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COVID-19: Impact on the Indian insurance industry

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Foreword

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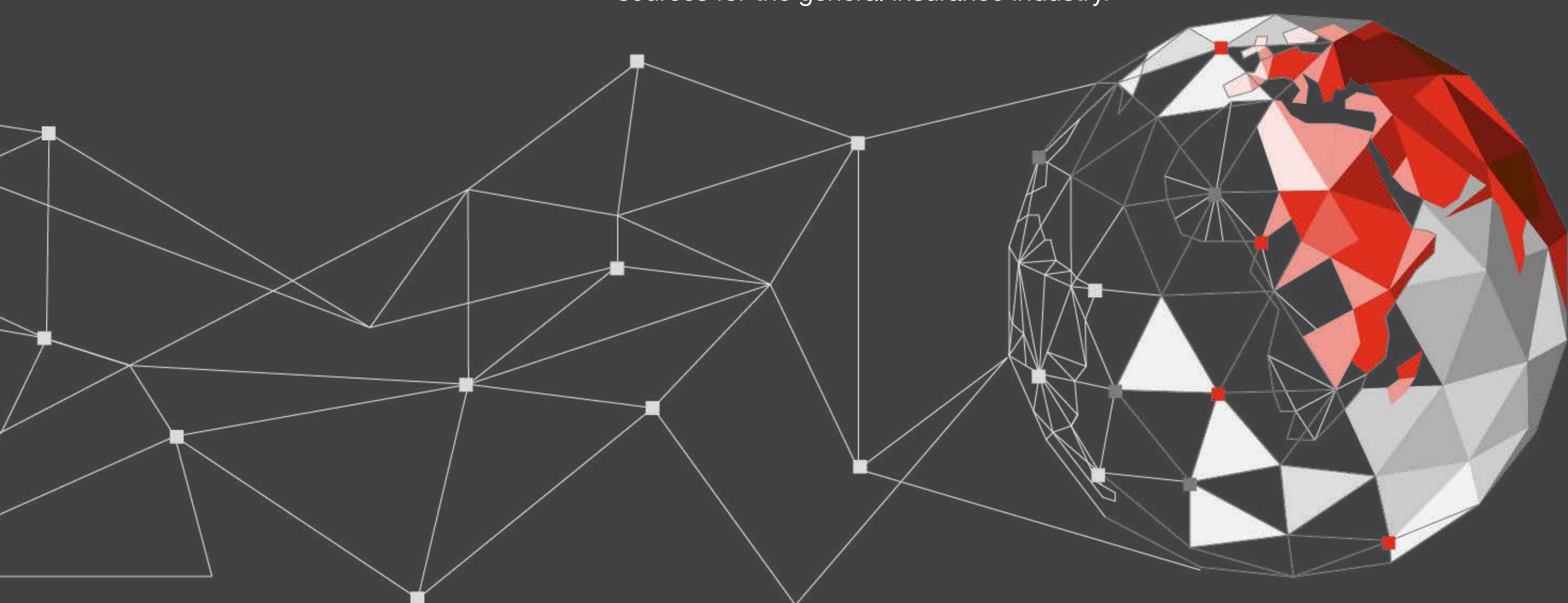
The insurance industry seeks to protect a country's people, assets and businesses. Hence, the business of insurance has always been closely linked to a country's business performance and asset ownership.

Life insurance protects the livelihoods of people and future earnings and has a direct correlation with the earnings of people, their business performance and net worth. General insurance protects assets and businesses and their valuation as well as overall economic activity. Hence, a popular way of measuring insurance penetration is to benchmark it with the GDP of a country.

Along with the European Union (USD 15.6 billion), the United States (USD 5.8 billion) and Japan (USD 5.2 billion), India is among the 15 economies most affected by COVID-19 and the slowdown in production in China. For India, the trade impact is estimated to be very high in the chemicals sector (USD 129 million), textile and apparel (USD 64 million), automotive sector (USD 34 million), electrical machinery (USD 12 million), leather products (USD 13 million), metals and metal products (USD 27 million), and wood products and furniture (USD 15 million).

Apart from manufacturing, many businesses have been indirectly affected by the virus. The lockdown in major cities in India has resulted in public establishments like restaurants, amusement parks and movie theatres being shut down completely and their revenues being impacted. These establishments require urgent relief from the Government, and the current situation may lead to lower renewals of employee benefit and life and accident policies.

Further, the automobile sector was witnessing a slowdown before the COVID-19 outbreak and thus, the motor insurance segment, which accounts for over 35% of the overall insurance premium collection, was going through a rough phase with virtually no growth in the own damage category. The pandemic and lockdown may have a significant impact on the automobile insurance sector, which is one of the largest revenue sources for the general insurance industry.



Similarly, the hospitality and events industries, which avail of event, liability and property insurance, are also set to take big hits. Reduced travel may hit the airline industry badly and will lead to a considerable decline in the travel insurance segment, which was very profitable.

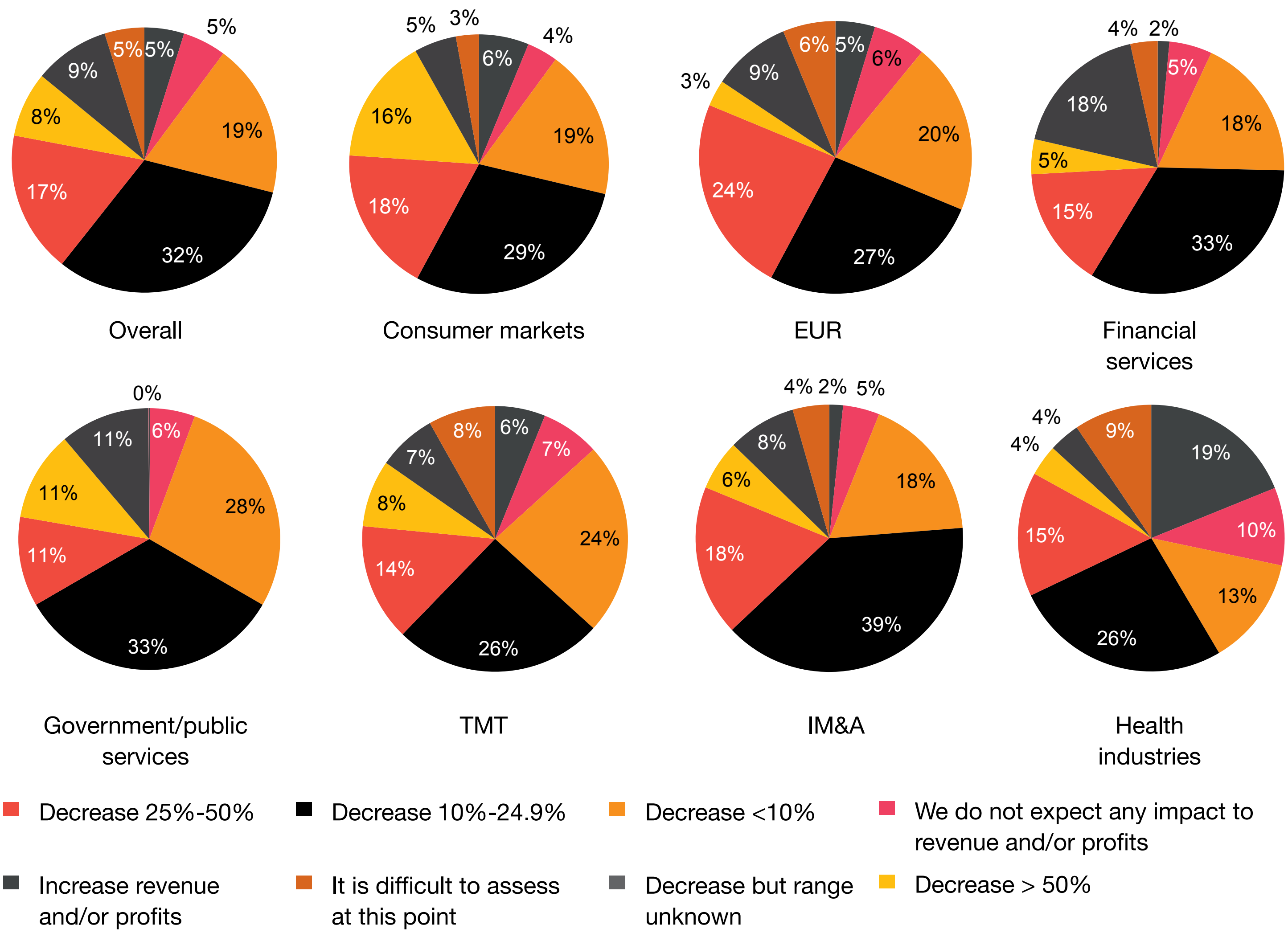
While the demand for health insurance is expected to increase considerably, underwriting thresholds may also go up and thus the negative movement may not be offset.

Long-term locking of funds in pension schemes may also suffer a hit and people are likely to be averse to locking their money for long periods.

PwC's COVID-19 CFO Pulse Survey (May 2020) shows that 51% of CFOs across sectors expect a decrease in revenue of up to 25% as a result of COVID-19. With respect to the potential impact on their company's revenue and/or profits this year, around 31.7% of the respondents across industries expected a roughly 10–25% decrease in their revenue. In the financial services industry, this percentage was slightly higher at 33.3%, and around 15.4% of CFOs in this sector believed that revenues would decrease by 25–50%.

The survey also revealed some interesting findings related to the health industry. While 26% of the CFOs in the industry believed that the crisis would lead to a decrease in revenue by nearly 26%, around 19% of the CFOs believed it would lead to an increase in overall revenue/profits. When asked about the top three concerns in the wake of the COVID-19 crisis, CFOs mentioned factors like reduced consumption, financial impact and reduced workforce productivity – all of which are concerns for the insurance industry. Insurance rides on the back of other industries, and this can be a problem unless the industry and economy bounce back or the insurance industry find business in hitherto uncovered areas to maintain its momentum.

What impact do you expect on your company's revenue and/or profits this year as a result of COVID-19?

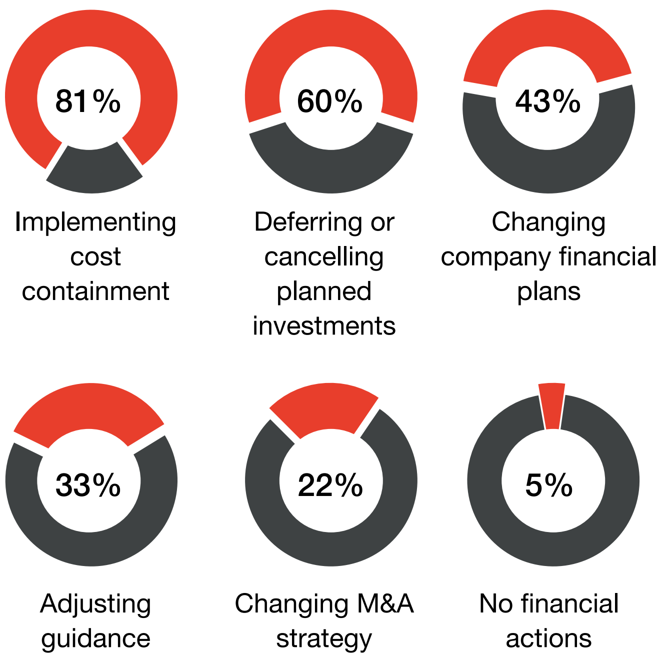


Source: PwC's COVID-19 CFO Pulse Survey

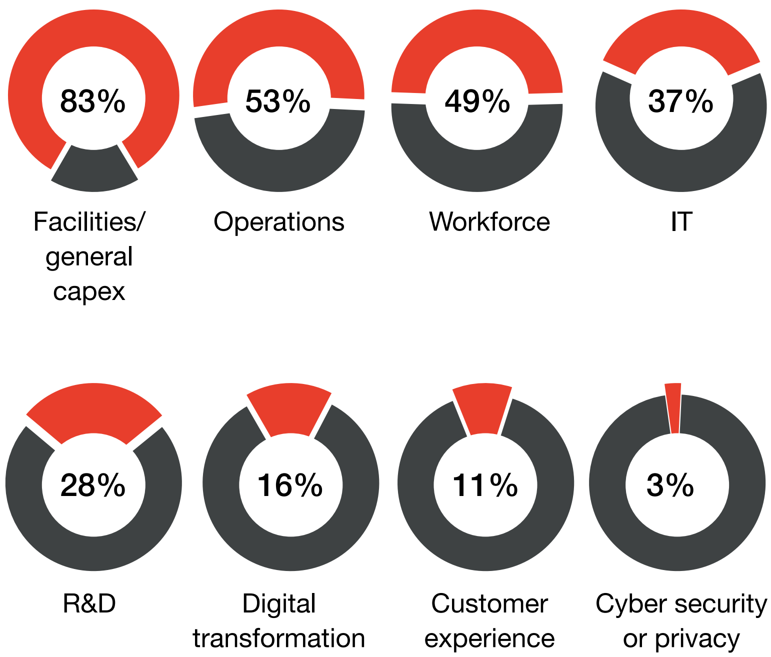
The survey also shows that cost containment and deferral/cancellation of investments are the actions most frequently considered by CFOs as a result of COVID-19, and 81% of CFOs said they would be implementing cost containment measures. The top six areas where these measures are likely to be implemented are facilities/general capex, operations, workforce, IT, R&D and digital transformation. As per the survey, the least cost containment is expected in customer experience (11%) and cyber security or privacy (3%).

