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# Impact of COVID-19 on the Insurance Sector

April 2020

# Introduction and table of contents

The COVID 19 crisis continues to have a significant impact on individuals, society, business and the wider economy across the globe. The insurance industry has not escaped its impact but insurers have responded quickly to the crisis. As the broader economy recovers and responds to the pandemic, insurers will face a number of challenges but also see many new opportunities in the medium to long term.

The following paper outlines a number of key impacts and actions being taken across the industry globally in response to the COVID 19 crisis. Insights from our Deloitte Insurance Industry network has provided input to this paper and we have attached links to additional resources on this topic at the back of this deck.

The key topics covered are as follows:

- Summary / overview of impacts on individual insurance sectors;

- Navigating the crisis will require resilient leadership – respond, recover & thrive;

- Impacts & actions taken by insurers:

    1. Customer, financial and business ;
    2. Perception, brand and strategy;
    3. Operational resilience, service delivery and workforce; and
    4. Governance, risk and controls.

- What should insurance executives, boards of management and other sector participants be asking?;

- COVID 19 will accelerate key trends already underway in the industry; and

- Additional Deloitte resources

# Summary of impacts on individual sectors

## General Insurance

The impact on general insurers will vary depending on the products and types of coverage offered by the insurers. The pandemic has taken a toll on new premiums on certain lines of business, such as travel, events, and trade credit insurance, and losses from these lines of business may become significant. Other lines of business such as motor and home have remained relatively stable.

Claims volumes for personal lines (e.g., motor) have greatly decreased due to the lockdown. This is not true from a business continuity coverage perspective as there has been a large volume of claims initiated; here, insurers need to pay close attention to potential exclusions in the policies and government expectations for a non-legalistic, pro-consumer approach in assessing claims.

In some notable cases, GI insurers have offered credits and rebates to policy holders due to restrictions. Operationally, GI insurers have responded relatively well in the initial phase of the crisis with most workforces working remotely. There were some challenges with contact centre operations and with third-party provider services, although these issues have not been across-the-board. Those insurers that had developed digital capability have been in a better position to respond to customer and intermediary self-service and engagement needs.

From an investment perspective, the volatility in financial markets has not yet had a pronounced impact on GI insurers, in particular with government bonds having been relatively unaffected by the crisis.

## Life & Pensions

The L&P sector has been impacted on a number of material fronts:

1. With COVID-19's significant impact on economic activity and employment levels at a local, regional and global level, consumer spending power has reduced significantly over a short period. Insurers are responding with payment breaks in an effort to stem a potential large level of lapses.
2. Coupled with the reduction in consumer spending power is the impact of market volatility and general uncertainty on consumer confidence and, therefore, on willingness to spend. Life assurers expect this to translate into significantly lower new business volumes for a period of uncertain duration.
3. In addition to the expectation of lower new business volumes coupled with increased lapses, there has been a significant drop in market values and interest rates. The impact of this on life assurer income levels in some cases is leading to financial strain and the need to consider unpalatable actions such as expense cuts.
4. Although the tragic loss of life will reverberate across society, from an insurance perspective life assurers may not see a large volume of life claims as many of those that succumbed to the disease were of the age cohort that may not have coverage. However, there is a risk that mortality for other cohorts may increase arising from fear of seeking hospital or medical care or the general stress of self-isolation.

Operationally, L&P insurers, similar to GI companies, have managed well with the initial crisis. However, with self-isolation rules in place, digital capability is becoming increasing important due to the nature of L&P products and dependency on agents and other intermediaries.

Please also refer to a recent posting by Nigel Walsh (UK Partner) that outlines measures that individual insurers are taking to support Customers, Communities, Agents and Brokers
https://www.linkedin.com/pulse/insurance-covid19-spotlight-nigel-walsh

# Summary of impacts on individual sectors (Cont'd)

## Health Insurance

There is a wide diversity of health systems across the globe, the impact on health insurers will not be uniform. In Ireland, for instance, the government has mandated that private hospital services are redirected to support the COVID-19 surge, while in other countries private health providers have volunteered their services to support the response. This and the enforced self-isolation rules have meant that elective procedures and consultations have been greatly curtailed and subsequently claim volumes have reduced in the short term. However, in the circumstances where customers are paying for private health insurance but are not being distinguished from a public patient, it is possible that some customers will expect credits or rebates.

To date, governments have been driving the treatment of infected patients and therefore indications are that the cost to health insurers may be limited. However, the increasing clusters of infection and mortality in nursing homes are a worrying trend, and the potential exposure to insurers is unclear.

Broadly, health insurers operationally have experienced some of the resilience challenges that GI and L&P insurers have faced. Expectations are that digital capabilities to support remote medical consultations will gain further investment in light of self-isolation rules. Medium-term governmental spending on health is expected to greatly increase in light of the crisis, and the fears experienced across society may drive higher penetration of private health insurance in the long run.

## Reinsurance

Reinsurers will be impacted in much the same way as insurers, although their impacts will be more pronounced on the demographic side for those business lines more heavily reinsured. On the Life and Pensions business, reinsurers' expectations of loss will depend on the evolution of mortality rates and how this will impact their respective overall books of business, given annuities potentially a natural hedge against term life covers.

On the General Insurance business, one of the key determinants will be the clear definition of the 'event' from which the loss is driven from; in the individual reinsurance contracts and programmes, there will be differing views of the definition(s) and, by extension, liability. Specific clauses and exclusions in reinsurance programmes, and whether COVID-19 as an event is covered by them, will be under close scrutiny. A further complication is that due to societal, governmental or potentially regulatory pressures insurer cedants may accept paying certain claims (e.g., business interruption) but the reinsurer disputes this position. The question becomes whether payment was based on more general, consumer and conduct focused principles and expectations or a clear regulatory obligation to pay. It is expected that such discussions will take a long period of time to fully resolve.

On Health Insurance business, there will be an expectation at the insurer level that reinsurers will follow proportionally any potential rebates agreed between the insurer and reinsurer.

