



COVID-19

Short-term uncertainty in long-term insurance

Impacts on Life and Pensions Firms

April 2020

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Foreword

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Industry response: the picture so far

Lockdown has been extended to at least 7th May, with many more months of restrictions expected. In the third of our series on COVID-19 impact analyses, Altus turns to the world of long-term insurance providers in Life and Pensions. Nobody has a crystal ball but using our industry models we have taken a view of the key impacts across all areas of an L&P provider firm.

Markets have clearly experienced a huge spike in volatility, and this has had many effects on long-term insurers. Revenues from percentage-based fees have slumped and customers are taking premium holidays or cutting contribution rates. Defined Benefit pension scheme deficits have grown and an estimated 10% of schemes will take advantage of TPR's easement to pause deficit reduction payments worth £500m this quarter.

At the same time, firms faced higher costs as they rapidly reorganised to help all staff to work from home, procuring thousands of laptops and enabling call recording for contact centre service.

agents. When all this is over, we expect to see a culture shift as workers call for flexible working to become part of the "new normal".

Some impacts are still very uncertain. Actuaries predict that 2020's mortality rate will be between 3% and 6% higher than 2019's, with more protection claims and impacts on funding model assumptions and capital reserving. Will the post-COVID-19 population be stronger and longer-lived or will we see a second wave of deaths as a result of deferred treatment of critical illnesses?

On a positive note, Financial Services has proven itself as an essential service. From everyday banking and lending, through to protection insurance to help people through these tough times, the sector has proven remarkably resilient in the face of the challenges of Coronavirus. Even the largest organisations have found they can mobilise quickly to prioritize the well-being of their customers and give them the best possible service.

Altus Life & Pensions Capability Framework

An engineered framework of the logical capabilities of an L&P business



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Approach

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Introduction:

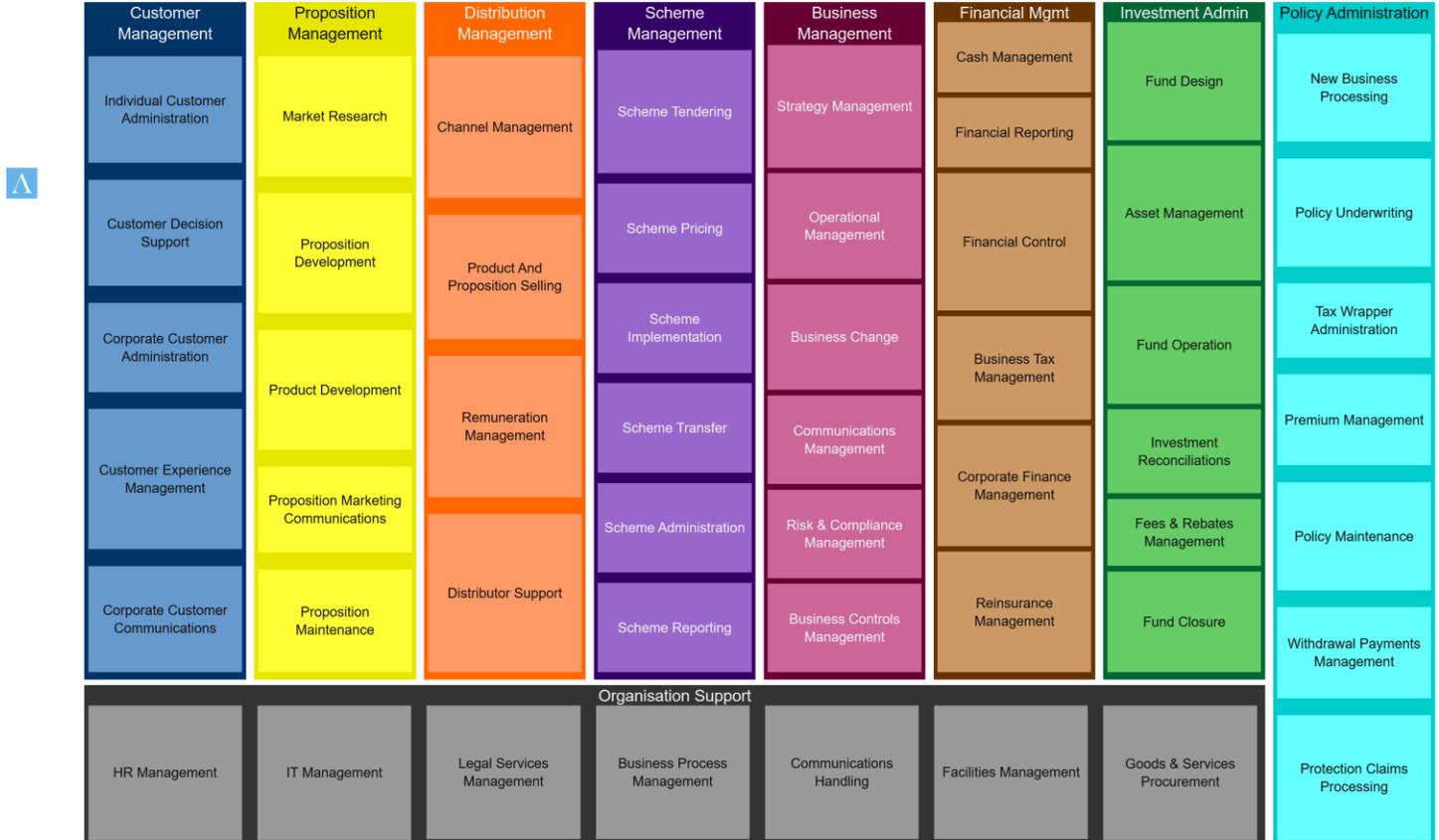
With the current COVID-19 crisis in full flow, providers are having to be proactive in managing impacts across every area of their business.

