Life insurance and annuities industry remade by COVID-19

Scenarios for resilient leaders | 1-3 years

June 2020
In the wake of COVID-19, Deloitte and Salesforce hosted a dialogue among renowned scenario thinkers to consider the potential societal and business impact of the pandemic. The results of this collaboration can be found in *The world remade: Scenarios for resilient leaders*.
Humanity is facing a crisis unlike any known to our generation

This document intends to provide life insurance and annuities (L&A) leaders with the potential long-term implications of COVID-19 for the insurance industry.
Insurers must prepare for the future

Deloitte’s Resilient Leadership framework defines three time frames of the crisis

1. **RESPOND** Manage continuity
2. **RECOVER** Learn and emerge stronger
3. **THRIVE** Prepare for the next normal

Focus of this document: Scenarios for resilient leaders with a medium-term view

Refer to Thrive: Scenarios for resilient leaders for a long-term view

This document shares scenarios of how the insurance industry landscape may develop over the next one to three years and is intended to help leaders explore some of the potential medium-term implications of COVID-19.

These scenarios outline potential futures, created to spark insight and spot future opportunity.

Because, as Peter Drucker famously observed, “the greatest danger in times of turbulence is not turbulence itself, but to act with yesterday’s logic.”

1 Managing in Turbulent Times by Peter F. Drucker (1980)

Objectives of this document

Share scenarios about how the L&A insurance sector (globally) might evolve in one to three years to help leaders:

1. Explore how trends we see during the pandemic could shape what L&A insurance may look like in the medium term
2. Have productive conversations around the lasting implications and impacts of the crisis
3. Identify decisions and actions that will improve resilience to the rapidly changing landscape
4. Move beyond “responding” to the crisis and towards “recovering” in the medium term
1 / Making sense of the future

2 / A closer look at the scenarios

3 / L&A industry response

4 / Team and acknowledgements
Making sense of the future

Uncertainties make it difficult to predict the future

Fundamental uncertainties

1. The overall **severity of the pandemic** and pattern of disease progression
2. The **level of collaboration** within and between countries
3. The **health care system** response to the crisis
4. The **economic consequences** of the crisis
5. The level of **social cohesion** in response to the crisis

Additional uncertainties

**Society**
- Levels of societal trust
- Psychological impacts after quarantine
- Impacts on different generations
- Long-term impacts on education

**Technology**
- Attitudes toward data-sharing
- Speed of technological innovation
- Long-term effects on the workplace
- Types of new technology adopted

**Economy**
- Speed of economic recovery
- Distribution of economic growth
- Impacts on inequality
- Shifts to new business models

**Environment**
- Current reduction in emissions
- Focus on fighting climate change
- Investments in renewable energy

**Politics**
- Long-term impacts on governments
- Impacts on public policy and regulation
- Changing levels of trust in political systems
- Changes in election methodologies
Scenario thinking can help us better inform our decisions in an uncertain future

This document explores various scenarios about how the COVID-19 pandemic could accelerate or redirect the insurance industry over the next one to three years. Building on several trends already in motion, the scenarios are built on important macro and insurance sector uncertainties, both already evident and others potentially plausible based on the severity of the pandemic and government actions.

We chose to focus on the next one to three years on the assumption that this time frame is long enough that change is possible, but close enough that it matters to executives today.

As you read this document, challenge yourself to imagine how things you were sure to happen could now be on a different course. Avoid the temptation to conclude that the crisis will accelerate the changes you already expected or believed were inevitable or that the scenarios are truths or future forecasts.

This document and its depiction of the possible future should ultimately spark several questions of a possible future around implications and next steps for your organization.

What are scenarios?

Scenarios are stories about what the future may be like, created through a structured process to stretch thinking, challenge conventional wisdom, and drive better decisions today. They are not predictions about what will happen. They are hypotheses about what could happen, designed to open our eyes to new opportunities or hidden risks.