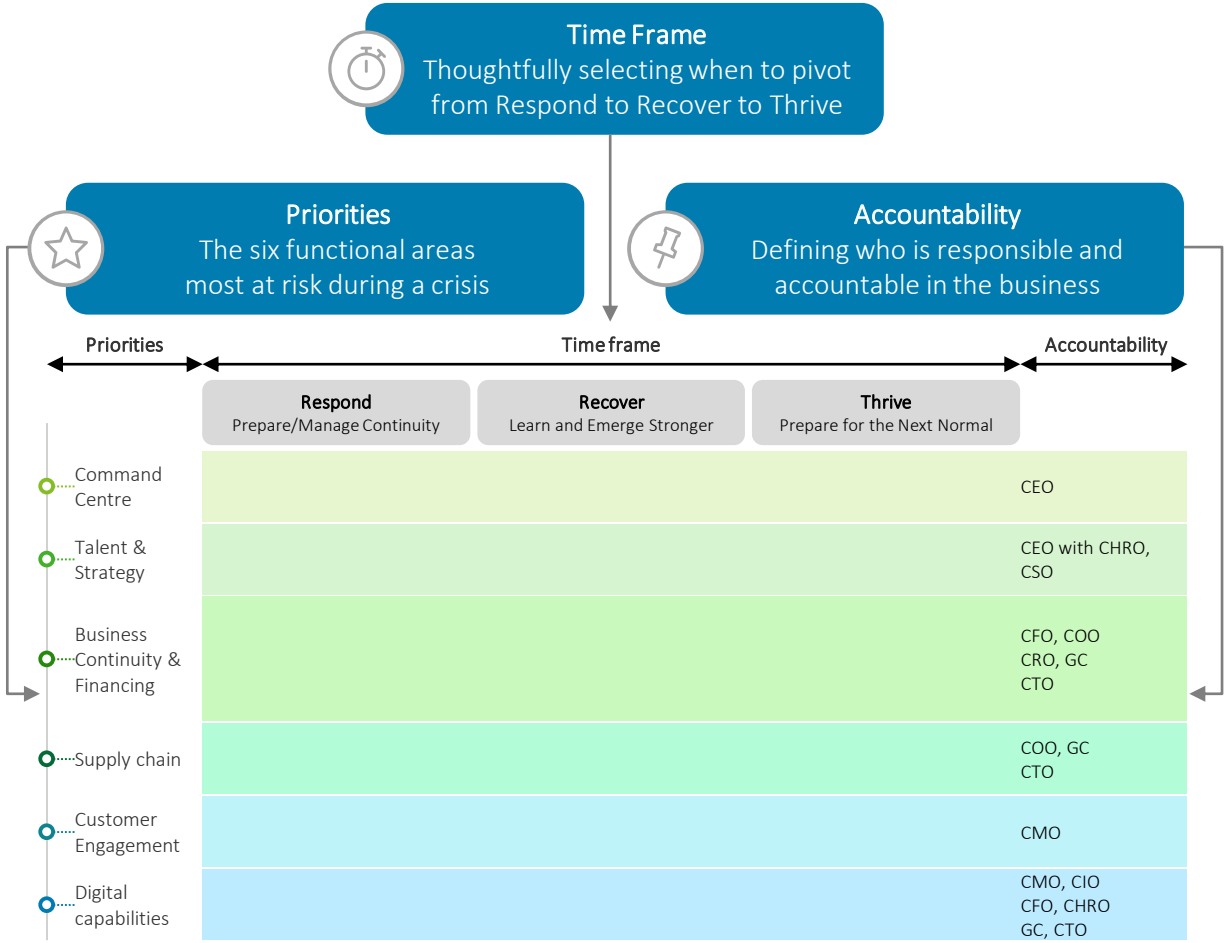
Despite the medium-to-long term loss exposures to reinsurers, the primary immediate impact on the sector is the ongoing damage that the interest rate and financial market environment is having on the reinsurers' balance sheets.

# Navigating the crisis will require resilient leadership

## Five qualities of a leader that allow them to thrive amidst crisis

| | | |
|---|---|---|
| **Design from The heart** | **Seek and reinforce solutions that align to your purpose, your societal obligations,** and serve the heart of the organisation | *How are you demonstrating to your employees, customers, communities and ecosystem that you have their **best interests at heart?*** |
| **Mission first** | **Stabilise today, and harness both the energy and the constraints** of volatile conditions to spark innovation tomorrow | *How are you turning the COVID-19 crisis **into an opportunity** to emerge stronger?* |
| **Speed over elegance** | **Decisive action with courage** – is often more essential than getting it perfect | *How are you **empowering your teams** to take courageous action in a volatile environment?* |
| **Own your narrative** | **Paint a picture of a compelling future and path forward** that your stakeholders can support and rally around | *How are you proactively **filling the information vacuum** to combat the spread of misinformation and rumour?* |
| **Embrace the long view** | **Stay focused on what's on the horizon** to instill confidence and steadiness across your ecosystem | *How are you **anticipating and responding** to the new business models likely to emerge post COVID-19?* |