Improving customer experience and making the ecosystem more secure for cyber platforms also emerged as priorities.

Which of the following financial actions is your company considering as a result of COVID-19?



You mentioned your company is considering deferring or cancelling planned investments as a result of COVID-19. Which of the following investment types are being considered in that regard?



Source: PwC's COVID-19 CFO Pulse Survey

These are challenging times and insurance companies are taking multiple steps to stay relevant to society. Some of the steps taken by insurance companies have been discussed below:

- Almost all insurers have successfully moved all their staff to a work-from-home configuration and managed to keep all services available to their customers.
- Many have approached customers proactively to connect via digital channels and avoid physical contact at branches or other offices.
- Many have provided dedicated support via call centres to handle queries specific to COVID-19.
- Insurance companies have started providing digital services to their customers, ranging from providing them with information on policies to allowing them to pay premiums via digital payment methods.
- A few insurers have proactively increased the sum assured for life insurance policies.
- Some insurers have introduced support for their agents in the form of advance commissions to help them financially in this uncertain period.
- Many brokers have organised webinars on policy conditions, possible claims and cyber security policies.
- Most insurers are tightening their expenditures and looking at all options to reduce costs.
- A majority of insurers are focusing on cyber security controls due to the rise in digital operations and testing remote working and business continuity planning (BCP) infrastructure.
- As insurance has been classified as an essential service, many insurers have started opening branches in a measured manner with reduced capacity and social distancing.

This paper examines the possible impact of the COVID-19 situation on various aspects of the industry – from the front office to the back office and customer engagement.

The two productive months for the insurance industry – March for life insurance and April for non-life corporate renewals – have both seen a significant hit of around 30% and 15% respectively. However, with companies and customers settling down to transacting remotely, May is expected to see some semblance of normalcy, albeit with lower productivity.

The industry has taken many steps to respond and be available to customers. The regulator has also laid out several relaxations as well as guidelines for insurers to follow, which are discussed in this report. General insurers have gone a step ahead and decided to waive the 'unoccupied building' clause until 3 May 2020. Time will tell whether proactive action in these times will bridge the trust deficit that always seems to exist between customers and companies.

Insurance companies face formidable challenges ahead, although they may adopt an attitude of 'this too shall pass'. Since the operations of all the major insurance players can effectively move to work from home and all customer service aspects have been maintained online, this entire period would have established the futility of the high costs incurred on real estate and travel in the Indian industry, which is already among the highest combined ratio industries in the world. Traditionally, the top five costs for all insurers, other than the cost of acquisition, are:

- people
- premises
- technology
- advertising
- training.

The lessons from the past two months will play an important role in determining the future of the industry and how it recalibrates itself. Many companies are now listed and hence face pressure from analysts and institutional investors on cost ratios. The importance of technology has been demonstrated and the industry is unlikely to move away from that. People and premises will be under scrutiny and every inch of real estate and productivity of people will have to be recast.

Advertising has moved a substantial portion of budgets to online; however, the efficacy of these channels is still debatable, as awareness and penetration of insurance are low in our country. Training and skilling of staff and distributors have to be looked upon as an input cost for acquisition, and reforms to consider some of these costs as acquisition costs will be important.

Early this year, the vision for insurance in 2025 or 2030 was being mapped out, and there were several conferences and debates on this theme. However, assumptions have now suddenly changed, with insurance having become an essential part of the new reality of our economy, leading rather than following other sectors and catalysing their development.

References

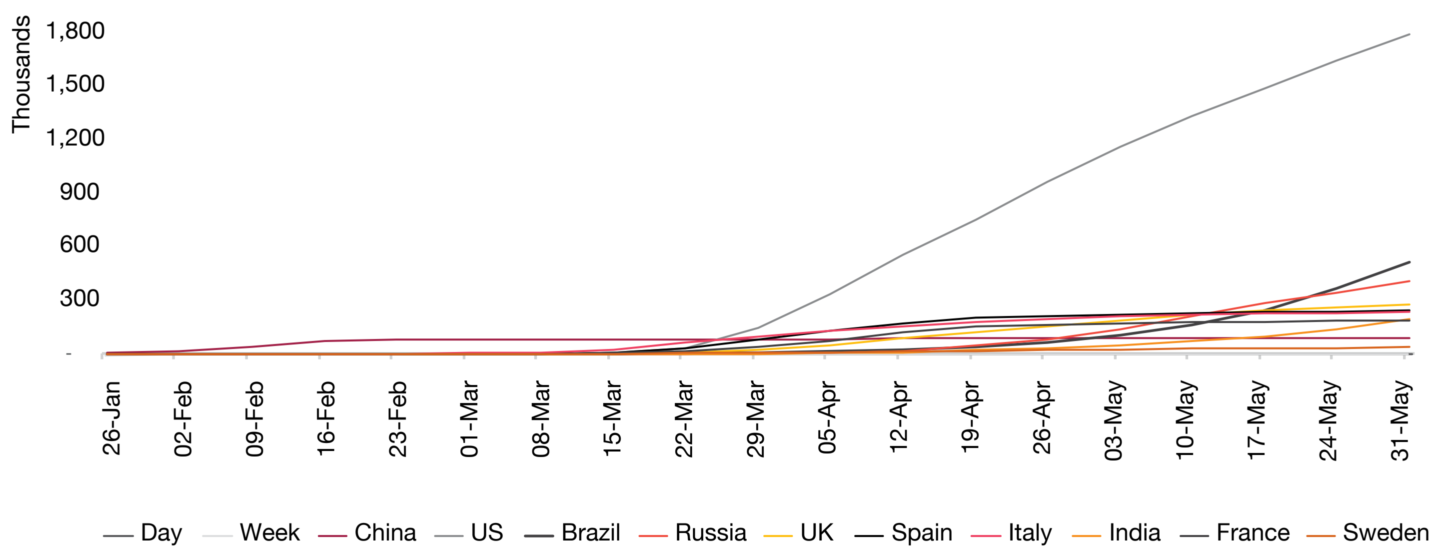
United Nations Conference on Trade and Development. (4 March 2020). Global trade impact of the coronavirus (COVID-19) epidemic. Retrieved from https://unctad.org/en/PublicationsLibrary/ditcinf2020d1.pdf

PwC's PwC's CFO Pulse Survey. (2019). Retrieved from https://www.pwc.com/us/en/library/covid-19/pwc-covid-19-cfo-pulse-survey.html

Short-term considerations for the insurance sector to respond to the COVID-19 crisis

Although the number of deaths in India is relatively low compared to that in the rest of the world, the country has seen a spike in the number of COVID-19 cases. If we compare the data from the countries with the highest number of cases with that of India, it appears that the impact in India has been less severe. The country acted early and took some bold steps such as the nationwide 'Janta Curfew' and a complete lockdown for 21 days. Upon reviewing the situation, the Government further extended this lockdown across the country until 31 May 2020 and is now preparing for Lockdown 5.0. These steps were taken before the COVID-19 outbreak reached Stage 3 in India.

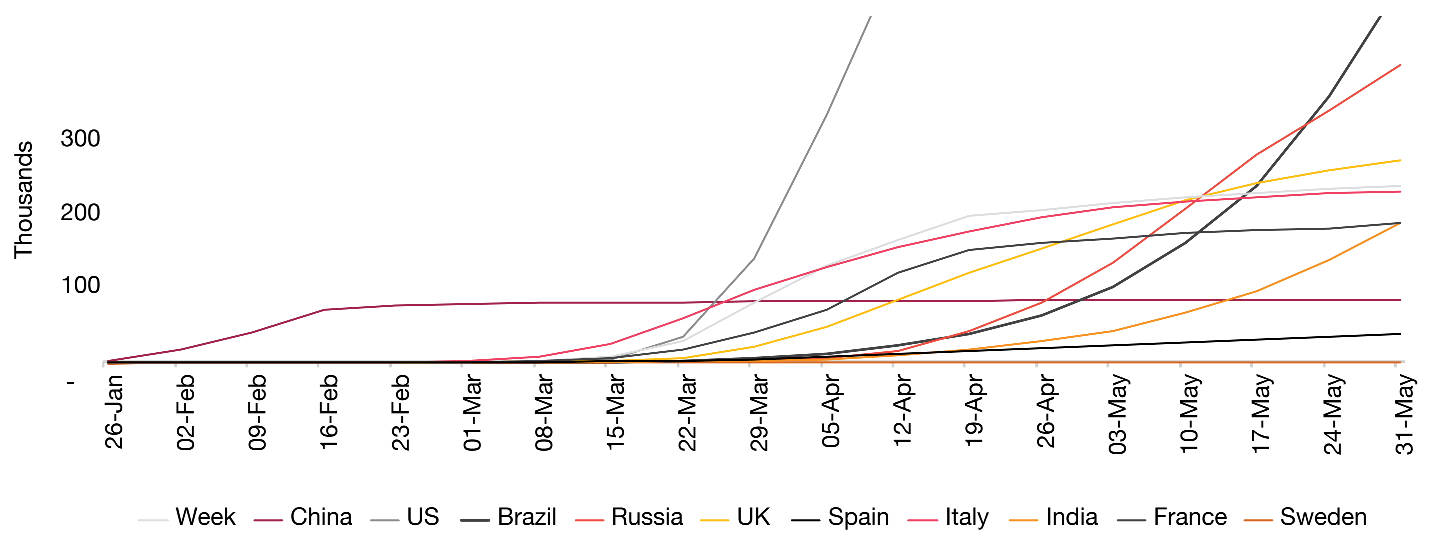
COVID-19 cases in top 7 countries vs India, China and Sweden



Source: https://coronavirus.jhu.edu/map.html

Although India started testing slowly, given the urgency of the situation and the risk of further spread, testing capabilities were ramped up. A closer look at the chart reveals that the number of cases in India saw a sharp spike after week 5. While Italy and the US saw a sharp increase in the following weeks, India has been able to control the situation to some extent. With the first case having been reported on 30 January, India is now in week 19 of the pandemic and has managed to keep the numbers under control. It is also interesting to compare the figures in India with those of a country like Sweden, which took a different approach to handling COVID-19 by not enforcing a complete lockdown.

