



# Impacts of COVID-19 on Insurance Businesses

Altus  
MAKING FINANCIAL  
SERVICES FASTER

# Industry response: the picture so far

Having read numerous press articles and stories across social media channels and heard a few personal stories myself, the insurance industry is getting a pretty rough deal at the moment. The expectation for the industry to just pick up the tab for a once-in-a-century crisis like this is just not reasonable. There have been calls from some for the industry to retrospectively change their policies to cover the pandemic. There are policies available that cover pandemics, as demonstrated by the LTA with Wimbledon and also the Tokyo Olympics. These insurance carriers will take a hit, but the claims will be paid. To suggest all Business Interruption should be retrospectively covered is simply wrong. Customers had the option to buy these policies, and perhaps more notably, brokers had the option to sell them.

To put into some perspective, the Government's initial financial package to help UK businesses was in the region of £330Bn, with an additional £15-25Bn to cover the self-employed, and they have written off another £13Bn of NHS debt. This is a huge sum of money to ask any private sector industry to find. The total annual premium paid by customers for Insurance (life and non-life) in 2018 was about £300Bn. With operating ratios typically around 90%, having that additional liability in the order of the Government bailout, would make the insurance industry insolvent. Putting into further perspective, the Lloyds Market paid out £19.7Bn in claims in 2018, and this was a loss-making year. The financial package that the Government has produced is staggering in comparison.

The industry does have to take some criticism though. Communications have not been as forthcoming as other industries. I've had notifications from other FS companies, Telecomms and Utilities offering support (e.g. mortgage and payment holidays, additional free services) but I've not heard from any of my insurers. In fact, the one piece of communication I had was to tell me any further holidays I booked after March 18<sup>th</sup> would not be covered under my travel insurance policy. Not the caring arm of insurance I had hoped for.

Search a bit harder and you will find some good news stories. Motor insurers have offered to automatically extend cover for anyone volunteering for NHS. Home insurers are automatically extending work from home cover for any clerical/admin tasks. The AA are offering free breakdown cover for NHS workers. Admiral are paying £100k to a local charity to help with their Coronavirus Resilience Fund.

InsurTechs too are stepping up. BoughtByMany has been proactive in their customer comms to let customers know they continue to be covered, even if they invalidate some of the policy T&Cs for missing vet check-ups. So-Sure are offering free loss and theft cover during the Coronavirus lockdown (great, if you don't trust your own family members!). Cuvva are offering NHS workers 50% off their temporary car insurance policies, supported by their underwriter Mulsanne. Thingco CTO (Jonny Valentine) has launched the Helping Hand Project (and technology platform) to provide a secure way of connecting those in isolation with volunteer groups/foodbanks/take-away services who can help. There are many more of these stories.

Meanwhile, over in the US, 3 separate states are looking at litigation to force insurers to cover pandemic. This would be disastrous for the industry.

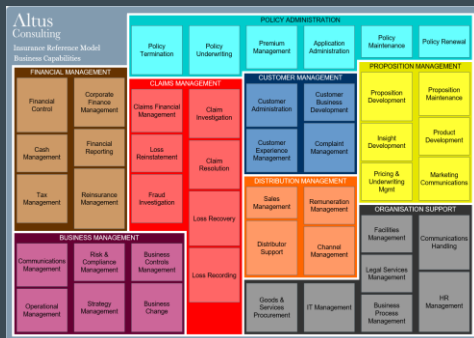
But there is a way forward. Following the SARS pandemic in 2003, the insurance industry went into retreat rather than addressing the issue head on. Underwriters introduced exclusions to future pandemics, and everything continued as per normal. There was a pathway to address the issue there and then.

FloodRe was introduced in 2016 as a not-for-profit Reinsurance scheme to help those living in houses already built on a flood plain with access to affordable insurance. Similarly PoolRe was set up in 1993 to cover large losses resulting from acts of terrorism, regardless of the scale of the claims. Is now the time to consider working towards the introduction of PandemicRe?

