

COVID-19

Summary of the impact on customers,
products and distribution in the
insurance industry

May 2020



Contents

01

Context: what are the likely economic scenarios for COVID-19 planning and how are insurers responding?

02

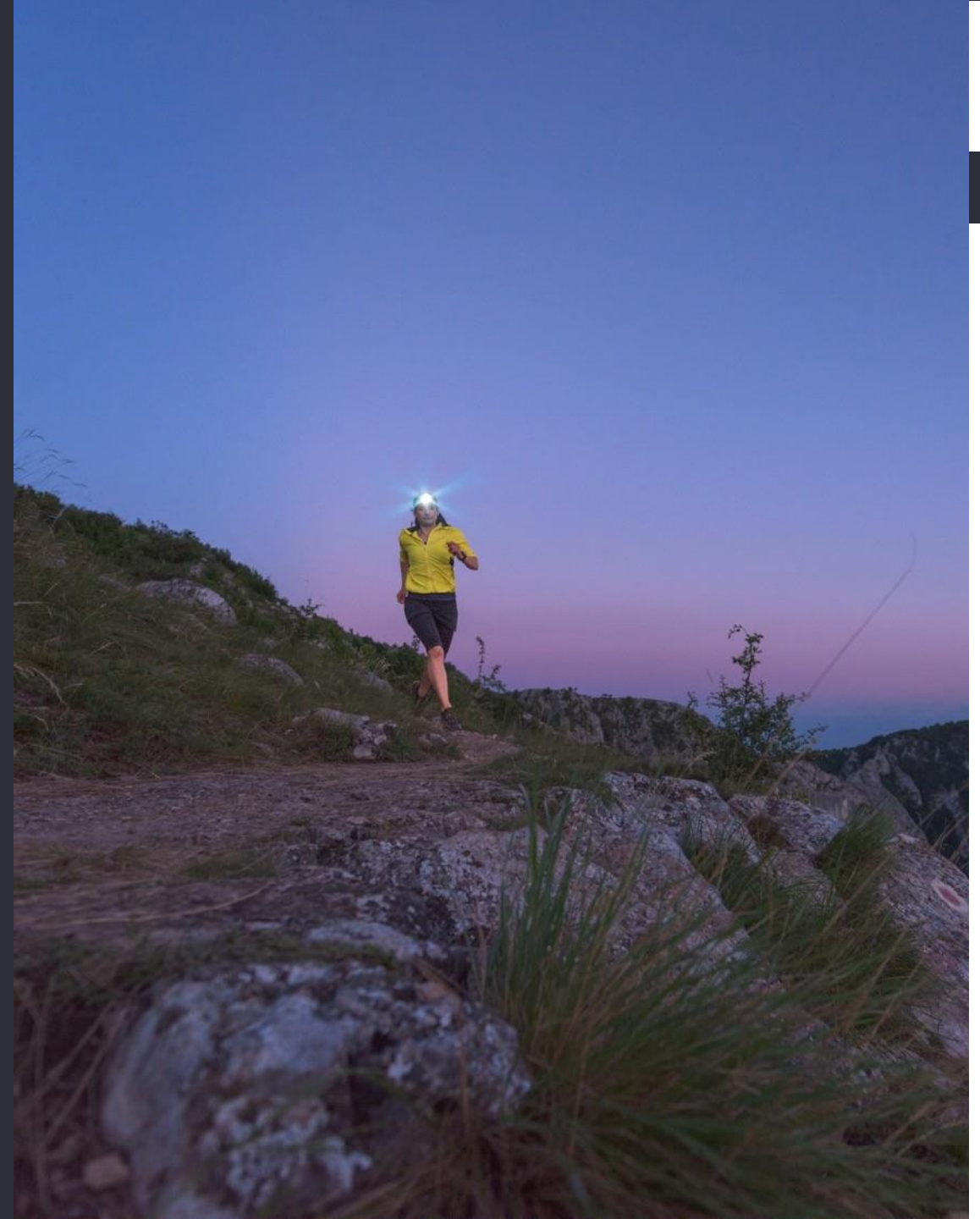
Impact themes: how could COVID-19 impact customers, products and distribution?

