

Examining the COVID-19 Impact on Human Capital

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Abstract. The following essay is a response to the CAS call for essays on the topic of COVID-19. The essay focuses on the impacts that COVID-19 has on the broad categories of individual well-being and work. After illuminating these impacts, three areas of human capital management are suggested for the consideration of property-casualty leadership.

Keywords. COVID-19, Human Capital

1. INTRODUCTION

2020! Wow - what a year this is shaping up to be! Massive brush fires in Australia, the tragic death of an NBA superstar, a Presidential election...the list could go on and on. Looming over all the events that could be listed is the COVID-19 pandemic. Societal shutdowns and governmental stay-at-home orders have significantly affected the way businesses operate, including the Property and Casualty (P&C) insurance industry. P&C insurers are not only faced with protecting their financial statements but also managing the physical and mental well-being of their employees. The ramifications of COVID-19 on the P&C insurance industry's human capital will be felt for years to come and identifying solutions at this moment in time is a significant challenge for industry leaders.

The companies that comprise the P&C insurance industry employ approximately 650,000 people, according to the Bureau of Labor Statistics as of June 2020. These employees create economic value based on their experience and skill. This is the essence of human capital. It is an intangible asset made up of many different characteristics and qualities of the individual employees. Education, training, intelligence, health, and loyalty are all examples of such characteristics that may be contemplated when attempting to define human capital for a firm [1].

2. COVID-19 IMPACTS ON HUMAN CAPITAL

COVID-19 has caused the P&C insurance industry to encounter a diverse set of challenges that affect human capital. Human capital is intangible and difficult to quantify under ideal circumstances, making these new challenges presented by COVID-19 hard to assess and daunting to analyze. Consider these impacts on human capital:

2.1 Well-Being

In April and May of this year the American Psychological Association conducted a survey on stress which indicated that U.S. adults were approximately 20% more stressed this year as compared to the average stress level reported in 2019 [2]. Fear of themselves or a family member contracting COVID-19 and the government's response to the pandemic were significant drivers of this stress. Different employees will handle stress in a variety of ways, but it seems likely that the mental health effects could hinder productivity at work. An article in Human Resource Executive indicates that 62% of workers report losing at least one hour a day in productivity due to COVID-19-related stress, with 32% losing more than two hours per day [3].

Virtually anyone whose job could be done from home is now working from home. The potential for employees to experience ergonomic problems has substantially increased. It seems reasonable to assume that most P&C insurance industry employers had not previously provided an optimal workspace setup for each employee's home. To immediately do so in light of COVID-19 is, most likely, cost prohibitive. Therefore, employees have been left to figure out what works best for them. How many people have been working from the couch or at the dining room table for the past six months? What is the number of Zoom meetings undertaken in less than ideal lighting?

A reduction in physical activity due to lockdowns and social distancing has undetermined long-term ramifications. A study published in June showed that the United States had a 15% decrease in step count within 15 days of the declaration of the pandemic [4]. The CDC recommends that adults get at least 150 minutes of moderate-intensity physical activity per week. This leads to many benefits as described by Janet Fulton, Ph.D., of CDC's Division of Nutrition, Physical Activity, and Obesity. She said, "Being physically active has many benefits, including reducing a person's risk of obesity, heart disease, type 2 diabetes, and some cancers. And on a daily basis, it can help people feel better and sleep better [5]." Decreased physical activity for employees can lead to potential increases in healthcare costs for employers. Sample text for this section.

2.2 Work

The switch to remote work opens the door to the potential for long-term working from home. This is a result of a number of factors: (1) Cost of real estate - since COVID-19 has forced so many within the P&C insurance industry to work from home, the need for physical real estate must be contemplated. (2) Social distancing requirements and limits on number of people inside buildings - gathering many employees at a single location is not allowed in some parts of the country and

discouraged most everywhere else at this time. (3) Expansion of the talent pool – an insurer could theoretically hire from anywhere in the world. (4) Demand – current or potential employees may be unwilling to join the team unless remote work is an option. In order to retain/secure the best talent employers may need to continue using the work-from-home model. In May, performance marketing company Fluent published a study from data gathered online that indicated 59% of employees would continue to work from home once restrictions are lifted if given the option to do so [6].