COVID19 Deeper view on India cases Vs other key geographies



Source: https://coronavirus.jhu.edu/map.html

Country	Total number of COVID-19 cases reported*	Total number of tests conducted#	Percentage of positive tests (<5% - green, >5% and <10% - amber, >10% - red)	Number of deaths reported*	Fatality rate (<5% - green, >5% and <10% - amber, >10% - red)	Number of recoveries*	Recovery rate (>50% - green, >25% and <50% - amber, <25% - red)
China	84,146	Not reported	-	4,638	5.51%	79,389	94.35%
US	1,790,191	17,672,567	10.13%	104,383	5.83%	615,066	34.36%
Brazil	514,849	930,013	55.36%	29,314	5.69%	206,555	40.12%
Russia	405,843	10,643,124	3.81%	4,693	1.16%	171,883	42.35%
UK	276,156	4,285,738	6.44%	38,571	13.97%	1,190	0.43%
Spain	239,479	4,063,843	5.89%	27,127	11.33%	150,376	62.79%
Italy	232,997	3,878,739	6.01%	33,415	14.34%	157,505	67.60%
India	**190,622**	**3,837,207**	**4.97%**	**5,408**	**2.84%**	**91,855**	**48.19%**
France	189,009	1,384,633	13.65%	28,805	15.24%	68,473	36.23%
Sweden	37,542	238,800	15.72%	4,395	11.71%	4,971	13.24%

Source: * https://www.worldometers.info/coronavirus/

https://coronavirus.jhu.edu/map.html

The COVID-19 crisis has not only given rise to immediate challenges but also raised a lot of long tail questions for the insurance industry. The industry deals with the possibility of claims on a policy being made for the next seven years in the case of some risks. For some products like health, which are lifelong renewable, additional attention has to be paid to portfolio ageing. For long-term contracts in life and pension, the sustainability of investment returns and margins will have to be recalibrated. Finally, the future of doing the business has to be relooked at.

While the insurance industry has to plan for long-term consequences, immediate focus should be concentrated on the following aspects:

Six actions to consider

Business continuity plan

Review/update your contingency plans in light of COVID-19 and stress-test them to ensure resilience against further (non-COVID-19) shocks. Insurance catastrophe treatment deals with 'one in (x) 100-year' events which have to be considered as more frequent than expected. Business continuity in the light of natural disasters, environment issues and geopolitical crises, and the stability (or instability) of global regulations must be considered and planned for. The industry which is supposed to help other industries and people cannot ignore risks to its own existence and must plan for disturbances which may be frequent in the future.

Employee safety and well-being

Traditionally, insurance businesses have been employee centric and have had large employee bases, not to mention large agency forces for life insurance. Despite the move to digital, a vast majority of the business is still done face-to-face, or through one-on-one communication. In times like this, companies have to ensure employees have the right equipment and access to required data/applications to work from home (WFH) safely and feel supported.

Crisis management task force

Companies need to install a cross-functional task force to monitor the evolving COVID-19 situation, draft response plans, and communicate consistently and frequently with employees and customers – not just during the lockdown but also in the period after they return to office and physical operations in a controlled manner.

Capital and cash

Periodically, one should perform updated stochastic stress tests on financial projections and capital needs to ensure financial resilience. The cash flows may reduce due to non-payment of premiums or delayed renewals. This can also be caused by collapse of underlying business like motor line of business. Decreased yield from the investment portfolio has to be monitored carefully as interest rates fall from governmental actions to ease business.

Stakeholder communication

There would be a need to consistently and frequently communicate with the regulator, customers, partners, agents, brokers, shareholders, etc., to build confidence that the situation is under control and that suitable measures have been taken to ensure proper continuity of service. The regulator would also need reassurance of continuity of business.

IT infrastructure stability and cyber security

Companies must ensure that their IT infrastructure can accommodate the required bandwidth for remote access and that the cyber security set-up is up to standard. Heightened risk of cyberthreats, especially for insurance companies, is a natural concomitant of crises like this. PwC's threat intelligence research[1] has uncovered a mixture of espionage and cybercrime activity from a variety of threat actors capitalising on the COVID-19 situation:

- Cybercriminals and espionage threat actors have begun using COVID-19 based phishing lures as part of their efforts to infect victims with malware and gain access to their infrastructure.
- At a time when people are more likely to be susceptible to social engineering techniques, lures and malicious apps are copying legitimate content to enhance their authenticity.

1 https://www.pwc.com/jg/en/issues/covid-19/covid-19-cyber-security-uk.pdf

Impact on the health insurance industry

India has traditionally been an underinsured country, with private health insurance schemes covering only 18% of the population in urban areas and a little over 14% in rural areas.[2] Although the gap has been bridged somewhat by Ayushman Bharat, which has attempted to insure the poor and vulnerable, most of India continues to be underinsured when it comes to health.

Due to the widespread COVID-19 pandemic, health insurance companies are facing various challenges and are foreseeing an impact in the following areas.

1. Claim payout and liquidity

In order to dispel any general misconceptions about the applicability of health insurance policies to cases of COVID-19, the **IRDAI** has instructed insurers[3] to accept COVID-19 related claims under active health insurance policies. Since the risk of COVID-19 is not currently priced under active products, these claims may cause an additional burden on the books of insurers if treated outside Government hospitals.

- Community transfer in the future could lead to an afflicted population across social and economic classes and result in claims running up to a few crores. However, with a new premium base of INR 51,637 crore this financial year,[4] health insurance companies would see a marginal impact on their overall balance sheet. With most of the costs being incurred in Government hospitals, the severity is lower for private hospitals, which are more expensive, and is not anticipated to be significant.
- Moreover, only 14–16% of India has health insurance. (The hospital industry in India stood at INR 4 lakh crore (USD 61.79 billion) in FY17 and is expected to reach INR 8,60,000 crore (USD 132.84 billion) by FY22. Only approximately 80% of the premiums worth INR 51,637 crore are paid out by the insurance industry as claims.)[5]
- Because the traveller base is more prosperous than the national average and therefore more likely to contract CoVID-19, the disease is expected to spread through social transmission, which will affect this segment less. Claims are likely to be therefore not significant enough to trigger pandemic covers that may have been purchased from reinsurers immediately. Long-term developments have to be watched very carefully.
- A nationwide pandemic can result in a significant increase in claims (both incurred but not reported [IBNR] and incurred but not enough reported [IBNER]) for health insurance companies beyond just COVID-19. **Some studies have shown that COVID-19 affects those with co-morbidities such as diabetes, renal and other chronic diseases adversely,[6] and hence prolonging of such co-morbidities can result in a longer trail of non-Covid-19 chronic claims for an extended period beyond COVID-19.**

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2 https://www.ibef.org/download/insurance-jan-2019.pdf

3 Circular Ref. No.IRDAI/HLT/REG/CIR/054/03/2020

4 Public disclosures of financial year results of insurance companies (www.gicouncil.com)

5 https://www.ibef.org/industry/healthcare-presentation

6 European Respiratory Journal. Retrieved from https://erj.ersjournals.com/content/early/2020/03/17/13993003.00547-2020

Source for

- However, this can be partially or fully offset by delays or cancellation of non-emergency procedures which also tend to be large attritional claims and hence, the overall effect on the claims ratios may not be significant in the short term, but can catch up once things return to normal.
- Currently, health insurance companies have adequate capital available, which, coupled with reinsurance, would provide a sufficient cushion to the insurer to pay out claims arising from COVID-19. Overall, the impact on the health insurance companies would be dependent on the company's risk mitigation plan. If the pandemic continues for a prolonged period, it will fall under the severe natural catastrophe category, and unless proper risk transfers are worked out with equitable reinsurance schemes, it will be difficult for health insurers with limited capital to manage claims.
- A study by the Institute of Actuaries of India (IAI) has modelled the escalation of cases in India. The range of infected cases modelled as on June 30 from the lockdown cease case to the worst case scenario is from 5,21,108 to 11,08,511. If this scenario pans out, it would put stress on hospitals as well as health insurance claims, both in terms of dispensation and amount.[7] In this case, the industry, which is at a base of INR 51,637 crore, would see an increase of 8–15 percentage points in its claims ratio, which can hurt the portfolios considerably without pandemic reinsurance cover.
- The Ayushman Bharat scheme may see a greater number of claims compared to private health insurance companies due to widespread coverage. This scheme may not have factored in the cost of setting up isolation wards. Given that isolation of hospitalised patients is crucial to prevent further community spread, this cost will create an additional burden which has to be borne by the Government. Many insurers are running the scheme with a PPP arrangement with the Government and they will have to recalibrate their financials.

In view of the country-wide business disruption owing to the pandemic, the IRDAI has advised insurance companies to extend the grace or delay period by 30 days in case of policy lapse or renewal.[8] This might pose some immediate liquidity challenges for insurance companies.

2. Product development

In the wake of the pandemic, there has been greater concern and awareness about health, and enquiries about health insurance policies have increased by 30–40%.[9] The pandemic also provides an opportunity for insurance companies to innovate and serve the evolving needs of a more informed population. Several insurance companies have launched COVID-19 insurance products in March 2020. Other companies may follow suit and introduce such products. These products tend to be short term and carry fixed benefits, covering a fixed amount in excess of the hospitalisation schemes. The IRDA Sandbox has been useful at this time as many companies had filed and obtained approvals for risk cover in special situations.

A few product considerations for health insurance companies are discussed below:

a) Since details around COVID-19 treatment and prognosis are still emerging, insurance companies do not have data related to patient profiles, morbidity rates, cost of treatment, etc. This data is required to underwrite the risk and determine the premium for products specifically targeting this disease. Companies are consequently at risk of under- or overpricing their products.

b) Based on the emerging experience of COVID-19 claims, insurance companies will need to test the hypothesis of state-wise or district-wise possibility of escalation of claims. Working with the healthcare system, the patterns can then be used to make sure customer service is effective and also perform future pricing analytics as insurers already resort to geo-based pricing in health insurance.

7 IAI report. Retrieved from http://www.actuariesindia.org/downloads/Analysis%20by%20IAI%20Pandemic%20Research%20Group.pdf

8 IRDAI press release dated 23-03-2020

9 https://economictimes.indiatimes.com/industry/banking/finance/insure/coronavirus-impact-insurers-see-marked-jump-in-inquiries-for-health-policies/articleshow/74485296.cms?from=mdr

c) Based on clinical research and in conjunction with the healthcare and pharma industries, insurance companies should calculate the possibility of a long trail of chronic disease escalation which may require health insurers to reprice their existing hospitalisation products. As of now, insufficient data may hinder such research but collaboration between insurers and their actuaries and healthcare professionals and institutions can create models which had not been attempted until now.

d) There is a clear opportunity for insurance companies to partner with their corporate customers for employee benefits to be fortified with healthcare activities in order to increase the health quotient as well as improve the possibility of weathering the COVID-19 situation better. As a result, the value of policies will be increased, and claims will tend to go down with an increased level of awareness of the situation as well as chronic diseases and co-morbidities. Many corporate customers of employee health insurance are investing separately in such activities. Insurance companies can use this opportunity to increase client stickiness as well as improve their portfolio and retention ratios.

3. Reserves requirement

Due to the pandemic, the Government has taken actions towards reducing bond interest and repo rates, which will lead to challenges for insurers in terms maintaining higher reserves (higher for a life insurer compared to a health insurer), liquidity risk, credit risk, etc. In view of these challenges, the regulator may have to provide some temporary relaxation on the reserving requirement for insurers who were very close to the margin of solvency.

The following are a few considerations related to the fiscal status of health insurance companies:

a) If COVID-19 has an impact on the profitability of insurance companies due to an increase in claims and policy liabilities, etc., resulting in a lower tax liability, then that could affect their ability to declare dividends to shareholders. Where insurance companies choose to claim a deduction for dividends received under the proposed section 80M of the Income-tax Act, 1961, their inability to in turn declare dividends to their shareholders could constrain the quantum of deduction that the insurance companies may be able to claim in their income-tax returns. This could result in higher tax leakages for insurance companies.

b) Since the level of regulations for both policyholder protection as well as solvency and governance of insurance companies is very stringent, no governance failure or structural difficulties are anticipated in the industry as yet.

c) The profits of the health insurance industry in the long term are dependent on portfolio profitability. This can be impacted in both ways.

d) As of March 2019, life insurance companies held about 66.73% of their portfolio in government securities, whereas general insurance companies (including health insurers) held 41.58% of their investments in government securities. Though the Indian bond rates have been on a downward trajectory for the last one year, in the last one month, the decline in the rates has accelerated. From September 2019, the bond rates decreased from 6.78% to 6.38% until February 2020 – a decrease of 40 basis points over 5 months. However, from end of February 2020 until 16 March 2020, the bond rates declined by 18 basis points to 6.20% in about a fortnight.[10] A par yield semi-annual interest paying bond as at September 2019 with a 10-year maturity will have a change in price by 4%, out of which the change attributable for the first fortnight of March 2020 would be approximately 1.2%. The insurance industry holds an investment of INR 22,138 billion in government securities.[11] While the accounting standards require the long-term investments to be held at cost, they also mandate recognition of provisional loss for a long-term diminution in the value. With the impact of COVID-19, the markets may continue to remain volatile, leading to a reduction in value in the long term. Sustained volatility would compel the insurance companies to mark down the long-term investments on their balance sheet.

e) The collapsing bond rates would have a cascading effect on the business of insurers, exposing them to reinvestment risk in the long term. However, in the short run, this could result in a realised deviation from projection as insurers may have to liquidate these investments to manage cash flow if claim liabilities increase. For investments insurers continue to hold, fluctuating bond prices may require recognition of change in provisions.