## **Three dimensions** of successfully getting things done




**Source:** The Heart of Resilient Leadership Responding to COVID-19, 16 March 2020

# 1 Customer, financial and business impacts (1 of 3)

| Theme | Description | Implications and insurance sector response | Actions for insurers |
|---|---|---|---|
| Customer behaviour and impact on operations, including intermediaries | Certain customer channels have been materially impacted or curtailed due to government policy and strategies to reduce community infection | • In most countries, face-to-face interaction has effectively ceased, with many customers now using digital channels (although in some countries financial services are deemed 'essential' and offices and branches remain open)<br>• On the whole, customers are being re-directed to digital channels for information, service and queries, where possible<br>• Intermediaries, agents and financial advisors face many of the same practical challenges<br>• Indications are that those insurers who have already invested in their digital capabilities (retail and intermediary) have been in a better position responding to communications, servicing and new business activities<br>• Bancassurance channel customer interaction has been significantly diminished, while insurers that have branches are effectively closed (with staff redeployed to other priority support activities)<br>• Indications are that corporate insurance interaction remains relatively stable (as compared to personal lines business)<br>• While insurance communications are traditionally paper-heavy, communications are now being adapted to reflect the fact that postal systems are impacted<br>• Contact centre capability to meet demand from a technology and remote-access perspective has been challenging<br>• Insurers have had to realign resources across the organisation to adapt to changes in customer interactions (e.g., redeploy staff from claims processing to contact centres)<br>• Disruption is also expected on new business given prevalence of paper applications and need for medical underwriting for certain products<br>• Accepting of cash deposits and payments remains problematic in the current environment | • Insurers are making immediate changes to allow digital support and access to customers<br>• Attention is required to support customers who have limited access to digital channels (e.g., those financially or technologically excluded) and the vulnerable customer cohort, including those currently following a "cocooning" policy<br>• Insurers will need to continue to adapt and proactively implement new methods of communication<br>• Active communication plans and additional supports, tools and training to intermediaries will be important to assist them and their customer base<br>• Staff augmentation in some cases may need to be looked at to meet immediate demand<br>• Alternatives need to be put in place to support customers who want to pay by cash, in particular in light of those cohorts that are financially disadvantaged<br>• There is an opportunity to accelerate implementation of digital strategies and potential changes to the insurers' intermediary models |
| Economic shock to customers | Customers are under financial pressure arising from job losses or income reduction<br><br>• *Retail/Personal lines*<br><br>• *Commercial lines*<br><br>• *Life assurance (individual and group)* | • Many customers are under financial duress and are focused on reducing their financial outgoings and commitments<br>• Indications are that some customers are deferring purchasing or renewing their insurance policies or reduce coverage (e.g., switch from comprehensive motor coverage to TPFT) in an effort to reduce spending<br>• There are indications that there is an uptick in customers on direct debit arrangements inadvertently defaulting on payments, resulting in the cancellation of policies<br><br>• Changed customer behaviour (e.g., customers having to stay home) may reduce need for certain policies and thus provide customers the opportunity to reduce coverage amid financial difficulty<br><br>• Business activity has significantly reduced, and commercial line new business volumes are reflecting this reality<br>• Similar to personal lines, product cancellations and requests for premium holidays are increasing<br>• Lines such as trade credit insurance have and are expected to continue to deteriorate as the lockdown continues<br>• Change of use requests may also become an issue (e.g., changing from restaurant to take-away)<br><br>• Life assurers are particularly exposed to lapses on their existing books of business and to the impact lower new business volumes have on their expense base, with ripple impacts into the companies' solvency levels<br>• The lapses are driven by consumer or business ability to afford with this in turn impacted by the state of the economy and employment levels. New business is impacted for similar reasons | • Insurers need to recognise that customers are under duress and need to ensure that contact centre teams are additionally sensitive to customers' financial (and potentially health) situations<br>• The need for insurers to have simple digital self-service and clear communications will be paramount<br>• Insurers may need to facilitate customers to move or defer payments on policies for a defined period (similar to the banks' repayment moratoriums); this would be required to maintain retention and lock in positive customer sentiment<br>• There will be new opportunities for agile insurers to respond quickly and offer products and solutions that address customers' changing needs in this environment; there are some examples globally of 'COVID-19 specific' products being offered<br>• Insurers may look to have more flexibility in policy coverage - allowing customers more options to "pick and choose" coverage types<br>• Insurers need to ensure appropriate financial advice is also provided to both personal and commercial customers during the economic turmoil |

# 1 Customer, financial and business impacts (2 of 3)

| Theme | Description | Implications and insurance sector response | Actions for insurers |
|---|---|---|---|
| Nature of COVID-19 and its impact on insurable activity | The nature of the pandemic means that certain governmental and societal decisions have limited certain key insurable activities | • Motor and travel insurance (personal and business) have seen significant reductions due to the travel restrictions and reduced economic activity<br>• More recently, the suspension of construction projects has led to a reduction in construction insurance, and restrictions on communal events have led to a similar reduction in events insurance<br>• To date, other lines of business in General Insurance (such as home and property) seem to be holding up<br>• In the health business, the restrictions have meant that elective procedures and consultations have been greatly curtailed and subsequently claim volumes have reduced in the short term<br>• Life assurers are impacted from an insurable activity perspective in terms of their exposure to rising unemployment across the economy leading to reduced workforces and the associated financial strain; the lack of hiring new employees thus limiting new business; the impact market volatility has on consumer buying confidence; and the impact of limited activity in certain sectors (e.g., new mortgages) | • Insurers need to monitor and review their portfolio and operationally re-align resources to the lines of business that require increased customer support and attention<br>• Significant attention will be required by insurers to assist their customers and intermediaries in 'kick-starting' their businesses as restrictions are relaxed<br>• Additional advice and supports to customers should be considered to protect their property (specifically sites) during the lockdown |
| Insurers' financial performance and stability | The economic and broader societal activity downturn will impact insurers' financial performance | • All insurers have reacted to the immediate impact of the pandemic and initiated crisis management plans during the 'Respond' phase of the crisis ensuring that teams are safe and customer engagement is maintained<br>• As insurers quickly move to the 'Recover' phase, the short and medium-term implications of the insurer financial outlook is quickly coming into focus<br>• There has been an immediate slump in certain personal and commercial lines' new business, and levels of renewals are reflecting this trend<br>• Although levels of claims and indemnity spend for most lines will contract, this is not true for all business lines, including business continuity, trade credit and, highly likely, health claims<br>• However, from a macro point of view insurers are very concerned over the projections of global and local forecasts of a severe contraction of economic activity which will materially impair prospects for growth and profitability in insurers' underwriting and investment portfolios<br>• In that regard, insurers need to have a better understanding of their business exposure by class of business and in aggregate | • Insurers need to continue to conduct analysis and monitoring of:<br>– Respective portfolios and sensitivity to premium income based on immediate 'shutdown' and broader economic deterioration<br>– Risk exposure of the portfolio on certain classes of business<br>– Robust assessment of expenses and operational costs to determine optionality (e.g., contractor costs)<br>– Overall impact on liquidity<br>• Loss provision adjustments may be required<br>• Insurers need to assess their asset portfolio and determine appropriate strategy in the short, medium and long term<br>• Insurers need to reflect on their hedging strategies, including engaging with intra-group stakeholders<br>• Decisions may need to be made regarding investment divestitures, which may in turn trigger taxation considerations<br>• Cash tax strategies should be pursued to manage tax flows<br>• Insurer tax and finance department teams should assess any governmental supports (e.g., workforce wage subsidy schemes) to feed into financial and operational decisions<br>• Overall risk and capital management will need to be revisited, including updating risk appetite levels<br>• Overall reserves may need be to be fortified<br>• Financial and risk disclosures may be required depending on exposure<br>• It is crucial that there is proactive engagement with regulatory supervisory authorities |
| | Investment income and interest rates and overall market volatility will impact profitability and growth prospects | • In addition to the severe threat of a economic recession, the industry is simultaneously taking a blow from the historically low interest rates and a volatile financial market environment (including bonds)<br>• The impact of market volatility will be more pronounced in the General Insurance market. Within the Life market, with the depressed equity markets, there will be lower fees achieved on unit-linked business. Additionally, the corporate bond market will see fluctuation in market values depending on the counterparty<br>• The impact of the lower yield curve will impact Life companies more than General Insurance companies who generally invest in shorter term, more liquid assets. The impact of this will depend on the accuracy of the asset liability mechanism in place. However, both will see and increase in the risk margin, which will decrease their own funds under Solvency II<br>• In this environment, the attraction of certain products and solutions may deteriorate, with a knock-on effect on premium sales<br>• It is also worth pointing out that in this environment collating up-to-date and accurate valuations has been problematic in many cases | |
| | Insurers are experiencing liquidity and solvency challenges and considerations | • These dynamics have meant that there needs to be close monitoring of the insurers' liquidity (at both subsidiary and group levels)<br>• Most insurers have advanced their financial projections and scenario analysis on the impact of COVID-19 and in particular on solvency ratios<br>• Engagement with the regulatory supervisory authorities has been extremely important, and regular communications on liquidity, solvency and conduct considerations will remains critical<br>• Other key stakeholders being managed at the moment include intra-group stakeholders, the broader investor community and ratings agencies on overall performance and stability | |