The restrictions for social distancing have reduced the ability for P&C insurance industry professionals to get in front of customers due to limitations on travel. This includes salespeople meeting with buyers purchasing insurance policies, claims adjustors administering claims, and marketing representatives conversing with their clients. The decrease in sales contacts could cause repercussions as the sales funnel is populated with fewer buyers. Claim settlement times may increase affecting the timing of loss payouts. Thankfully, the internet has allowed industry professionals to continue to perform these functions, albeit in a limited fashion. With this transition P&C practitioners are having to learn new technological skills on the fly.

3. AREAS OF HUMAN CAPITAL MANAGEMENT TO ADDRESS

As demonstrated above, there have been a myriad of impacts on human capital in 2020 thanks to COVID-19. Companies within the P&C insurance industry must engage in thinking critically about these issues in order to retain a strong operational infrastructure and preserve their financial stability. With this in mind, three areas of human capital management for P&C insurance leadership should be top priority: communication, engaging civically, and investing wisely.

3.1 Communication

There is a business maxim that says: “when in doubt, over-communicate.” Communication is vital to all business organizations. How much more so in times like these where uncertainty abounds! Lack of communication from leadership leaves employees to speculate about the future and creates insecurity and the stress described above. Taking a pro-active approach to communicate with employees builds trust and provides people with insight about potential changes on the horizon. Preparing mentally for a change is much easier than having it invade with no warning. Even when management does not know exactly what to say, P&C industry executives will benefit from communication with those in their charge. In doing so, the leader is displaying compassion and

demonstrating that the manager is thinking about the consequences for those who are affected by any actions undertaken. Beyond individual conversations with employees, some practical suggestions might include employee listening initiatives, gathering opinions from various individuals throughout an organization, and company town-hall-style events (via Zoom of course!).

3.2 Civic Engagement

The circumstances presented by this pandemic require that business leaders engage civically with local and state jurisdictions to stay abreast of changes to the regulatory landscape. Executives and actuaries in the P&C insurance industry are attempting to project the future. However, no one could have forecasted what 2020 has thrown at us. The widespread nature of COVID-19 has been unprecedented in recent times. Many of the organizations in the P&C insurance industry are spread across several geographic areas. This has complicated operational responses and makes it difficult to know what a proper outlook on business in the future should be. Regulators may implement laws affecting how the P&C insurance industry adjudicates claims or interacts with its own employees. Civic engagement will enable employers to stay informed so that they can provide the training and education their employees need.

3.3 Investment in Employees

There is no doubt that the financial impact on business due to COVID-19 has been immense. Since March, there have been almost daily headlines detailing workers being laid off as companies across the nation have had to lay off thousands upon thousands of people. At the end of September, insurance giant Allstate indicated it would lay off 3,800 employees. Financial strain can have a significant impact on the morale and psyche of the team that are so important to the success of an insurer. Challenging circumstances like these put pressure on management to invest wisely to preserve human capital. Offering personal financial management education could be a relatively inexpensive way to assist. Consideration of health-based incentives could protect long-term healthcare costs. It may be necessary to find creative teambuilding activities to help alleviate employees' fear that they are next to be laid off. Looking for options to increase productivity in a way that will increase return on investment should be considered as well. There is no doubt that balancing the obligations of an insurer during this time is difficult. Insurance executives who figure out a way to maintain financial strength while also prudently investing in their employees will benefit over the long-term.

4. REFERENCES

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Biography of the Author

Mark Maenche is a Consulting Actuary at Risk International Actuarial Consulting in Charleston, SC where he leads projects involving both pricing and reserving. In his role at Risk, he also employs his passion utilizing technology to drive efficiency in the production of analyses for clients. He participates on the CAS Candidate Liaison Committee. He holds a degree in Actuarial Science from the University of Illinois at Urbana Champaign and is an Associate of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. He also holds the Certified Insurance Counselor and Certified Risk Manager designation from The National Alliance for Insurance Education and Research.