Altus has captured and visualised the key impacts against its L&P Reference Model, across all business

capabilities – the building blocks of a provider, which are delivered by people, processes and technology. This model enables organisations to define what they do using a common language in order to fully understand the end-to-end business.

The model shown here is to the first 2 levels only.

Altus LP&I Model
Capability Model



Altus Consulting

Impact of COVID-19 on Life & Pensions

Providers have taken short-term actions to ensure business continuity and look after customers through these uncertain times. Global experience shows us that returning to normality will be a slow, phased process. The Government will prioritise the return of parts of the economy that cannot be run remotely ahead of re-opening large offices, and it's plausible, with concerns about a second wave, that these will have to remain in the situation they are now for six+ months. Providers therefore face the challenge of regaining their usual levels of efficiency but should also use this opportunity to enhance their operation for the longer term. Few, if any, would have believed that such a large part of the industry could have moved to remote working as quickly as it has.

It is certainly the case that activities adopted because of COVID-19 have coincidentally offered a more mature level of capability and will become the new norm, although providers in the intermediated sector are likely to find this harder to achieve than their Direct to Consumer counterparts. Key examples are the adoption of digital communication and authority, back-end processes that 'just happen' and the potential for widespread remote working reducing or even eliminating the need for office space, so vastly reducing fixed costs.

At a high level we see the impact of COVID-19 being felt across the Life & Pensions Model:

Financially: We are seeing the impact of a bear market on asset-based product & fund charges, leading to ever thinner bottom lines, whilst capital expenditure to equip employees to work from home has compounded operating costs. Capital rich providers may take advantage of cheap M&A opportunities. Some bulk purchase annuity deals may accelerate short-term, but the wider outlook for annuities is more complex.

Operationally: Claims and administration functions are seeing higher volumes of contact, with uncertain customers looking for advice and guidance and wishing to check what their products actually cover them for.

Organisationally: Business Continuity Plans have been enacted and are undergoing constant review and flex, given the magnitude of this event, with thoughts turning on how to return, post pandemic, to whatever business under the new normal may look like.

HR departments are seeking innovative ways to monitor staff mental health and wellbeing, whilst managing the challenges and concerns around potential furloughing.

IT depts have rapidly delivered home working requirements (e.g. laptops & video conferencing) and resolved connection security issues.

Businesses are challenged to ensure that internal and external communication with customers, staff, intermediaries and suppliers is maintained, including call-recording where needed. Those that fail to address this are being called out.

Change priorities are being re-evaluated with acceleration seen in some areas and pause in others. Prior focus on regulatory developments is lessening as a result of the relief given from the FCA slowdown (e.g. investment pathways deferred) and TPR giving grace (e.g. allowing deferment of DB transfers and capital reporting).



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Impact
Overview

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Customer Management

The administration and management of individual and corporate customers



- Increase in financial fraud with jump in online activity, requiring firms to alert customers to elevated risks.
- Providers will need a way to **sign up new customers and perform all the required KYC and AML checks** noting the Money Laundering Regulation and JMLSG guidance on remote client identify verification.
- Some local authorities restricting informants to one death certificate, introducing **delays to registration of death**.

- **Changes to call centre operations**, through reduced staff, social distancing or remote working will have created **challenges in maintaining service levels**.
- **Increased volumes of calls from customers**, either concerned about COVID-19 impacts, or for **protection claims and coverage** enquiries.
- Most providers have successfully **moved call handling to working remotely**, with some losing technology like call recording and archiving. Sustainable in the short term but training, quality control and ability to respond to complaints is likely to suffer.
- Low volume **exceptional activities that have been reliant on paper will become more difficult to operate**. Many of these relate to vulnerable customers (e.g. divorce, death) and providers will need to take significant care to ensure they are still able to perform these considerably and efficiently.

- **Need for additional support for corporate customers**, who will understandably be focused on keeping their businesses afloat and may need reminders and help with any regulatory duties.