03

Segment lens: Retail, Life, Specialty and Intermediary impacts

04

Summary of key actions and how EY teams can help



In the context of COVID-19, a focus by the insurance industry on its customers, products and distribution is fundamental to support economic recovery

This document considers the following issues in relation to COVID-19, and its impact upon insurers' customers, products and distribution

The pandemic continues to raise questions regarding how firms and industries support people and businesses both within and beyond the crisis. Insurance is one of the most visible given its critical role in society

The COVID-19 crisis continues to endanger public health, disrupt people's lives and also the everyday running of businesses and their supply chains. It is subsequently affecting the most basic levels in Maslow's hierarchy of needs – physiological needs and safety.

Given the industry's critical role in underwriting risks, providing individual and group protection, and supporting savings and investment; **insurers' responses to the crisis are being closely scrutinised by all of their stakeholders (in particular the treatment of their customers and intermediaries)** – and "doing the right thing" is the measure.

A return to "normal", as we understand it today, looks ever more unlikely.

While insurers are understandably responding to immediate practical and logistical challenges relating to their customers, intermediaries and employees, the most material risk is for firms to fail to address the wider existential challenges of the COVID-19 crisis that will remain long after it.

The hypothesis: the strongest, most robust insurers to emerge from the crisis will be those who have recognised, planned and acted on these new realities.

This paper considers the following questions in relation to the decisions insurers must now make regarding their customers, intermediaries and the products they offer

1. What are the likely economic scenarios for COVID-19 planning and how are insurers currently responding?
2. What impacts has COVID-19 already had on:
 - ▶ Live policies
 - ▶ Insurance renewals
 - ▶ New business flows and demand for new products
3. What are the associated distribution risks of these impacts?
4. What segment-specific themes are emerging across Retail, Life, Specialty and intermediaries?
5. How can insurers take a proactive approach to the way they support customers and intermediaries, whilst continuing to create value for all stakeholders?

Navigating the next phase of the pandemic will require insurers to think ahead, take clear strategic actions, and position themselves for the world beyond the pandemic

EY teams can support you to assess the impact of the crisis on your business and provide customised support in the short-term (Now), the medium-term (Next) and long-term (Beyond).

Now

- ▶ **Revisiting your strategy and business plan**
- ▶ Rebooting new business flows
- ▶ Ensuring operational resilience
- ▶ Addressing the role of insurance in society
- ▶ Mobilising the finance function in the new normal
- ▶ Difficult decisions about the health and wealth of the firm

Next

- ▶ Operationalising and running customer support capabilities
- ▶ Rapid prototyping of post-COVID-19 customer journeys, fully integrated with those of distribution partners

Beyond

- ▶ Redefining the insurance renewal cycle
- ▶ Developing post-COVID-19 products
- ▶ Reviewing partnership developments



01

02

03

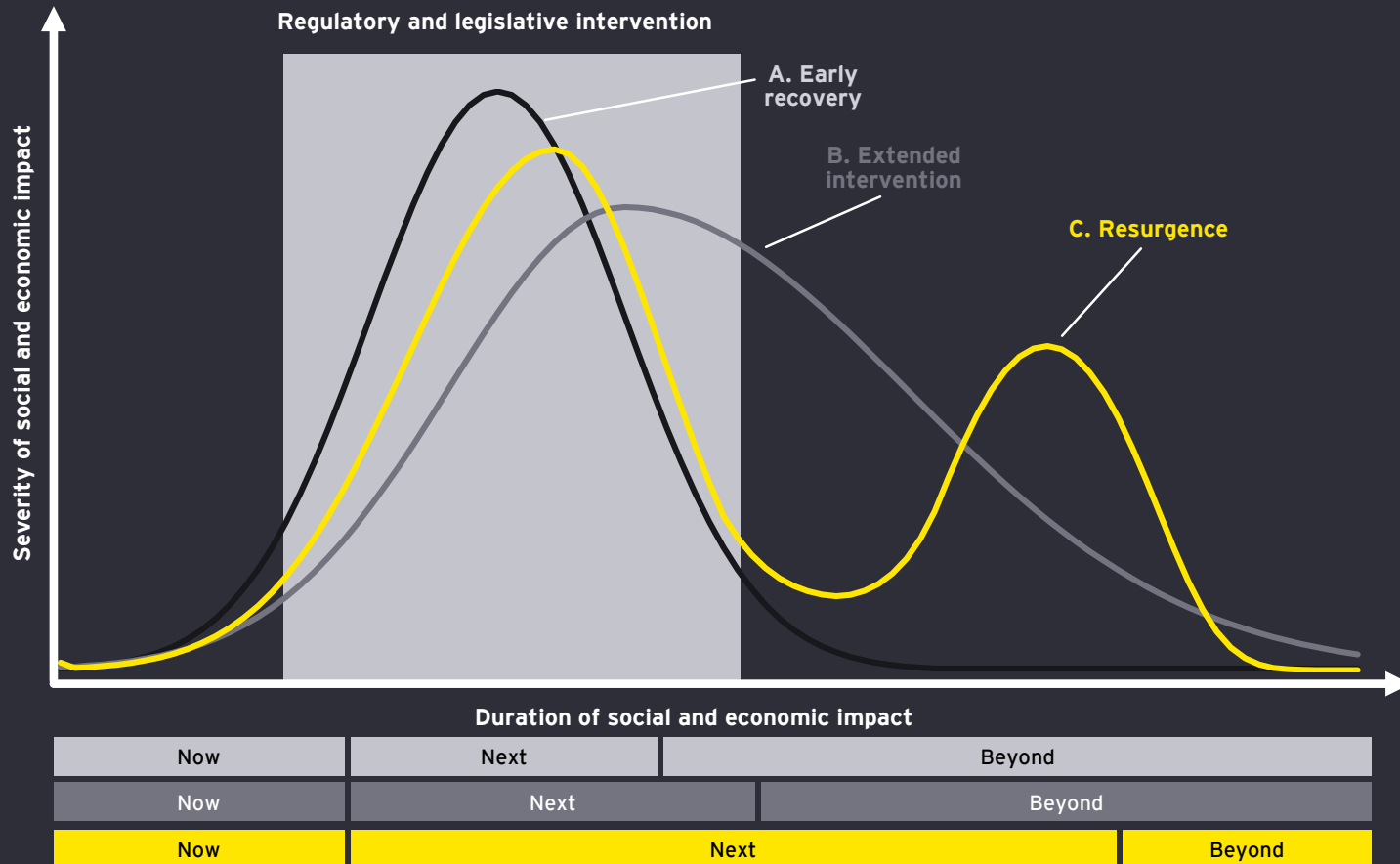
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Context

