

Insurance Snapshot

COVID-19: Implications for the insurance industry

Right now, Australian insurers are mobilising rapidly in response to the COVID-19 pandemic. For general insurers, the battleground is both customer retention (10-20% drop in renewals is being evidenced) and acquisition (20-30% drop in new business), while life insurers face challenges on several fronts and commercial insurers are grappling with the extent of business interruption to the industries and sectors that they service. Yet any attempt at business continuity is only half the story because, while they need to react fast to the unfolding events, insurers must also reassess their long-term strategy.

In short, insurers must keep one eye trained on the immediate situation, while the other is fixed firmly on emerging stronger in the future to better both customers and shareholders.

Here, four archetypal strategic responses are likely to emerge. For some insurers, one of the archetypal responses might spell a substantial change to one or more key elements of their strategy; for others, strategic elements may either be accelerated or deferred. There will be insurers, however, that will face a fourth response that fundamentally threatens the viability of their businesses. We outline these four responses in **Figure 5**.

As insurers work through the strategic implications of COVID-19 for their business, there are six dimensions that should be considered:

1. COVID-19 and strategic impact
2. Active financial management
3. Vulnerable clients
4. Disrupted value chain
5. Workforce and community impact, and
6. Regulatory and government intervention.

Strategy adjustments should be done with COVID-19 progression scenarios in mind, and in consideration of the challenges for the insurance sector. To make decisions, you should be armed with the best available data regarding health impacts modelling, as well as the projected economic impacts of government stimulus packages.

Can you align your COVID-19 responses to your strategy?

From disrupted value chains, through to workforce anxiety, all aspects of business are being impacted by the current crisis. Insurers are being forced to adopt a range of immediate (and often unprecedented) responses just to keep business running as usual. These actions will vary depending on which sector of the insurance industry you operate in, as well as according to your business' situation.

Of all the dimensions outlined in **Figure 1**, the biggest questions revolve around the strategic agenda for your business. When taking any action (around clients, employees, financial management or other stakeholders) you should also ask: Can your responses to COVID-19 be aligned to your strategy or will it require a change in intent?