# 1 Customer, financial and business impacts (3 of 3)

| Theme | Description | Implications and insurance sector response | Actions for insurers |
|---|---|---|---|
| Claims and claims processing | Larger volume of claims in certain areas is expected and will need to be processed efficiently and securely amid crisis circumstances | • A larger volume of claims in certain areas – e.g., business interruption cover, complex specialty coverage in transport (e.g., marine cargo insurance), and the hospitality sector – is expected<br>• Indications are that trade credit insurance claims will also ramp up as the pandemic progresses<br>• Travel insurance claims have dramatically increased, and event insurance claims have also spiked due to restrictions<br>• Most personal line general insurance products have clauses that exclude pandemic-related diseases, and it is expected that the exposure from these will be relatively limited<br>• In the health business, the restrictions have curtailed elective procedures and consultations, subsequently reducing claim volumes in the short term<br>• The overall volume of claims may be reduced corresponding to a lower level of economic activity, particularly with many sporting, social and hospitality events being curtailed. With customers staying at home, fewer accident claims are already evident<br>• Claims investigations have been hindered with reduced mobility, and with medical practices shut down or re-focused to crisis response, there may be considerable delays in receiving the required medical confirmations<br>• Crises often trigger fraudulent and exaggerated claims, highlighting the need for robust processes and data analytics to identify fraudulent behaviour<br>• Some insurers are now allowing more flexibility in timelines for claims notification due to the restrictions<br>• From a life insurance perspective, modelling mortality rates is a focus, but the variability that exists remains problematic. Compounding this challenge is that the self isolation and fear relating to the virus may accelerate the mortality of policy holders that do not have the disease (access to medical care, fear of getting medical attention, isolation)<br>• As highlighted, income protection claims are and will continue to increase as the lockdown and the economic fallout progresses<br>• The level of claim activity for certain exposed portfolios will flow to re-insurers as thresholds are met<br>• A significant potential issue on claims is that:<br>1. Customers may never have been entitled to be covered on their policy due to various exclusion clauses (similar to PPI);<br>2. Insurers in some cases are already taking a legalistic interpretation of reviewed claims which may result in a poor outcome for the customer in that it is not in line with what the customer had signed up for at the outset of the policy.<br>Insurers need to be careful that decisions are not being taken to the detriment of the customer in order to protect the institution (see the section on Conduct overleaf) | • Resources to be re-directed to areas with higher expected volumes<br>• Training may be required for successfully re-organising claims operations<br>• Insurers are examining their claims classes to identify where they are most exposed in both short and medium-to-long term<br>• Close review and trend analysis is required to spot key triggers for fraud<br>• Daily stand-ups with senior claims leadership should be taking place to monitor claims activity, prioritise resources and agree approaches to ensure consistency in approach<br>• This should be supplemented by weekly incident management response team meetings to discuss trends and volumes, understand levels of exposure and consider the potential impact for underwriting renewal business<br>• Claims processes will need to factor in impact of government support and compensations to customers and businesses on overall claims exposure<br>• Insurers should carefully examine the terms and conditions of their most relevant policies in anticipation of increased case volumes and potential legal challenges<br>• Insurers are examining robotic process automation and other methods to speed up manual claims processing, where required |
| Expenses and the cost agenda | The impact of COVID-19 on insurers' profitability will focus them on expenses and the wider cost agenda | • As insurers' profitability and cash flows are being materially impacted, there has already been a re-focus on the insurers' expenses and the wider cost agenda<br>• This will re-focus the insurers on the cost transformation agenda, including (not exhaustive):<br>– Short-term staff salary and benefit decisions and sourcing blend;<br>– Contractor costs across the enterprise;<br>– Location and service delivery models (in the context of relative success to date of remote working);<br>– Digitalisation, cloud and automation agenda;<br>– Third-party provider spend, supplier management and associated supply chain risks<br>• Indications are that, similar to most financial institutions, most insurers are resisting (in the short term) the potential impulse to cut jobs, as the respective governments and society would react negatively at such a sensitive time | • Insurers need to review their portfolio of projects and reprioritise in light of the pandemic and liquidity considerations<br>• Assess robotic automation and AI opportunities, focusing on certain labour-intensive manual processes<br>• Broader operational excellence initiatives (to reduce waste and generally make processes more efficient and secure) should be considered |

