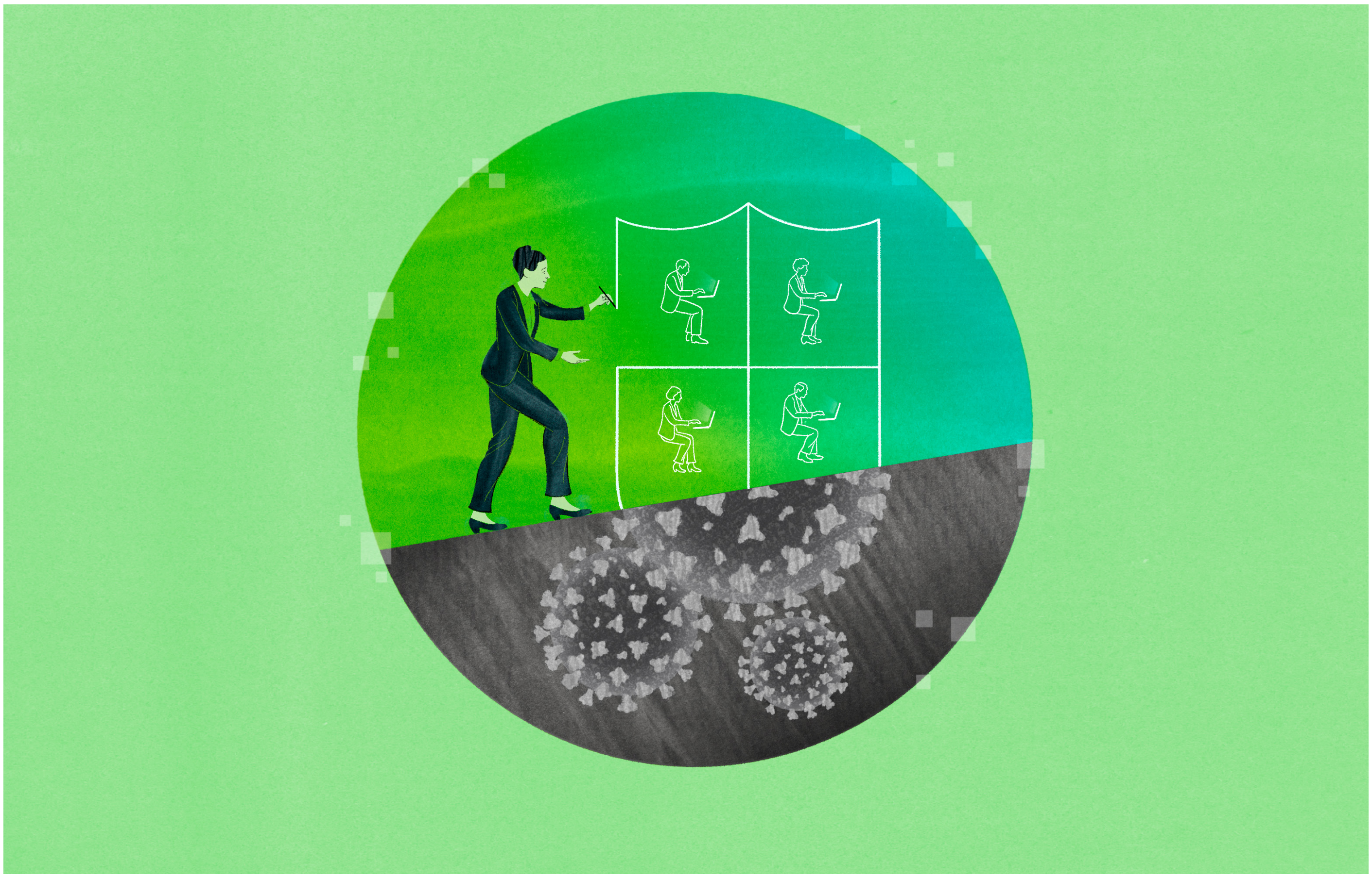
Deloitte.
Insights



FEATURE

Potential implications of COVID-19 for the insurance sector

How the coronavirus outbreak may impact insurers operationally and economically

Gary Shaw

FROM THE DELOITTE CENTER FOR FINANCIAL SERVICES

COVID-19 is impacting the insurance industry in multiple ways—from employee and business continuity issues to client service considerations to the financial outlook. Here are some key issues insurers face and potential action steps they could take.

INSURERS ARE RESPONDING to the widening COVID-19 outbreak on multiple fronts—as claims payers, employers, and capital managers. Each has its own distinct challenges, not just for the insurance industry, but for the economy and society at large.