Figure 1: COVID-19 and strategic impact

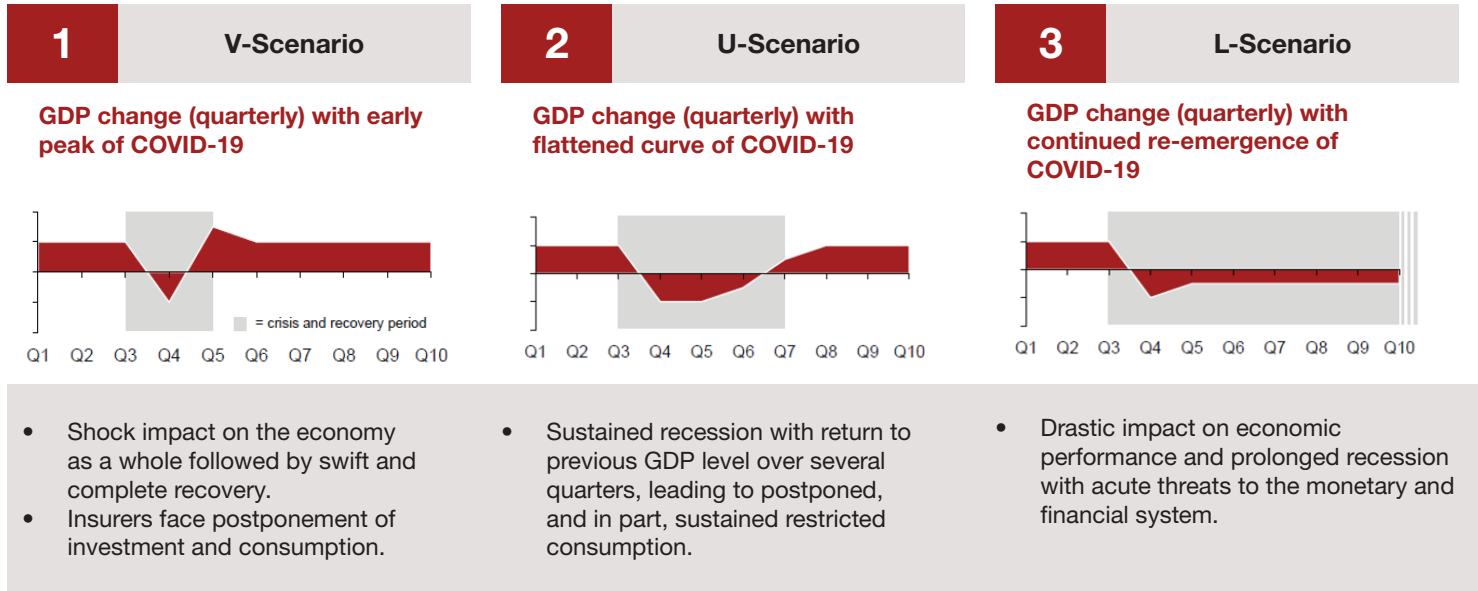
COVID-19 and strategic impact	Can responses to COVID-19 be tightly aligned to broader strategic actions? Could the crisis accelerate necessary strategic actions, or does it make it more difficult to carry out those actions? Are portfolio actions underpinning your strategy at risk because of COVID-19?
Active financial management	What is the overall financial health of your company? How will COVID-19 impact your ability to meet budgets/Best Estimate Assumptions and maintain financial health? What processes and plans are in place to ensure you can react dynamically to virus progression scenarios? Will government or others provide financial or other support? Will COVID-19 require you to change market guidance if you are a publicly listed company and will it impact dividend payouts?
Vulnerable clients	Do you have clients who are particularly vulnerable to COVID-19, and could your response to the crisis accentuate impacts on these clients? Will those client impacts harm your long-term business outlook? Is COVID-19 an opportunity to deliver on your promise and live your purpose (i.e. providing cover when clients need it most)?
Disrupted value chain	Is COVID-19 disrupting your value chain and, if so, to what extent? Can you deliver your products and services in the same way? Do your distribution channels work as before? Is your infrastructure strained and vulnerable?
Workforce and community impact	Is COVID-19 disrupting your workforce to a significant extent? Are employees significantly impaired in carrying out their jobs? Are you able to balance your obligations to the enterprise and shareholders with your obligations to your staff? Are you managing staff anxiety relating to job security, vulnerable loved ones, and societal connections?
Regulatory and government intervention and the role of industry bodies	Are there regulatory constraints affecting your COVID-19 response? How has the government stimulus package (state and federal) impacted your business? Should you be engaging with regulators more proactively on set issues? Can you help maintain solvency for those who need it? What role can you play in forging an industry path on pandemic coverage in the future?

Planning, progression, and potential impact scenarios

How might COVID-19 play out in Australia? PwC's modelling shows the impact of the crisis could range from a short, sharp economic shock that sees a swift and complete recovery after just two quarters, to a drastic and prolonged recession. Your strategic planning should account for all possibilities.

Use PwC's three potential impact scenarios (**Figure 2**) predicting the progression of COVID-19 to inform your planning.

Figure 2: Three potential impact scenarios



Australia's world-leading position

Australia's fiscal package is world leading on a per capita basis, and the details of this package should be factored into your response to the crisis.

In the face of the pandemic, the Australian government is spending approx \$12.7bn per one million people, placing us second only to Luxembourg, and well ahead of Germany, the UK, the US, France, Canada and China in terms of government relief packages.

The interplay of this stimulus package with health data pertaining to the progression of COVID-19 locally should underpin all of your planning. This is a dynamic space and any planning and scenario testing you do will need to be revised often over the coming weeks. We suggest you understand your strategic position.

Based on Australian government stimulus, we expect the P&L impact to be varied across insurance products. Personal lines (Home, Motor, CTP) are expected to perform relatively better, with travel insurance suffering the most. The exact extent of the P&L impact will depend on the COVID-19 impact scenario that unfolds (V,U,L).

