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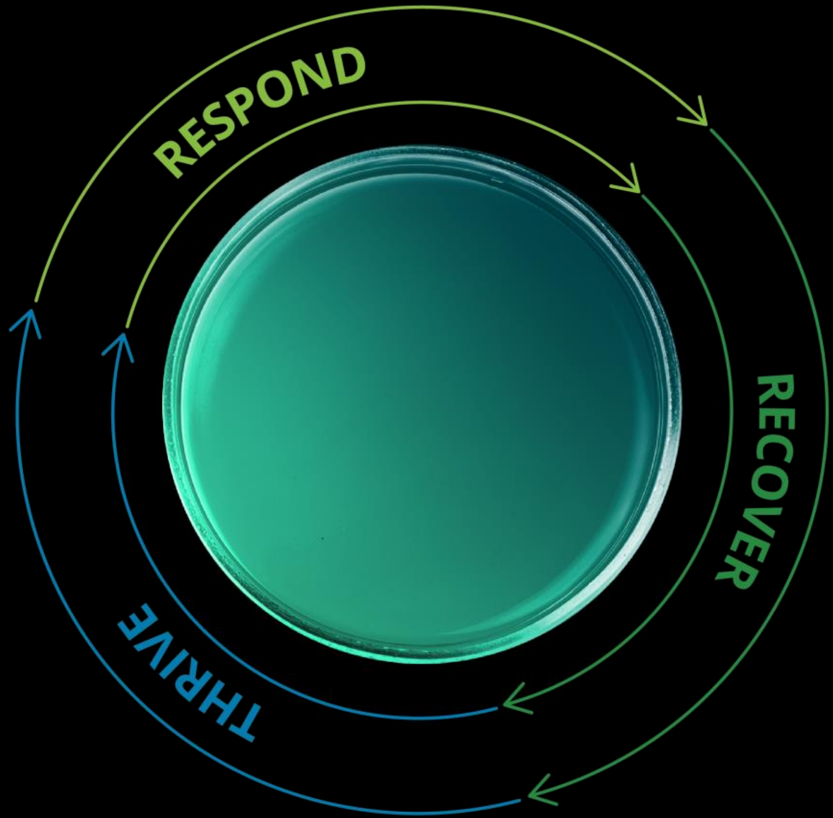


# The insurance industry response to the social and financial impact of Covid-19

*Deloitte in Dialogue – May 2020*

# The insurance industry response to the social and financial impact of Covid-19

Certain elements of the financial services industry where declared essential by government at the outset of South Africa's Covdi-19 lockdown. Through positive relationships with regulators and other stakeholders, the insurance industry has continued to operate, and even transform in the time since the lockdown commenced.

On 6 May 2020 Deloitte hosted a webinar where leaders from the insurance industry and its regulators 'sat around the table' to share perspectives and insights on the immediate impact of the pandemic, how insurers and their stakeholders are responding to developments, and what the future holds for the sector as a whole.

Set out below are some of the key messages from this discussion.

## The immediate impact of Covid-19 on the insurance sector

Following continued consultation with government, it was clear that the health imperative of Covid-19 would be the big driver in the subsequent decision making for insurers going into the lockdown. This made operational infection control, and enablement for teams to work from home the focus to ensure business continuity.

Discussions at the time also highlighted the interconnectedness of the business models of banks, insurers and asset managers which necessitated a coordinated response. Although concerns around the liquidity, balance sheets and solvency of insurers was high on the agenda going into lockdown, it was recognised that insurers immediate focus was on servicing policyholders.

Even though no wholesale Covid-19 relief is currently allowed for in the solvency capital requirement (SCR) calculation, the Prudential Authority will follow a measured approach when evaluating the financial soundness of individual insurers. The prudential and conduct regulators have worked together to find ways to relax certain parts of the regulatory framework to allow insurers to better support their intermediaries, and retain policyholders.

> *“We must share the load of this pandemic, not transfer it”*

## An industry responding to crisis

Trust underpins the insurance industry. While client expectations are changing, the ability to maintain customer trust through the promise that insurers make in their policy contacts is key to the industry’s sustainability.

The Covid-19 crisis has, and will continue, to have large health and socio-economic impacts. Acting ethically and displaying the right behaviour is required from all role players in the industry. Insurers have responded to the financial distress experienced by policyholders in a variety of ways. These include: premium rebates, contribution holidays on savings and investment contracts, relaxing policy terms and simplifying the claims settlement processes.

Consistent with expectations, retrenchment and loss of income claims have increased in recent weeks, and will continue to do so in the months to come. The prudential regulator is monitoring the impact of the increased claims frequency on the credit life industry, as well as its consequential impact on banks.

From a broader perspective, innovative funding structures initiated by the savings and investment industry could offer banks additional liquidity. This is in addition to the extended CSI initiatives that the insurance industry has put in place in order to give back to impacted and vulnerable communities.

> *"The opportunities which come out of a crisis must not be wasted"*

## Looking to the future

On the back of an already weak economy before the crisis Covid-19 will have a substantial negative impact on the financial results of insurers in the short-term. The silver lining is that the crisis does offer insurers an opportunity to transform their business models at a faster pace than what was previously thought possible.

The need to seek alternative ways of distribution has provided the necessary impetus to accelerate decisions around digital transformation. These include new product propositions, omni-channel distribution methods as well as alternative back office operating models. More than ever insurers and intermediaries are incentivised to bridge the digital divide in South Africa's duel economy, and to find new ways to afford those without access to digital tools with financial advice at a lower cost.

The investment case of insurers is being tested in ways that the industry had not anticipated, but it is entrepreneurial, demonstrating over the years just how resilient and robust it is. The expectation is that the industry will emerge with leaner operating models, and be more agile which will benefit both policyholders and shareholders in the long run.

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*This insights summary is based on a webinar that was hosted by Deloitte Africa's* ***Andrew Warren****, Insurance Sector Leader and* ***Gerdus Dixon****, Insurance Sector Audit Leader on the 6th May 2020.*

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