Activities to consider

- Implement **remote identity verification practices** (e.g. client videos, secured PDFs by secure email) to protect against fraud. Reinforce staff training on fraud measures, policies and client guidance processes.
- Consider alternative ways to accept proof of death**, as obtaining copy death certificates may prove impossible for some beneficiaries in short term.
- Produce **clear guidelines for customer engagement**, including consistent messaging and tone of voice for remote service agents.
- Signposting customers to online engagement channels**, (e.g. customer portal, webchat) can ease the pressure on contact centre operations. Caution will need to be given to ensure that the digital channels are set up to provide consistent service.
- Produce **proactive customer communications**, with clear messages for customers, to set expectations around service levels.
- Enable and empower frontline customer colleagues** to demonstrate excellent service for each and every customer. Relevant in relation to the **increase in vulnerable customers caused by COVID-19** and potential increase in protection claims, beneficiary changes and death registrations.
- Closely **monitor customer feedback metrics** (e.g. NPS) and be prepared to implement necessary changes to guidelines to mitigate issues.



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Customer
Management

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Policy Administration

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Policy Administration

Administration and management of policies

Activities to consider

- Reallocate staff from non-critical business areas** to mitigate operational pressures.
- Use workflow tools and business activity monitoring** to divert resource from non-critical tasks.
- Where wet signatures are required e.g. trustees, put in place **rota of signatories** to enable social distancing on-site.
- Consider a **pragmatic approach to client authority** i.e. whether completed forms can be attached to a secure message.
- Ensure **pension PAYE reporting** is automated and designed to cope with pensions business, with variable amounts, frequencies and numerous one-off payments. **Chargeable event certificates** should be automated, where manual.
- Review vulnerable customer policy** to reflect the impact of COVID-19, which it could be argued has made every customer vulnerable (i.e. when video conferencing incl. a relative is permitted).
- Consider **automation of low-end claims activity** based on business risk tolerances where not already in action.

- Likely to see a **move away from physical channels and wet signature requirements**. Cease accepting cheques and ensuring that customer's consent can be obtained online effectively.
- **Increase in operational pressures** may affect ability to meet targeted service levels. This has been particularly evident where there is a lack of straight through processing and self-serve digital capabilities.

- **Change in numbers of benefit crystallisation events** as some aged 55-75 needing to replace lost income and others question timing, particularly if plan values have fallen and reduced intended lump sums and income.

- A significant proportion of **customers will become vulnerable**, either temporarily or in the longer term, as a result of the financial and health impacts of current nationwide restrictions and the virus itself. This is likely to **increase operational pressure (e.g. coverage queries, claims, mid-term adjustments, premium/contribution holidays)**.

- Providers with significant volume of drawdown business and life bonds may see a **spike in changes to withdrawals** as a result of the market volatility.

- The mortality rate is expected to be 3-6% higher than 2019, with morbidity data yet to be determined. We will see **more protection claims and greater demand for APS and SIPP, inheritance BCEs** as well as changes to beneficiaries and expressions of wish. In the period post-crisis there could be a **secondary effect resulting from deferment of non-COVID-19 critical illnesses treatment**, further impacting mortality and morbidity.

Policy Administration

New Business Processing

Policy Underwriting

Tax Wrapper Administration

Premium Management

Policy Maintenance

Withdrawal Payments Management

Protection Claims Processing

Scheme Management

The management of a group life or pension scheme throughout its lifecycle

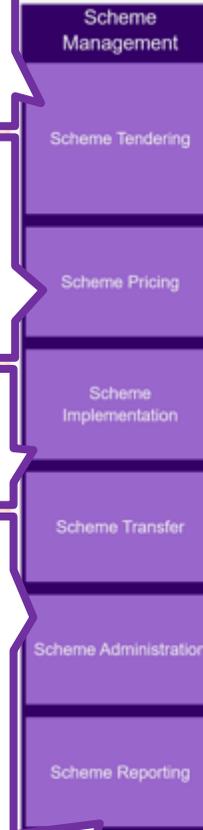
- Likely **drop-off or hold on scheme tenders** for replacement group life or pensions and for new scheme de-risking transactions, as sponsors focus on survival and assess the situation.

- **Mortality effects** will have an impact on **Group Life scheme pricing**.
- **Improved short-term pricing** for pension in payment bulk buy-outs/buy-ins, but **higher capital needs** push up pricing for deferred pensions.

- **Ongoing implementation projects and transfers may be put on hold** as resourcing issues force focus on other business areas.

- As scheme sponsors fall into financial difficulties, **volumes of late payments will increase**. TPR insists contributions must still be paid but has **extended deadlines for reporting payment failures**.
- Employers with staff on furlough **may cut contributions to statutory minimum during furlough period**.

- **DB scheme valuations** will have taken a hit unless hedged or de-risked. Production of scheme returns must continue.
- On-line contact replaces face-to-face trustee and IGC meetings.