Note that these scenarios stand as of mid-April 2020. They are based on our best understanding of the health trajectory, economic impacts, and government actions in response to the COVID-19 pandemic.
Making sense of the future

The current crisis could unfold in four ways over the next one to three years

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<td>Overview</td>
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<tr>
<td>• The pandemic is managed due to effective responses from governments and health providers</td>
<td>• Governments globally struggle to handle the crisis alone, with large companies filling the gap</td>
<td>• China and other East Asian nations are more effective in managing the virus . . .</td>
<td>• Prolonged pandemic period spurring governments to adopt isolationist policies, shorten supply chains, and increase surveillance</td>
</tr>
<tr>
<td>• Lasting economic repercussions, which disproportionately affect small and midsized businesses and lower- and middle-income individuals and communities</td>
<td>• Acceleration of trends toward “stakeholder capitalism”</td>
<td>• . . . and take the reins as primary powers on the world stage</td>
<td>• Economic freefall and social unrest due to prolonged periods of isolation</td>
</tr>
<tr>
<td>• Companies become more purpose-driven; rise in partnerships and pop-up ecosystems</td>
<td>• Centralized government response becomes the “gold standard”</td>
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</table>

<table>
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<tr>
<th>Disease severity</th>
<th>Higher</th>
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<td>Government collaboration</td>
<td>Higher</td>
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<td>Economic consequences</td>
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<td>Social cohesion</td>
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The landscape could shift meaningfully across multiple dimensions

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<tr>
<td><strong>Worldwide economies . . .</strong></td>
<td><strong>enter an extended recession</strong>, with increased income inequality</td>
<td><strong>recover unevenly globally</strong>, with Eastern economies recovering faster than Western economies</td>
<td><strong>are left in turmoil</strong>, as global supply chains are disrupted</td>
</tr>
<tr>
<td><strong>Consumer behavior . . .</strong></td>
<td><strong>evolves</strong>, as customers increasingly adopt digital channels, experiences, and products</td>
<td><strong>shifts</strong>, with rising affinity toward and trust in large corporations</td>
<td><strong>turns inward</strong>, as consumers increasingly value nationalism</td>
</tr>
<tr>
<td><strong>Governments . . .</strong></td>
<td><strong>gain trust</strong>, and international organizations such as WHO grow in relevance</td>
<td><strong>partner with large corporations</strong>, which step up as part of the solution</td>
<td><strong>adopt isolationism</strong>, as they attempt to contain the virus within</td>
</tr>
<tr>
<td><strong>Technology advances . . .</strong></td>
<td><strong>stay on course</strong>, as previous holdouts move online</td>
<td><strong>take the center stage</strong>, with large companies driving solutions in areas such as health-tech and biotech</td>
<td><strong>are divergent</strong> across markets, with a focus on advances in surveillance measures</td>
</tr>
<tr>
<td><strong>Competitive landscape . . .</strong></td>
<td><strong>is affected</strong>, with some fallout among smaller businesses</td>
<td><strong>consolidates</strong>, as bigger companies and incumbents gain social capital</td>
<td><strong>craters</strong>, as firms become nationalized and rely on government intervention</td>
</tr>
<tr>
<td><strong>Work, workforce, and workplace . . .</strong></td>
<td><strong>returns largely to status quo</strong>, given relatively quicker recovery and “muscle memory”</td>
<td><strong>evolves</strong>, as remote work becomes the norm</td>
<td><strong>fundamentally changes</strong>, as firms accommodate contactless preferences</td>
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Making sense of the future
Making sense of the future

Certain scenario-agnostic trends may accelerate or decelerate because of the crisis . . .

**Accelerated**

- **Accelerated digitization**
  Social distancing has already driven further adoption of contactless technologies and digital experiences. More new businesses launched will likely be digital or cloud-native, further accelerating emerging technologies (for example, analytics, sensing, and 5G).