What are the likely economic scenarios for COVID-19 planning and how are insurers responding?

There are at least three plausible COVID-19 pandemic scenarios

The COVID-19 pandemic is accelerating our information lifecycle which is increasing the risk that outdated or incorrect data will result in poor decision making. EY teams have combined the views of medical experts, economists, and industry analysts into three representative scenarios to guide the dynamic planning process.



Scenario A: early recovery

Strong public health response and virus seasonality slow and contain spread of COVID-19. Quarantines and travel restrictions drive sharp contraction in consumer spending, but the economy – supported by fiscal and monetary intervention – bounces back quickly. Continuity planning and remote technologies alleviate workforce disruptions.

Scenario B: extended intervention

Countries struggle to contain virus due to disorganised response and variable enforcement. Global recession caused by declining consumer spending and corporate investment continues even as infection rates decline seasonally. Global spread of virus strains business’s supply chains, sustained contraction prompts layoffs and structural realignments, and technology constraints on remote workers depresses productivity.

Scenario C: resurgence

Public health and economic measures lifted as virus abates and public and policy makers caught off guard by a second wave of infections. Public fatigue dampens political appetite for further market intervention and industry “bailouts”. Insurer operations struggle to keep up with customer activity and government action, and workforce attrition increases operational and cyber risks.

The pandemic is already having a significant impact on the insurance industry

Insurers are already being impacted by COVID-19, and are impacted by share prices, underwriting exposures and solvency pressures

Business continuity planning has mostly worked

Most insurers have moved relatively seamlessly to ensure business continuity:

- ▶ Business continuity protocols have been actioned, tested, and seem to be working.
- ▶ The specific nature of the crisis has resulted in tackling issues outside typical protocols e.g., a need to stand up back-up call centers and the ability to e-sign contracts.
- ▶ Increasing pressure on offshoring and business process outsourcing (BPO) capacity especially in India.
- ▶ The long-term sustainability of current contingency plans remain untested, including dealing with illness, impact of schools closing, cultural aspects of teaming and ability to change user access permissions etc.

Insurers have seen significant share price falls

Insurance share price sell-off has been driven by a number of factors:

- ▶ Look through mark-to-market of balance sheets to equity, credit spread and interest rate movements. Life insurers with large books of guaranteed liabilities, and limited new business, have been most impacted.
- ▶ Reinsurance companies were perceived to have exposure to large claims losses. This perception is being reversed.
- ▶ Individual company factors, either business mix, specific asset exposures or general concerns around business performance and longer-term viability.