10 Source: https://www.bloomberg.com/quote/GTINR10Y:GOV

11 IRDAI Annual Report 2018-19 (pp. 44–45) https://www.irdai.gov.in/admincms/cms/uploadedfiles/annual%20reports/IRDAI%20English%20Annual%20Report%202018-19.pdf

Many companies will also have to consider the potential impairment of other assets. The accounting standards require that all non-financial assets be tested for impairment whenever there is a likelihood of them being impaired. Temporarily ceasing operations or suffering an immediate decline in demand or prices and profitability are events that indicate impairment.

The COVID-19 pandemic is challenging for the health insurance industry on various fronts; at the same time, it represents an opportunity. Health insurance is expected to cushion the blow that this pandemic will deal. While being extremely relevant to society, using appropriate mitigation strategies, insurance companies may be able to support it further though product development activities and ensuring their reach is extensive.

Impact on the general insurance industry

General insurance, or property and casualty insurance, protects the GDP of a country by providing a cover to assets and businesses, including liabilities and future unearned profits, against natural disasters and accidental damage.

The current crisis is already emerging as the single largest global insurance event, surpassing years when three or more large cyclones occurred and the financial crisis of 2008. Prior to this, the largest ever loss in a single year was in 2017, which saw an economic loss of USD 337 billion of and an insured loss of USD 144 billion[12] caused by hurricanes Harvey, Irma and Maria and wildfires.

Attempts are being made to assess the potential damage this crisis could cause in the world at large and the insured risks and claims payable. As per an estimate by the Lloyd's insurance and reinsurance marketplace, which estimates the global claims payout to be in the range of USD 107 billion in 2020 alone, with a caveat that it might increase in case the global lockdowns extend to the third quarter. Moreover, due to the fall in investment returns, Lloyd's also estimates a fall in investment reserves to be in the range of USD 96 billion.[13]

For India, where insurance penetration is very low, general insurance typically covers all organised industrial activity and workers in the organised sector. However, in the last few years, a lot of people and assets from the unorganised sector have come into the net over the last few years.

This is a fundamental financial mechanism for a country and the growth and penetration of this industry are key to the development of the economy of a country. After liberalisation, the industry has grown manifold and is now a rich conglomeration of 34 companies, including specialised health and agricultural companies. For the continued growth and support of the economy, it is essential that the general insurance sector remains vibrant.

Since a large proportion of this sector is dependent on industries and businesses such as automobile, travel, hotels, infrastructure, construction and manufacturing, challenges in these sectors create additional issues for the general insurance industry.

The COVID-19 crisis therefore presents several challenges to these insurers – internal (financial and return oriented) as well as external ones.

Motor insurance: The entire automobile sector was already facing a dip in 2019–2020. New automobile purchases constitute a major portion of the premiums, and hence the lockdown and virtual stoppage of business may aggravate the situation. Challenges faced by the motor insurance industry would include:

- Lack of purchase of new vehicles is one of the biggest challenges. Normally, that would be compensated for by increasing the coverage net of existing vehicles, a vast majority of which fall out of the insurance net by the third and fourth years. But that would be difficult to do given the lack of distribution feet on street.
- Claim surveying will be impacted by the lockdown as surveyors will not be able to go out to survey vehicular damage, either at all or on time. Since surveying above a certain projected claim value (INR 50,000 earlier, which has been now raised to INR 75,000) is to be done by independent surveyors, their unavailability during the lockdown is going to be a problem.
- However, since the lockdown started, very few vehicles have been plying. Hence, very few accidents are expected, resulting in very low claims on existing policies.
- Hence, a short-term profit is expected to be seen in the portfolio since the lockdown started in March 2020, and the year-end figures are expected to show a dip in claims due to reduction of vehicular movement in the last fortnight of March 2020.

12 https://www.swissre.com/media/news-releases/2018/nr20180410_sigma_global_insured_loses_highest_ever.html

13 https://www.reinsurancene.ws/lloyds-forecasts-107bn-covid-19-industry-loss-for-2020/

- Long-term persistence of social distancing can mean two things:
  - More private vehicles will be on the road than normal as public transport will be avoided by those who can afford it, which may result in higher claims subsequently.
  - Purchase of more two-wheelers and used cars or low-end cars due to migration of traffic based on perceived low risk of infection, thereby increasing business.
- Spare parts dealers and motor industry ancillaries will find it difficult to cope with the lockdown and may run short of manpower. This can lower service standards – something which insurance companies need to watch out for.
- Even motor manufacturers may find it difficult to regain earlier manufacturing capacity quickly due to either lack of workers or other logistical difficulties. This may result in shortage of spare parts and servicing capabilities at their garages, again impacting service standards for insurance companies' customers.
- Commercial passenger carrying vehicles may see lower demand from commuters if fears around the spread of the virus persist, leading to low usage. There is a possibility of vehicle owners considering their own damage insurance as a luxury and retaining only third-party insurance. Even multiple-year third-party insurance may see drop-offs despite being compulsory.
- In India, many old models of vehicles are still on the roads. These, unused for 60–90 days, may see maintenance issues and problems when they get out on the road. There is a possibility of an increase in incidents and, therefore, increase in claims. Insurers have to be alert to these developments and may re-evaluate the continuation of cover certificates in consultation with the regulator.

Property insurance: Protecting property, both commercial and residential, is one of the prime objectives of this type of insurance, and many other covers are also linked to this. In India, we normally see people taking a standard fire and special perils (SFSP) policy which covers natural disasters like fire, earthquake and flood, etc. However, pandemic covers have to be taken separately (which very few customer opt for) and business interruption is also normally triggered by risk of damage to property only.

Commercial property may not see too many fire claims, but they may be hit by the 30-day non-occupation clause. This clause is likely to become a source of dispute in terms of whether this absence should be overlooked by insurer or not.

While the vast majority of homes in India are under or uninsured, for those which are insured and vacated due to the lockdown as people have moved elsewhere, the 30-day non-occupation clause for voiding of claims in a normal home insurance may come into force in case of claims.

In case of fire claims from residential properties, evacuation during the lockdown may be a problem as hotels and other places may be non-operational, leading to issues in policies where that is covered. Disputes on depreciation and reconstruction value vs market value of property can also increase in troubled times.

Burglary insurance: There is likely to be a rise in demand for unoccupied commercial property insurance. Moreover, the 30-day non-occupation clause may cause disputes:

> **"Under any of the following circumstances the insurance ceases to attach as regards the property affected unless the Insured, before the occurrence of any loss or damage, obtains the sanction of the Company signified by endorsement upon the policy by or on behalf of the Company :-**
>
> **b) If the building insured or containing the insured property becomes unoccupied and so remains for a period of more than 30 days (Not applicable for Dwellings)."[14]**

However, in view of the current COVID-19 situation, the general insurance industry has agreed and decided to provide a one-time relaxation to all policyholders whose property was unoccupied on or after 25 March 2020 until 3 May 2020. Properties of such policyholders shall be deemed to be covered subject to the policy being in force. All other terms and conditions of the policy remain unaltered.

This entire section of Insurance should be relooked at and clauses redefined and modernized for contemporary circumstances. Locks and Security equipment have improved, and surveillance equipment revolutionized. However, policy wordings are unchanged for decades.

Professional indemnity: Liability for non-completion of duties on time may be seen and therefore, the force majeure clause can become a bone of contention.

Given that insurance penetration in India is low, with the rise of the service economy, India should have far more professional services covered through insurance for liability. Liability insurance is currently more likely to be taken by large corporations, and hence, retailisation of that is necessary for both insurance penetration and development of professional services with global standards.

Business interruption insurance: Most businesses have been interrupted due to the pandemic, while only property damage triggers business interruption (BI) and advance loss of profit (ALOP), and hence, disputes and debates over interpretations are expected.

This entire period will serve as a learning period for the insurance and reinsurance community and a complete revamp of business interruption packages with suitable protections against non-physical damage will need to be innovated – not necessarily for the pandemic but for a host of other issues which can create interruption and loss of profits separate from the SFSP policies. However, robust reinsurance support is required for these.

Personal accident insurance: Low claims are expected due to lack of activity and movement, and also lower renewal of policies. This is a category where penetration is clearly very low and insurance companies would do well to concentrate and try to increase business here as it is not dependent on underlying economic activity.

Marine cargo insurance: Only essential items are being transported under the lockdown. Normally, marine cargo insurance for fleets operates as a master policy and each trip triggers a policy – so with much less cargo movement by road, rail or air, the entire marine insurance industry should see a temporary downturn. However, accidents are less likely to happen and therefore, lower claims are expected. Chances of overloading of vehicles persist as fewer vehicles may ply because of a lower number of drivers. Hence, insurers have to be alert about misuse.

Agricultural insurance: Over the last few years, agricultural insurance has seen significant traction after this segment was opened up by the Government. It now accounts for 20% of the entire industry, but while a significant component, it is a seasonal one.

The kharif season is next, and hence, if normal business resumes by that time, there will be minimal impact. If logistical constraints and issues continue, then the entire agriculture sector, though underinsured, may see an impact. Agriculture in India is labour intensive, and hence in case of reverse migration of daily wage labourers, there may be challenges with harvesting and logistics. However, disputes may arise, and multiple losses due to wastage of crops on account of transportation cannot be ruled out.

14 http://www.gicouncil.in/gi-council-initiatives/continuity-of-policies/

Impact on the life insurance industry

The life insurance industry normally deals with pure risk term policies, investment-linked policies, and savings policies with guaranteed/semi guaranteed long-term returns. There will be impact across the board, but the reasons will be different for each category.

Term insurance: With any crisis, there is a rush to increase one's cover. Pure life covers should see renewed interest, and since that is largely an online market, it should see a boost in demand. However, with people's cash position being unstable, there may be reluctance to take a higher cover.

Also, higher covers bring in medical tests, which people will be reluctant to do. Hence, a temporary slump in sales activity is anticipated.

Long-term savings insurance: Long-term guarantees will look attractive, but insurers will face constraints in continuing to marketing these products as interest rates plummet.

Moreover, people may also start valuing liquidity and hence, there could be stress on long-term pension products. Commutation may go up, and the overall propensity for these long term products may decline.

Investment-linked insurance: Consumer confidence in the stock market will be badly hit and hence, only a few savvy customers who believe in buying at the bottom will start new policies now. Existing customers would be well advised to stay put and not try to redeem prematurely as the SIP rupee cost averaging is going to help them.