Figure 3: P&L impact across insurance products

Insurance product	Claims frequency	Ave. claims cost	Policies in force	Average premium	Reinsurance cost	Commissions	Admin and UW costs	Investment income	Overall P&L
Home	↓	→	↓	↓	↓	↓	↓	↓ ↓	↑
Motor	↓ ↓	→	↓	↓	↓	↓	↓	↓ ↓	↑
CTP	↓ ↓	→	↓	→	↓	↓	→	↓ ↓	↑
SME	↓	→	↓	↓	↑	↓	↑	↓ ↓	↓
Commercial	↓	→	↓	↓	↑	↓	↑	↓ ↓	↓
Workers comp	↓	↑	↓	↓	→	n/a	→	↓ ↓	↓
Travel	↓	↑	↓	↓	↓	↓	↑	↓ ↓	↓ ↓
Lenders mortgage	↑	↓	↓	↓	↓	↓	↓	↓ ↓	↓
Life	↑ ↑	→	→	↓	↑	↓	↑	↓ ↓	↓

■ Positive impact (increase in profitability)
 ■ Negative impact (decrease in profitability)
 ■ No impact on profitability

Looking beyond business continuity

Beyond initial business continuity decisions, insurers also need to step back and consider the bigger picture, namely: What are the challenges to your business strategy?

For instance, does the current economic climate put pressure on your business to reprioritise initiatives? Or does it pose challenges to sequencing the investments that you had planned prior to COVID-19? One thing is clear, you will need to assess if any strategy adjustments are necessary and you should take into account projections for the future of the sectors within the insurance market and the challenges ahead, which are outlined in **Figure 4**.

Figure 4. Challenges facing the Australian insurance industry due to COVID-19

COVID-19 and strategic impact	Pressure to reprioritise business initiatives due to capacity constraints? Cash position may actually improve to create cash reserves in order to dampen impact of weaker underlying business performance.	Challenges to sequencing as offshore providers and onshore context may impact roadmaps.		Reduced PIFs and premiums as unemployment and reduced working hours grow. Customers/businesses can no longer afford coverage (e.g. reduced demand for professional risk, but fire protection still required versus increased demand for D&O, and reduced auto policy demand.)
Active financial management	Reset of budgets under the uncertainty of COVID-19 progression to reflect adjusted operating conditions. (In turn reflecting anticipated changes to PIFs, product requirements, and claims). A need for financial agility.	Heightened liquidity risk where COVID-19 scenarios cause material variation from Best Estimate Assumptions (e.g. mortality rates, IP claims, lapse of 'healthy' clients).	Disrupted value chain	General insurance to face a changing mix of claims. Motor insurance to decrease; mixed impacts on Home and Travel. Potential increase in fraudulent claims. Societal pressure to pay out claims on pandemic risk. Workers spend more time at home and less at work, and so the risk of fire, ISR, and PPL is reduced. Potential increase to business interruption claims.
Vulnerable clients	Reduced ability to pay as unemployment spikes and more clients enter times of need. Businesses look to reduce expense base to align with reduced consumer spending.	Reduced loyalty as clients hold fewer products overall, and have availability to review policies mid-term.		Life insurance to face increased claims cost as (1) economic slowdown increases unemployment rate and IP/ GSC/TPD claims. (2) mortality rate increases due to COVID-19.
	Expectations from clients on policy relief as extended periods of confinement bring into question coverage on home and motor and the ask for temporary relief	Extensive business interruption for commercial clients puts existential questions on some companies as well as coverage issues for business interruptions	Workforce and community impact	Lower investment returns due to lower yields in equities, and lower for longer interest rates. This will be exacerbated by the government raising funds.
Regulatory and government intervention	Increased risk of non-compliance with impending regulatory changes (e.g. DDO) due to competing priorities; heightened regulatory engagement.			Challenges for workplace culture, productivity and mental health as employees transition to remote working and social isolation.
				Community initiatives potentially interrupted by COVID-19, pressured by economic environment, and reprioritised to maximise community impact.

