



FEATURE

Insurers step up as financial first responders

Supporting clients and communities

Anuj Maniar

THE DELOITTE CENTER FOR FINANCIAL SERVICES

Many insurers are taking action to help both customers and their communities during the pandemic, yet their contributions may be going unnoticed. What's likely required is broader communication of their corporate citizenship activities.

THE COVID-19 OUTBREAK has presented the insurance industry with several challenges, from transitioning nearly overnight to a remote workforce, to reassessing their financial goals and market strategies in a contracting economy. However, another important issue that insurers should not overlook is how they manage their potential reputational risks in the midst of this pandemic.

Insurers have often been spotlighted in reports about COVID-19's economic impact. However, media coverage has primarily focused on policy language that likely excludes claims related to infectious disease in general and pandemics in particular. Little public attention is being paid to the billions of dollars in COVID-related claims that are likely to be paid without controversy, nor about the additional steps many insurers are taking to relieve financial pressure on policyholders and support their broader stakeholder communities.

An important issue that insurers should not overlook is how they manage their potential reputational risks in the midst of this pandemic.

Indeed, insurers remain the financial first responders for many policyholders affected by the pandemic on a wide range of coverages. For event cancellation, for example, the 2020 Tokyo Olympics alone could mean insurers will pay out as much as US\$2 billion, in addition to US\$600 million for hospitality losses.¹ Workers' compensation payouts related to COVID could go

as high as US\$80 billion, according to National Council on Compensation Insurance models, given the wide scope of potential impacts.² Insurers also anticipate claims related to various other lines of business, including employers' liability for groups such as health care workers and airline flight attendants, as well as general liability from cruise companies and hotels.

While it's hard to estimate what the total financial toll on insurers will ultimately be because the impact of the epidemic across the economy remains dynamic, Lloyd's of London and other industry analysts seem to agree that the COVID-19 outbreak could turn out to be one of the costliest events ever for the insurance industry.³

At the same time, many carriers are going beyond their policy obligations to help support customers and their communities. A growing number are voluntarily providing payment flexibility and even premium refunds, as well as committing resources and money to charitable endeavors related to COVID-19 relief efforts. What follows is a recap of insurer initiatives and contributions. While this is not a comprehensive list, it is a representative sample of how many in the industry are taking proactive steps to support their policyholders and communities.

Probably the most visible actions, given extensive news media coverage, are insurers' auto premium rebates. Program details vary among participating carriers, but are fundamentally an acknowledgment that customers are driving far less under

government-issued lockdowns. In fact, 53 percent of respondents to a Deloitte consumer survey in mid-April said they planned to spend less on fuel and motor oil in the next four weeks compared to the prior four weeks.⁴

Depending on the carrier, refunds will generally range between 15 and 25 percent of premiums for a specified period. Auto insurers' announced refunds, discounts, dividends, and credits added up to approximately US\$8.1 billion through April 10, according to the Insurance Information Institute, which estimated that the total would reach US\$10.5 billion as more auto insurers announced their offers.⁵ As of mid-April, the 10 largest auto insurers announced refund initiatives to provide financial relief, with some smaller players such as Erie, Hanover, CSAA, MetLife Auto & Home, Plymouth Rock, and NJM also joining the ranks.⁶

In addition to premium rebates, some insurers are suspending billing for small businesses for a set period, offering late payment forgiveness, and postponing cancellation of coverage due to nonpayment of premiums. Others, such as Allstate and Farmers, are adding insurance coverage for customers who are now using their personal autos for commercial purposes to make restaurant, grocery, pharmacy, and other deliveries.⁷ A medical malpractice insurer, The Doctors Company, is providing free medical professional liability coverage to retired physicians formerly insured by the company, who are returning to work as volunteers during the crisis.⁸

Life and annuity companies are responding as well. For example, MassMutual is offering no-cost, three-year term life insurance policies up to US\$25,000 to eligible frontline health care workers in licensed hospitals, urgent care centers, and emergency medical service providers across Massachusetts and Connecticut.⁹ Securian Financial has removed all

COVID-19-related 401(k) distribution fees and hardship withdrawal fees. John Hancock also is waiving fees for hardship withdrawals and suspending fees for plan amendments by participants in response to the pandemic.¹⁰

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A growing number of insurers are also participating in charitable and community service activities, offering goods, services, and financial contributions.