Underwriting exposures have been limited

Selected classes are heavily exposed, but broadly there has been a resilient outcome:

- ▶ Travel, health, event cancellation, credit and surety are experiencing, and expected to continue to experience, large claims volumes.
- ▶ Premium volumes are falling in aviation and marine, and some insurers have stopped writing new travel policies. Premium holidays are having significant impact on liquidity in some markets.
- ▶ Many non-life policies have pandemic exclusion. Business interruption often requires physical loss to be triggered, and businesses need to be solvent for coverage to apply. This is under pressure from politicians.
- ▶ Mortality exposure is not currently at a material level.
- ▶ Some classes such as Motor and Home have decreased in exposure, so there will be increased profitability, although several insurers are deciding to provide customers with premium refunds.

Reactions to market movements on solvency

Insurers are updating markets on solvency:

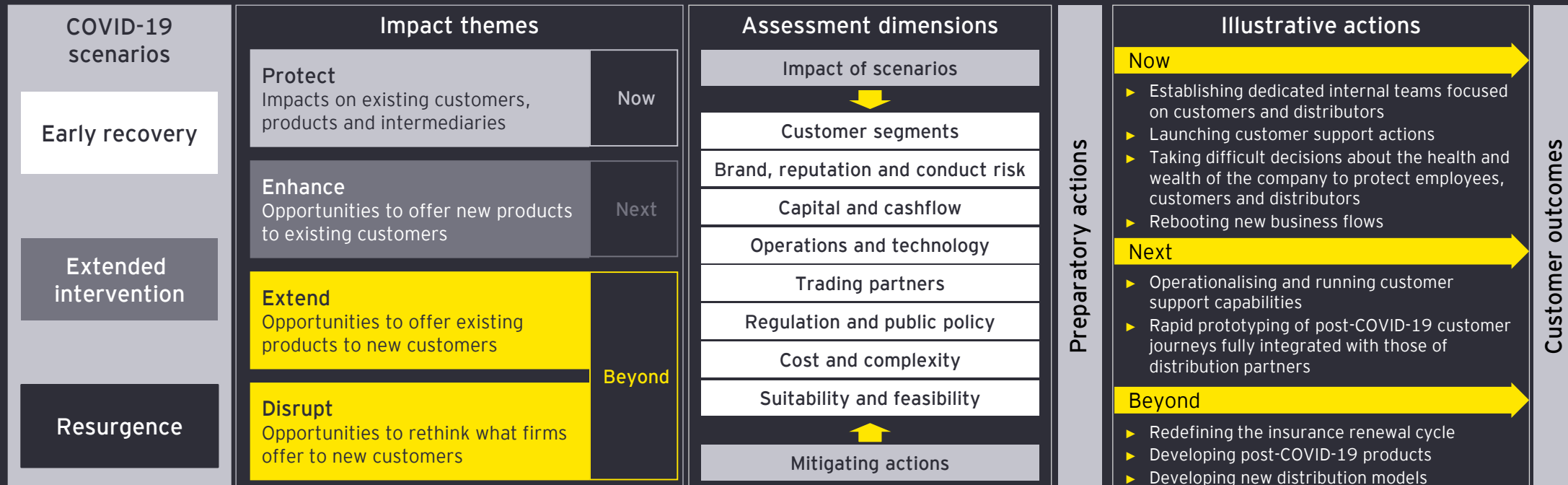
- ▶ Share buybacks are being suspended but dividends are being preserved for now, although subject to regulatory scrutiny. Several countries including Norway, Poland and Canada have stopped dividends in anticipation of stress.
- ▶ Regulators are being publicly and privately supportive, including a public statement from the European Insurance and Occupational Pensions Authority (EIOPA). Many regulators have sent data requests out to the industry, and there is regular solvency monitoring.
- ▶ Rating agencies are also starting to re-evaluate businesses. A number of businesses require a minimum single "A" rating to be viable, and some ratings appear vulnerable.