# 2 Perception, brand and strategy (1 of 2)

| Theme | Description | Implications and insurance sector response | Actions for insurers |
|---|---|---|---|
| Customer perception of Insurance – a lingering impact | There may be medium-to-long term implications of customers' perception of and 'use' of insurance | • With the level of insurable activity materially down, customer perception and expectations may shift in the medium-to-long term (e.g., customers questioning having insurance while their car or commercial van is unused for a longer period of time)<br>• This is expected to accelerate the demand for 'pay per use' and other models of insurance<br>• Other implications of COVID-19 include the changing nature of the workplace, and workplace liability may start changing due to the levels of remote work and how this continues after the pandemic<br>• There are indications in certain markets that the perception is that insurers are avoiding paying valid business continuity claims using detailed terms and conditions to avoid acceptance and payment of claims<br>• Changes to private health services during the crisis may also have a ripple effect on customers' perception of private health insurance; since, in some countries, private health care has effectively ceased (by government policy or at the initiative of private health providers), customers may question their need to pay premiums, at least in the short term<br>• In some countries, insurers have partnered with government authorities and other stakeholders to provide creative solutions to the crisis, promoting a positive and proactive perception of the industry | • Insurers need to assess the medium-to-long term implications of this pandemic on customer needs and demands<br>• Insurers must be proactive in recognising the challenges by policy holders and intermediaries and offering solutions to support them, e.g. by providing additional financial advice or virtual health services<br>• This should be done both at an insurer level and at an industry level within each market (via insurance industry advocacy groups). Insurers should seek to partner with stakeholders to bring forward creative solutions to the crisis<br>• Customer-centric and flexible product solutions are expected to accelerate once the pandemic passes<br>• Opportunities to develop creative and new product solutions is expected to accelerate = for example:<br>– Pay per use insurance<br>– While vehicle is on the drive-way its covered by Third Party Theft, but once on the road the policy immediately becomes comprehensive etc.<br>• This may also open opportunities for more 'agile', digital-only insurers and intermediaries to enter the market or into specific market segments which in turn will challenge incumbents |
| Brand | Insurers need to consider impacts on their brand asset with customers, intermediaries and other key stakeholders. This is a challenge for both individual insurers and the industry as a whole | • Overall, media attention on the sector has not been overly positive. Early indications are that certain insurers are facing media challenges regarding their response to certain claim types, particularly on business continuity and interruption. Customers may have understood they were covered for 'disruption' and do not fully understand the rationale for their insurer's challenge (however statements by regulatory authorities supporting the insurers' stand, such as the recent statement by the UK Financial Conduct Authority, can be helpful to insurers in this respect). Even though communicable disease may be excluded – the challenge for the industry is the ''perception' it presents<br>• Other insurance classes such as travel insurance claims have faced similar challenges where increased volumes have impacted turn-around times. T&Cs exclusions regarding WHO 'pandemic' have also garnered a negative response<br>• Insurers are currently reviewing and updating their product T&Cs to ensure communicable disease risks are explicitly called out and excluded. Additional risks such as airlines ceasing to travel to destinations are also being reflected<br>• The media has criticised the sector on the general point that with significant reductions on certain claim types (specifically motor) that benefit insurers, it is perceived as unfair that other claims are not being accepted. Certain insurers (recent notable cases in the United States) have offered policy holders credits to their policy due to the fact that motor drivers have had to significantly curtail their transport activities<br>• In some countries, such as Ireland, the industry as a whole have agreed a number of measures, including:<br>– Reduced premiums due to reduced exposure arising from the lockdown;<br>– Extended payments terms for renewals;<br>– Prompt payment of claims;<br>– Payment breaks and forbearance support measures;<br>– Extending use of home insurance to cover working from home; and<br>– Acceptance of delayed claims notifications. | • Insurers need to take the opportunity to 'be there' for their personal and corporate customers. The strategies deployed now may either improve or be detrimental to the 'brand'<br>• Insurers need to work closely with their local industry advocacy groups to promote the benefits of the industry to society and wider economy<br>• Insurers need to get ahead of the criticisms and ensure the actions they have / are taking to support policy holders are very well communicated – at policy holder, intermediary, media & regulatory authority level<br>• Robust and clear governance rules will need to be defined to determine claim decisions<br>• Additional training to support contact centre and sales teams in interacting with customers could be beneficial<br>• Communication tools need to be shared with intermediaries on decision rationale for claims so these can be clearly explained to policy holders |

# 2 Perception, brand and strategy (2 of 2)

| Theme | Description | Implications and insurance sector response | Actions for insurers |
|---|---|---|---|
| Strategy | Insurers need to assess their long-term strategy as the society and economy emerge from the pandemic | • More insurers are now looking beyond the immediate pandemic and assessing how their strategy needs to be re-shaped in light of the impact of COVID-19 and lessons learned in the crisis. Key questions include:<br>– How can we help our customers get back on their feet and build their businesses and lives? This is a 'moment that matters' – how can the insurer play a role in it? How can we reinforce our brand with our customer base?<br>– What segments and lines of business do we want to further invest in or divest?<br>– Does our channel strategy need to be revisited in light of COVID-19?<br>– Can we further cement our relationship with our intermediaries and distinguish ourselves versus competitors?<br>– How have our competitors responded? Are there opportunities to enter new lines of business?<br>– Are there lessons learned from a workforce management and planning perspective? Will this change our operating model?<br>– Are there M&A opportunities?<br>• Engagement with Group headquarters on its overall plan and strategy and how the insurer can align with and tailor for the local market<br>• The portfolio of strategic projects (in-flight and planned) will need to be revisited, changed or reprioritized | • The current strategy will need to be re-evaluated and recalibrated, including lines of business and product strategy aligned to a revised risk appetite<br>• The annual planning assumptions will need to be re-visited and amended to reflect the material impact of the pandemic on the business |

# 3 Operational resilience, service delivery and workforce (1 of 3)

| Theme | Description | Implications and insurance sector response | Actions for insurers |
|---|---|---|---|
| Operational resilience | Operational resilience is being tested due to the crisis | • Evidence suggests that most resilience and business continuity plans did not envisage the full level of disruption caused by COVID-19; business continuity plans are now being updated in real time<br>• In particular, business continuity plans did not envisage the full social distancing requirements and requirements for back-up facilities<br>• Despite this, indications are that bulk of insurers have responded well with some challenges regarding contact centre staff (staff accessing remotely, access to appropriate hardware/laptops etc.) however workarounds have been put in place<br>• Insurers have now established cross-functional crisis task forces and 'command centres' to respond to the evolving situation<br>• In absence of a well-functioning crisis task force or a command centre, the insurer may run the risk of lacking an integrated response and medium-term course of action<br>• Key-person risk has heightened as a result of the COVID-19 health risks<br>• Controls and governance around operational processes have been put under strain; under crisis conditions there is a risk that procedures and controls may not be consistently applied | • Insurers should ensure there are clear lines of communication across the organisation and to key stakeholders<br>• Crisis task forces should be connected to and actively align their priorities with the executives and board of directors<br>• Crisis task forces should be empowered to make decisions to a sufficient extent and at both the global and local level (where applicable)<br>• Activation and deactivation triggers to be determined and continuity procedures reviewed<br>• Heat maps of significant operational exposures and risks and associated contingency plans are required<br>• Insurers may request independent assurance that their controls and processes are operating effectively |
| Service operations and technology | Manual nature of certain processes and capabilities, as well as legacy IT infrastructure, has challenged insurers' ability to respond to the crisis | • Many processes remain overly manual; amid crisis circumstances and with staff having to work remotely these processes have been put under increased strain<br>• Many processes are also not well integrated, leading to challenges as any given process change (e.g., process relocation) must take multiple other processes into consideration<br>• Process deficiencies lead to slower turnaround times, increased volume of errors and increasing backlogs of work that cannot easily be cleared<br>• Insurers have had to consider not just their internal operations but their integration with intermediaries (agents, brokers and financial advisers)<br>• There is an increased focus on cybersecurity and handling of customer information given the highly confidential nature of information managed by insurers (e.g., in claims processing)<br>• Legacy nature of much IT infrastructure can hinder agile responses to the crisis. In particular, data storage and access by staff working remotely can be a challenge; system workarounds to facilitate operations have been required | • The crisis has accelerated the appetite for rapid ideation, quick testing and move to production of existing agile or automation initiatives<br>• Increased focus on digitalisation, cloud and automation to minimise staff dependency and build resilience<br>• Process automation will extend to conversational AI to triage voice and digital queries and augment agent capability<br>• Insurers need controls and assurance in place for design and execution of workarounds<br>• Insurers are responding to IT and data issues by triggering contingency plans and workarounds<br>• Cloud migration plans are to be accelerated in response to the current challenges and to minimise risks associated with a potential second wave of COVID-19 |