**Mark Andrews, Insurance Director**

## Impacts of COVID-19 on Insurance Businesses

### Foreword



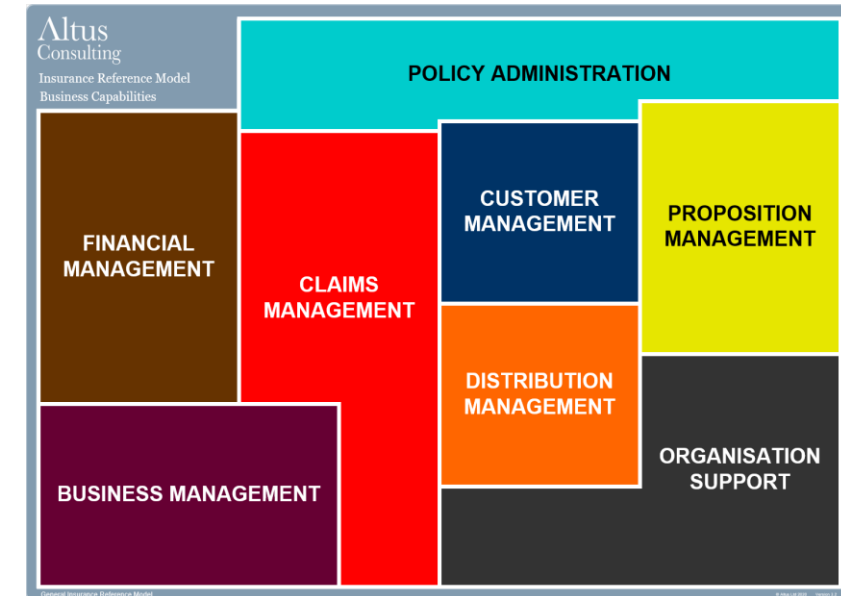
# Impacts of COVID-19 on Insurance Businesses

With the current COVID-19 crisis in full flow, insurers are having to manage impacts across every area of their business.

Altus has captured and visualised the key impacts against its Insurance Reference Model, and suggested the activities likely needing to take place across every business capability – the building blocks of an insurance company, which will be delivered by people, processes and technology. This model enables organisations to define what they do using a common language and understanding of the make-up of an end-to-end Insurance business.

We focus firstly on the capabilities which support front office activities, from the development and maintenance of Propositions, through to Distribution, Customer Management, Policy Administration and handling Claims. We then assess the impact to the underlying “back office” capabilities, looking at how businesses will be managed through this period, what this means for support functions like HR and IT, and the issues that central finance teams should be thinking about.

There are key themes which run throughout, in particular around communication with customers and brokers, the likely growth in customer vulnerability, working towards greater operational resilience in the short and longer term, and how the challenges have been magnified by the legacy nature of existing technology and contact centre models.



Altus Insurance Reference Model – Top Level View

Impacts of  
COVID-19 on  
Insurance  
Businesses

Approach



## Impacts of COVID-19 on Insurance Businesses

## Proposition Management

# Proposition Management

Development, management and marketing of customer propositions

### Impacts

- There will be longer-term impacts on pricing as a result of increased claims for some lines of business, e.g. the resulting travel claims are predicted by the ABI to cost £275m across the industry.
- There may be a short-term reduction in premium in some areas, e.g. in Travel, it may take some time before people return to their holiday plans, and businesses which do not survive this period will not be seeking cover in the longer term.
- We are likely to see changes in customer behaviours linked to the pandemic event and altered perceptions of risk, which will impact the nature of the insurance cover they seek and most likely increase the extent to which they want to be covered.
- Reductions in RTAs and claims costs should flow through to pricing. For most insurers operating in the motor insurance market, there will be significant cost savings in the short term, although with lower fuel prices we may see an increase in mileage and concurrent claims costs once things resume to normal.
- There will be an increased exposure to cyber risk as insureds move staff to home working, with weaker IT security measures in place. This may, however, also lead to increased growth in this area, as businesses identify it as a gap in their insurance cover.
- There will be a reduction in marketing activity, as some insurers take steps to avoid an increase in in-bound new business calls.



### Activities to consider

- ❑ **Review policy wordings** to determine whether there are changes that should be made to reflect a better understanding of the potential risk for pandemics, to address the fluctuating position we may see in the next 6-18 months and increased demand for cover from businesses.
- ❑ **Revise underwriting manuals and update system rules** where necessary – changes will need to be assessed for customer and downstream business impacts.
- ❑ **Proactively communicate with customers** and review existing campaigns (to ensure consistency of message, and potentially to avoid inbound volume increases). There are already signs that the industry has lagged behind counterparts in banking and other sectors in managing communications with customers as the CV-19 position has developed.
- ❑ **Update propositions** – whilst insurers are making changes to policies in response to the current situation, there may be a move to updating existing propositions so that they clearly support the activities of key workers and some types of voluntary activity.

# Distribution Management

The distribution of the commercial proposition through a variety of channels – both intermediary and direct

## Impacts of COVID-19 on Insurance Businesses

## Distribution Management

### Impacts

- The first response for many insurers was to protect themselves from further losses. There has been a reduction in sales volumes, either through removal of business lines but also due to resource impacts being diverted away from New Business. Nearly half (31 out of 75 major insurers according to Which?) of insurers have pulled their travel insurance offerings.
- Questions from customers will have been on the increase. Brokers and Insurers have had a deluge of questions from clients about coverage for certain product lines, most notably business interruption for commercial policies.
- Brokers running their businesses on old legacy platforms may find that working remotely will not be possible due to technology restrictions. This also relates to telephony call recording, and will impact brokers who will need to revert to note-taking rather than rely on telephony platforms to capture client conversations.

