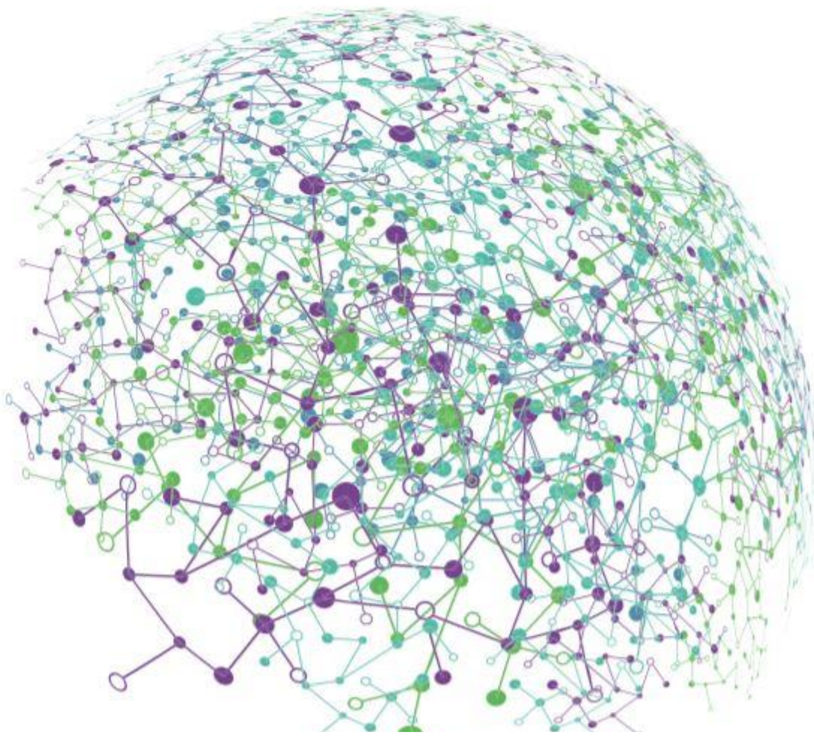

The impact of COVID-19 on the L&H insurance industry in Canada

A perspective from Deloitte

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Overview

The Canadian life and health (L&H) insurance industry has been changing rapidly as a result of a number of external factors, most significantly from technology, which has transformed all aspects of the lives of its customers, partners/distributors, and employees. The majority of incumbents were in the midst of modernizing and digitizing when COVID-19 unexpectedly hit.

Challenges such as a low-interest rate environment, constrained capital, manual processes, an unengaging customer experience, and cyber risk were suddenly exacerbated and stress-tested. As result, many insurance organizations have been forced to transform and rework foundational processes - a multi-year initiative for most - in only a matter of days.

Initial challenges and priorities

While the long-term implications for carriers, distributors, asset managers, and administrators will be distinct and highly dependent upon regional and business line nuances, there are a number of immediate issues, ranging from employee and business continuity to client experience, that these organizations face.

- **Business continuity:** The immediate priority for all organizations has been protecting the health and safety of their employees, distribution partners, and customers as they strive to maintain business continuity. For almost all organizations, this has meant alternate work arrangements, enabling employees to work from home, and establishing new cybersecurity and remote work protocols. Not surprisingly, this has resulted in significant challenges from an operational and back-office perspective, with a number of providers in the L&H insurance industry expressing an inability to fully transition their employees and critical functions to a virtual work environment.

- **Customer service capacity:** A rise in call centre volumes has challenged many service providers' ability to meet customer service expectations. This rise has been driven by nervous policyholder inquiries and a rise in travel claim submissions – this was especially true for travel providers supporting Canadians abroad requiring immediate assistance to return home. Manulife was able to bring in reinforcement, with the insurer's Canadian president and chief executive stating, "We've gone back to Manulife alumni that have left us in recent years, and said, 'would you be interested in coming back to help our customers at a time where we're experiencing heightened volumes?' and we've had great success there."[i]

- **Ongoing revision of eligibility and coverages:** Many insurers have demonstrated their ability to be nimble, empathetic, and proactive in the face of the current circumstances by granting grace periods on premiums and offering eligibility and coverage period extensions to meet the emerging needs of their policyholders. To that effect, insurers confirmed insurance coverage of cross-border truck drivers will continue uninterrupted and will not be subject to the normal exclusion clauses tied to government travel advisories.[ii] Many insurers are also relaxing their underwriting requirements (e.g., up to $2 million coverage without medical underwriting) as a means to expedite and encourage the issuance of new policies.