- **Increased virtualization of workforce**
  Many organizations have already adjusted to working remotely through virtual communication and collaboration channels and are unlikely to revert entirely; COVID-19 has also driven increased adoption of different business models (such as telemedicine).

- **Increased focus on safety and surveillance**
  More consumers will likely expect safety and precautionary measures from both brands and governments, driving the need for enhanced surveillance policies and technologies (such as mobile alerts for contact tracing) among employers and governments, but also posing potential privacy concerns.

- **Greater corporate responsibility**
  Taking steps to “do the right thing” in the COVID-19 context is not only further appreciated, but is also becoming table stakes for consumers; rising activism among consumers and employees could drive an increased focus on corporate purpose.

- **Emergence of pop-up ecosystems**
  Value chain disruption is likely to lead to more and creative partnerships, which may in turn cause organizations to further invest in developing the mindset and agility to collaborate across sectors in the ecosystem.

- **Enhanced focus on cost reduction**
  Cost management will be a critical priority to ensure business continuity based on cash flow requirements to manage lower margins and revenues during a downturn (such as through restructuring).

**Decelerated**

- **Slowdown in the sharing economy**
  Rising health and hygiene concerns and increased virtual work may reduce demand for shared services (such as people planning to limit rideshares) as well as physical coworking spaces (such as commercial office space).

- **Slowdown in urbanization**
  While urbanization has been growing steadily, social distancing amid rising fears of contagion may reduce likelihood of people living and working in more crowded major cities.

- **Less global movement of people and goods**
  Based on likely government restrictions, the movement of people and goods across national borders could decrease, affecting global travel and supply chains and further driving more localized business activity and isolationism.
Staying home
Shelter-in-place orders and remote work have increased at-home consumption
Leading indicators
- Shelter-in-place orders
- Businesses closed
- Delivery and takeout sales

Trading down
Uncertainty and fear of impending recession have driven consumers to seek lower-cost options
Leading indicators
- Unemployment
- Disposable income
- Private label sales

Shopping online
Hyper-growth of digital channels as stores close and shoppers limit their time away from home
Leading indicators
- Online sales
- Delivery platform growth
- Stores closed

Focusing on well-being
Seeking clean, herbal, and immunity boosting products that promote wellness
Leading indicators
- Cases rates
- Health and dietary supplements sales

Sense of safety
Shift of customers' expectations to more complete safety experiences (e.g., financial plus health protection)
Leading indicators
- Customers loyalty to companies
- Cross sales

Buying local
Closing of borders and ongoing safety concerns have driven more consumers to shop local
Leading indicators
- Trade restrictions
- Percentage US-made products

Making sense of the future
. . . many of which are informed by changing consumer behaviors

Trends that will likely have a structural impact

Temporal trends
- Safety in size: Consumers rely on large, trusted, and available brands during time of uncertainty
- Comfort buys: Higher comfort food consumption as consumers cope with anxiety and uncertainty
- Stockpiling: Purchase of nonperishable items in large quantities to “weather the storm”
- Sanitary > sustainable: Preference for products perceived to be more sanitary, at a cost to the environment (e.g., single-use)
- Cautious gatherings: Hesitancy to attend large social events after social distancing is lifted
- Less travel: Reluctance to resume domestic and international travel due to ongoing safety concerns

Trends that will likely have a structural impact

Accelerated trend of increased away from home (AFH) pre-COVID-19

Accelerated health and wellness focus

Accelerated trend to broader safety solutions

Accelerated trend of buying local

Increased digital commerce
Each scenario may have differing economic implications across geographies

### The passing storm
- **Economic recovery**: Slowly rebounds in late 2020; speeds up in the second half of 2021
- **N. America**: Effective implementation of government stimulus (such as the CARES Act) results in a faster economic recovery
- **APAC**: Effective and prompt measures implemented by Asian nations lead to a rapid peak of the virus limiting the economic impact
- **Europe**: Impacts on certain countries, such as Spain and Italy, affect EU recovery, seeing a greater economic impact than other regions
- **LATAM**: More limited government support and lack of stimulus delay the recovery pace for emerging economies