### Activities to consider

- ☐ **Assess new business for certain product lines** across all channels, including removal of products from PCW sites, brokers and any partnership deals in place.
- ☐ **Develop clear guidance** for brokers and other partners re levels of cover provided moving forward.
- ☐ **Support brokers with understanding exclusion periods** for any new business sold from here on, e.g. Unemployment cover on any ASU policies.
- ☐ **Consider diverting new business resource** or focusing on online sales and reallocating to Claims and Servicing activities.
- ☐ **Work with brokers** to support the upgrading of legacy technology, to ensure the resilience of its distribution structures for future events.
- ☐ **Education** – Brokers and insurers need to spend more time educating their clients and understanding their needs and whether their needs have changed in light of CV-19. More focus on coverage, exclusions and risk management rather than price. This is an opportunity for the insurance industry to improve their reputation.

### DISTRIBUTION MANAGEMENT

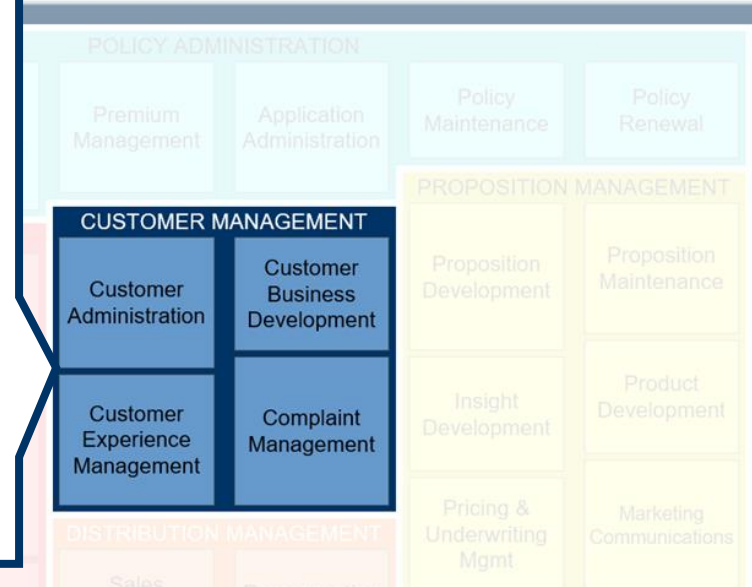
Sales Management	Remuneration Management
Distributor Support	Channel Management

# Customer Management

The administration and management of individual customers (personal and/or commercial)

## Impacts

- **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**, particularly existing customers wanting to understand policy coverage, or those with ongoing claims, will have **impacted service levels**.
- An **increase in complaints** will likely have been seen – a number of factors could be causing this, which will have included customers dissatisfied with policy coverage, claims management or service levels.
- There will have been the potential for the **knock-on risk of reputational damage** through a lack of customer understanding of their existing policies.
- **Cross- and up-selling to existing customers may not have been appropriate** at this time, and if offered would likely have caused dissatisfaction.
- On a positive note, there has been plenty of **opportunity to demonstrate excellent service**, managing individual customer's situations with empathy and integrity, particularly where customers are displaying vulnerabilities.



## Activities to consider

- ☐ **Signposting customers to online engagement channels**, e.g., webchat or chatbots, can ease the pressure on contact centre operations. Caution will need to be given to ensure that the digital channels, particularly automated technology, are set up to provide service consistent with the brand.
- ☐ If decided, the **removal of cross- and up-sell activities** for products such as Travel will need to be undertaken swiftly and with consideration for existing policyholders.
- ☐ Produce **clear guidelines for customer engagement** – proactive, reactive and to manage dissatisfaction.
- ☐ Produce **proactive customer communications**, with clear messages for customers to set expectations around service levels, reassure and inform on product coverage (including relevant temporary extensions to cover, e.g., working from home, using own vehicle for volunteering) and reiterate important contact information.
- ☐ **Enable and empower frontline customer agents** to demonstrate excellent service for each and every customer.
- ☐ Closely **monitor customer feedback metrics** (e.g., transactional NPS, CSAT) and be prepared to implement any necessary changes to guidelines to mitigate issues.