# 3 Operational resilience, service delivery and workforce (2 of 3)

| Theme | Description | Implications and insurance sector response | Actions for insurers |
|---|---|---|---|
| Workforce | Staff on the whole are required to work remotely to support customers and enterprise operations, and premises may be unavailable | • Remote work has been a relative culture shock for many organisations, and insurers have had to invest in strategies in ensure effective staff engagement and support<br>• New working protocols and wellness plans have been initiated<br>• Certain roles have been reassigned to support key activities such as contact centres – workforce planning and realigning resources and skills to high demand areas is commonplace<br>• Some roles may have specific rules by the regulatory supervisory authorities ; regulators have been more flexible but insurers continue to monitor requirements and guidance<br>• Where on-site work is still required, split work sites and team or staff rotation protocols have been initiated<br>• Planning has commenced for a phased return to work of insurer staff to avoid secondary spread of infections taking place | • Most insurers have implemented immediate ways-of-working plans and protocols; focus now on team connectedness and socialisation to ensure cohesiveness and motivation<br>• As the lockdown continues into late April/May more attention will need to be made regarding the mental wellbeing of staff<br>• Operational resilience plans in relation to talent will need to be updated<br>• Workforce management analysis and cross-training strategies designed to promote flexibility, scalability and operational resilience will be critical<br>• Assessment of governmental supports (such as workforce wage subsidies) should be factored into overall workforce strategy (and cost planning)<br>• HR functions will need to support the enterprise in refining key staff policies (extended leave of absence, part time working, sick leave) and potentially putting incentives in place to attract extra leave consistent with workforce demand/needs<br>• Longer term openness to radical revision of operating models aligned with accelerated shift to digital business models<br>• Reviews of succession plans across insurers are taking place to determine actions which may need to take place should staff become unfit to work due to illness. This analysis should be considered in conjunction with the assessment of essential services.<br>• Contingency planning for the potential second wave will be required<br>• Long-term talent strategies to reflect pros and cons of remote working will be required |

# 3 Operational resilience, service delivery and workforce (3 of 3)

| Theme | Description | Implications and insurance sector response | Actions for insurers |
|---|---|---|---|
| Intermediaries (agents, brokers and financial advisers) | The intermediary network is being challenged with insurers needing to support their intermediaries and re-think processes | • Insurers' intermediaries are experiencing similar operational challenges as the insurer carriers and real understanding of the issues has been important to allow for an effective response and supports in place<br>• Indications are that those insurers who have already invested in their digital capabilities supporting intermediaries have been in a better position in responding to communications, servicing and new business activities<br>• Expectations are that intermediary renewals will not be challenging, however new business activities will be hampered by closedown restrictions and the economic fallout | • Insurers are including their intermediaries in their crisis response and immediate action plans<br>• Additional tools and supports need to be shared with intermediaries to ensure they can support their client base in the shutdown environment<br>• Insurers should provide clear & concise communications and explanations re claims criteria for certain classes of business (e.g. business continuity)<br>• Digital transformation plans are to be accelerated to facilitate intermediary communications and operations<br>• The general intermediary model or aspects of it should be reviewed in the light of short-term challenges but also long-term opportunities; insurers can weigh the pros and cons of direct channels<br>• Consideration should be made regarding contingency planning for the risk of a Wave 2 COVID 19 and how the insurers supports its intermediaries<br>• Insurers should get input from their intermediary partners to determine how they can assist their clients 'kick-start' their businesses post lockdown |
| Third-party providers and offshore providers | Service operations (including third party and offshore providers) being challenged in crisis | • Operational resilience and business continuity has being materially tested<br>• Success of third-party providers to respond to the crisis has been varied, and insurers have had to work closely with their providers to ensure continuity of service<br>• Business process outsourcers have been particularly challenged due to their operating models being not appropriately flexible to respond to a crisis of this magnitude<br>• In some cases certain processes are being redirected back onshore | • Insurers are immediately working with their third-party providers to ensure continuity of service<br>• Insurers will need to review legal terms (such as service level agreements and key performance indicators) of providers and determine whether they are fit for the circumstances and whether providers are currently complying with them<br>• Insourcing of certain processes is underway where third-party providers haven't been fully able to respond to the crisis<br>• Medium to long term review of third-party providers and their resilience and business continuity now required<br>• Role and future of BPOs, including substitutability, will need to be reassessed<br>• Accelerate pressure to digitise and automate offshore processes |