Activities to consider

- Work with advanced DB de-risking prospect clients** to identify where proceeding with the transaction now may be advantageous.
- Prioritise core activities** identified by The Pensions Regulator's COVID-19 guidance: payment of benefits; minimise the risk of scams; collect contributions from employers; report to trustees and regulators as normal.
- Engage pro-actively with trustees** who will be anxious to understand the impact of the market volatility on their group pension scheme funding positions and keen to hear any possible mitigating actions.
- Assure trustees and corporate customers of the **resilience of the organisation and the effectiveness of its business continuity arrangements**.
- Contact scheme sponsors** to remind them of their ongoing duties as well as easements agreed by TPR for DB schemes' deficit reduction contributions and options on auto-enrolment contributions.
- Adjust systems and processes to extend reporting period** for late employer payments to 150 days.
- Monitor patterns of pension and investment withdrawals and transfers** to identify possible increase in fraudulent activity.
- Heightened engagement with IGCs** as committees react to market volatility in their investment strategies.
- Facilitate secure video conferencing facilities** for IGCs and interactions with trustees.

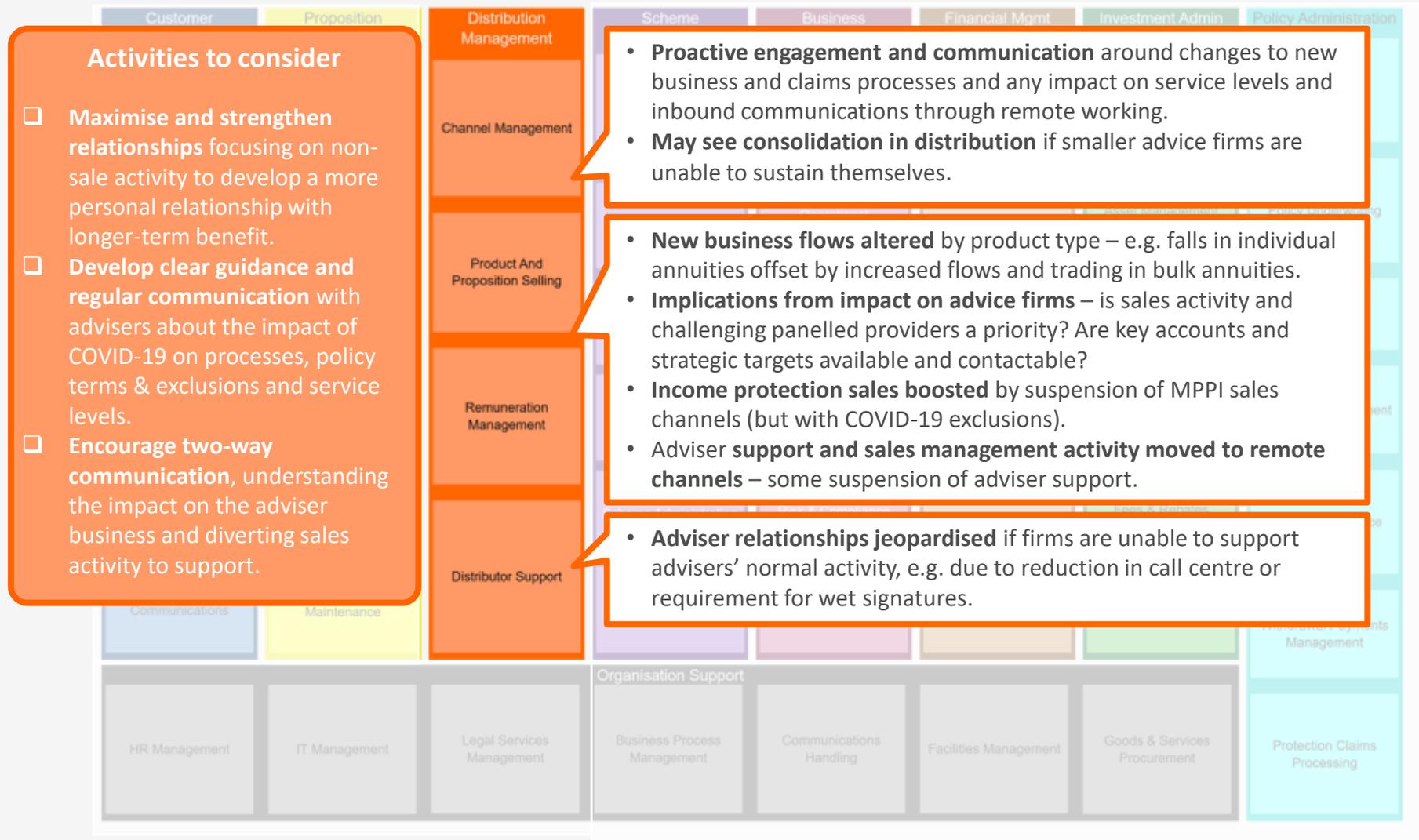
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Scheme Management