Impacts of  
COVID-19 on  
Insurance  
Businesses

Customer  
Management

# Policy Administration

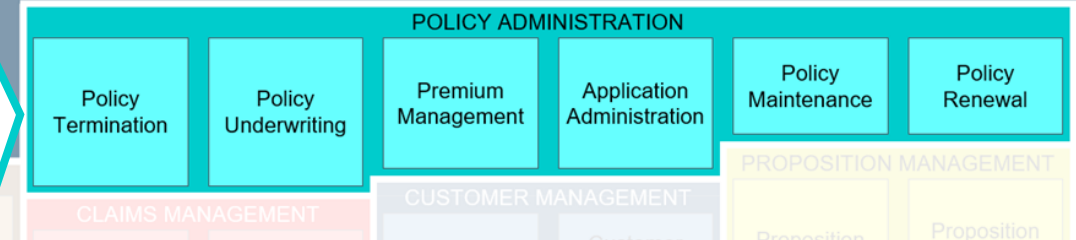
## Administration and management of customer policies

### Impacts of COVID-19 on Insurance Businesses

### Policy Administration

#### Impacts

- The increase in operational pressures will affect the ability of insurers to meet their targeted service levels, with much longer waiting times for customers. This has been particularly evident where there is a lack of digital capabilities.
- There has been a sudden need to temporarily amend policies on a wide scale, with a significant increase in the number of policyholders working from home, and businesses which are reducing their activities to a minimal level.
- A significant proportion of customers are or 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.
- There is likely to be a demand from customers and brokers for flexibility in the renewals process and the contractual timescales to renew.



#### Activities to consider

- ❑ **Reallocate resource** from non-critical areas to support those parts of the business most under pressure, and working towards home working for all customer-facing staff where possible.
- ❑ **Work with commercial customers** to ensure special terms and coverage changes that are temporarily closed for business can be applied within minimal pain, or waiving the requirement to apply these as a temporary measure.
- ❑ **Allow for payment holidays** for customers that are facing financial hardship as a result of the short term impact; **suspend processes which lead to automatic termination of cover**, particularly in view of the challenges customers and brokers may be having trying to communicate with insurers; and **relax conditions** where adherence is difficult during CV-19 restrictions (the industry's decision to relax requirements around MOT certificates, in line with legislative changes to allow for this, is a good example of this flexibility).
- ❑ **Engage with brokers** to agree on how renewals will be managed, as more time may be required for questions to be answered and followed up on – this could also mean providing short extensions to cover to allow for this (this also applies to the point below, regarding vulnerable customers – during this high-stress period, there needs to be flexibility to ensure that customers can make clear decisions about ongoing cover). Some insurers have been proactive in communicating with brokers on this, providing clarity on extensions of cover before renewal for commercial schemes.
- ❑ **Review and implement vulnerable customer measures**, to ensure that this segment is identified and provided with appropriate support and clear information regarding how their insurance is being managed.
- ❑ **Remove the requirements to notify of certain changes** – the ABI has announced a series of measures that its motor and home insurer members have pledged to take, to support customers during the crisis. These include removing the requirements to notify about working from home, or a new requirement to drive to work due to COVID-19, ensuring that cover is not affected for those acting as NHS Volunteer Responders, or as a result of having to drive to different locations as a key worker.