### Good company
- **Economic recovery**: Recovery begins late 2021, slow in early 2022, and speeds up by late 2022
- **N. America**: Government struggles to solve the crisis alone; big corporations (especially big tech) take the lead and help communities to rebuild
- **APAC**: Governments are limited in ability to handle the crisis; big corporations take lead in helping drive to a vaccine or treatment and managing the impacts
- **Europe**: Companies fill the gaps in governments’ response, reducing the crisis’s speed; however, not all countries recover at the same pace
- **LATAM**: Big companies, including those from other regions, provide effective solutions to individuals, limiting the impact in the mid-term

### Sunrise in the east
- **Economic recovery**: Recovery begins late 2021, with notably quicker and more robust recovery in the East
- **N. America**: Slower response to the pandemic results in a longer economic crisis; foreign capital investments help to recover
- **APAC**: Eastern countries benefit from a quicker virus eradication, resulting in a faster economic recovery; China takes lead in foreign direct investments
- **Europe**: Measures to control the virus, such as reducing cross-border flows of goods and people, lead to harder impacts on the economy
- **LATAM**: Prolonged pandemic affects emerging economies, as institutions have limited resources to effectively respond

### Lone wolves
- **Economic recovery**: Recovery begins in 2022, but growth remains slow, with diverging rates of recovery across countries
- **N. America**: Slow crisis recovery, with the economy not returning to previous growth rates. High isolation and nationalism severely limit growth in the long term
- **APAC**: Sharp increase in nationalism; international trade is highly reduced; economies push harder for internal production
- **Europe**: European countries address the pandemic individually; European unity and economic growth are hampered
- **LATAM**: Emerging economies are hardest-hit by the crisis, increasing inequality gap between developed countries and within countries
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A closer look at the scenarios

The L&A industry has faced significant headwinds over the last few years . . .

**Macro**
Low- or zero-interest-rate environment, market volatility, and recessionary signals

**Industry**
Convergence of life, health, and wealth and diminishing value proposition of core products to younger, less-affluent segments

**Operating model**
Legacy technology infrastructure, aging field force, next-gen talent gap

**Customer**
Generational change, rapidly evolving behaviors and expectations of the consumers, and accelerated adoption of digital

**Competitive**
Competitive landscape evolving and disruptive threats looming from nonindustry and tech players

COVID-19 is creating new uncertainties. Crisis responses will reflect leadership risk-tolerance and growth ambitions going into recovery.
A closer look at the scenarios

. . . which have been further exacerbated by the COVID-19 pandemic

1. Sustained low-interest-rate environment
   - In-force business becomes less profitable; greater margin pressures for the industry
   - Increasingly challenging to source new business: Life and annuity products become less compelling as investment options products face greater risk of substitution

2. Elevated expectations around customer experience
   - Digital propensity of customers is increasing in a COVID-19 environment
   - Customers are more likely to use digital channels or interact with agents digitally; insurers should seize the opportunity to meet rising expectations

3. Challenging operating environment for agents
   - 60 percent of agents are challenged to shift their agency’s marketing to a heavier digital-based approach
   - Lack of “over-the-kitchen-counter” engagement between agents and customers; limited digital engagement tools make it harder for agents to interact with clients

4. Workforce and workplace uncertainty
   - COVID-19 challenging orthodoxies related to physical presence at the workplace; expected to accelerate trend towards remote work and shrinking of physical presence
   - Insurers need to evaluate what their future of work and workforce planning will look like to ensure they are finding, retaining, and effectively utilizing top talent and enabling tools to suit their changing needs
Consequently, the industry faces an unprecedented need to transform

**Digital transformation** – How will the need to improve end-to-end process efficiencies, enable customer or agent digital capabilities, respond to changes in buying behaviors, drive new tech and data ecosystem partnerships, and adapt to changes in working models affect the pace of digital transformation?