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Distribution Management

The distribution of the commercial proposition through a variety of channels



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Distribution Management

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Investment Administration

The pricing and trading of client investments



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Investment Administration

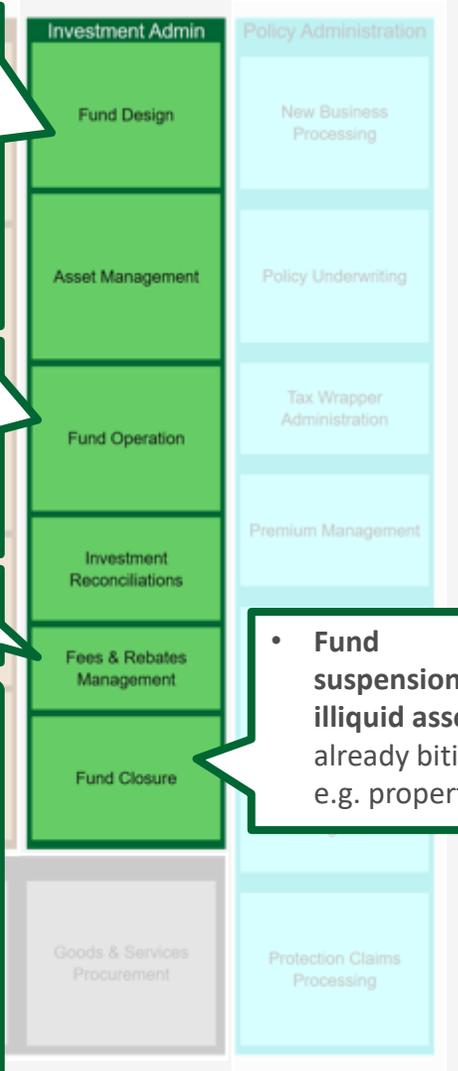
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- **Lifestyle portfolio solutions and blended/fund of fund propositions** may require **additional support and governance** to avoid customer detriment.
- Volatility impacting **asset models for protected funds and with profits**.
- Index-heavy **default fund solutions may face increasing challenge** due to volatility.
- **Active fund management expectation** will be tested – are they mitigating the impact?
- **Governance on fund exposure** may require additional support (e.g. excess exposure to a specific fund as a result of volatile market sentiment).
- **IGC meetings will require remote communications** and security support.

- Vast **majority of standard assets traded through STP** (e.g. EMX, Calastone, stock market RSPs etc.) with **minimal impact**.
- Indexation of funds to end of day prices invokes **higher degrees of risk and exposure**.
- **Increase in trading volumes** observed with impact on connected activity (e.g. reconciliations) given market volatility.

- Fees and rebates likely to be more challenging to reconcile with **explicit fund charge structures coming under increasing pressure**.

- Activities to consider**
- Relocate resource from non-critical administration tasks to manage peak demand.
 - Review requirements for lifestyle portfolios and default investment funds to ensure that these are not generating excessive costs through over-active rebalancing.
 - Introduce more frequent meetings of governance committees via remote comms to provide close support to fund operations.
 - Consider suspension of indexation of daily fund prices if policy terms permit.
 - Review fee and rebate functionality and automate wherever possible.
 - Review open status of protected and with-profits funds where customers may be disadvantaged.



- **Fund suspensions for illiquid assets** already biting – e.g. property.

Financial Management

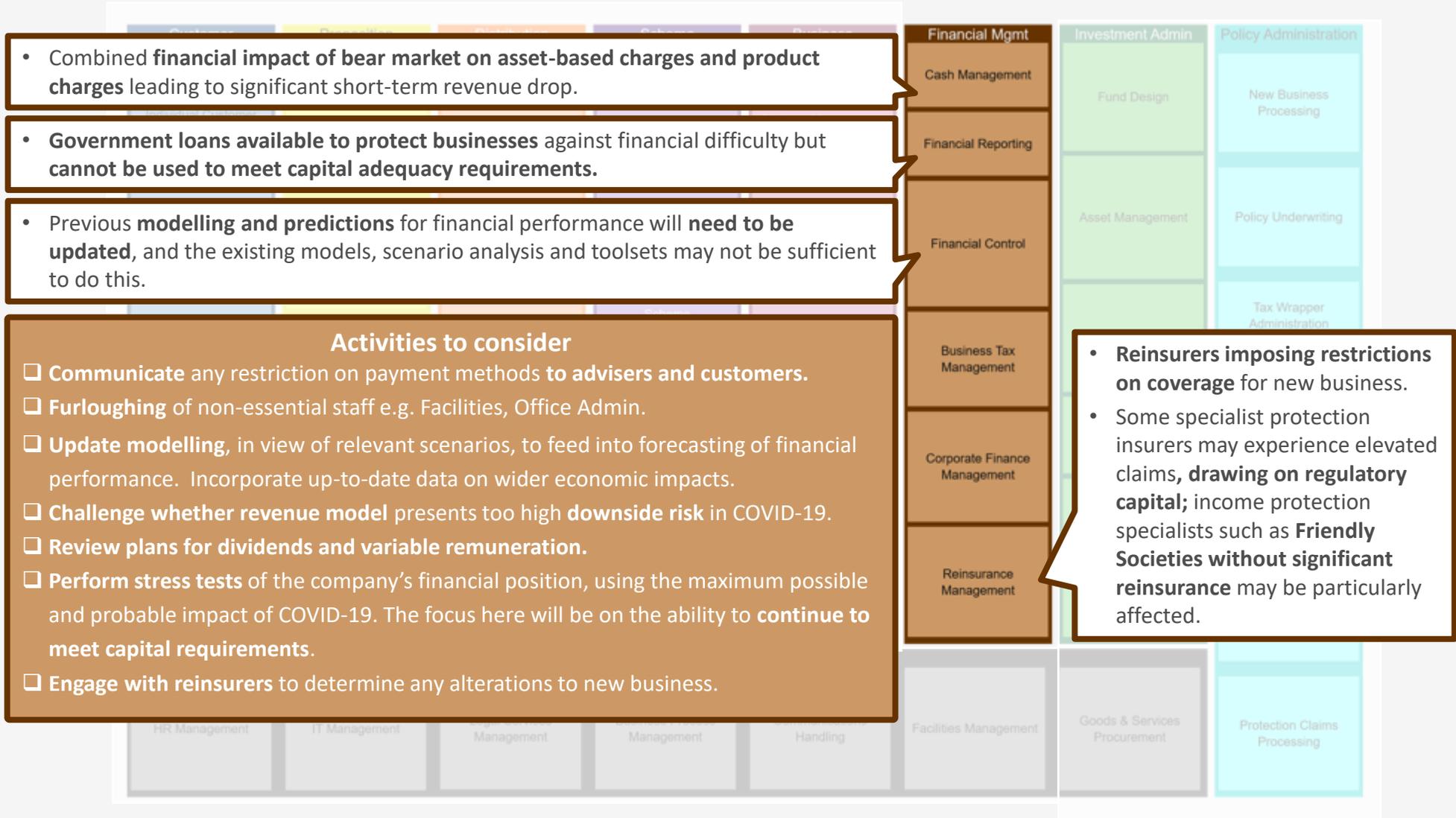
The handling of, planning and accounting of company money



