preventive measures that helped them prepare for and respond to many of the risks that stem from the pandemic and subsequent government actions.

Indeed, the ability to ‘manage’, and mitigate the impact of exceptional events is one of the core missions of risk management.

*Financial Conduct Authority, ‘Result of FCA’s Business Interruption test case’, 15/09/2020  
Herbert Smith Freehills ‘Judgement handed down in FCA’s COVID-19 business interruption insurance test case’ 15/09/2020  
In your view, how has your organisation been affected by the COVID-19 pandemic so far?

It is clear from the respondents to this survey that the pandemic has mostly had a detrimental effect on their businesses. Where there were positive financial and operational impacts the ‘retail’ and ‘healthcare and pharmaceuticals’ sectors had a relatively high proportion of the positive financial impacts.
In your view, to what extent have the following aspects of your organisation been impacted since the outbreak of the pandemic?

1. Operations
2. Employees
3. Business strategy
4. Supply chain
5. Technology
6. Regulatory
7. Legal

It is not surprising that business operations have been the most affected since we know that the very nature of doing business has altered in the pandemic. Forcibly the way businesses operated changed, largely in response to government actions, such as national lockdowns.

Employees were next – either working from home, or in some cases unfortunately being technically unemployed. Many corporates made efforts to ensure the continued well-being of their employees, including catering to the specific needs of employees on long term assignments, for instance.

Third, the events so far have rocked business strategies, and so in turn they have affected decisions on the supply chain.

Technology has been more impacted than regulatory or legal matters. We know that the crisis has accelerated digitalisation at the same time as the shift to working from a distance with the resulting needs for IT infrastructure and security.
To what extent have you been involved in the following selection of responses to the COVID-19 crisis in your organisation?
Risk managers have demonstrated adaptability and flexibility within their organisations during the crisis.

Corporate risk and insurance managers were ‘heavily involved’ in ‘Creating and implementing their organisation's COVID-19 crisis management strategy’ to ensure the continuation of the activities. 17% of respondents to this actually led their organisations work in this area.

Risk managers were also significantly involved in ‘setting up and/or rolling out of the recovery plan’ (23%). However, it is likely to be premature to home in on the rolling out of these plans, since we are still in recovery mode.

It bears mentioning that risk and insurance managers were relatively well involved in their organisations communication during this pandemic. Over 20% of respondents were ‘heavily involved’ in this process, often probably as part of crisis management.

As to the relatively low involvement in supply chain management amongst the respondents (<50% involvement), this is perhaps because site managers led the work on this area in the more immediate crisis response.

Another reflection here is that there is still room for improvement in terms of further embedding ‘risk culture’ into decision-making processes and key actions.

Examples of good risk management provided by respondents

‘Early daily crisis units at Corporate and Business unit level and quick decision making / strong support to employees - good communication.’

*Enterprise Risk Manager, France, in the manufacturing sector*

‘In a very early stage we started with a prevention team and overall communication gave us time to act in an adequate way.’

*Insurance & Risk Manager, the Netherlands, in the real estate sector*

‘Mitigations in place for other risks helped mitigate impact of pandemic too.’

*Insurance & Risk Manager, Denmark, in healthcare & pharmaceuticals*
To what extent do you agree with the following statement: ‘insurance has provided my organisation with coverage for the business interruption resulting from this pandemic’?

A vast majority, two-thirds of respondents, disagree with the statement. This implies the insurance coverage on offer did not match organisational needs. Looked at in another way, only 5% of respondents agree with the assertion that insurance provided their organisation with coverage for the business interruption resulting from this pandemic.

Combined with the finding, that only 16% of respondents had an insurance policy in-place going into the pandemic crisis, these figures highlight a serious shortcoming: even those with some coverage were not fully satisfied with the protection it provided.

The ‘not relevant’ replies could be interpreted in various ways. This could mean that the organisation had alternative means of risk transfer or that it did not have an insurance policy. It could also indicate that the insurance that they had was not a relevant amount of coverage.

Finally, for 9% of organisations the crisis has had ‘no impact’ and for 12% of organisations it has had a ‘positive financial impact’, so these organisations may not have had grounds for a claim.
To what extent do you agree with the following statement: ‘there is not an insurance product available that provides my organisation with sufficient financial protection from pandemics or other large catastrophic risks’?

The vast majority (76%) agree/strongly agree that there is not a product available that meets their needs.
How would you assess the impact on your organisation the following selected actions taken by public authorities had:

In terms of measures taken by public authorities, there was the perception that ‘lockdown measures’ had a negative impact overall, with 78% of respondents answering this way. ‘Financial support for businesses’ and ‘furlough / unemployment schemes’ were slightly more positive, on the whole, with over a third of respondents providing positive responses.

In the cases of ‘tax relief’ and ‘actions by the EU’, most respondents (62% and 72%, respectively) observed no impact. A likely explanation is that respondents largely represent large corporations and were, therefore, not the primary target of these interventions with the exception of some sectors heavily hit by the crisis (e.g. aerospace, restaurants, etc.).
Could you provide an example of good risk management practices in your organisation during this crisis?

The responses to this question point to a strong focus on resilience. It charts those risk management practices that were generally quickly used in the crisis. Nearly a quarter of respondents to this question made a reference to ‘teleworking’ or the establishment of a dedicated task-force or crisis-unit within their organisation.