Where insurers should focus

Already, we're seeing four archetypal strategic responses emerging amongst insurers, ranging from deferring strategy, right through to focusing on survival. For every dimension of your business, you will need to choose which elements of your strategy to change, accelerate or defer. This will depend in part on the COVID-19 impact scenario (V,U,L) that plays out and the mindset the community adopts facing into this crisis.

Figure 5: Archetypal responses: Decide which elements of your strategy to accelerate versus defer

	COVID-19 means a focus on survival	COVID-19 accelerates strategy	COVID-19 defers strategy	COVID-19 changes strategy
COVID-19 and strategic impact	Limited	High: Creates the circumstances for change	Low/Moderate	Low/Moderate: May change underlying beliefs about sector
Active financial management	Low stability: COVID-19 is a threat to survival	Low stability: Need to act to remain viable	High: COVID-19 might support finances and defer strategy imperatives	Moderate: Government support may be important
Vulnerable clients	Could be low or high impacts, but financial survival trumps all else	After initial shock, limited client impact	High number of vulnerable clients	High number of vulnerable clients
Disrupted value chain	Potentially high	Potentially high	Low to moderate	Moderate
Workforce and community impact	High	High	Moderate	Limited
Regulatory and government intervention	Various	Limited that stop action	Moderate/High: Could be an essential service requiring service continuity	High: Could be an essential service requiring service continuity
Response	All actions on the table to reduce cost - including significant job losses; pushing for government support	Use COVID-19 to accelerate strategic actions (cost cutting, portfolio actions) to maintain viability	Strategy remains the same, but defer adverse actions (e.g. job losses) for good societal reasons	Change strategic actions because of long-term risk for clients; act in concert with government
Potential examples	<ul style="list-style-type: none"> Hotels and hospitality: already cutting shifts / laying off workers Sports: If unable to deliver games to broadcasters will need to cut salaries / stop paying workforce 	<ul style="list-style-type: none"> Airlines: Cut routes, reduce workforce, cut costs; some of which was already on the agenda 	<ul style="list-style-type: none"> Telecommunications: Deferred cost out activity to support staff 	<ul style="list-style-type: none"> Banks: Forbearance on loans, targeted support for SMEs Universities: Fundamental change in strategic underpinnings; focus on online in near term

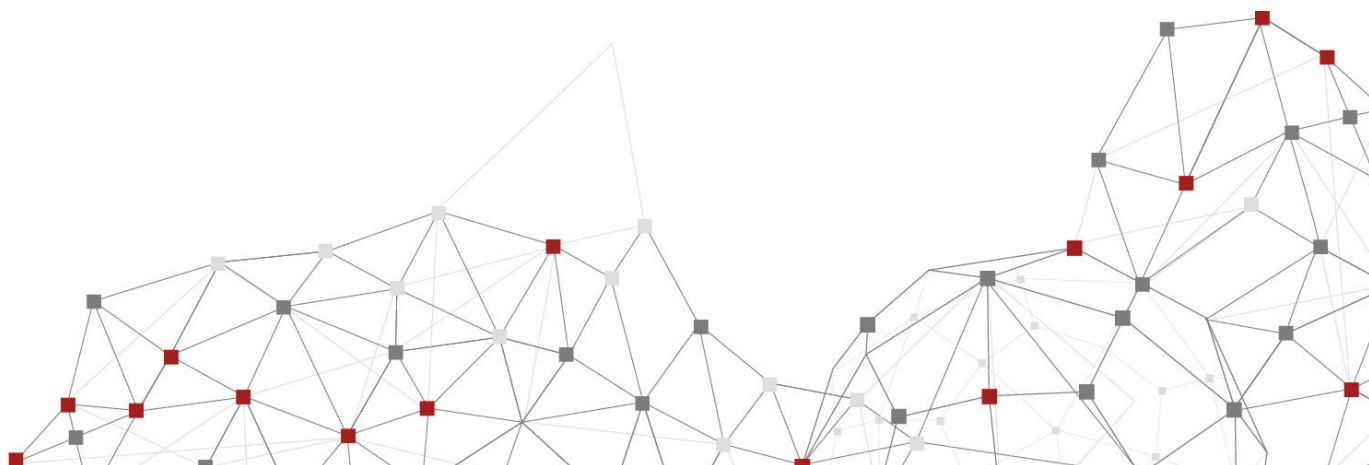
How the industry is responding

Insurer responses to the situation have been swift, reflecting a need to stabilise market positions.