**Long-term zero and negative interest rates** – How does a prolonged and adverse interest rate environment affect the L&A industry? How long will the low-rate environment last? How can insurers drive investment returns and income?

**Distribution** – As L&A products are sold and not bought, will distributing them through captives and independent advisers be more uncertain and difficult? How will the pandemic affect and change the distribution model?

**Changes in servicing and adjusting policies and terms** – Will customers be offered more flexibility by manufacturers modifying existing rules and guidelines and offering improved digital capabilities as customers enter financial distress and adjust to a savings-heavy and uncertain environment?

**Product offerings** – How do carriers evolve their current products and value propositions to best serve the changing needs of their core customer segments, integrating financial protection and well-being?

**Customer retention** – As new client acquisition becomes increasingly difficult, does retention become the core driver for growth? How will customers change their buying behavior? Will customers be more likely to switch to insurers who meet their needs?

**Changes in regulation** – What role will the regulators play? How will new policies or regulations affect the type of products or pricing?

**Cybersecurity** – What will the impact on cybersecurity be? How will companies need to adapt or reinvent security models to prevent fraud and phishing as digital channels increase in relevance?
L&A carriers must assess implications across three main dimensions

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<th>2 / Business model implications</th>
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<td><strong>Customers</strong></td>
<td><strong>Products</strong></td>
<td><strong>Incumbents</strong></td>
</tr>
<tr>
<td>• Premium volumes: How are premium volumes likely to be affected for protection products vs. investment products?</td>
<td>• Product pricing: How does the intensity of price competition change? Is COVID-19 enough of a mortality event to affect pricing or actuarial models?</td>
<td>• Market consolidation: What level of consolidation will we see amongst insurers?</td>
</tr>
<tr>
<td>• Customer experience and expectations: How are customer expectations likely to change? How is a customer’s willingness to pay affected?</td>
<td>• Investment income: How is investment income affected? What’s the impact of the zero-interest-rate environment?</td>
<td>• Products: What new products or riders will be required?</td>
</tr>
<tr>
<td>• Loyalty and trust: How will insurers manage issues of trust?</td>
<td>• Channels impact: How will the relevance of different channels be affected (captive, independent, and direct channels)?</td>
<td>• Workforce or displacement of work: How does the nature of work shift? How will the workforce need to adapt?</td>
</tr>
<tr>
<td>• Digital adoption: How does level and impact of digital adoption change?</td>
<td>• Product innovation: What new types of products or coverages emerge? How are products affected?</td>
<td>• Customer retention: What actions or offers drive retention?</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td><strong>Underwriting</strong></td>
<td><strong>New entrants</strong></td>
</tr>
<tr>
<td>• Distribution strategy: How does the pandemic affect and change the distribution strategy model?</td>
<td>• Underwriting: How do underwriting operations and considerations evolve in terms of digital and transparency, etc.?</td>
<td>• Emerging ecosystem forces: Which new players or forces will affect the L&amp;A landscape (technology, government, international, or other industries)? Does the convergence of life, health, and wealth bring new nonindustry players? Is there an ecosystem or platform play (such as Ping An)?</td>
</tr>
<tr>
<td>• Emerging distribution impact: How do you optimize the current distribution model and build a model for the future?</td>
<td>• Actuarial impact: How will insurers adapt their models? Are we going to change the fundamental long-term mortality assumptions?</td>
<td>• Insurtechs and tech players: How will a financial crisis affect survival of insurtechs and tech entry into noncore businesses?</td>
</tr>
<tr>
<td>• Channels impact: How will the relevance of different channels be affected (captive, independent, and direct channels)?</td>
<td>• Automation: What’s the impact on the trend towards automated underwriting?</td>
<td>• Funding availability and sources: Where will funding come from (VC, or corporate venturing)?</td>
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<td><strong>New entrants</strong></td>
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<tr>
<td>• Product pricing: How does the intensity of price competition change? Is COVID-19 enough of a mortality event to affect pricing or actuarial models?</td>
<td>• Regulatory action: How might new regulations affect insurers?</td>
<td></td>
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</table>
The passing storm