# Claims Management

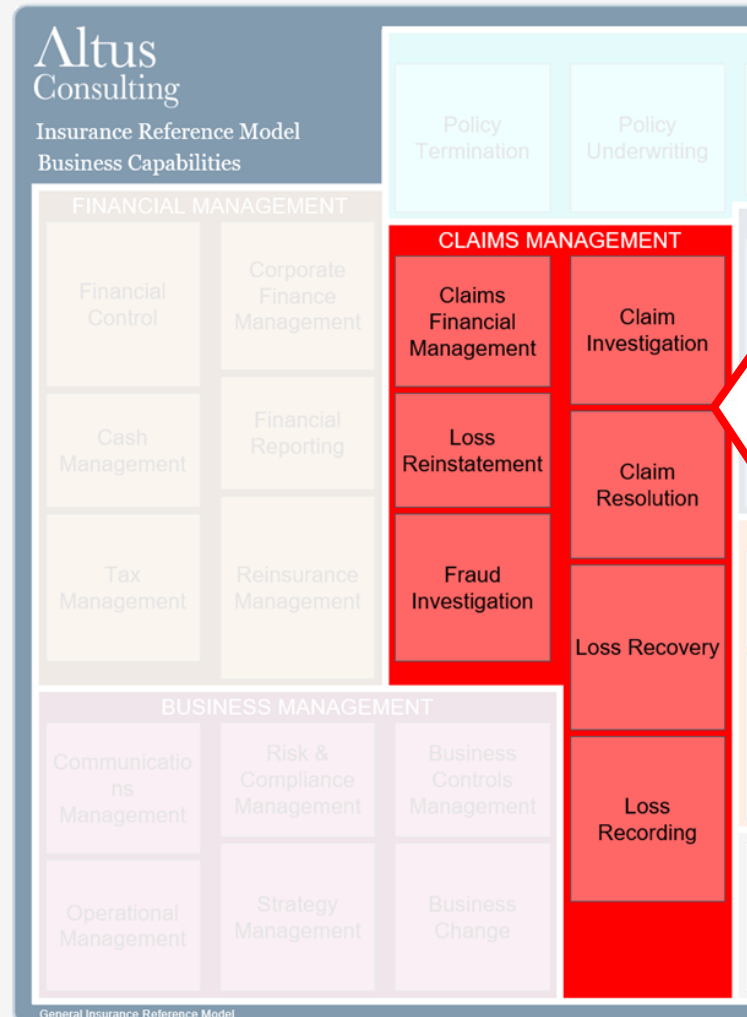
## Management and handling of claims

### Impacts

- The industry is experiencing a surge in Travel and Business Interruption claims, which, alongside the need to move staff from offices to home working, is placing significant pressure on claims operations.
- Whilst still early days, we would anticipate a notable reduction in motor claims due to the decrease in road activity, and this will, for some, offset the cost impact in other areas. Volumes may, however, raise above normal levels after the restrictions are lifted, if fuel costs remain low.
- The operational challenges will compound the impact of recent surge activity, in particular those relating to the recent weather events.
- There will be immediate logistical challenges, with loss adjusters unable to attend sites where occupants are self-isolating.
- The impact to the wider supply chain may create challenges in fulfilling claims within normal timescales (e.g. reduced staffing at repair centre, potential for tighter restrictions to affect property damage restoration work) and insurers will need to work closely and flexibly with suppliers.
- We would anticipate disputes and litigation regarding coverage for pandemics, particularly where there is any ambiguity in the policy wording.
- Greater scope for fraudulent activity, where it is known that the industry is having to adapt to new operational challenges in Claims.

### Activities to consider

- ☐ **Review and Implement surge plans**, to alleviate pressure on front-line staff and manage customer expectations.
- ☐ **Consider flexing the FNOL capability**, e.g. by temporarily aligning motor claims staff to manage the surge in new travel claims.
- ☐ **Engage third party technology vendors, loss adjusters and existing suppliers** to understand how propositions may provide a short-term solution to the current challenges, and support greater operational resilience.
- ☐ **Update faster settlement processes** for simple claims (self-serve route where possible) and consider increasing authority limits for claims handlers and loss adjusters. There will be a need for updated controls alongside this, to reduce the potential fraud risk.
- ☐ **Extend periods for temporary vehicle replacement and alternative accommodation** where vehicle and property repairs are taking longer than usual to complete.