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Financial Management

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Proposition Management

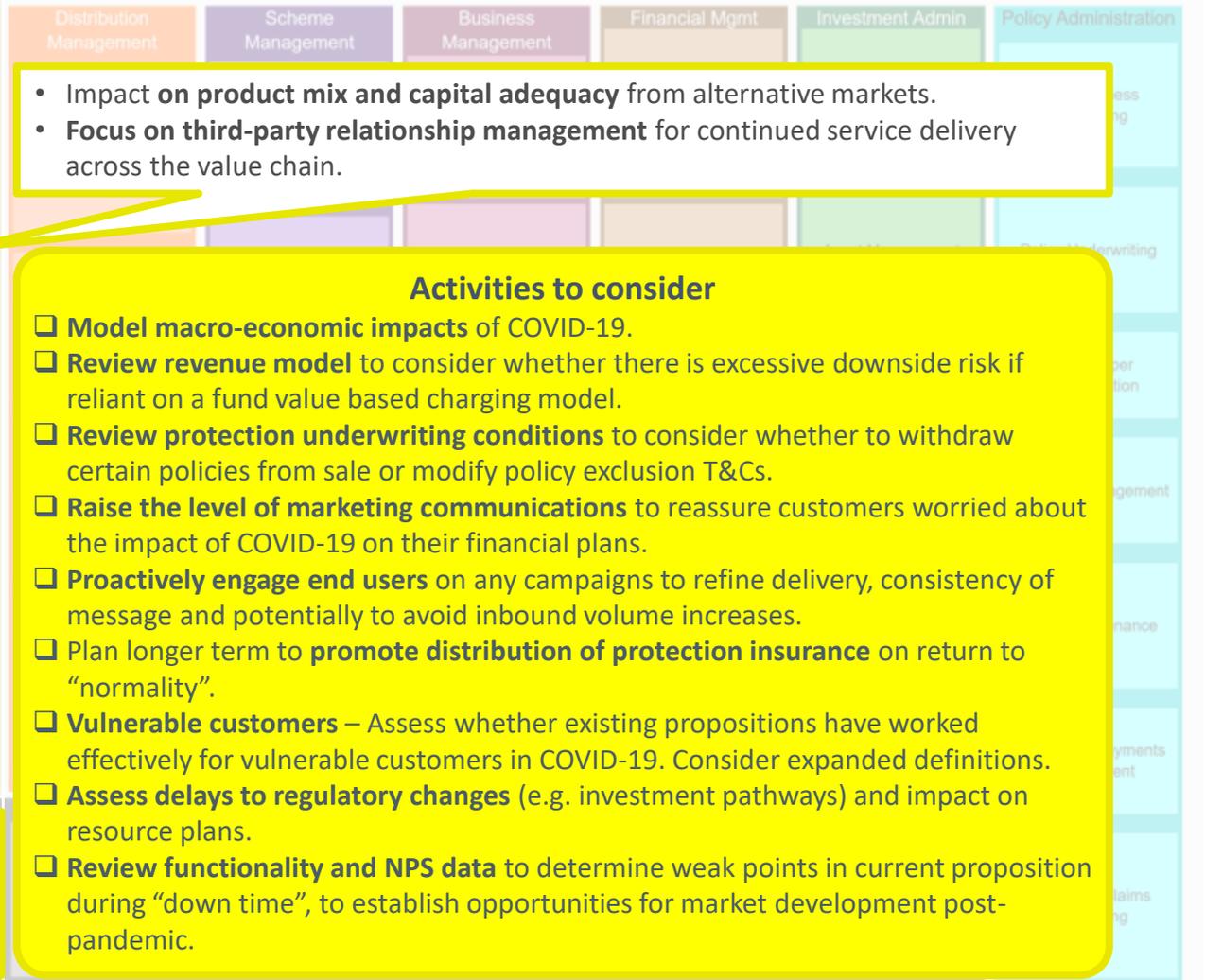
Development, management and marketing of commercial propositions