Focus is shifting to how insurers and intermediaries best support their customers

Action	Description
Scenario modelling	Focus on potential outcomes and timeframes from COVID-19 and the impact on customers, product and distribution – broad scenarios under development but limited evidence of detailed modelling on business plans
Stakeholder engagement	Strong engagement between trading partners, particularly intermediaries and insurers, though high volume of queries. Customer engagement focused to mass communication, apart from commercial clients
Customer support	Increasing range of customer support actions, ranging from premium holidays to rebates, though inconsistently applied within and across countries
Intermediary support	Small number of insurers taking action to protect intermediaries – further requirements anticipated if crisis is prolonged
Commercial upside	Some consideration of commercial opportunities, but limited capacity and risk appetite for significant focus. Anecdotal evidence of increasing volumes of product adjustments/extensions that are not being addressed
Emerging products	Including new products, such as usage-based insurance and supply chain “assistance” insurance
Public relations	Significant risk to industry and individual firms by perceived lack of coverage and inaction, exacerbated by legal challenges. Lawsuits concerning policy wording are already being initiated
Government action	Potential for government or regulatory action to force insurers and intermediaries to take additional action to provide customer support

Assembling a team to assess the impact of changes in demand and supply will drive the identification of a coherent and strategic set of actions which address customer needs, business resilience/sustainability and longer-term value creation



Dedicated customer, product and distribution activities

Consider customer, product and intermediary actions:

- ▶ Assembling a small team which is collectively capable of addressing all aspects of the crisis on business and financial strategy, the market, distribution, and current operations which will remove the risk of groupthink or taking a too narrow or disaggregated view. This team should be empowered to make decisions, and should have a route to escalate any issues rapidly
- ▶ This small team should consider a number of impact themes for broad consideration of how the crisis impacts customer needs and intermediaries, and their current configuration in the firm's value chain, and how this is likely to change as people and companies adjust to the new normal of a post-COVID-19 world



Impact themes

How could COVID-19 impact customer, product and distribution?



COVID-19 has led to fundamental change for the insurance industry, its customers, products and distribution network

Drivers for change to the insurance industry

Example driver	Implication
Perception of insurance	Increasingly negative perception of the ability of insurance products to cover customer needs, and of insurers to serve their customers, requiring rapid action to engage and retain customers. We are seeing insurers beginning to react via a range of customer support actions such as returning premiums.
Changes to insurance cycle	New examples of 'hardening' and 'softening' in retail/specialty insurance driven by immediate circumstances is driving complex trading decisions but leading to potential opportunity

Drivers for change to individual firms

Example driver	Implication
New renewal cycle	New business volumes have declined significantly as customers default to their existing brokers and insurers as they deal with the crisis
New customer needs	Multiple instances where customers no longer require their product in short-term and/or perceive they do not require it in longer-term (in whole or in part). This results in significant and immediate change to product sets. There is also increased demand for some products as customer mindsets change; for example interest in life and protection products have increased
New buying behaviours	Customer confidence that products will pay is openly questioned, leading to requirement for product reengineering to offer explicit evidence of coverage and, in Property and Casualty (P&C), risk management services
Tension in role of intermediaries	Intermediaries role as customer advocate leads to direct challenges with trading partners, in context of errors and omissions risk to intermediary themselves. Significant financial challenge to intermediaries
Focus on product development	New product development capabilities will be urgently required, but may not exist in the scale needed. Progress may be hampered by lack of ability to move at pace through complex organisational structures
Shift to electronic trading	Face-to-face trading has been removed by the lockdown scenario, leading to immediate shift to greater volumes of electronic trading across retail, life and specialty insurance

These drivers for change have led to a number of change 'themes' which are impacting insurers. The following slides explore these themes.

COVID-19 is impacting customer, product and distribution in many ways. A thematic understanding of how this will influence doing business is essential (1/2)

Theme 1: impact of COVID-19 on existing customers and 'live policies'

What is happening or could happen?

- ▶ **Increased volume** of customer and other stakeholder queries driving substantial complexity
- ▶ **Mid-term adjustments or cancellations:** In many cases, customers are already covered for risks they no longer face, including travel and breakdown cover which will lead to additional queries and cancelled policies
- ▶ **Customer support actions:** There is additional momentum for initiatives that include
 - ▶ **Premium relief including holidays, rebates and renewal extensions**
 - ▶ **Term enforcement relaxations**
 - ▶ **Customer funds:** Insurers may have to contribute to state funds to support economic recovery and/or compensate customers who do not have coverage
 - ▶ **Legal action and complaints:** By policyholders

Actions insurers can take to respond

Now

- ▶ **Engage customers:** Proactively engage customers so they understand help available. Establish a centralised team to triage queries
- ▶ **Develop rapid impact analysis:** To build momentum on core initiatives

Next

- ▶ **Operationalise and run** customer support capabilities, including communication, execution plan and monitoring
- ▶ **Use lead and lag indicators** to triage customer queries and identify impact of customer support actions

Beyond

- ▶ **Develop resilience scenarios** to understand how to provide long term value to existing customers and adapt to future needs driven by COVID-19, especially if the lockdowns are in waves

Theme 2: how will COVID-19 impact insurance renewals?