Several initiatives have already been introduced such as automatic car insurance 'Foreign Use Extension' extended 60 days for customers isolating overseas, and embargoes on landlord insurance. And we can expect to see further industry announcements as the pandemic progresses.

Figure 6. Insurers responses so far

Insurer responses to COVID-19 so far	
COVID-19 and strategic impact	<ul style="list-style-type: none"> • Automatic cover for essential item delivery, income protection insurance for COVID-19 affected customers • Automatic car insurance 'Foreign Use Extension' extended 60 days for customers isolating overseas • 'Social and Domestic use only' car insurance automatically extended for work travel during COVID-19 • Investment in digital tools e.g. home insurance RealTime Review video chat and guided photo capture
Active financial management	<ul style="list-style-type: none"> • Post balance sheet disclosure commentary to account for COVID-19 impacts e.g. regarding more exaggerated sensitivities and impact on goodwill impairments etc.
Vulnerable clients	<ul style="list-style-type: none"> • Financial support packages e.g. delayed premium increases for six months • Prioritised supplier payments for SMEs, working to reduce payment terms to no more than 15 days • Underwriting changes (e.g. modified terms for customers experiencing COVID-19 symptoms upon application) • Extended payment dates and customer penalties wiped (e.g. for payment plan delays up to two billing cycles)
Disrupted value chain	<ul style="list-style-type: none"> • Suspension of policies (e.g. travel insurance sales) and discounted car insurance policies • Embargoes on landlord insurance • Discounted/free roadside assist, discounts for online application • Home and auto customers pay what they can afford - no minimum amount (balance distributed across subsequent bills) • Rebates of 15% on motor insurance policies
Workforce and community impact	<ul style="list-style-type: none"> • Action plans in place to ensure all staff remain working securely from remote locations • Claims health and safety e.g. live video assessments with suppliers • Guarantees to continue to pay full-time and part-time employees who can't work remotely with shelter-in-place orders
Regulatory and government intervention	<ul style="list-style-type: none"> • Early savings access e.g. government supported early access to superannuation • Delaying or suspension of regulatory change programs e.g. Travel insurance review and Consumer Credit Insurance lender review



How general insurers are responding

For general insurers, the battleground is currently customer retention and acquisition. Many customers are facing sudden economic hardship, and are struggling to pay for essential services. **Figure 7** gives examples of the strategic choices available to general insurers right now.