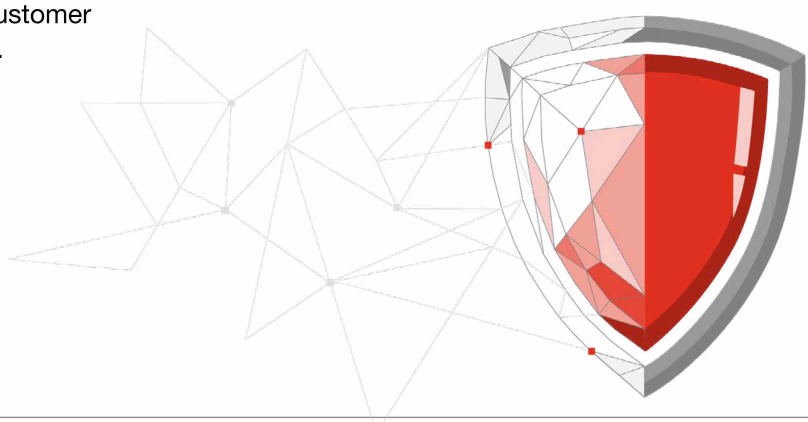
Overall, the heightened interest in insurance will be difficult to convert to actual sales, unless the industry moves to online fulfilment in a big way, with analytics-led customer segmentation and selective medical underwriting.

The study by the IAI has modelled the escalation of deaths in the country. The range of deaths modelled as on 30 June from the lockdown cease case to the worst case scenario is from 20,346 to 37,587, with 11,604 as the best estimate.[15] This would definitely put stress on the life insurance claims, both in terms of dispensation and amount.

Timing: Sales of life insurance have been hit at a time when they are most remunerative – the year end in March. Since the highest share of policies is still sold face to face, either by agents or by bancassurance executives, social distancing norms and further apprehensions are an obstacle which the industry has to conquer in the coming months.

Simple digital solutions to buy and sell may not bridge the gap, as the consultative sales process is iterative and complex. Many illustrations have to be offered to a customer normally, and the in-person interaction would have to be substituted by an equally powerful digital process which simulates social proximity and helps the seller to gain the trust of the buyer.

The buyer-seller trust deficit has to be bridged now, and insurers have to understand the behavioural economics of this and also the transaction EQ which finally results in a complex long-term financial decision that goes beyond life.



15 IAI report. Retrieved from http://www.actuariesindia.org/downloads/Analysis%20by%20IAI%20Pandemic%20Research%20Group.pdf

Cyber security in insurance

Background

The COVID-19 outbreak has had an immediate effect on organisations, changing the ways their employees work and making them vulnerable to new cyber risks.

Many organisations and employees need to rethink their ways of working in light of considerable operational and financial challenges. Without appropriate measures, the risk of cyber security attacks could increase fundamentally.

As organisations become more technology dependent than ever, both the likelihood and impact of cyberattacks are increasing and cyber security is being neglected. Moreover, the nature of cyberthreats is changing, as attackers exploit uncertainty, unprecedented situations, and rapid IT and organisational change.

What immediate business impact could organisations face as a result of COVID-19?

Maintaining business operations will be prioritised in a culture of crisis

Priorities will shift as many organisations prepare for, or experience, significant financial and operational challenges. Due to budget cuts, IT and cyber security may end up being deprioritised, or at least their future may become uncertain and hiring may be frozen. As a result, planned security and IT improvement programmes could be affected and important activities could be delayed, including those that make organisations more resilient to cyberthreats.

Absence of workforce and decline in efficiency

As COVID-19's impact on society increases and infection rates rise, a higher share of the workforce is likely to be absent, especially as infections peak. The remaining workforce is likely to be less effective due to an increase in pressure and concerns about the situation.

Psychological stress and panic

Many employees are experiencing psychological stress due to lower engagement. The current crisis also poses the risk of many job profiles becoming redundant, resulting in rogue and disgruntled employees and increasing the risk of insider threats.

Rapid shift to remote working and need for technology

The shift to remote working at both scale and pace is likely to cause significant impact, changing both IT infrastructure requirements and the attack surface. This will cause significant pressure on security teams, who may be refocused to support general IT operations, or to rapidly modify processes and technologies to adapt to the changing risks.

As organisations move away from their physical premises, and become increasingly reliant on remote access technology, any disruption caused by cyber security attacks or IT outages will have a significantly greater operational impact. Furthermore, the usual manual or physical workarounds used to overcome these issues may be unavailable.

Greater dependence on online digital platforms for sales, renewal and servicing of policies

Insurance companies will depend on their online digital platforms for new business, renewal and servicing of polices. Hence, going forward, it would be imperative for organisations to ensure robust security and resilience for such digital platforms.

How could the COVID-19 crisis impact an organisation's cyber security risk?

Exponential rise in cyberattacks

Since the emergence of COVID-19 in December 2019, there has been a significant rise in COVID-19 themed cyberattacks on organisations. A major increase has been observed in newly registered COVID-related domains. Cybercriminals are using these domains to run social engineering campaigns (phishing, spear phishing, etc.) to distribute malware, including Trojans and ransomware. Domain registration per day reached a peak of more than 700 domains in the month of February.[16]

Cybercriminals are exploiting the current situation to lure users to open attachments or click on malicious links. For example, fraudsters are pretending to be officers of insurance companies and reaching out to customers to offer them an extension on the payment of insurance premiums. Using this modus operandi, fraudsters are requesting customers to share their OTP and credit/debit card details.

In some of cases, there is evidence of the involvement of nation-state actors. While the world is struggling to tackle the COVID-19 outbreak, attackers are busy targeting victims.

Reliance on remote access systems may make organisations more vulnerable if a distributed denial of service (DDoS) attacks was launched. Maintaining reliable remote access systems will become critical to business operations as employees work remotely. Remote access systems may be targeted by attackers with denial of service (DoS) attacks, seeking to disrupt business operations or to extort money.

16 Recorded Future flash report. (2020). Capitalizing on coronavirus panic, threat actors target victims worldwide. Retrieved from https://www.recordedfuture.com/coronavirus-panic-exploit/

Shift to remote working and prioritising business operations will bring immediate cyber security risks

Insurance is a resource-intensive sector. Given the inherent nature of the business, human intervention is required right from underwriting to policy maintenance and claims management. There is also a dependence on brokers, third parties (TPAs, valuators, etc.) and technology service providers.

Last-minute arrangements to accommodate the business need of accessing various critical systems from home is taking precedence over information security, and this is exposing critical systems and information to the outside world.

Initially, the spread of COVID-19 had not affected India significantly and most businesses were working as usual. However, conditions rapidly deteriorated and India registered a sudden surge in the number of COVID-19 cases. As a control measure, the Government of India and state governments imposed a nationwide lockdown. This sudden change in the situation has forced businesses to trigger their business continuity strategies in the form of WFH arrangements. While making such arrangements, most insurance companies are facing various risks and challenges:

- In most of the business continuity plans, a pandemic outbreak was one of the people outage scenarios which was never tested as a part of BCP testing activities.
- A lockdown situation on such a massive scale was never anticipated and hence, at the time of actual implementation, WFH arrangements were exposed on the technology and capacity front.
- Most of the staff use desktop computers in offices and branches. Enabling WFH was a major challenge for insurance companies. Some of them allowed employees to use their personal desktops and laptops. Some organisations shipped desktops to the residences of employees.
- Many organisations do not have officially approved collaboration tools. Employees of such organisations are using freely available collaboration tools for conducting remote meetings. These tools were found to have serious flaws and vulnerabilities, which could pose major security and privacy risks to organisations as well their employees.
- Dependence on remote access systems may make organisations more vulnerable if a DOS/ DDOS attack were launched.
- Employees have limited familiarity with technologies used to enable WFH arrangements and are thus are more susceptible to social engineering attacks.

Disruption in network and cyber security operations

Organisations may not effectively detect cyberattacks as security teams might be short-staffed or repurposed to support other activities, leaving security alerts un-investigated.

They may also not be able to effectively respond to and recover from cyber security attacks as key employees from security, IT suppliers, and the wider business may be unavailable to support decision-making and response efforts.

How insurance companies can mitigate these risks

Under the current situation, organisations should take three key actions:

01 Secure newly implemented remote working practices.

02 Ensure the continuity of critical security functions.

03 Counter opportunistic threats that may be looking to take advantage of the situation.

Secure newly implemented remote working practices

- Ensure remote access systems are configured and patched securely.
- Prevent use of unauthorised applications (e.g. file sharing, video conferencing and collaboration tools) and enforce use of business-approved secured solutions.
- Ensure on-premise controls still apply on systems (laptops, mobiles, etc.) when these systems are not connected to an organisation's internal network.
- Monitor usage of remote access systems and emails for any abnormal log-ins.
- Ensure appropriate controls to detect and prevent DOS attacks on remote access systems.
- Review tactical actions and retrospectively implement key security controls which may have been overlooked.

Ensure the continuity of critical security functions

- Identify and monitor critical cyber security activities to ensure continuity.
- Implement appropriate controls on internet-facing applications and services.
- Review access provided to privileged users and monitor their activities.
- Implement robust cyber incident monitoring, detection and respond capabilities.
- Implement remote asset management and tacking tools.

Counter opportunistic threats that may be looking to take advantage of the situation

- Conduct regular cyber security awareness campaigns for employees and customers.
- Provide specific guidance to employees and customers while dealing with email requests for personal or financial information or requests to transfer money.
- Implement appropriate technical controls to mitigate risk of phishing attacks.

How insurance companies offering cyber insurance should prepare themselves

Insurance companies offering cyber insurance policies should be prepared to deal with the current crisis situation as there is a higher possibility of cyber incidents and claims being reported by their customers.

Proactive measures

Companies need to take proactive steps to minimise the impact of cyber claims. Some of those measures could include:

- Run cyber security awareness campaigns for policyholders on a regular basis.
- Provide incident-response services to minimise the impact of cyber incidents so as to minimise the damage and therefore claim severity.
- Empanel cyber forensic professionals to investigate cyber incidents.

Fresh considerations for underwriting

Insurance companies should consider various factors while underwriting new policies or providing renewal quotes for existing policyholders:

- Assess possibility of cyberattacks due to WFH arrangements.
- Conduct more stringent checks on the cyber security posture, covering the prevention, detection and response mechanism.
- Assess the cyber protection of vendors and other cyber partners with whom there are exchanges of information.

Post-claim measures

Insurance companies have to review the risk posture after every incident and recalibrate:

- Run simulations for handling unforeseen risks.
- Participate in global knowledge forums (as cyber is essentially a global risk).
- Collaborate with each other for a risk database and sharing of information.

Key considerations for operations

There has been a surge in queries related to claims, product features and servicing since the COVID-19 crisis, and insurance companies are addressing them without adequate workforce in their offices. This has resulted in most insurers trying to deal with multiple queries using innovative measures such as chatbots and proactive audio and video messages.

Cost of operations

While digital and paperless modes of operations are supposed to save costs in the long term, there could be a short-term surge in costs for insurers due to a sudden surge in digital operations.

However, more than 15 insurance companies have already set up back offices which are located at a significant distance from their places of business and have transitioned to remote operations. The technology to operate remotely exists, but the increase in the sheer scale of operations and the complexity of enabling remote working for the workforce could prove to be costly in the first few months of the crisis. Once the conditions stabilise, remote operations are expected to reduce costs steadily.

However, if the current situation stabilises soon, it may not be possible for insurers to reverse their decision and quickly return to earlier modes of operations. They are likely to selectively continue working from home and stick to digital modes of operation in new normal.

Expenditure in the following areas could lead to an increase in costs:

- adequate IT support – laptops, modems, bandwidth and security
- cost of change – different standard operating procedures (SOPs), adjusting time and therefore response time
- compliance with various regulations
- managing difficult field tasks like conducting medical tests and surveying
- any cost of reversal.

Most insurers would look to adopt innovative ideas to manage their functions remotely. Most insurance companies may see a significant drop in travelling and rental costs as WFH becomes widespread and fungibility of skills would be available across the industry. We may never see a revert of the earlier common operations across the industry.