# 4 Governance, risk and controls (1 of 2)

| Theme | Description | Implications and insurance sector response | Actions for insurers |
|---|---|---|---|
| Regulatory engagement | Proactive engagement with regulatory authorities has become critical | • The COVID-19 crisis is expected to become a test for the efficacy of the post-financial crisis regulatory framework for the insurance industry<br>• Regulatory supervisory authorities are pro-actively engaging with Insurers to understand the overall impact on their business, operations and ultimately their potential impact on the economy. Many of the higher-impact institutions have weekly calls with their supervision teams, with many PCF function holders requested to join<br>• In conjunction with regular calls, regulators are continuing to request documentation, reports and financial analysis to understand the impact on the financial service sector overall in addition to the impact on the entities themselves. It is expected that this level of engagement will continue as the situation develops over the coming months<br>• QRT, SFCR, RSR and other submissions due in April 2020 have been impacted by the restrictions, and some leniency with submission timelines has been granted in this regard<br>• Regulatory expectation is that all insurers have triggered business continuity plans (including those for their third-party providers)<br>• Insurers have seen and are likely to see increasing expectations from regulators to preserve capital by restricting dividends, buybacks and bonuses; insurers are generally split on how to respond these calls, with responses also depending on where the insurers are based (which regulators they interact with)<br>• Many regulators themselves have been impacted by the restrictions and are re-prioritising their work given onsite visits and inspections cannot commence or be completed. Supervision teams are re-focusing to perform desk-based reviews in addition to COVID-19 impact assessments and financial resilience examinations<br>• The crisis is further likely to accelerate the regulators' requirements for recovery and resolution plans by insurers | • Insurers need to continue to engage and communicate with the regulatory authorities<br>• Insurers will need to ensure robust controls and governance are in place in particular as they engage with the vulnerable customers<br>• Insurers will need to continue to engage with local advocacy bodies to represent the interests of the industry at government and regulatory level<br>• The standard approach to ensure a proactive and engaged regulatory engagement model with regulatory supervisory authorities is more important than ever to make sure there are no surprises in terms of impact on the entity itself and ultimately the underlying consumer<br>• Insurers have to determine the appropriateness of their dividend and buyback strategies in the short and medium term |
| Conduct | Insurers have had to pay close attention to promoting the right behaviours and culture to deliver good customer outcomes and minimising any potential regulatory exposure | • Regulatory expectation is that insurers (in line with other financial institutions) will have a customer centric approach to supporting customers in the time of crisis. This is expected across the insurance process value chain, including:<br>– Communications and responding to customer queries;<br>– Providing optionality regarding payment breaks and holidays;<br>– Consideration for premium refunds and rebates;<br>– Claim assessment & determination;<br>– Prompt payment of claims;<br>– Informing customers if there are potential changes to policyholder T&Cs<br>• It is also expected that regulatory supervisory authorities will require evidence that senior executives have the right governance and controls in place to ensure that decisions are being made to deliver good customer outcomes, promote the right behaviour and culture internally and that supports are being put in place to facilitate vulnerable customers<br>• There is a concern from regulatory authorities that an overly legalistic approach will be taken in review of claims which could result in decisions being made to the detriment of the customer. In some cases, however, regulatory authorities have also clarified that particular policies do not provide coverage for COVID-19 (e.g., the UK Financial Conduct Authority's statement on business continuity coverage)<br>• Boards and executive committees are proactively re-assessing the immediate and long-term risk impact of COVID-19 to determine the measures which will need to be implemented as a result. Specific risk registers are being developed to capture emerging risks due to COVID-19<br>• Reviews have commenced of current conduct risk management information to determine what changes need to take place and to understand the new triggers and tolerance levels that need to be considered | • Insurers need to continue to ensure that conduct risk considerations are being factored into key communications and customer engagement activities – including clear, concise information and in plain English is updated on websites and social media<br>• Specific strategies regarding vulnerable customers will be required which have to factor regulatory and government policy expectations<br>• A reconsideration of the definition of a vulnerable customer and the triggers that may result in vulnerability should being considered<br>• Robust and demonstrable processes and controls need to be put in place to give regulatory supervisory authorities confidence that the insurer is driving customer centric solutions<br>• All insurer partners (e.g. intermediaries) in the value chain need be included in the overall customer centric strategy and communications<br>• Given the level of focus on behaviour and culture within authorities, insurers need to consider how to promote and encourage the right behaviours and culture to deliver good customer outcomes in a stressed scenario. There is a concern that in such circumstances, actions will be undertaken unconsciously to the long-term detriment of the customer<br>• Claim declines and complaints should be monitored closely |

# 4 Governance, risk and controls (2 of 2)

| Theme | Description | Implications and insurance sector response | Actions for insurers |
|---|---|---|---|
| Governance, risk and controls | It has become more difficult for boards of directors to meet governance obligations such as overseeing risk and providing credible challenge to management | • Key risk indicators and early warning indicators have been triggered; boards must now deploy measures and re-assess their risk appetite<br>• Need to review risk registers for completeness: have all risks been identified, are controls sufficient, can they still operate effectively as designed<br>• With the speed of the crisis and governmental policy decisions the insurance sector is responding as quickly as it can to events and key decisions are being made by management<br>• Appropriate communications and governance protocols have come under strain<br>• Virtual working environments has compounded the challenges<br>• Insurers on the whole are frequently updating their boards of and monitoring key risks<br>• Non-executive directors who hold multiple directorships are having to prioritise issues across their various companies; regulators will be observing how they are able to meet their responsibilities for all directorships | • Insurers need to ensure that the governance and controls are in place to manage key business risks and that they meet their obligations<br>• Despite the speed of events, insurer management need to track and evidence key decisions and update the boards and committees appropriately<br>• Regular updates with the regulatory authorities is recommended<br>• Governance and oversight controls to be documented and implemented to provide a clear audit trail and rationale to support the COVID-19 initiative decision-making process<br>• Any approved initiatives should be subjected to ongoing (and in some cases enhanced) governance and oversight, in order to ensure that they are implemented in line with approved design principles, that they continue to operate in accordance with the best interest of customers and regulatory expectations, and that, where appropriate, any decisions to cease an initiative is also accompanied with a formal governance process<br>• Consideration whether 'essential services' that have been identified for staff continuing to work on site have been signed off and risk-accepted |
| Financial and cyber crime | Companies globally have experienced an increased level of criminal activity impacting the companies and their customers | • There have been a number of scams perpetrated. Types of scam include imposter scams, COVID-19 payment support scams, investment scams and product scams<br>• In this environment, insurers have had to increase their cyber fraud prevention and monitoring activities including updating and improving controls | • Insurers immediately need to ensure cyber protocols and controls are updated and closely monitored<br>• Third-party testing of cyber controls may be required to give an appropriate level of independent assurance |

# As insurers transition from the 'Respond' to the 'Recover' phase of responding to COVID-19, what should insurance executives, boards of management and other sector participants be asking?

How do we assist our customers (both personal and commercial lines) to 'kick start' them back to recovery once the shutdown dissipates and the economy begins to re-emerge? What tangible supports and offers can we make that will make a difference and actively engage with them?

Have we ensured that our governance and controls are robust in assessing customer claims and that we have a customer centric approach in responding to customer challenges? Have we proactively engaged with the regulatory supervisory authority?