Impacts of  
COVID-19 on  
Insurance  
Businesses

Claims  
Management



# Business Management

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

Impacts of  
COVID-19 on  
Insurance  
Businesses

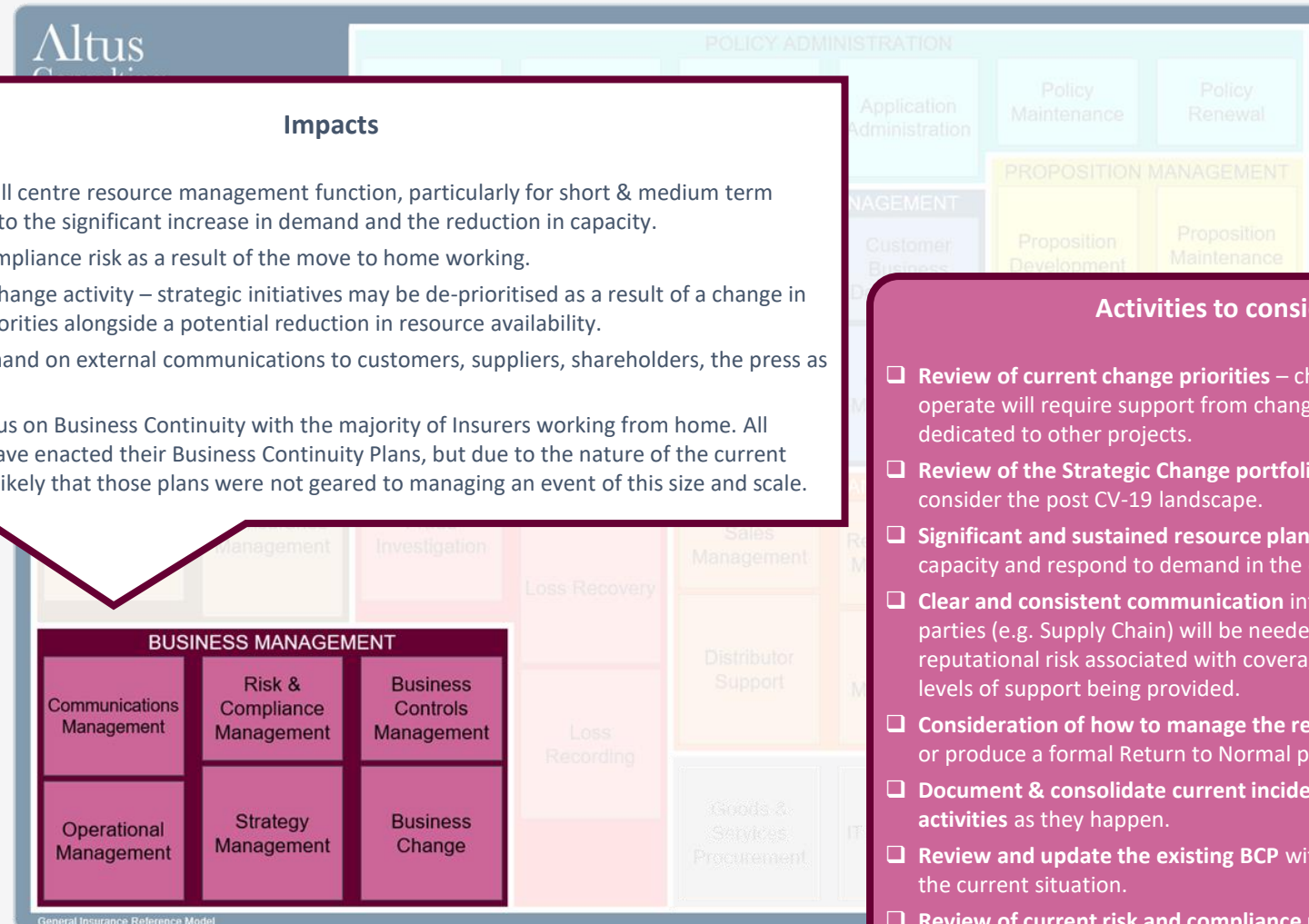
Business  
Management

## Impacts

- Pressure on call centre resource management function, particularly for short & medium term planning, due to the significant increase in demand and the reduction in capacity.
- Increase in compliance risk as a result of the move to home working.
- Reduction in change activity – strategic initiatives may be de-prioritised as a result of a change in short-term priorities alongside a potential reduction in resource availability.
- Increased demand on external communications to customers, suppliers, shareholders, the press as well as staff.
- Significant focus on Business Continuity with the majority of Insurers working from home. All Insurers will have enacted their Business Continuity Plans, but due to the nature of the current situation, it is likely that those plans were not geared to managing an event of this size and scale.

## Activities to consider

- ☐ **Review of current change priorities** – changes to how insurers operate will require support from change resource currently dedicated to other projects.
- ☐ **Review of the Strategic Change portfolio** – insurers will need to consider the post CV-19 landscape.
- ☐ **Significant and sustained resource planning activity**, to manage capacity and respond to demand in the coming months.
- ☐ **Clear and consistent communication** internally and with third parties (e.g. Supply Chain) will be needed to manage the reputational risk associated with coverage decisions and the levels of support being provided.
- ☐ **Consideration of how to manage the recovery phase** – review or produce a formal Return to Normal plan.
- ☐ **Document & consolidate current incident management activities** as they happen.
- ☐ **Review and update the existing BCP** with lessons learnt from the current situation.
- ☐ **Review of current risk and compliance policies**, governance forums to ensure they support the agile decision making that is required in the current situation.



# Organisation Support

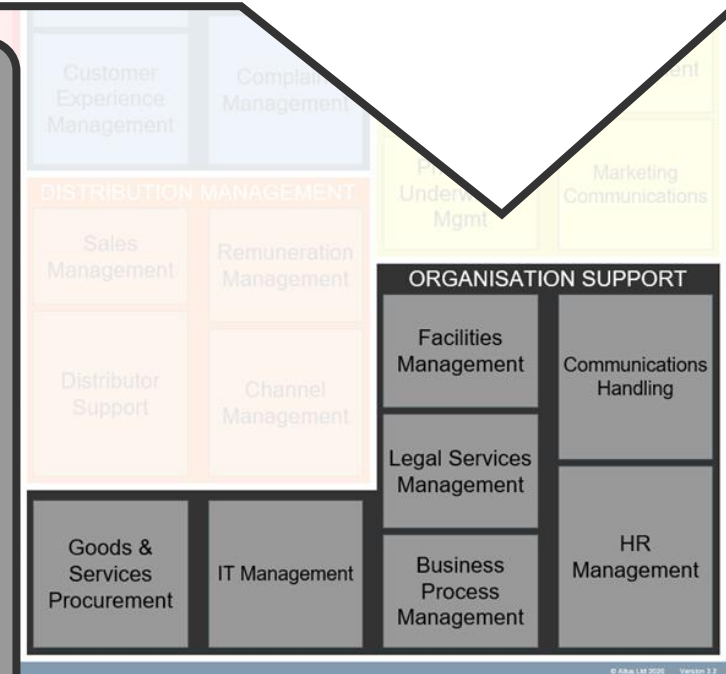
## Functions that support the running and organisation of the business