Sales and distribution

The COVID-19 crisis has posed significant challenges to business as usual. But it also presents the insurance industry with many opportunities to reimagine its business operations. The most critical of such opportunities would be to constantly access, convert, engage and serve customers. Some imperatives shaping up in the area of customer service are:

Conventional distribution to go fully digital

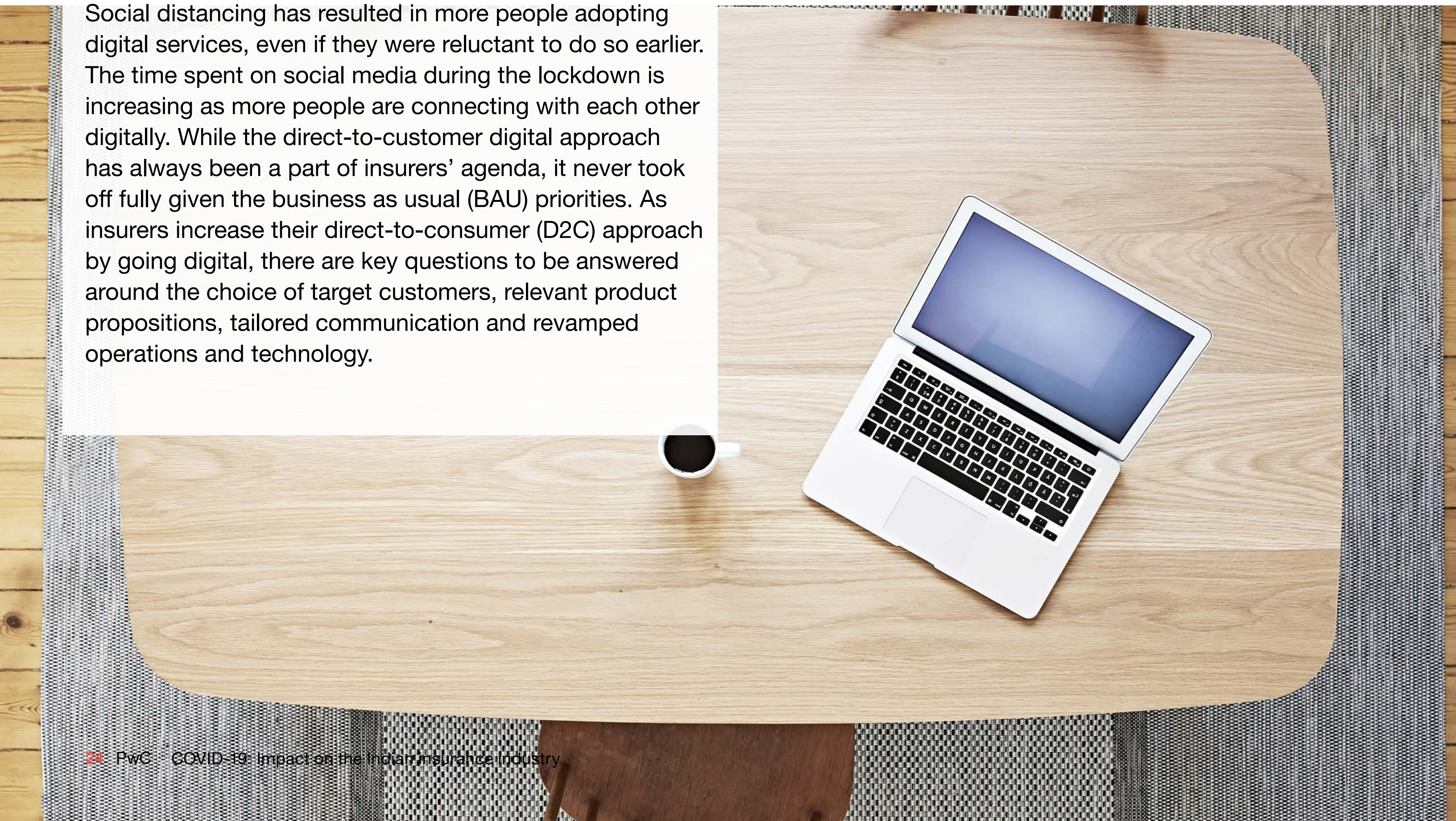
Insurance workers are finding it difficult to approach potential customers and sell them products/services. While non-life insurance is likely to be more adversely hit in the short term, there are strong indications for life insurance to be affected as well, given the inherent complexity in product propositions and long gestation required for acquiring customers. There is an immediate need to simplify propositions and fully adopt digital methods in business-to-business-consumer (B2B2C) channels in both life and non-life insurance businesses.

Accelerate digital do it yourself (DIY)

The COVID-19 crisis has significantly enabled consumers across segments to adopt digital methods of transactions. Social distancing has resulted in more people adopting digital services, even if they were reluctant to do so earlier. The time spent on social media during the lockdown is increasing as more people are connecting with each other digitally. While the direct-to-customer digital approach has always been a part of insurers' agenda, it never took off fully given the business as usual (BAU) priorities. As insurers increase their direct-to-consumer (D2C) approach by going digital, there are key questions to be answered around the choice of target customers, relevant product propositions, tailored communication and revamped operations and technology.

Rejig operating models and engagement

As the insurance sector continues settling claims despite the lockdown, servicing and constant customer communication are posing challenges. The old operating structure needs a rejig and the sector should push for a digital approach to stay in constant touch with customers to serve them in difficult times and make sure that they can depend on insurers for financial protection. With empowering guidance by the regulator and innovative mechanisms such as sandbox and customer campaigns, constant communication shall not be a hindrance anymore. The insurance community needs to consider the ongoing crisis as an opportunity to get closer to and be relevant for its customers.



In an industry which is still largely dependent on face-to-face interactions, the impact of the lockdown would be significant for all insurers in the short term.

However, it is also expected that the COVID-19 outbreak would generate more awareness around the basic need for insurance. Every insurer could see growth both in persistency/retention and new business for health, life, accident and critical illness insurance for at least the next two years.

A shift in the sector's business model is also expected. Most insurance companies have given out handheld devices with a sales application that provides illustrations on the fly for life insurance and all kinds of need analysis for other types of insurance as well. However, such a method presupposes close interaction between the agent and the customer. That may change when customers become more distant and move to other methods such as company websites, web aggregator comparisons, online broker sites with tele advice or distant advice from the agents while going through an analysis of their needs through a shared app.

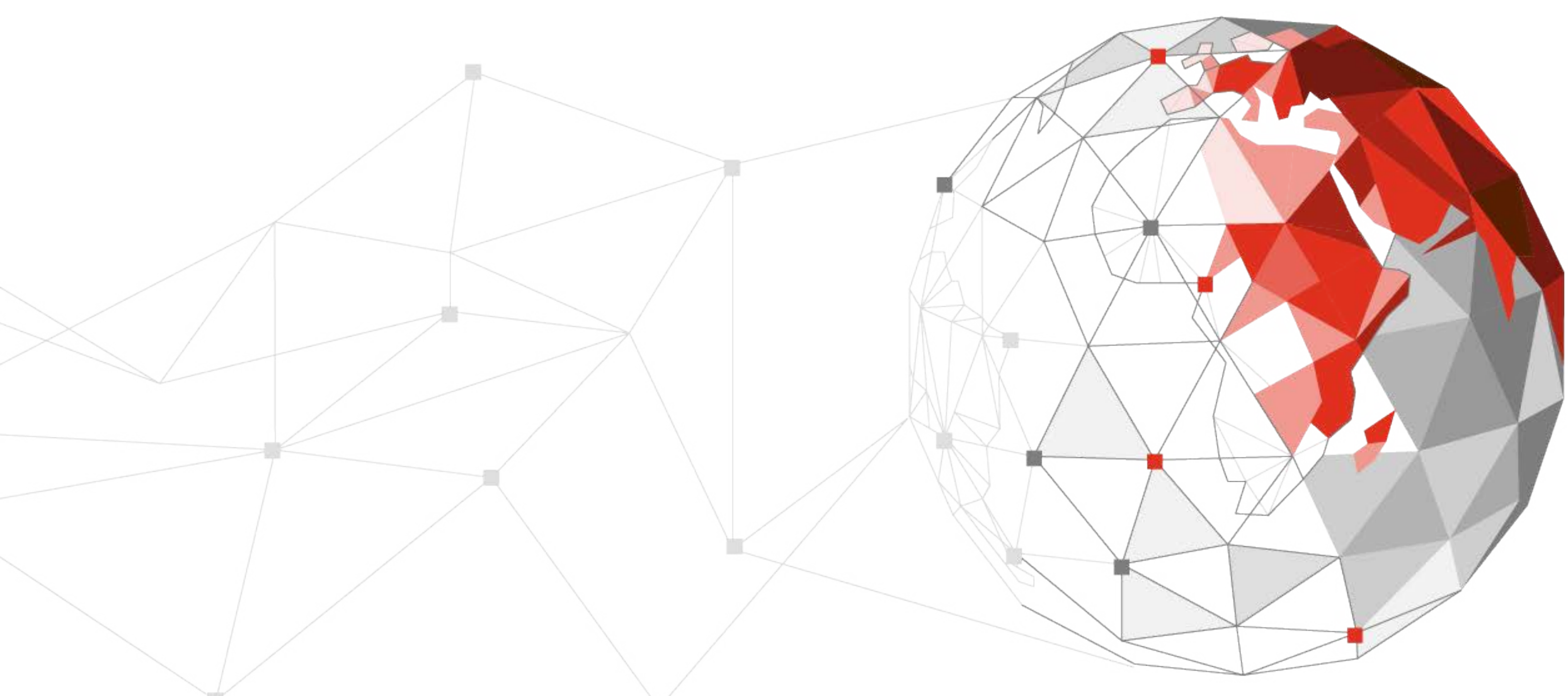
Creativity to tap into the new mindset as well as the need to increase business will bring about new modes of sales. Remote assistance, chatbots, digital usage of image and voice for underwriting and identification of sales and post-sales services are expected to thrive.

Regulatory support will be required to convert all processes to 100% digital without requiring paper and a wet signature. Also, policy delivery should be facilitated through electronic means, thereby completely dematerialising policy documents.

Underwriting limits may have to be relooked at considering that people could be temporarily reluctant to go for medical tests post the COVID-19 crisis. Hence, surrogate tools have to be used for ascertaining health conditions as well as risk processes to eliminate fraud and misrepresentation.

Reservations about digitisation are likely to subside once insurers adopt digitisation on a larger scale. However, adoption of and engagement with digital tools will need active effort, or else they will become less effective and productivity will suffer in the short and medium term. Use of behavioural economic tools and strategies will help insurers in the further adoption of digital methods.

The main challenge will be to mimic human processes through technology so that the trust on both consultative processes and transparent information easily digestible by buyers is maintained. The focus on trust building and smooth transactions will be paramount.



Key considerations for customer service

While the COVID-19 outbreak poses challenges for health insurers, it also gives them an opportunity to come out stronger and re-establish their purpose, value and contribution to the society. Customer service has always been a key pillar on which the effectiveness, trustworthiness and goodwill of a health insurer depend significantly.

Indian insurers should consider performing targeted activities to protect community interest and build more trust in the society. Some of the activities that might help attain a superior customer experience include:

- immediately offering to enrol more people under health schemes to cover COVID-19
- offering more coverage and fast-track services to those who are occupationally more exposed to the threat of COVID-19
- relaxing out-of-network, network and preferred provider restrictions for hospitalisation
- extending claim filing periods
- easing out preauthorisation and certification rules
- deferring rate increases, premium payments, renewals and cancellations
- waiving co-payment obligations
- developing a transparent communication process for all customers to intimate them about any changes in policies and operating procedures
- establishing hotlines, dedicated websites, recorded messages or other methods of communication with healthcare providers, hospital associations, employer/ purchasers, clients, customers, vendors and suppliers
- automating the first level of customer service through bots to manage the problem of temporarily reduced workforce.

Health services providers are at the forefront of battling COVID-19 as the pandemic continues to spread worldwide. It has already started impacting businesses. in the country, and an increasing number of COVID-19 cases would mean a surge in health claims due to the widespread nature of the disease.

The share of stand-alone health insurers in health insurance premium went up from 21% in FY17–18 to 24% in FY18–19, and health insurance has been the fastest growing segment in the sector. Though a large proportion of the country remains underinsured, the situation is vastly different from what it was ten years ago.

Claims processing

COVID-19 crisis has changed the way business operations are going to be conducted. The crisis has reiterated the importance of businesses being future-ready so that they can continue to be functional without any interruption even during complete lockdowns, thus minimising their dependencies on physical infrastructure – a trend that is prevalent in the insurance sector.