- **Virtual sales channels:** New sales, via traditional channels, are expected to take a hit in Q2 and Q3 of 2020. The insurers and distributors who have yet to enable virtual advisors and digital new business processes will be further challenged as face-to-face meetings with prospects and clients continue to be impacted by local health guidance on social distancing practices. This inevitable shift to virtual sales channels has been validated by Breathe Life, a well-known Montreal-based insurtech, that reported double-digit increases in digital online sales volumes during the recent period of heighted social distancing.[iii]

- **Reductions in assets under management:** Negative net flows are projected for retirement plans and insurance-based wealth accumulation products as nervous investors withdraw savings to reduce market exposure and to meet short-term expense needs. We can also expect a decline in the fees earned by wealth managers with the decline in equity markets.

- **Group business risk:** The closure of non-essential businesses and mass layoffs has left the group industry exposed to a reduction in revenue from plan cancellations and amendments. Insurers, brokers/consultants, and governments are currently looking for creative options to suspend coverage, defer payments, extend layoff periods, revise plan designs, and reduce minimum hour requirements to support plan sponsors during this challenging period.

- **Rising claims:** Disability and travel insurers are likely to bear the brunt of the financial and operational strain on claims. The impact on life insurers remains highly dependent on the nation's ability to suppress the severity of COVID-19. A growing concern, however, is the impact that self-isolation, prolonged social distancing, and financial distress will have on the mental health of Canadians and in turn, the long-term implications for insurers on their already volatile disability business. COVID-19 has been described as "a health and economic emergency in one, with all the components of a mental-health tsunami."[iv]

- **Capital, reserves, and pricing:** The Canadian industry is financially prepared with adequate capital and reinsurance for catastrophic events. However, we can expect the sharp decline in equity markets and lower interest rates to result in higher strain and lower earnings on surplus. Moving forward, this will challenge some of the life insurers to sustain competitive product premiums/annuity payments. The Office of the Superintendent of Financial Institutions (OSFI) has announced a series of adjustments to regulatory capital, liquidity, and reporting requirements, including delays to planned regulatory changes (i.e., IFRS 17) to help reduce some of the operational burden on institutions during this time.[v]

- **Halt in M&A activity**: Pre-COVID-19, the Canadian industry was experiencing a high frequency of consolidation activities, most predominantly involving MGAs and brokerages. In light of recent events, M&A transactions across all industries have paused, as parties focus on operational matters. In addition, market volatility has significantly disrupted valuations, cash flow, and access to capital. M&A activity in L&H insurance will likely remain on hold until Q3 or later, once the industry has a better understanding of the full economic and financial impact. Once there is more certainty around the future potential economic outlook, we may see M&A activity among insurers looking to diversify revenue streams, address regional and client concentration, and/or seeking capital relief.

Initial response measures

While the future economic and financial impact of COVID-19 remains uncertain and highly dependent upon just how long the crisis will last, the Canadian L&H insurance industry has an opportunity to glean insights from global markets further along the curve of recovery.