What is happening or could happen?

COVID-19 drives new operational and financial considerations on renewal. These are imminent requirements which will lead to fundamental changes to products and the renewal cycle over a timeframe of several months:

- ▶ **Customers will not renew certain policies**
- ▶ **Insurers have already started to exit or make changes to certain policies**
- ▶ **The renewal cycle is changing.** Retention will increase, particularly in specialty lines. Annual policies become irrelevant and are replaced with usage based products
- ▶ **The renewal process will become more complex,** particularly for intermediated business. A lack of face-to-face trading will drive process challenges to renewals. Changes to customer circumstances may not be easily incorporated into renewal pricing and terms

Actions insurers can take to respond

Now

- ▶ **Establish distinct renewals planning team** and assess upcoming renewal volumes and actions to mitigate operational and commercial risk
- ▶ **Engage with trading partners** and establish joint plans

Next

- ▶ **Assess product requirements** including changes to products to retain customers on renewal
- ▶ **Assess and action financial impacts:** Develop pricing and capital models, and updated business plans

Beyond

- ▶ **Redefine insurance renewal:** Move towards evergreen or usage-based policies that better suit customer needs
- ▶ **Work jointly with government** to develop partnerships that provide ongoing coverage for products where capital is constrained or pricing is unobtainable



01

02

03

04

COVID-19 is impacting customer, product and distribution in many ways. A thematic understanding of how this will influence doing business is essential (2/2)

Theme 3: how will COVID-19 impact new business and new products?

What is happening or could happen?

There are substantial new business opportunities to meet customer demand for new and existing products:

- ▶ **Volume of new business** to address exclusions and coverage gaps. Insurers may not have capacity or the risk appetite for the new business
- ▶ **New product opportunity is significant:** Customers need new products to address their changed lives and businesses
- ▶ **Usage-based insurance will increase:** As the lockdowns could be occurring in waves, there will be demand for usage-based insurance
- ▶ **Insurer and broker product development capability must respond at pace:** Though many such functions do not have the scale, capability or mandate to do so
- ▶ **There will be regional variations in lockdown easing measures** which will result in regional inconsistencies in products and future loss experiences

Actions insurers can take to respond

Now

- ▶ **Smart capability:** Insurers should bring together their most advanced capabilities into a smart new business and product taskforce, reporting to the Executive team
- ▶ **Risk appetite:** Assess risk appetite for new products and new business, and take early action to implement appropriate controls

Next

- ▶ **Assess and mitigate operational impacts** to ensure there is the capability to offer new products for customers
- ▶ **Implement revised new business/new product development** capability to accelerate customer support and commercial opportunities

Beyond

- ▶ **Holistic review of how best to address customer needs:** Insurers to consider how they can offer products that add most value to their customers in the new reality of post COVID-19, including risk engineering/mitigation, service proposition, etc.

Theme 4: how will insurers deal with the customer, product and distribution risks of COVID-19?

What is happening or could happen?

The preceding three themes all have related risks which should be considered for insurers and intermediaries

- ▶ **Reputational risk** for any insurers and intermediaries who are perceived to be taking advantage of the current crisis
- ▶ **Conduct risk:** Many existing products should be revisited to ensure that customers are not being sold products which they cannot use, i.e., travel insurance
- ▶ **Prudential risk** of new products that have been brought to market quickly with limited pricing or claims experience
- ▶ **Support functions strain** is likely to be exacerbated by crisis-related products, customer and distribution actions which could cause additional operational risk
- ▶ **Commercial risk** across a range of areas; from the collapse of trading relationships to significant top line reductions

Actions insurers can take to respond

Now

- ▶ **Current risk assessment:** Reevaluate the risk profiles of your current product set in the context of COVID-19
- ▶ **Embed agile risk management approach** in all working groups and actions related to customer, product and distribution for COVID-19

Next

- ▶ **Reassess overall risk exposures** from a customer, product and distribution perspective
- ▶ **Shift focus of risk management** from business continuity to customer support

Beyond

- ▶ **Update risk management frameworks:** Risk management frameworks need to be updated to include the effects of COVID-19 and future global catastrophe events



01

02

03

04

3

Segment lens

Retail, Life, Specialty and
Intermediary impacts

COVID-19 will impact Insurance providers' customers, products and distribution channels in different ways

Retail

Whilst the sector has quickly transitioned to a greater use of online, its biggest issue remains the potential reputational impact on the industry if it is not seen to step up and demonstrate support for customers that are experiencing difficulties.