Has the COVID-19 crisis exposed risks to our portfolio of business? Have we revisited our risk appetite and determined our strategy going forward? Do we need to consider divesting out of classes of business or are there opportunities to enter new segments?

Has our operating model held up during the crisis from a people, process and technology perspective (including cyber armoury)? What are the key opportunities arising from the experience that now need to be immediately invested in? Was our digital capability scalable to the challenge for customers and intermediaries?

How did our business weather the storm from a financial stability perspective? Did we have sufficient buffers from a solvency and liquidity perspective? What are the key actions that need to be taken to mitigate risks of a second wave scenario?

Did our third-party service providers and partners in the value chain meet the challenge? Do we need to revisit our agreements?

# In 2019, Deloitte identified a number of trends that were to define insurance in 2020 and beyond. We believe the COVID-19 crisis will further accelerate a number of these trends across the industry

### Changing customer behaviour

Customers' needs, knowledge and expectations towards the insurance industry have expanded considerably in the past decade. In an age of immediacy, constant change and overwhelming choice where loyalty is no longer a given, the industry has to extend beyond its core products and services if it is to retain its customer base.

### Growth through the negotiating table

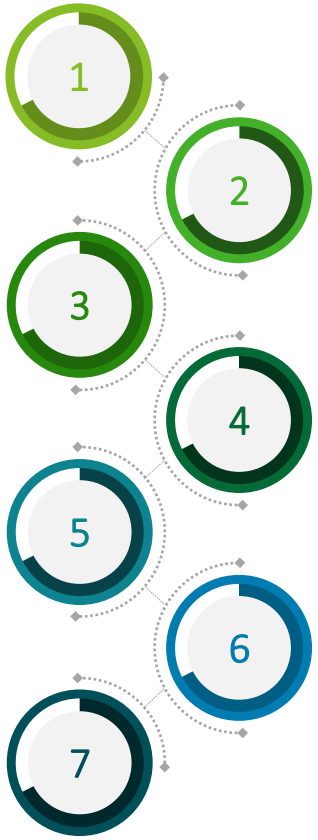
In a highly competitive environment, many executives acknowledge that organic growth may not be enough. In 2019, while the M&A activity in the US slowed down, globally the pace picked up considerably. The question is how the industry use will M&A, equity partnerships and alliances to drive growth.

### Digital disruption

While the vast majority of insurer IT spending still goes toward maintaining legacy systems, budgets are starting to shift away from core applications toward analytics, artificial intelligence and other advanced functionality to enable more flexible products and enhanced customer experience.

### Synthesis challenge

Ultimately, how well insurers resolve the "synthesis challenge" – integrating innovation in technology, talent, and business models into change-resistant legacy environments – may be the biggest success factor for the industry in the decade ahead.




### Maintaining and growing profits

Globally, the insurance industry is scrambling to grow and maintain profitability amid maturing markets and volatile economic conditions. Growth may come from preventative as well as protective approaches, with a range of new services and products, and insurers are looking at service-based strategies and innovative products.

### Regulatory challenges and opportunities

Regulatory changes are coming that will likely require significant investments and fundamental changes by insurers in sales standards, accounting, tax policy, cybersecurity, and privacy protection, although some new rules may also create opportunities to bolster sales in challenging markets such as annuities and flood coverage.

### Talent and capabilities

Insurers should be upgrading not only their technology systems and operating models, but talent capabilities and workplace policies to resolve an expected exodus in baby boomers and a widening digital skills gap. Insurers face challenges in attracting younger employees who generally view the industry negatively and lack knowledge of it.

- Customers' experience over the last two months will accelerate their **expectations of what products and solutions they need**. The stability that existed has changed, and insurance will need to adapt.
- Customers (and intermediary partners) will expect to engage with insurers in a different way – **digital will drive a more enhanced customer experience** and be less face-to-face based. Channel strategies will need to be updated.
- Many insurers may find themselves financially challenged from the immediate effect of COVID-19 and ensuing economic fallout (including interest rates and market volatility). Certain market participants may divest out of certain lines of business and could very well **accelerate consolidation across the value chain (including intermediaries).**
- Workforce and organisation design and planning will change. The art of the possible of enterprise teams working remotely has been realised. **New operating models, only recently viewed as unachievable, will be at the forefront of planning** in the short-to-medium term.
- **Transition to cloud will accelerate and investment spend in automation**, including AI and RPA, is expected to significantly grow.
- **Regulatory supervisory authorities** will expect further focus and attention on sales standards regarding products and services and being more customer centric throughout the insurance value chain.
- COVID-19 will **further hasten innovation in the sector and role of InsurTech solutions to insurer operating models.**
- M&A opportunities for insurers may crystallise with the impact of COVID-19 and **further growth in existing lines of business or new segments.**

**Sources for the defining trends:** 2020 Insurance Outlook  A demanding future – The four trends that define insurance in 2020

# There are a number of Deloitte resources available that focus on specific topics related to COVID-19

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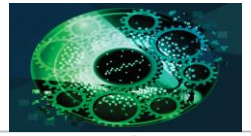
|---|---|---|---|---|
| *Industry agnostic* |  | COVID-19 Response planning and assumptions | • Practical steps for pandemic response<br>• Overview and key activities of a COVID-19 Crisis Management Office<br>• Understand and using the pandemic curve for business planning<br>• No regret actions to take now | Click here for link |
| |  | The Heart of Resilient Leadership Responding to COVID-19 | • Five qualities of a resilient leader<br>• Actions through the lens of priorities, timeframe and accountability<br>• Three stages of crisis management – respond, recover and thrive | Click here for link |
| Insurance specific |  | Insurance in the COVID-19 spotlight | • Initial summary of how insurers globally have responded to the COVID 19 crisis | Click here for link |
| |  | Potential implications of COVID-19 on the insurance sector | • How the coronavirus outbreak may impact insurers operationally and economically | Click here for link |
| |  | Understanding the sector impact of COVID-19 | • Potential long-term impact on insurance companies<br>• Key questions executives and boards should be asking | Click here for link |
| |  | Market implications of COVID 19 on UK life insurers | • Overall impact on UK life insurers – across various lines of business | Click here for link |
| Insurance Strategic Outlook |  | 2020 Insurance Outlook | • Deloitte Insights 2020 Global Outlook for the Insurance Industry | Click here for link |
| |  | Four trends that define insurance in 2020 | • Joint Deloitte/Financial Times insight on key trends that will define insurance in 2020 | Click here for link |

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