**Customer implications**
- Premium volumes drop in the short term as purchases get deprioritized by cash-strapped customers; however, sales volume picks up in the mid-term, especially in digital channels for lower-face amounts and shorter durations
- Insurers focus on proactive engagement and incentive rollouts for customers (for example, fee reductions, credits, or client education webcasts)
- Marginal long-term impact on client acquisition for independent agents as they leverage digital channels to personalize client relationships

**Business model implications**
- Overall product mix remains the same, maintaining pre-pandemic trends; however, insurers begin to move away from rate-sensitive products
- Insurers modify underwriting guidelines by including COVID-19 exposure-related inputs, accelerating application process and increasing use of digital substitutes (such as electronic health records or good health statements) for medical tests
- Insurers redirect existing sales, distribution, and advisory capabilities to address spikes in servicing and bolster their financial education and wellness programs

**Competitive implications**
- Market volatility and low-interest-rate environment hit midsized companies harder due to lower exposure to private investments
- L&A insurers accelerate partnering with fintechs and insurtechs to acquire new capabilities, reduce costs, and improve efficiency
- Hybrid working models start emerging across functions (such as a virtual sales force)

**L&A industry impact**
- Life insurance faces a near-term impact, as a result of the economic downturn; however, the industry recovers as the economy bounces back returning to “normal”
- Market volatility and low-interest rate environment hurts investment income
- As the pandemic recedes and the economy recovers, insurers may lose urgency around business transformations, reverting to old ways of doing things
- Market consolidation slightly accelerates as valuations of insurers decrease and large carriers look to assert strength by increasing their book of business

Scenario 1

The life and annuity insurance industry faces a fast recovery after the health and economic crises derived by the pandemic
Companies play a critical role in helping customers outlast the crisis, becoming more purpose-driven and customer-centric

**Customer implications**

- Demand expected to rise as companies provide comprehensive solutions to customers that consider life plus financial protection
- As customers share more data, insurers increasingly offer nontraditional, advice-led, and tailored offerings; digital adoption increases across the customer journey
- Direct-to-consumer (DTC) channel grows in prominence as insurers reduce overhead by optimizing distribution cost and digitizing the overall experience of the agents and customers

**Business model implications**

- Increased focus on indexed products with lower guarantees and financial offerings tailored to customer life-stage needs
- Customer servicing anchored to offering real-time response and personalized advice, supported with omnichannel capabilities
- Insurers collect and leverage multiple data sources to underwrite and to determine medical risks, improving their underwriting models

**Competitive implications**

- Consolidation accelerates with focus on business line optimization, an increase in closed block sales, and entry into new segments and efficient capital markets
- Well-capitalized insurers focus on modernizing legacy tech infrastructure, offering digital tools and capabilities for the broker community (such as telecommuting)
- Insurers innovate products and solutions to differentiate themselves and retain clients, offering broader health and wealth management proposals

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**L&A industry impact**

- Customers’ trust in L&A carriers increases due to surge in financial wellness-led offerings and increased engagement with financial advisers
- Investment income continues to be depressed in zero- or negative-rate environment, with carriers looking for new sources of yield
- Customers share more data with companies in exchange for insights-driven relationships and customer-centric approaches with tailored solutions

**Good company**
Sunrise in the east

Scenario 3

L&A industry impact

• Slow recovery and long-term near-zero interest rates result in strained balance sheets and declining investment income and revenues; insurers partner with private equity and offshore (APAC) investors to increase capital and ability to sustain profitability

• Incumbents accelerate adoption of digitization and automation across the insurance value chain to stay competitive in a global market

• Insurtechs partner with incumbents to drive operational efficiencies and lower costs to serve and offer innovative products (such as the convergence of life, health, and wealth)