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Proposition Management

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Business Management

Management and control of the business including the setting of strategy, developing and delivering plans

Activities to consider

- ❑ Prepare for a 'new norm' – consider if COVID-19 practices have improved maturity and should endure beyond 'return to normal', including revised work patterns. Produce a 'Return to BAU' plan.
- ❑ Significant and sustained operational planning activity to manage capacity and demand.
- ❑ Review Business Continuity Plans – ensure BCP remains robust against a future COVID-19 magnitude event and update as required.
- ❑ Document & consolidate incident management activities as they happen.
- ❑ Review of change priorities – immediate focus on high priority, mandatory changes, or changes to support COVID-19 working practices.
- ❑ Clear and consistent communication – essential both internally and externally, to reduce the reputational risk associated with potentially reduced levels of support being provided.
- ❑ Review of current risk and compliance policies – analysis of existing governance structure to ensure availability of agile decision making that is required in the current situation.

- Leadership teams may see new expectations among home-working staff for more flexible ways of working post-crisis, as they re-assess their work-life balance.

- Significant focus on BCP (Business Continuity Planning), both within the business and those of core suppliers.
- Immediate changes to operating model around location, technology, information and process; in particular, a drive to remove paper and manually driven procedures.
- Heightened operational planning, including forecasting in response to increased trading volumes (market volatility), changes to income or drawdown plans, valuations queries, protection claims, beneficiary updates and death registrations.
- Pressure on call centre resource management function, particularly for short & medium term planning, due to significant increase in demand and likely reduction in capacity.

- A need to focus business planning, public relations activity, communication with customers, advisers, suppliers, shareholders and internal communications (e.g. situation updates and priorities / expectations).

- Levels of risk increasing as a result of the move to home working on short notice.

- Reduction in change activity with strategic initiatives de-prioritised, alongside a reduction in resource availability due to BAU priorities.

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Business Management

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Organisation Support

Functions that support the running and organisation of the business

Activities to consider

- ❑ With a move to remote working, **ensure good staff health and safety**, including mental and occupational health considerations. Employees with additional needs or dependencies **should be given flexible arrangements and support** wherever possible.
- ❑ **Employee engagement is key** – ensure regular touchpoints, increased use of social channels and opportunities for employees to interact as if they were in their normal place of work, and providing support networks.
- ❑ **Train customer-facing staff to recognise customer vulnerability** and develop any new processes to support.
- ❑ **Review IT security and scalability** to adhere to standards and ensure sufficient capacity for the changed demands of users and the business; provide homeworkers with support on tech and connectivity.
- ❑ **Look to the Cloud** – cloud-based solutions are now a necessity.
- ❑ **Review disaster recovery plans and wider processes** to ensure that they are fit for purpose in the current environment. **Remember to check that suppliers DRP and business continuity strategies** remain fit-for-purpose.
- ❑ **Perform regular and proactive reviews** with suppliers and other 3rd parties to understand impacts, and work together on interim activities to ensure readiness for future re-engagement.

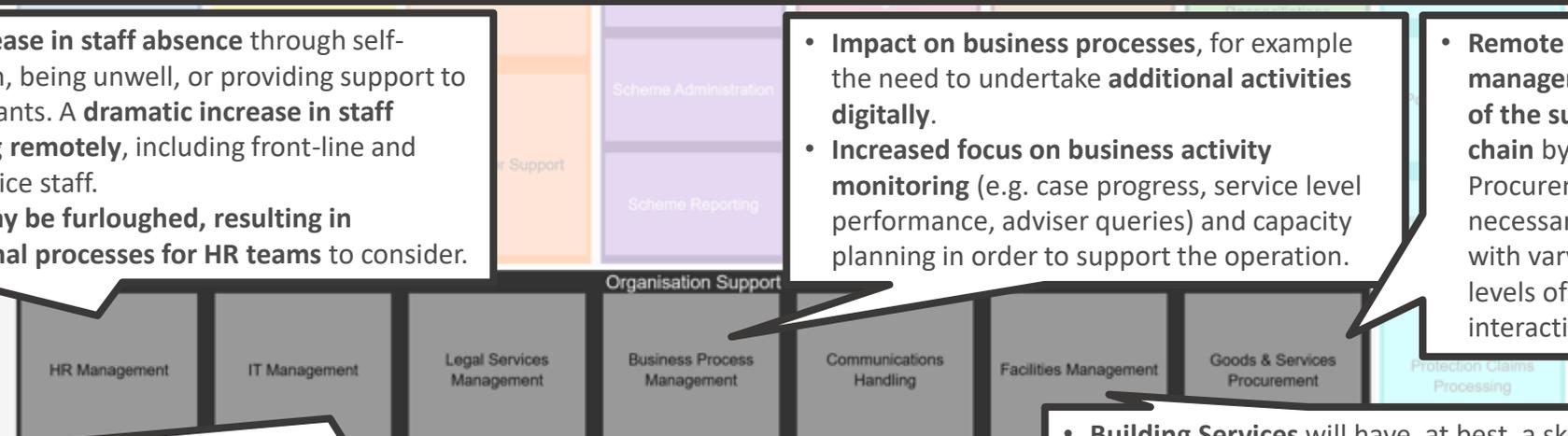
- An **increase in staff absence** through self-isolation, being unwell, or providing support to dependants. A **dramatic increase in staff working remotely**, including front-line and back office staff.
- **Staff may be furloughed, resulting in additional processes for HR teams** to consider.