Life

Beyond immediate impacts on protection products, Life will need to respond quickly to changes in customer behaviour and increased demand for real-time support, thus further accelerating the trend towards automation across the value chain.

Specialty

The global and intermediated nature of the Specialty market means that customer and product action often require a joint approach by multiple trading partners.

Intermediaries

Distributors and intermediaries play an important part in the value chain for both insurers and insureds. Rapidly aligning expectations and the implementation of pro-active client-centric initiatives will help to retain trust and protect brands.

Actions

1. Communicate to policyholders outlining actions you intend to take as result of COVID-19 and how it may or may not affect their policy. At the same time, use the opportunity to develop a more robust long-term communications strategy to connect more meaningfully with customers and regain trust.
2. Design and communicate a support package to trading partners and start to co-develop new propositions to meet post COVID-19 customer needs.
3. Use COVID-19 as a trigger to now maintain greater online connectivity with customers and intermediaries, investing in making systems more functional and robust.
4. Collaborate at an industry level around the 'Pandemic Re' scheme arrangement.

Actions

1. Distributors, providers or employers need to agree and act on communicating with their pension clients at difficult times, to guard against panic sales and other adverse outcomes. Ideally through an ongoing stream of education around potential outcomes in various scenarios.
2. Seek to robotise the proposal to "on risk" stage to maximise access from ease of application and cost perspectives as life cover, and particularly income protection, may be in greater demand post COVID-19 as people live through and see outcomes of those without it.

Actions

1. Develop joint teams with intermediaries and carriers in order to plan and execute virtual renewals for one in seven of those that were previously renewed face-to-face.
2. Establish a dedicated team focused on customer support actions, including assessing operational implications and variations by territory.
3. Plan and execute targeted new product and new business opportunities.
4. Consider and plan responses to potential regulatory and/or government action in relation to business interruption (BI) claims, or other requirements, which may have disproportionate impact on Specialty lines.