Figure 7. Strategic choices for general insurers example

	Key questions	COVID-19 accelerates strategy	COVID-19 changes or defers strategy
COVID-19 and strategic impact	<ul style="list-style-type: none"> • What does recovery look like? • Has an operational part of the business been disrupted due to dependency on offshore or third party providers? 	<ul style="list-style-type: none"> • Digital: Don't go back offshore. Go straight to end-state, and invest in automation and architecture to support business continuity. • Acquisition: As many customers are making time during the slowdown to review their insurance policies, develop marketing campaigns to attract new customers with products tailored for the current environment. 	<ul style="list-style-type: none"> • Prioritise investment options into new capabilities need to be re-sequenced to accommodate impacts. • Cost-out: Defer restructures to support workforce during time of need.
Active financial management	<ul style="list-style-type: none"> • Is your operating model agile enough to deal with the financial implications of COVID-19? • Will we need to change market guidance and our dividend policy? 	<ul style="list-style-type: none"> • Distinguish between COVID-19 related implications and strategic choices: Create the financial and communication frameworks for both pathways. 	<ul style="list-style-type: none"> • Reconsider designs to operating models, especially organisational design. • Too much change already impacting the business: Bunker down and defer non-essential or complex implementations.
Vulnerable clients	<ul style="list-style-type: none"> • How will your customer base be impacted by those who are vulnerable to financial distress? 	<ul style="list-style-type: none"> • Retention: Increasingly targeted marketing for customers to prevent mid-term cancellations and allow customers to temporarily pause products are needed. 	<ul style="list-style-type: none"> • Payments: Accelerate payments to those in need before acquisition activities.
Disrupted value chain	<ul style="list-style-type: none"> • How will our customer propositions need to change? • Are there opportunities to acquire scale cheaply and/or reconfigure the value chain in your sector? 	<ul style="list-style-type: none"> • Claims systems and processes where changes were underway: <ul style="list-style-type: none"> - For products with a spike in claims, develop fast track claims processes and automate decisions (where possible) to increase capacity - End-to-end digitisation of claims, increase STP and implement process automation to increase claims admin and servicing capacity - Improve systems and processes to detect fraudulent claims. • Inorganic expansion: Opportunities to consolidate sub-scale players. 	<ul style="list-style-type: none"> • Product offering: New product types with dial up/down coverage as required. • Pricing: Alternative pricing strategies, e.g. improve value sharing with customers for products with lower claims cost (with consideration for natural catastrophic perils) to slow PIF reduction. • Business partner support: Consider investment in brokers/suppliers to ensure solvency and business continuity. • Pricing: Defer price increases (prompted by recent natural catastrophes) to cushion COVID-19 impact on customers.
Workforce and community impact	<ul style="list-style-type: none"> • Where can the changes to ways of working persist for the good of our community? 	<ul style="list-style-type: none"> • Remote working: Implement alternative operating models and technology solutions to 'keep the lights on' and build into business as usual. 	<ul style="list-style-type: none"> • Decentralise offices and change real estate strategy: More regional centres, more workforce flexibility.
Regulatory and government intervention	<ul style="list-style-type: none"> • Can we change the dialogue beyond remediation and towards forthcoming regulatory change? 	<ul style="list-style-type: none"> • Increase communication with regulators: Leveraging insurance data and actuarial capabilities to inform/support policymakers and regulators. 	<ul style="list-style-type: none"> • Negotiate potential to slow regulatory change programs: (e.g. DDO) amid competing demands.

How life insurers are responding

For life insurers, challenges exist on many fronts, and this complex situation means businesses should consider all strategic response avenues available to them. Examples of the strategic choices faced by life insurers are shown in **Figure 8**.