Customer implications

• Overall decline in premiums across sectors and segments due to prolonged recession, with flat customer demand as the crisis prolongs

• Loyalty decreases as price-sensitive customers gravitate towards competitive offerings from new market entrants (Asian incumbents, insurtechs)

• US-based insurers match Asian firms’ investments in DTC channels and make them central to targeting new prospects and shortening time to sales performance

Business model implications

• Insurers temporarily suspend new sales of fixed deferred annuities and/or products due to sustained low-rate environment, and continue to reprice products driven by changing demographics and third-party data

• Insurers advance accelerated underwriting to expedite policy issuance on DTC channels with investments in granular customer segmentation

• Rise of self-service channels, including virtual assistants, chatbots, and robo-advisory driven by advanced automated capabilities offered by foreign players

Competitive implications

• Third-party data and analytics firms present partnership opportunities to leverage data ecosystems and eliminate the need for medical underwriting and examinations

• Early market rebound in Asia accrues benefits to local and global providers through additional yield opportunities, while low-rate environment persists in the West

• Reinsurance becomes attractive for insurers to optimize in-force book through increased global opportunities

Asian companies start entering new markets with data-driven solutions, requiring existing companies to innovate to remain competitive
Scenario 4

Lone wolves

L&A industry impact

- Large insurers consider selling certain business units or in-force blocks to improve cost structures and tighten expense management to maintain operations and shore up other lines
- Long-term low-interest environment challenges insurer profitability, pushing some companies to merge or exit certain business lines
- Customer retention increases as a result of a sustained low-interest environment
- Digitization and automation are driven by mandate as customers become paranoid about “physical interaction”

Customer implications

- Sharp drop in premium volumes for new business as a result of long-term suppressed customer income
- Well-capitalized insurers embrace end-to-end digital processes, while maintaining priorities on cost reduction strategies
- Demand declines as customers prioritize other financial and health needs

Business model implications

- Insurers review pricing strategies and underwriting guidelines
- Nonpaper transactions, instant policy issuance, and electronic health record submission gains prominence; contactless customer service becomes business-as-usual
- Remote working models become imperative as a long pandemic necessitates an extended period of social distancing

Competitive implications

- Significant market consolidation as most companies are not able to manage the prolonged crisis and are acquired by bigger companies
- Big insurers forge partnerships with insurtechs, with a focus on cost reduction initiatives and maintaining competitive pricing as a means of profitably engaging in the market
- Sustained investment income decline causes disruptions to product competitiveness and new business

Prolonged health and economic crises change customer behavior and requirements, as well as insurers’ business models
1 / Making sense of the future

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The current crisis highlights potential opportunities and challenges . . .

**Opportunities**

**Move towards digital across the value chain:** Digital agility will accelerate in importance, requiring companies to restructure their tech environment (such as cloud) to reduce costs and improve flexibility.

**Shift to advanced analytics models:** Identifying new data sources to improve analytics models across the entire company will become hyper-relevant, not only to ensure a customer-centric approach, but also to optimize operations (such as underwriting).

**Improve operational efficiency:** Operational efficiency becomes table stakes, with increased focus on initiatives that streamline back- and mid-office operations, help accelerate time to market, and revamp the business footprint.

**Build digital-enabled distribution models:** With virtual operations and remote work becoming the new normal across the industry, special focus will be on building digitally enabled distribution models to ensure seamless delivery.

**Risks**

**Regulation:** Changes in legislation as a result of the pandemic may drive additional complexity in the business and operating model to ensure compliance while emerging stronger than competitors.

**Customer preferences:** Customer loyalty and share of wallet for L&A products may be challenged as individuals are more sensitive to poor experiences and prioritize their savings and investments.

**Cost to serve:** Insurers face the risk of becoming less competitive if they do not adapt their models to effectively address lower demand in the short term and a low-interest-rate environment.