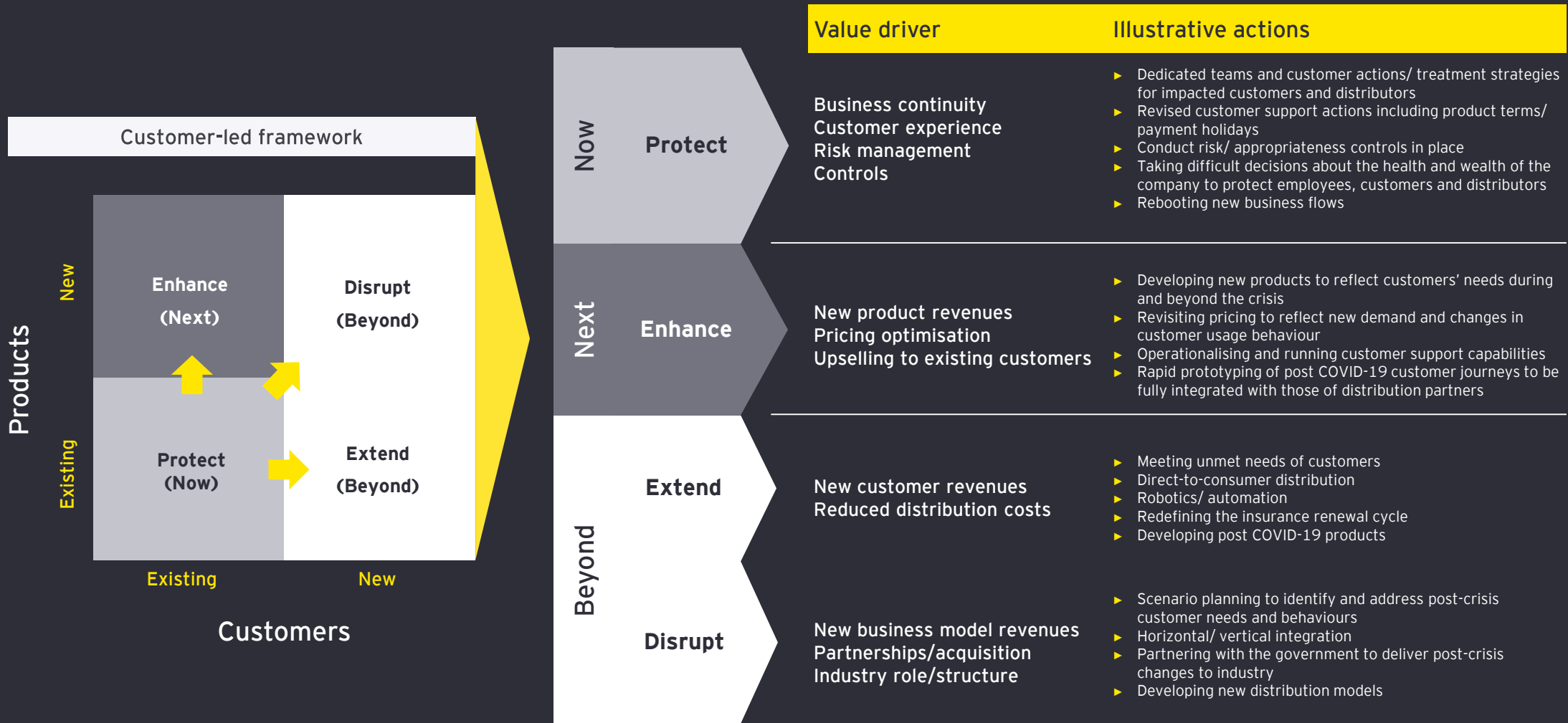
Actions

1. Develop joint teams with intermediaries and carriers in order to plan and execute virtual renewals for one in seven.
2. Strengthen risk management and claims advocacy proposition as client decision factors move further from price to service. Develop new approaches to undertaking surveys and risk engineering activities to enable continued accurate assessment of risks.
3. Collaborate with insurers to develop technology solutions to increase resilience across the value chain and to create clearer boundaries of ownership.
4. For insurers, focus on your distribution network to assess potential areas of short and long-term risk, and seek to support intermediaries where possible.

4

Summary of key actions and how EY teams can help

Insurers should be considering their Now, Next and Beyond actions, focusing on the immediate and evolving needs of their customers



How EY teams can help

Professionals' external support can provide vital momentum and capability across Now, Next and Beyond

Five areas EY teams can support across key priorities

1 Enabling operational resilience

- ▶ Assessing and building **operational resilience** to function over an extended period of time.
- ▶ Key areas of likely stress include **mental and physical wellbeing** of staff (particularly those in the heart of the crisis response); **engagement and support of intermediaries**; **cyber and fraud risk**; and maintaining a robust **controls** environment
- ▶ Assessing whether **data privacy** requirements are being adhered to, and identifying areas of priority action

2 Rebooting new business flows

- ▶ Development of **new business strategy** and **future customer experience**
- ▶ Considering **distribution, product range and customer affordability**.
- ▶ Providing, and getting customers and salesforces (including agents, brokers and Independent Financial Advisors (IFA)) to use, **digital capabilities** is the immediate challenge
- ▶ Focusing on the **customer experience** for both new and existing customers is important. There is also a need to ensure that, over the coming months, there are an appropriate range of products

3 Mobilising finance into the new normal

- ▶ Finance provides **critical strategic and operational capability for the insurer**, and will be fundamental to support customer, product and distribution actions
- ▶ Finance needs to move out of crisis management, and to address "important but not urgent" tasks
- ▶ These include **rebased business plans, linking into risk appetite and earnings guidance**; refreshing **risk assumptions** across **pricing, reserving, solvency and capital buffers**; and, progressing **strategic projects**, including IFRS17 and finance transformation.

4 Protecting the health and wealth of the business

- ▶ Customer, product and distribution actions must be taken in the **context of wider health of the business** and its people
- ▶ **Strategic cost transformation** was already a priority before COVID-19
- ▶ It will become even more pressing as companies seek to recover from a major income shock
- ▶ However, **many cost levers are opposite to actions taken now**. Companies will need to strike a balance on the implementation and timing of those actions

5 Addressing the role of insurance in society

- ▶ **Taking action to support your customers now** whilst considering how the organisation will enable this
- ▶ **Doing the right thing** over the coming months to contribute to loss relief now, and underpinning the recovery, will be critical for trust in the industry
- ▶ Insurers cannot **afford to be passive**, and will need to be visibly sensitive to public opinion
- ▶ **Making sure vulnerable customers are protected** as the insurance industry moves to a digital platform
- ▶ Ensuring the response aligns to the environmental, social and corporate business agenda

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