Figure 8. Strategic choices for life insurers example

	Key questions	COVID-19 means a focus on survival	COVID-19 accelerates or changes strategy
COVID-19 and strategic impact	<ul style="list-style-type: none"> • What does recovery look like? • Has an operational part of the business been disrupted due to dependency on offshore or third party providers? 	<ul style="list-style-type: none"> • M&A: Likely that M&A events will arise in the coming months as players look for further consolidation to gain scale. Smaller players stress-test defence/ value optimisation strategies. 	<ul style="list-style-type: none"> • Inorganic expansion: Opportunity to consolidate sub-scale players. • Digital: Invest in automation and architecture to support business continuity. • Cost-out: Focus on non-labour cost-out opportunities, with people impacts reserved for 'focus on survival' scenarios.
Active financial management	<ul style="list-style-type: none"> • Is your operating model agile enough to deal with the financial implications of COVID-19? 	<ul style="list-style-type: none"> • Capital requirements: Need to be stress-tested as the need for additional capital reserves and liquidity to cover a strengthening of best estimate assumptions. 	<ul style="list-style-type: none"> • Scenario analysis: Undertake financial planning and understand impact on BEAs across COVID-19 scenarios.
Vulnerable clients	<ul style="list-style-type: none"> • How will your customer base be impacted by those who are vulnerable to financial distress? 	<ul style="list-style-type: none"> • Retention: Increasingly targeted marketing for customers to prevent mid-term cancellations and allow customers to temporarily pause products where premiums are unaffordable in the short-term.¹ 	<ul style="list-style-type: none"> • Payments: Accelerate claims payments to those in need before acquisition activity.
Disrupted value chain	<ul style="list-style-type: none"> • How will customer propositions need to change? • Are there opportunities to acquire scale cheaply and/or reconfigure the value chain in your sector? 	<ul style="list-style-type: none"> • Pricing: Strategies evolve. Sophistication to address changing needs and ability to pay. Review customer outcome and ensure value for money, e.g., improve customer value share for products with lower claims cost to slow PIF reduction. • Investment Management strategies actively reviewed: <ul style="list-style-type: none"> - Review portfolio in light of revised market expectations and capital requirements - Partners may need to change to alternative investment managers to identify opportunities and capitalise on market movements - In the longer term, further segment B/S reserving pool, allowing for more sophisticated investment risk selection, including lobbying regulators to allow for increased trading frequency. 	<ul style="list-style-type: none"> • Claims systems and processes: <ul style="list-style-type: none"> - For products with a spike in claims, develop fast-track claims processes and automate decisions (where possible) to increase capacity - End-to-end digitisation of claims, increase STP and implement process automation to increase claims admin and servicing capacity - Improve systems and processes to detect fraudulent claims. • Product simplification agendas deferred in the short term. Revisit in a U or L-shaped recovery as a means of protecting customers and controlling costs over time.
Workforce and community impact	<ul style="list-style-type: none"> • Where can the changes to ways of working persist for the good of our community? 	<ul style="list-style-type: none"> • Remote working: Implement alternative ways of working and technology solutions to 'keep the lights on'. 	<ul style="list-style-type: none"> • Remote working: Accelerates WFH and property agenda and chance to address associated structural costs. • Community: Attempt to continue/increase support of community initiatives as a building block to reinforce purpose in society.
Regulatory and government intervention	<ul style="list-style-type: none"> • Can we change the dialogue beyond remediation and towards forthcoming regulatory change? • What role should the industry bodies play? 	<ul style="list-style-type: none"> • Have open conversations on support required e.g. re-plan regulatory change programs inline with revised regulatory agenda. 	<ul style="list-style-type: none"> • Increase communication with regulators: Leveraging insurance data and actuarial capabilities to inform/support policymakers and regulators.

¹ Insurers could structure a paused premium in two ways: i) suspend premiums and the associated cover for the period; or ii) 'lend' the value of the current premium to the customer (via a structured loan), increasing future premiums to pay this back. Under method ii) the customer would not lose cover for this period.

For other insurance sectors the questions and choices are similar - if not more pronounced

Within commercial lines businesses, the choices around policy selection and underwriting, leveraging deep customer understanding, will be top of the list. As will choices around digital investments to accelerate policy re-evaluation.