A complete switch to digital operations via robust IT platforms accessible to all stakeholders looks inevitable.

A very important aspect of insurance claims processing is the handling of paper, which largely originates from hospitals and mortuaries.

Paperwork in insurance business related to underwriting and claim processing should be replaced with complete digitisation, with all processing methods with authentication available through the internet. This would therefore:

- prevent the spread of infections like COVID-19 as digitisation ensures nil physical contact
- prevent delays/issues in physical paper transmission from the client to the intermediary to the insurance company, as well as storage and retrieval
- improve the transparency of actions taken while underwriting and claim adjudication
- allow seamless exchange of information between the client, intermediary, insurance companies and various departments within insurance companies
- allow 24x7 servicing by designated employees through the comfort of their homes on internet/web apps
- lessen administrative costs towards building and maintaining physical infrastructure like offices.

As they offer non-tangible products/services, insurance companies have the advantage of conducting their business of underwriting and claim adjudication virtually with minimum or no physical infrastructure, except for service delivery at hospitals and/or garages, etc.

Workforce considerations

Immediate/short term

Impact on compensation: Like most other sectors, businesses in the insurance sector will also go through the difficulties of managing cash flows in the short term and will need to deliberate on the quantum of incentives/ bonuses/increments are to be rolled out, or whether they will be deferred.

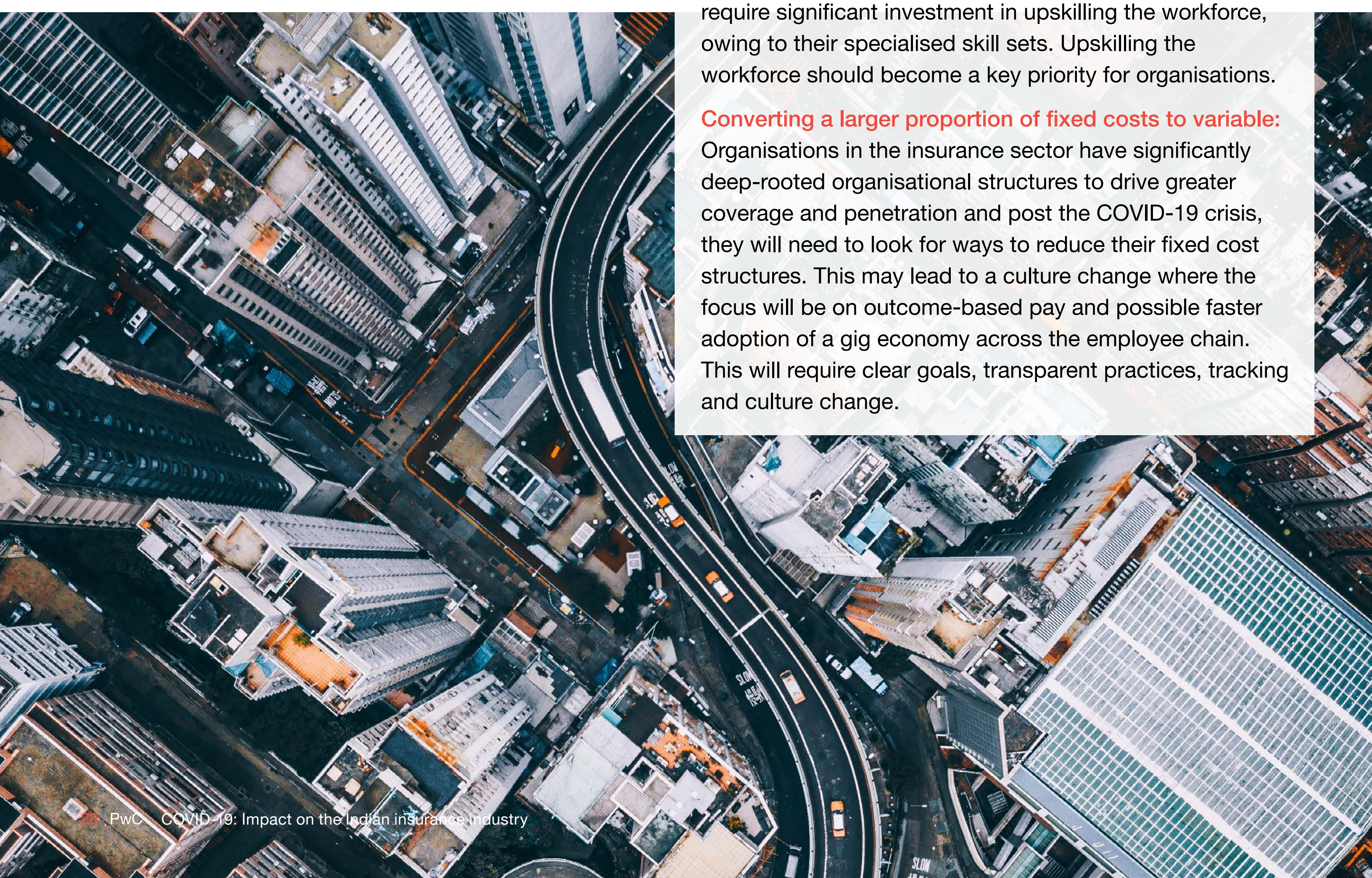
Employee engagement and productivity: There will be significant uncertainties related to job security among the workforce, leading to lower morale and engagement levels. This may have a direct impact on the productivity of the workforce. Organisations would need to design creative ways to keep their workforce engaged within budgetary constraints. Activation and renewals would be even more strongly focused upon as critical metrics for the frontline sales forces of organisations.

Mid term

Enhanced push for digital: Operation channels which were looked at as additional requirements before the COVID-19 crisis may become a necessity for organisations. Automation and digitisation will become a core part of all internal and external processes, and will require adoption by the current workforce. Apart from technological changes, the way employees interact and engage with clients would also need to change. This would require employees to adopt a digital-first mindset.

Need for workforce balancing and upskilling: In the short and medium term, there may be a change in the product mix, leading to some product verticals being sparsely staffed while others being overstaffed. It will be important for insurance organisations to ensure that the workforce is deployed appropriately across verticals and doing this will require significant investment in upskilling the workforce, owing to their specialised skill sets. Upskilling the workforce should become a key priority for organisations.

Converting a larger proportion of fixed costs to variable: Organisations in the insurance sector have significantly deep-rooted organisational structures to drive greater coverage and penetration and post the COVID-19 crisis, they will need to look for ways to reduce their fixed cost structures. This may lead to a culture change where the focus will be on outcome-based pay and possible faster adoption of a gig economy across the employee chain. This will require clear goals, transparent practices, tracking and culture change.



Regulatory actions and dispensations[17]

Most of the regulatory actions taken by the regulator to address the COVID-19 crisis have revolved around ensuring intermediate relief to the insurance companies from reporting deadlines and complete policyholder protection. This is the first time in the last two decades that service standards have been prescribed so specifically, and risk management and monitoring have been accorded the highest priority.

Most of these measures have been suitably adopted by the industry as there has been a rapid improvement in the digitalisation and upgrade of technology infrastructure by nearly all companies in the sector over the last decade. Risk management and vigilance over customer queries and services have also been accorded top priority in the last few years. The following factors are responsible for the spontaneous roll-out of changes:

1. Focus by the regulator on customer services and grievances: The Integrated Grievance Management System (IGMS) instituted by the regulator makes sure that all grievances registered by customers across all the channels are visible to the regulator in real time and are addressed quickly to avoid delay in servicing. This has become a principal area of focus for insurer grievance cells.
2. Emphasis on public disclosures: The public disclosure standards in India are among the highest in the world, considering that most companies are owned closely by two shareholders. The amount and degree of data disclosed automatically enforces a higher focus on all the parameters and areas like cost ratio, claim settlement rate and persistency/retention are focused on more stringently.
3. Listing of largest companies on stock exchanges: This has brought in higher scrutiny in the sector and a large number of private equity (PE) investments naturally usher in a higher focus on technology, efficiency, customer service and costs.
4. Risk management focus: The regulator has introduced several risk management measures based on best practices around the world, including focusing on cyber risk management as this sector deals with a large amount of personal data.

Overall, the sector has measured up well and further examination and strengthening of regulations on innovations, risks, investments and costs cannot be ruled out.

The following regulatory measures have already been announced by the regulator in the wake of the COVID-19 crisis.[18]

A. Safety measures:

1. Insurance, being a critical requirement of the population, has been **exempted from the lock down.** However, insurance companies and other regulated entities are advised to operate their offices with absolutely necessary staff so as to maintain essential insurance services including claims settlement, authorisation for hospitalisation, renewal of insurance policies and such other activities. In all the operating offices, extreme care needs to be taken by all concerned to maintain prescribed hygiene, social distancing etc.
2. To the extent possible, work from home may be adopted by facilitating the same for the staff of insurers, intermediaries and agents.

17 https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo4081&flag=1

18 https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo4081&flag=1

B. Communication to key stakeholders

3. Insurers shall prominently display on their website a **dedicated helpline number** for policyholders and another helpline number for other stakeholders including agents and intermediaries. Adequate arrangements may be made to service all the policyholders and other stakeholders satisfactorily through these helplines.
4. Insurers shall also display the contact number of the officer who can be approached, if the concerns of any of the policyholders and other stakeholders are not resolved through the dedicated help line numbers.
5. Insurers may also display FAQs for COVID-19 claims on their websites.

C. Monitoring of the situation

6. Insurers shall put in place a **Business Continuity Plan (BCP)** which inter alia deals with processes, transactions, reporting and customer services to be handled in a seamless manner to take care of the present situation. A copy of the same may be **submitted to the Authority.**
7. Insurers shall set up a Crisis Management Committee, comprising of key personnel to monitor the current situation on real time basis and to take appropriate timely decisions on:
    a. Issues pertaining to safety of staff, policyholders, intermediaries and agents;
    b. Assessing new challenges that may emerge on a day-to-day basis and measures to mitigate them; and
    c. Adopting necessary measures to minimize business disruption.

Further, the Crisis Management Committee should provide regular inputs to the Risk Management Committee of the insurer.

8. The Risk Management Committee, with the support of all the key management personnel, shall **evaluate all risks including strategic, operational, insurance, liquidity, credit, reputational, market, foreign exchange, reduction in new business, reduction in renewal business, asset liability mismatch, reduction in yield, capital erosion, claims in the wake of present situation and shall devise necessary mitigation measures.** Any severe impact on the operations or capital requirements or solvency margin shall be promptly communicated to the Authority.
9. Cyber risks and data security: Due to enhanced remote working, it is possible that there could be an increase in the number of cyber-attacks on personal computer networks. Therefore, insurers need to take precautionary measures to address such cyber risks and to mitigate such risks as soon as they are identified. Insurers shall also educate their staff, through emails and other modes, of possible cyber risks and the associated safeguards to be taken by the staff while working from home.

D. Products

10. Insurers are strongly encouraged **to devise appropriate insurance products** that would provide protection from risks arising out of Covd-19. The Authority is committed to process such product approval applications on a fast track mode.

E. Policy Servicing and Claims:

11. Insurers shall make special efforts to enable the policyholders to pay premium using digital methods by educating them through SMS, emails etc.
12. Claims arising on account of Covid-19 should be processed expeditiously. Insurers are encouraged to adopt **simplified / expedited claim** procedures for such cases. In addition, other claims should also be processed within the prescribed period by making special efforts.
13. Wherever email addresses of policyholders are available, policy documents may be issued through email within the prescribed period. SMS may also be used to confirm to the policyholders about issue of policy documents. The insurers are encouraged to capture the email and phone number of the prospective customers for intimation of the commencement of the policy and for further policy servicing. As a special case, **an additional period of 30 days is allowed for insurers for dispatch** of documents for policies issued between 15th March and 30th April 2020.
14. Though the normal response time for policyholder complaint redressal is 15 days, due to the prevailing lockdown situation, an **additional 21 days is allowed in respect of all complaints** which are received on or after 15th March 2020 and up to 30th April 2020. However, this additional response time is not applicable to complaints pertaining Covid-19 for which the extant timelines will continue to apply.
15. In case insurers have issued travel insurance policies which were/are valid between 22nd March, 2020 and 30th April 2020, an option may be provided to the policyholders **to defer the date** of travel without any additional charge.
16. Insurance companies have been asked to dispose of hospital claims, both at Admission and at Discharge, with utmost urgency and definitely within 2 hours being intimated.