### Impacts

- **An increase in staff absence** will have been observed, through self-isolation for displaying symptoms or being unwell, as well as for reasons such as providing support to dependents.
- Since the Government advice, there has been a **dramatic increase in staff across organisations working remotely**, which will have included both front-line and back office staff.
- With working at home becoming the norm, **communication technology**, particularly, **has seen an increase in use**, with users, licenses and processes needing to be managed.
- This will also have an impact across other technologies, including seeing **more use of remote VPNs**, cloud-based solutions and end user technology, e.g., laptops, tablets.
- Business processes will likely have seen an impact, for example through the **need to undertake more activities digitally**.
- **Remote management of the supply chain** will have become a necessity, particularly as some areas will see fewer interactions.
- **Building services** will have seen an impact as there will be a skeleton staff now on site. A number of sites will have been shutdown.
- A number of **staff will likely be in the process of being furloughed**, resulting in additional, new processes for HR teams to be undertaking.

### Activities to consider

- ☐ With a workforce moving to remote working, there will be a need **to ensure staff health and safety, including occupational health** considerations (i.e., using a laptop, ensuring sufficient breaks, etc.).
- ☐ Where possible, employees who have additional needs or dependencies should be considered for **flexible arrangements** and support.
- ☐ **Employee engagement is also key** – putting in **regular touchpoints**, increasing use of social channels and **opportunities for employees to interact** as if they were in their normal place of work, as well as **providing support networks is important**.
- ☐ **Review and upgrade technology provisions** to ensure that sufficient capacity is present for the new demands of users and the business, and that new IT Security protocols are adopted for wide-scale home-working.
- ☐ **Training of customer-facing staff to recognise customer vulnerability** and building of new processes to support.
- ☐ **Review of existing processes** to ensure that they are fit for purpose in the current environment.
- ☐ Regular and **proactive reviews with suppliers** and other 3rd parties to understand impacts, and working together on interim activities to ensure readiness for future re-engagements.
- ☐ **Consider options to get “back to normal”** as Government guidelines are relaxed.



# Financial Management

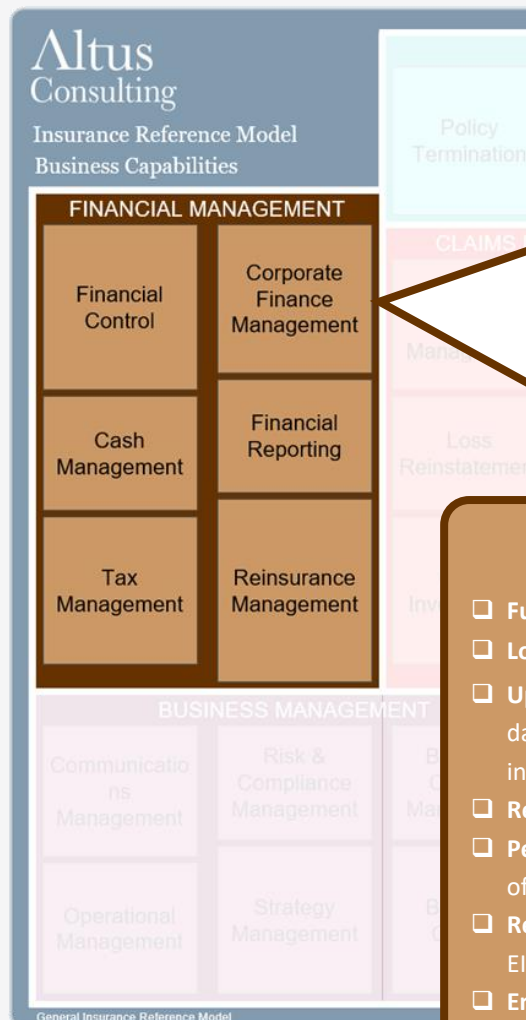
The handling of, planning and accounting for company money