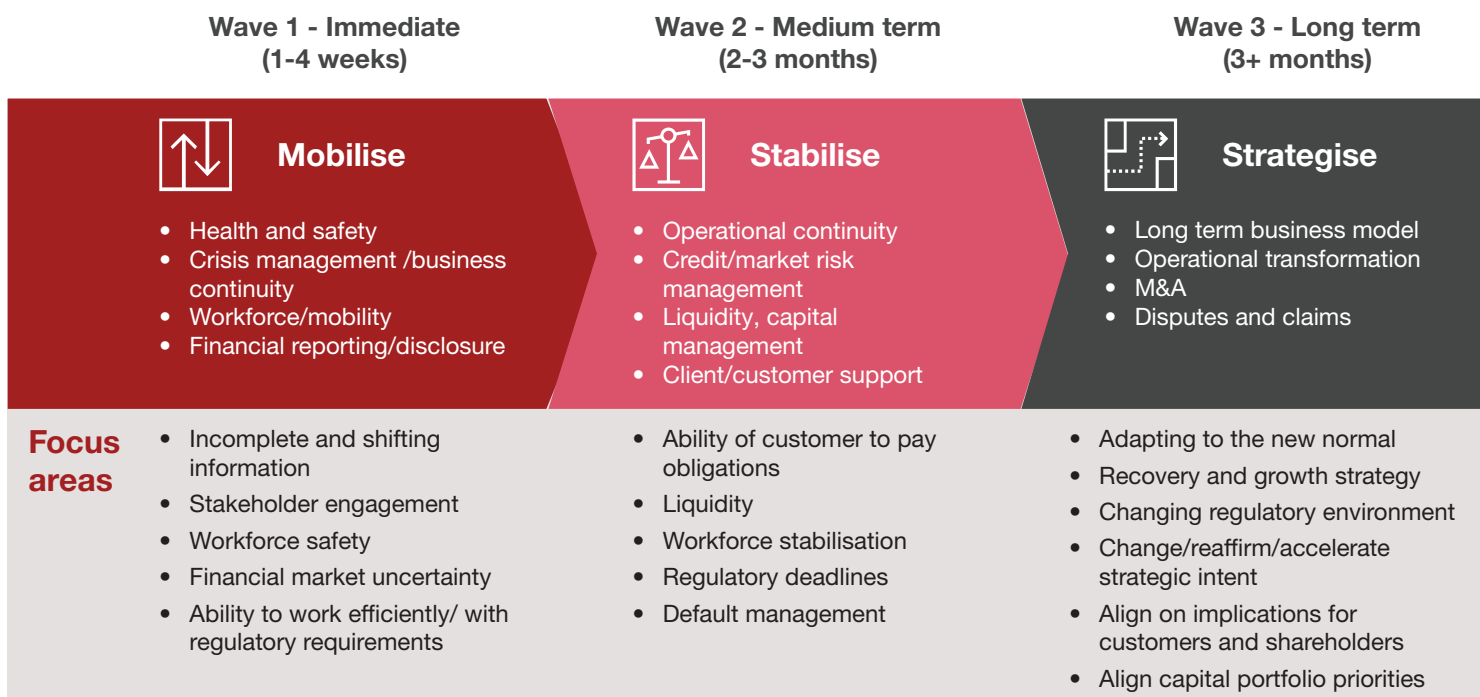
Other long-tail insurance sectors will be additionally challenged with choices impacting the pricing of their portfolio. For example workers compensation businesses that have priced in investment returns are now facing negative/very low interest rate environments and subdued asset prices putting pressure on their pricing strategies. This could result in increased M&A related considerations as the market for buying and selling back-books in insurance moves beyond life insurance in recent years into these sectors as well.

Emerging stronger

So where to from here? Australia insurers have already shown the ability to successfully mobilise in the face of the COVID-19 situation. The next step is to stabilise operations, before a period of strategising really kicks in.

This strategising will be around business models and organisational change. And those insurers that can align their COVID-19 response to their long-term strategy should be in a position to emerge stronger. We encourage you to complete your scenarios and stress-test them broadly and in doing so, focus on the implications for your strategy over the coming weeks.

Figure 9. Prepare, respond and emerge stronger



Contact us to find out more

The insurance team at PwC Australia has access to health and financial data that can help both stress test your scenarios and help to guide the strategic implications of the world we are collectively facing. Our purpose is to build trust in society and solve important problems. Get in touch to find out more.



Bernadette Howlett
Insurance Leader and Partner, Strategy&
P: 0438 294 402
E: bernadette.howlett@pwc.com



Ashish Sharma
Partner, Strategy&
P: 0478 312 047
E: ashish.sharma@pwc.com



Alex Acworth
Partner, Strategy&
P: +61 (2) 8266 4672
E: alex.acworth@pwc.com



Pei Chieng Soh
Director, Strategy&
P: +61 (2) 8266 3640
E: peichieng.soh@pwc.com



Jonathan Daddia
Director, Strategy&
P: +61 (2) 8266 3470
E: jonathan.daddia@pwc.com



Mahan Perera
Senior Manager, Strategy&
P: +61 (3) 8603 0716
E: mahan.b.perera@pwc.com