As can be demonstrated by some of our global peers, COVID-19 is expected to spark a new wave of tech-enabled business models and offerings, with industry leaders focused on some combination of the following:

- **Accelerating the launch of digital capabilities:** Where possible, many providers are reprioritizing and accelerating their planned digital initiatives, such as digital advisor tools, self-serve capabilities, virtual call centres, and claims automation. Many are taking the opportunity to rapidly advance the launch of digital capabilities deemed 'must-have' under the current environment – an approach that was adopted by Manulife in China, where 12,000 agents were enabled to interact with their clients digitally.[vi]
- **Launching COVID-19-specific offerings:** In the near future, we will likely see a spike in demand for insurance coverage, including insurance-based wealth products, from individuals who felt exposed or under-protected during the pandemic. Furthermore, new product opportunities exist to better meet the needs currently unaddressed by the industry. Future Generali India Insurance, for example, recently launched a COVID-19-specific product where the payment of life coverage is accelerated upon the positive diagnosis of COVID-19 as a means to support individuals with immediate financial aid.[vii]
- **Free virtual health services:** The use of digital health platforms and virtual care (e.g., Maple, Dialogue, Akira) has seen a rapid increase in consumer adoption. When COVID-19 first emerged, Dialogue decided to hire 250 employees, including nurse clinicians and practitioners, social workers, and psychologists, to keep up with a "sharp" increase in patients. Demand has climbed so high that the platform has since upped its hiring target to bring in more than 600 workers.[viii] It is expected that these services will remain increasingly popular among Canadians long after COVID-19, and will inevitably become foundational elements to the group benefits, health, and travel medical insurance landscape. This week, AXA Global Healthcare, the cross-border health insurance provider, announced it is making its international online doctor service, Virtual Doctor from AXA, available to all insured members, providing them access to internationally qualified doctors.[ix]
- **Elevating advice and engagement:** Customers are looking to their providers for financial and health-related advice, coaching and support – now is not the time to be silent. Sharp market declines have shaken investor confidence as many have witnessed their retirement savings rapidly deteriorate, driving an increased need for more frequent financial advice and guidance during these turbulent times. Emotional elements,

such as trust and personal connection with an advisor, account for approximately 40 percent of investors' perceived value of financial advice, according to Vanguard research.[x] Relevant, personal, and proactive customer advice and engagement in this time of crisis will be fundamental to strengthening brand, and building trust and long-term relationships with consumers.

- **Partnerships with government and regulators:** It's clear that the L&H insurance industry can play a meaningful role in responding to the financial and health-related needs of Canadians during the COVID-19 crisis. Partnering with federal and provincial governments, regulatory bodies, and aid agencies may be what it takes to bring creative solutions forward under current time constraints. The collaboration between the Chinese government and its insurance industry is a powerful example, together ensuring that Chinese coronavirus patients would not bear the burden of any associated costs – removing hospitalization costs, expediting claims, waiving all deductibles and removing restrictions on hospitals and medications.[xi] Closer to home there has been collaboration between Morneau Sheppell and the Government of Manitoba aimed at making mental health counselling services available in order to combat the anxiety that is caused by COVID-19.[xii]

- **Engaging virtual employees:** As organizations begin to settle into virtual work and longer periods of social distancing, employee mental health and well-being along with how leaders engage and communicate with their people during this period will be of utmost importance. Providers should ensure they are aligning as a leadership team and taking meaningful action on how best to support and enable their teams in this new working environment.

Moving forward

Events such as the COVID-19 pandemic provide the L&H insurance industry an opportunity to elevate and deliver on its role of improving the physical, mental, and financial well-being of the 29 million Canadians that it serves.[xiii]

These turbulent times may very well be the turning point that will drive transformational change across the Canadian L&H insurance industry. Those who are able to respond – at pace – to this changing environment, who take a customer-first attitude, and who see this as an opportunity to reset and fundamentally rethink how they do business will find themselves emerging from a position of strength when the dust settles.

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Endnotes

[i] The Globe and Mail, "Canadian insurance companies predict changes to premiums, virtual care after COVID-19," April 1, 2020,

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[iv] https://www.theglobeandmail.com/opinion/article-covid-19-could-spark-a-mental-health-tsunami/

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[xi] https://www.the-digital-insurer.com/china-in-focus/epidemic-impact-oninsurance-industry/

[xii] https://insurance-portal.ca/article/morneau-shepell-providing-manitobans-with-digital-mental-health-services/

[xiii] CLHIA, "Canadian Life & Health Insurance Facts 2019 Edition", 2019

Note: All articles were accessed on April 1, 2020