- **Impact on business processes**, for example the need to undertake **additional activities digitally**.
- **Increased focus on business activity monitoring** (e.g. case progress, service level performance, adviser queries) and capacity planning in order to support the operation.

- **Remote management of the supply chain** by Procurement necessary, and with varying levels of interaction.

- **Communication and other technologies** have seen an **increase in use**, with users, licenses and processes needing to be managed. Impact across other technologies, including **more use of remote VPNs**, cloud-based solutions and end user technology, e.g., laptops, tablets.

- **Building Services** will have, at best, a skeleton staff on site. **Many offices closed, however security will be essential** and could impact insurance arrangements.



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Organisation Support

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Conclusion

Industry response: next steps

Life and Pensions firms can be proud of the way they have responded to this national emergency. Providers have rightly focused on putting customers' needs first, and mobilised in very short order, achieving what many could not have done in several months in more normal times. We have been encouraged by what we've seen and have cause for optimism that a great deal of positive change will come out of this crisis.

We believe that as firms transition to a new type of 'business as usual', a better, more trusted industry will emerge that embeds the 'in this together' spirit we've seen throughout the country. These are some of the key longer-term factors we urge firms to consider:

1. Insurers and reinsurers need to expect, and plan for, a second wave of coronavirus cases as the restrictions ease. This is especially the case for morbidity and mortality cases once the furlough scheme ends and people may be forced to return to work despite the risks.
2. There is a lot this crisis will have taught us about how to manage vulnerable customers, based on a shared understanding that we are all vulnerable right now. Firms should also take these learnings and apply them more broadly across their own staff, among whom new vulnerabilities have emerged as a result of working from and isolating at home.
3. The renewed focus on customer-centricity is a huge positive; firms have found new ways to communicate with, support and reassure customers, and as a result will more likely become trusted partners who can offer more guidance to them.
4. The homeworking genie is well and truly out of the bottle. Progressive firms will reap rewards by realising that continuing to offer this unprecedented flexibility will attract the best talent. Providers can also reduce their spend on expensive real estate.
5. Property funds invest primarily in retail and office premises. With potentially less demand for office space and the accelerating death of the High Street, a new approach will be needed to these investments. Landlord insurers and fund managers will need to consider possible change of use in both property types, for example to care homes and residential dwellings. As individuals attach more value to local businesses, we may even see a return to more traditional trading. Meanwhile, the societal worth of other industries, for example firms such as pharmaceuticals and food retail, has been enhanced, which may lead to a re-evaluation of the meaning of economic value.
6. Even very large and complex organisations have proved to themselves and their customers that they can make large-scale logistical and technology change in a very short time (albeit with some leniency from regulators). Capturing this spirit by re-examining the way change is managed and governed could lead to a much-improved industry, more responsive to the needs of customers, advisers and trustees, potentially opening a new age of innovation.

Customer Management	Regulation	Operational Support	System Management	Business Management	Financial Support	Investment Support	Policy Administration
Virtual Customer Administration	Market Research	Channel Management	Customer Onboarding	Policy Issuance	Financial Planning	Fund Manager	New Business Processing
Customer Support	Product Development	Product and Portfolio Selling	Service Delivery	Customer Support	Financial Control	Asset Management	Policy Underwriting
Corporate Customer Administration	Product Development	Relationship Management	Customer Support	Customer Support	Market Data Management	Fund Manager	Life Support Administration
Customer Experience Management	Product Development	Relationship Management	Customer Support	Customer Support	Investment Support	Asset Management	Policy Administration
Corporate Customer Administration	Product Development	Relationship Management	Customer Support	Customer Support	Investment Support	Asset Management	Policy Administration
HR Management	IT Management	Legal Services Management	Business Process Management	Communications Marketing	Facilities Management	Health & Safety Management	Product Sales Promotions



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