For instance, MetLife is providing parking lots at its St. Louis office location for the local hospital to use for drive-through testing,¹¹ while Prudential has donated over 150,000 protective face masks and respirators.¹² The Cigna Foundation and New York Life Foundation pledged US\$25 million each to a new fund they started to support survivors of workers who die fighting COVID-19.¹³ In addition, Liberty Mutual and Chubb are among various carriers that pledged millions of dollars for pandemic relief to help support people and programs providing emergency frontline services, as well as community relief efforts.¹⁴

Some insurers are extending their assistance closer to home as well to ensure the well-being of their own workforce. Travelers launched a "distribution support plan" to accelerate more than US\$100 million in commission payments to eligible insurance agents and brokers who are facing liquidity issues due to the crisis.¹⁵ Chubb announced it will not lay off any of its employees,

assuring its workforce of job security during the pandemic.¹⁶ USAA introduced curbside pickup for meals and groceries for its employees at its corporate locations.¹⁷

During this challenging period, the insurance sector will likely need to continue demonstrating social responsibility and empathy for clients and society at large.

With initial efforts underway, insurers can also remain hyperfocused by anticipating client needs using analytics, providing positive experiences by keeping interactions low effort, and remaining flexible with products and payment plans.

On a broader, more forward-looking basis, property casualty insurers are among a wide-ranging coalition of business groups supporting efforts to create a government-sponsored reinsurance backstop similar to the one formed under the Terrorism Risk Insurance Act.¹⁸ The goal of the new program is to facilitate the provision of business interruption coverage for future pandemics by capping the potential liability of private carriers.

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Both as risk transfer vehicles as well as providers of loss control and safety services, insurers remain the economy's chief purveyors of risk mitigation, but that message may often not be reaching customers or the general public. Insurers therefore should be initiating more proactive and targeted communication, both through public service advertising and individual policyholder outreach, to help the public understand the support the industry is providing to individuals and businesses during this difficult time. The focus should likely be on how carriers are doing their part and more to be good corporate citizens, while demonstrating the industry's essential role in providing coverage for insurable exposures in a responsible, affordable way.

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About the author

Anuj Maniar | amaniar@deloitte.com

Anuj Maniar is a principal in Deloitte's Financial Services practice with more than 20 years of consulting experience. He focuses on helping organizations drive growth and improve customer retention. Maniar leads Deloitte's US Customer & Marketing practice for financial services clients. This practice includes providing services related to customer experience design, marketing effectiveness, CRM, digital, customer analytics, and sales force effectiveness. He has authored several of Deloitte's methodologies in this space and presents externally on these topics.

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Anuj Maniar

Deloitte Consulting LLP | Principal
+1 312 486 3765 | amaniar@deloitte.com

Anuj Maniar specializes in customer and marketing strategy in Deloitte Consulting LLP's Financial Services practice.

The Deloitte Center for Financial Services

Jim Eckenrode

Managing director | The Deloitte Center for Financial Services
+1 617 585 4877 | jeckenrode@deloitte.com

Jim Eckenrode is managing director at the Deloitte Center for Financial Services, responsible for developing and executing Deloitte's research agenda while providing insights to leading financial institutions on business and technology strategy.

Sam Friedman

Senior manager | The Deloitte Center for Financial Services
+1 212 436 5521 | samfriedman@deloitte.com

Sam Friedman is a senior manager with the Deloitte Center for Financial Services in Deloitte Services LP. He has led the center's insurance research team for the past decade, after a long career as an editor and thought leader in the property-casualty insurance industry.

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