**Low-interest-rate environment:** Sustained low-interest-rate environment will hurt investment yields and result in lower profitability for insurers, making it difficult for cash-strapped insurers to outlast the crisis.

**Legacy infrastructure and customer engagement:** Continuing to operate on legacy technology infrastructure could result in lack of agility to respond to a fluid market and consequent loss of competitiveness.
L&A industry response

... that will manifest across all functional areas for a carrier

### Distribution
- Offer financial and operational support to agents and brokers to preserve relationships and help them avoid bankruptcy
- Pivot existing sales and distribution capabilities towards servicing in the short term
- Review long-term distribution strategy as independent agencies start to consolidate
- Invest in digital ecosystem capabilities to support transition to remote work
- Focus sales force efforts on online advisory

### Underwriting
- Modify underwriting guidelines to include pandemic-related exposure disclosure
- Advance underwriting models based on paramedical requirements waiver
- Share savings with policyholders
- Increase focus on developing automated underwriting models for low-risk applications
- Leverage third-party data, analytics, and AI to improve existing underwriting models

### Product
- Shift focus away from capital-intensive, rate-sensitive products towards fee-based accumulation products
- Design data-driven, customer-centric, and customized offerings, focused on overall financial wellness and life-stage needs
- Invest in capabilities to offer dynamic, real-time quotes across offerings
- Monitor regulatory landscape with close focus on market conduct, consumer protection laws, and product guidelines

### Servicing
- Invest in self-service, no-touch servicing capabilities, including chatbots, virtual assistants, and robo-advisory, among others
- Invest in omnichannel servicing capabilities, including electronic applications and e-signatures
- Focus on digital financial education and wellness tools and programs
- Reconsider policies around flexible payment terms and methods

### Claims
- Invest in remote claims technology
- Leverage non-EFT or paper check payments
- Automate no-touch claims management experience
- Cross-skill full-time employees across lines to handle spikes in volume
- Invest in capabilities that detect claims fraud and embrace third-party data ecosystems for automated verification, faster claims filing, and settlement

### Key functional areas
A shift of mindset towards the road ahead is imperative

L&A industry response

Road ahead – “No-regret” actions

**Current situation**

- Executing crisis management plans based on the evolving situation
- Running the business in “lean mode” based on factors like social distancing and lockdown
- Contributing to the greater good – through community-focused initiatives to address crisis impacts
- Minimizing the impact on people, including customers, employees, and communities

**Road ahead – “No-regret” actions**

- Double down on digital transformation – Accelerate and prioritize initiatives to enhance the tech environment through the value chain and use AI, data, and digital capabilities to improve customer insights, underwriting, and onboarding experience
- Create a customer-centric operating and business model – Transform functions towards a more customer-centric approach that effectively addresses strategic questions around customer retention, customer acquisition, and an elevated customer experience
- Drive the future of work – Reassess recruitment, workforce, workplace (physical office space), and training policies and cater to work-from-home technology needs; effectively transitioning from “return to work” towards “future of work”
- Operational efficiency and cost optimization – Assess current state and transform the operating model to improve efficiency while optimizing the cost structure
- Preserve liquidity – Prioritize initiatives to reduce expenses and reevaluate assets and investments, to maintain positive cash flows and remain competitive
- Distribution transformation – Create a modern-day digital customer experience for both applicants and producers, build and enhance digital channels, and serve clients via multichannel environment
- Products and services innovation – Maintain focus on innovation initiatives that effectively address evolving customer needs, providing unique solutions at the right time

**Agile transformation team**

to coordinate ongoing strategic initiatives to combat COVID-19

**Operationalize market sensing**

function to track external indicators and signposts to guide recovery plan
1 / Making sense of the future

2 / A closer look at the scenarios

3 / L&A industry response

4 / Team and acknowledgements
Team and acknowledgements

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Additional thanks
The project team expresses gratitude to the following individuals for their contributions and support:

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