F. Relaxations

Health Insurance to include all claims reported under corona virus and shall be handled as per the following norms.

i) Where hospitalization is covered in a product, insurers shall ensure that the cases related to Corona virus disease (COVID-19) shall be expeditiously handled.

ii) The costs of admissible medical expenses during the course of treatment including the treatment during quarantine period shall be settled in accordance to the applicable terms and conditions of policy contract and the extant regulatory framework.

iii) All the claims reported under COVID 19 shall be thoroughly reviewed by the claims review committee before repudiating the claims.

G. Other

1. **Bi-monthly report** to be sent to the regulator on all of the aspects and steps taken. Doesn't need to include claims data
2. The insurers should keep their respective Boards informed of the actions taken by them in dealing with situations arising out of Covid-19.

Staying relevant – the importance of taking proactive measures

While reduced cash flows due to the financial impact of COVID-19 will deter insurance companies from investing significantly, there are some areas where they could consider investing.

- Analysing the available data in conjunction with healthcare companies and medico-legal experts, and trying to understand the estimated insured loss on all front due to COVID-19. It is possible that insights gained from such a process may help in reducing risk exposure as well as finding new opportunities and strategies for succeeding in the near future.
- Insurance companies can reach out to their existing customers proactively through continuous digital campaigns and make them aware of the COVID-19 crisis to stop it from spreading further. Customers usually do not use mobile applications designed by insurance companies frequently as the relationship is transactional. Companies can design campaigns on COVID-19 and provide their customers with relevant information to maintain relationships and reach.
- The regulator has put in place several conditions regarding the promptness in settling claims related to COVID-19. Insurers must adhere to those regulations and also ensure that the entire chain – from hospitals and caregivers to third-party administrators (TPAs) and call centres – act fairly and quickly on the claims related to COVID-19. Claims related to COVID-19 getting rejected should also be properly reviewed to avoid customer grievances.
- Life insurers also have an opportunity to come up with innovative riders/add-ons based on single conditions on the base policies taken by the customers. Customers may find such riders useful at this time and contemplate purchasing them. Insurers can approach the regulator and ask for quick approvals of relevant product additions using the regulatory sandbox concept.
- Companies are exploring new ways of continuing their operations amidst the COVID-19 crisis. The large number of insurance company employees working remotely will open up avenues for exploring how companies work in the new normal, redefine their real estate strategies and decide how the teams work in the future. This can quicken all transactions and potentially reduce costs.
- General and health insurers have for long wanted a stronger connect and control over the provider network – garages for automobile insurance and hospitals for health insurance.
    - The current situation is ideal for insurers to move to integrated service offerings, with central accounting and scheduling spare parts of automobiles through a blockchain network between garages, manufacturers and insurers. Spare parts unutilised at a certain location can be redistributed and customers will get faster service. This will derive greater benefit from the digitisation efforts and be beneficial for insurers in times to come.
    - Similarly, for all health insurance requirements, a direct integration of hospital billing and diagnostic systems with insurers and TPAs is the way forward. This is the ideal time for such a shift when the receptivity of the healthcare ecosystem will be at its highest as contactless transactions become the norm.

- With the shift to Industry 4.0 likely to be accelerated (mostly Internet of things [IoT] and artificial intelligence [AI] dependent), there will be new risks to manage and insure. The nature and degree of risks may change in manufacturing setups and insurers will need to develop newer skills and newer toolkits to be smart insurers. Upskilling employees and modernisation of tools and analytics models would require investments.
- Credit life insurance is popular among banks and this may come under some short-term stress but will see longer-term complexity with many roles and paying capabilities shifting from one set of employees to another. Also, an employee who earns a larger variable pay needs to be financially underwritten differently.
- More organisations are expected to opt for cyber insurance as they switch to remote working.

Resilience in the current situation is going beyond successful crisis management and capitalising on arising opportunities.

Opportunities for insurers to emerge stronger from the COVID-19 crisis

To be resilient in the current situation, insurance companies would have to go beyond successful crisis management and capitalise on arising opportunities. They can focus on the following areas to emerge stronger from the COVID-19 crisis.

Business

- Allocate capacity to review overall product portfolio mix and compare with client needs (protection from future pandemics, environmental changes, etc.) in the new normal.
- Use innovation capabilities to reposition the business in the light of the COVID-19 pandemic and beyond, and prioritise digital innovation projects which were so far lagging, but with human-oriented technology in mind and behavioural economics-based customer proposition.
- Evaluate strategic merger and acquisition (M&A) options in the wake of the economic slowdown to grow sustainably post the COVID-19 crisis.

Customer’s moment of truth

- Become a true partner for retail and small and medium enterprise (SME) customers by supporting them in their existential needs (clarification of doubts, provision of health services, syndication of SME working capital needs through bancassurance partners, etc.) and prove to be truly customer centric.
- Strengthen customer loyalty by capitalising on minimised risks like motor and accidents, and offering more value.
- Concentrate on future risk prevention through ecosystem partnerships and thereby providing value to clients.

Partners

- Use free capacity to support agents and sales partners in previously deprioritised initiatives as well as in digitisation efforts.
- Establish oneself as a protective shield for agents and partners along the value chain in situations of turmoil.

Employees' moment of truth

- Show employee centricity by deploying free time for employee upskilling and personal development and assisting them in their personal projects to help them rise individually.
- Advance compulsory employee objectives such as compliance-related surveys, training sessions and personal deliverables.
- Use free capacity of employees to involve them in contributing towards society in a broader way.

Source: PwC analysis

Trends ahead

- Frequency of pandemics: As per PwC's COVID-19 CFO Pulse Survey, a significant increase is anticipated in the number of companies that perform scenario planning and financial modelling for potential impacts as they seek to estimate the effect of the outbreak.[19] We are seeing models being revised to incorporate the economic impact of past pandemics, including SARS and MERS in the 2000s, as well as outbreaks in 1968 and 1918. The revisions underpin concerns that COVID-19 may signal a future in which pandemics are more frequent. Some companies are also coordinating closely with strategic vendors and business partners to share information and enhance their models.
- Scenario-specific products: Insurance products which are tailored for pandemics will see traction. Companies need to look through this dimension of product building. This is an area which may see a significant growth as most employers can opt for such a coverage in the future. There have been instances of employers proactively announcing complimentary insurance coverage for all their employees by partnering with insurers. Similarly, the Government of India has announced that doctors, paramedics, healthcare workers and others providing their services to tackle the COVID-19 outbreak will be provided insurance coverage.[20]
- Amended disclosures: The COVID-19 crisis has given insurance companies an opportunity to review and revise how their policies and disclosures are worded. As per PwC's COVID-19 CFO Pulse Survey, CFOs said they were considering disclosures on the impact of the pandemic on risk profile, macroeconomic and industry factors, and liquidity. Further, CFOs in the health industry were more likely than average to consider disclosures related to the impact on risk assessment (58%) and to environment, social and governance reporting (23%).[21]

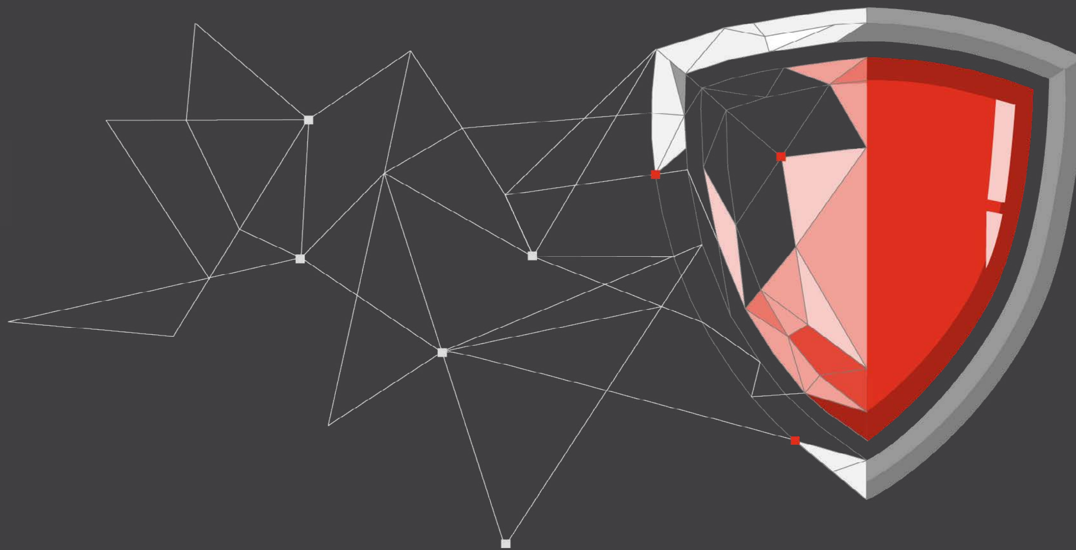
In the next six months, which of the following COVID-related disclosures are you considering?

Source: PwC's COVID-19 CFO Pulse Survey

19 https://www.pwc.com/us/en/library/covid-19/pwc-covid-19-cfo-pulse-survey.html

20 https://bfsi.economictimes.indiatimes.com/news/insurance/fm-announces-rs-50-lakh-insurance-cover-for-covid-19-frontline-warriors/74831023

21 https://www.pwc.com/us/en/library/covid-19/pwc-covid-19-cfo-pulse-survey.html



Conclusion

Organisations and economies worldwide are discussing a neo normal situation that is expected to emerge post the COVID-19 crisis. For the insurance industry, the post COVID-19 period will not just be about the split between WFH and office or about the digital conversion of certain industry processes. The industry is a fundamental part of the financial infrastructure and all other industries are supported by it. Hence, broader questions need to be asked, the answers debated, and the exact nature of how the COVID-19 crisis and its aftermath could affect the industry as well as help the penetration of insurance in India should be discussed.

Changes in insurance policies, field practices or overall industry norms have to be brought to the table by industry associations and councils.

The following neo normal questions should be considered and debated by the insurance industry:

- When the restrictions ease, would insurance companies go back to working like before? Or would there be changes in their way of working, remote working, pay structures, project dynamics and use of technology?
- What would the actual productivity of employees be like during a prolonged lockdown and, as a corollary, for work from home?
- Would insurance companies move towards becoming 100% digital in their operations? Would companies digitalise the whole process of data input to output of policy to settlement of claims?
- Would company culture require digital upskilling and a changed mindset to utilise digital resources effectively?
- What will happen to cost structures? Major costs for an insurance company reside in premises and people, other than technology. Would there be a major rebalancing of this cost structure?
- Will we see more gender diversity in the workforce in the insurance sector with WFH becoming widespread? Would companies hire more part-time experts?
- Will insurance penetration increase among people due to this crisis?
- The industry has already taken steps to address risks related to products, people and business infrastructure, but are there risks that have not yet been anticipated? Are there possibilities of any surprise risks for the industry?
- Insurance companies deal with massive volumes of data, be it on premise or on cloud, and data backup is a regulatory directive. Are insurers geared up to back up the mega data that emerges out of the numerous data points being captured beyond basic insurance needs?
- Are vendors and service providers of insurers showing the same levels of resilience as the much higher funded insurance carriers? What risks may emerge from their service breakdowns in the future?
- Will insurance companies start considering pandemics, environmental changes and associated risks as part of their operational risks from now on?
- With more employees working remotely and increased digital operations, will operational costs really reduce?
- How can insurance companies ensure that their employees and distributors are effectively and adequately upskilled?
- How should insurers work with the government and local authorities to fulfil their social agenda?
- Will insurance companies emerge from this as more trusted or less trusted?

About PwC

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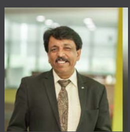

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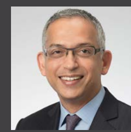

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