## Impacts

- There has been a negative impact to investment income, as markets are hit globally by reduction in economic activity.
- Alongside this, increased claims exposure may, in some cases, push insurers close to their regulatory capital – this will certainly be the case for those writing business in the US if there is a successful move to retrospectively mandate that insurers cover business interruption claims.
- Linked to this point, we are likely to see less in the way of reserve releases to support profits, as this becomes tied to the insurer's regulatory capital.
- The PRA has advised insurers to consider CV-19 when making decisions about dividends and variable remuneration, and EIOPA (the European Insurance regulator) has encouraged insurers to scrap dividend payments.
- Previous modelling and predictions for financial performance will need to be updated, and the existing models, scenario analysis and toolsets may not be sufficient to do this.
- Future tax/levy implications for any new Pandemic cover that could be introduced.
- Claims against reinsurance where insurers are exposed, with impact to this market.

## Activities to consider

- ☐ **Furloughing** of non essential staff e.g. Facilities, Office Admin.
- ☐ **Lobbying** of FCA and Government with regards to levies or Reinsurance set-up for future Pandemics.
- ☐ **Update modelling**, in view of relevant scenarios, to feed into forecasting of financial performance. Up-to-date data on epidemiological developments and the wider economic impact will need to be incorporated into this activity.
- ☐ **Revise actuarial analysis** to determine the impact of CV-19 to capital adequacy.
- ☐ **Perform stress tests** of the company's financial position, using the maximum possible and probably impact of CV-19. Again, the focus here will be on the ability to continue to meet Solvency II capital requirements.
- ☐ **Review plans for dividends and variable remuneration**, in light of advice and comments from the PRA and EIOPA, to ensure sufficient protection of the company's capital position.
- ☐ **Engage with investors** where appropriate, to understand how existing arrangements and plans will be affected.
- ☐ **Review investment portfolio**, to understand how this has been affected and how best to respond.



Impacts of  
COVID-19 on  
Insurance  
Businesses

Financial  
Management

# Industry response: next steps

There is a lot of positive work taking place to support customers and the national cause, and the industry needs to broadcast this where possible. As a sector which ranks quite low in terms of customer trust, there is a need to challenge preconceptions which has as much to do with perception and the complexity of insurance services.

In our view, as the industry moves from firefighting to a new type of 'business as usual', attentions need to shift to the following key areas:

1. There needs to be a greater level of focus on how to manage vulnerable customers, as there will be an increasing proportion of customers that could temporarily fall into this category. The reality is that whilst vulnerability is on everyone's agenda, with initiatives underway, the current crisis will bring a spotlight to this area and provide a significant test for the industry.
2. Insurers should step up current efforts to engage directly with customers and find new ways to support them through this period. There is recognition that insurers are stretched, but the circumstances for many of their customers, particularly SMEs, could be disastrous.
3. Businesses should start to find solutions to operational challenges that meet their immediate needs, but which will also provide the flexibility to adapt to different scenarios over the next couple of years and helps them to work towards a more robust level of operational resilience. As part of this, priority should be given to legacy technology replacement to allow for improvement of digital services across the policy lifecycle.
4. Supplier management will be key, and insurers will need to act with a degree of flexibility and empathy, whilst working with suppliers to ensure that claims can be fulfilled, and customer expectations met.
5. There may ultimately be new propositions which provide assurance that businesses can keep going, with or without state backing, with support for a defined period. Alongside this, insurers should play a role in supporting commercial customers with their management of pandemic risks, e.g. by making this an area of focus for the support that they provide through risk control surveyors.
6. There will be immediate considerations and longer-term ramifications for the industry in its approach to providing cover for pandemics. Demand is sure to rise, and insurers will need to exercise underwriting discipline and maintain a clear view of the aggregate risks involved in a loss event. Ambiguous policy terms should be addressed, so that it is clear to customers what they are and are not covered for, and that they can be satisfied their insurance meets their needs in line with their risk appetite.

## Impacts of COVID-19 on Insurance Businesses

## Conclusion





**Mark Andrews**  
Director - Insurance



**Patrick Hayward**  
Consultant



**Mark McDonald**  
Senior Consultant



**Steve Whitfield**  
Senior Consultant

**Find out more:**

[altus.co.uk](https://altus.co.uk)

01225 438 000

[enquiries@altus.co.uk](mailto:enquiries@altus.co.uk)

[www.altus.co.uk/sectors/insurance](https://www.altus.co.uk/sectors/insurance)

Copyright © Altus Limited 2020. All rights reserved.

Altus Limited is registered in England and Wales number 05558586. Registered office: Royal Mead, Railway Place, Bath BA1 1SR

**Altus**  
MAKING FINANCIAL  
SERVICES FASTER