Respondents also referred to the cyber risk management aspect of the fast pivot to teleworking. Similarly, more than 20% made reference to the BCP as an example of good risk management practice in their organisation during this crisis. As a reminder, over 70% of respondents said they had a BCP in place. This is further evidence for the strong role BCPs played in helping organisations better manage their risks during the pandemic. Almost 20% of respondents made references to communications of some form, which is a crucial element during a crisis. It ranged from ‘regular staff updates’ to ‘dialogue with customers/clients’ to ‘measures and guidelines posted in workplaces’.
Does your organisation plan to make changes to the supply chain as a result of this pandemic?

- Yes: 46%
- No: 54%

When asked whether organisations will make changes to their supply chain based on this experience, there was almost an even split, with 46% responding that they will make changes, 54% that they will not make changes to their supply chain.

Bearing in mind that this is an early time to make reflections, since many organisations are still crisis management, this high percentage indicating changes will be made is noteworthy.
Reducing dependency in the supply chain by adding new or alternate suppliers is the priority for 70% of respondents looking to make changes, followed by revising contract terms (59%) and ‘improved supply chain transparency such as new risk alerts and scenario planning’ (51%).
To what extent do you agree with the following statement: ‘the role of the risk manager in my organisation will increase in importance because of the evolution of the risk landscape’?

The importance of risk management to organisations is forecast to grow in the near-term, with approximately 75% agreeing or strongly agreeing with the statement ‘the role of the risk manager in my organisation will increase in importance because of the evolution of the risk landscape’.

This belief is likely to be correlated with increasing awareness of the interdependencies of systemic risks and potential impact of major catastrophes. Also risk management tools, such as a BCP which are linked to resilience-building of organisations are certainly growing in importance.
To what extent would your organisation be interested in a non-damage business interruption insurance product that provides your organisation with coverage in event of pandemic (or other catastrophic events)?

Given the pan-European nature of the pandemic to what extent do you believe the EU should play an increased role in the management of a future pandemic?

Approximately 60% of organisations had either a reasonable or very great interest in an NDBI insurance product that provides their organisation with coverage in event of pandemic (or other catastrophic events).

This interest was across sectors. Perhaps some of the reluctance to express more interest comes from a belief that there would not be sufficient coverage or an affordable price even if a product were available.

The vast majority of respondents agree that the EU should play a role in managing future pandemics.

The cross-border nature of COVID-19, and other similar catastrophic risks, warrants a European response, which would contribute to the EU aim of making the Internal Market more resilient and better equipped to handle crises in the future.
What other risks have emerged during this pandemic?

Almost two-thirds of respondents highlighted some form of human risk as an emerging risk during the pandemic. These typically included the effect of ‘employee safety’ or ‘employee wellbeing’. This emphasises that risk managers are considering the impact of this pandemic on employees and the resulting risk management concerns.

Cyber risks were mentioned by 2 in 5 respondents as an emerging risk during this pandemic. There is also a link between the two most commonly mentioned emerging risks (human and cyber) considering the increase in teleworking.

There are interdependencies between the next three risks, business, financial and political. Government actions (e.g. lockdowns) had an impact on turnover. This will in turn have lead to many companies to look less favourably at the environment in which they are doing business.
Which risk has changed most significantly in profile because of the pandemic?

When asked which risk has changed the most significantly in profile because of the pandemic, the responses that covered a wide range.

For ‘business’ risks respondents used terms like ‘business interruption’, ‘business model’, ‘business environment’ and ‘business strategy’. They also made reference to examples such as ‘commercial risks in key markets.’ which functioned as synonyms for business risks. 1 in 5 respondents gravitated to this type of response.

16% of respondents chose risks belonging to the ‘cyber’ category. We were not surprised to see this risk come up as one that has changed in nature, owing to the increasing use of teleworking and the acceleration of digitalisation.

The ‘human’ risk category typically had respondents citing ‘human risk’ in general and ‘employee health’ or ‘employee engagement’. 1 in 10 respondents selected this and supply chain risks.

It is interesting to note that ‘climate/commodity’ risk and ‘biological’ risk came up on this question more frequently than in the preceding question.
Examples of 3 risks emerging from respondents:

‘1. Employee management (work from home transition) 2. managing the fear, 3. Managing supply, compliance and conformity of new products (masks and gels).’
_Insurance & Risk Manager, Belgium, from the retail sector._

‘1. Customers credit risk has strongly increased, although bankruptcies are still to materialise. 2. Dependencies on critical raw material sourcing. 3. Cyber-risks furthermore increasing with vulnerabilities to network and more risky behaviors with remote working.’
_Insurance & Risk Manager, Luxembourg, from the manufacturing sector._

‘Cyber risk; Market/competition risk; Geo political / macro economic risks.’
_Insurance & Risk Manager, Belgium, from telecommunications, technology, internet & electronics._

‘Cyber risk (working remotely / home office).’
_Insurance Manager, Norway, from the manufacturing sector._
Examples of risks changing in nature from respondents:

‘Increase in our risk of having difficulties in implementing the digitalisation / digital transition of our group.’
*Enterprise Risk Manager, France, from agriculture, fishery, forestry.*

‘General health and safety risks; Business model / market approach risks; Dependency on key personnel not present in all geographies.’
*Insurance & Risk Manager, Denmark, from healthcare & pharmaceuticals.*

‘People risk, i.e. health of staff.’
*Insurance Manager, Germany, from financial services.*

‘Supply chain - the border closure and the interruption of air traffic world-wide significantly change the profile of this risk.’
*Enterprise Risk Manager, Switzerland, from telecommunications, technology, internet & electronics.*