However, the most immediate concern for insurers is protecting the health and safety of employees and their distribution partners in the agent/broker community as they strive to maintain business continuity. Like the commercial policyholders they serve, insurers are being challenged to review and update their crisis management plans and take steps to continue operations with a minimum of disruption to clients.

If they haven't already done so, insurers should consider establishing cross-functional, emergency decision-making teams to coordinate the organization's response, set new safety protocols, and assure quicker action as conditions continue to evolve.[1] A comprehensive communications system should also be in place to keep employees, distributors, and clients fully informed about the status of business continuity plans and instructions on how to remain personally safe.[2]

One of the biggest challenges could be enabling alternative work arrangements for insurance company employees if needed to protect staff and adapt to possible office access restrictions, all while assuring business continuity.

Emphasis on efforts to contain the spread of COVID-19 may mean enabling insurance company staff—from actuaries to underwriters to claims managers—to work offsite, most likely from home. Insurers should ascertain whether employees can access necessary files and conduct business from remote locations. In addition, chief information security officers (CISOs) may need to establish new cybersecurity protocols to permit the safe exchange of confidential information among employees connecting from outside the office.

Many organizations are setting policies around remote access to support social distancing. As companies move toward remote protocols, chief information officers, chief technology officers, and CISOs should ensure that offsite workers have access to the following technology capabilities:

- A laptop or desktop computer, preferably equipment issued by the company
- A virtual private network to securely and remotely connect to critical business applications
- Collaboration tools to help with audio, video, and screen-sharing
- An adequately equipped and staffed IT support team to answer employees' questions and help them continue to do their jobs remotely

Insurers may have additional circumstances to consider to accommodate claims adjusters, who often need to travel to perform their jobs—both locally and to more distant locations. That could be problematic with the COVID-19 outbreak. What if an adjuster needs to go onsite to examine a claim for commercial or personal property damage, and one of the policyholder's family members or an employee who interacts with the adjuster is infected with COVID-19?

To avoid such circumstances, insurers may have to take additional safety steps such as setting new protocols for in-person interactions with claimants or requiring claims to be investigated from the office or an alternative remote location where possible—even those that normally require site visits.

Agent/broker considerations

COVID-19 could also disrupt an insurer's client service, starting with its distributors. Agents, brokers, and financial advisors will likely face many of the same risk management and logistical challenges as those being addressed by their carriers, especially since many may also have to work from home. Meanwhile, face-to-face meetings with prospects and clients may have to be avoided until the risk of exposure passes.

Under these circumstances, insurers that have invested in advancing their digital capabilities will likely be better positioned in the short term to maintain a connection to their distribution partners, who, in turn, should be able to offer faster and more comprehensive services to their clients.

Insurers could also enhance planning and training in anticipation of a potentially longer-term period of social distancing that could shift how intermediaries stay in contact with their clients, how they prospect for referrals, and how they serve clients who may be experiencing financial strain. With good digital tools, this can be a period of productive planning, training, and outreach across company, intermediary, and client stakeholder groups. In times of uncertainty and financial stress, it seems increasingly important for the insurance sector and broader financial services industry to maintain connections and be well-positioned to serve.

Once this outbreak has passed, each insurer's risk management team should assess how quickly and effectively they were able to respond. They should also determine any additional steps that may need to be taken to adapt their organizations and make them more resilient if faced with future pandemic events.

Impact on insurers' financial outlook

Insurers are also carefully considering the potential impact of COVID-19 on their short-term and long-term financial outlooks. Claims costs will likely be specific to the classes of business an insurer writes and their policy wordings. However, the bigger-picture concern is how the outbreak might affect the economic environment—specifically, prospects for growth and profitability in insurers' underwriting and investment portfolios.

The Insurance Information Institute, in its first-quarter "Global macro outlook," reported that "COVID-19's impact on global growth and the insurance industry is likely deeper and wider than the current consensus and could last well into the third quarter and beyond."[3] The report added that, as a result of the effects of the virus outbreak, "global GDP growth in 2020 could slow down by as much as 1 percent, from 3.3 percent to 2.3 percent, making a 2021 recovery unlikely."[4]

The Organization for Economic Cooperation and Development (OECD), in its report *Coronavirus: The world economy at risk*, said that a longer-lasting and more intensive outbreak could reduce global growth to just 1.5 percent in 2020.[5] Insurers across the board would likely be impacted by a sharp slowdown in economic activity, which would undermine growth and perhaps even contract insurable exposures.

At the same time, interest rate declines will weigh heavily on the entire insurance industry, but will most especially affect operations in the life insurance and annuity sectors. The Federal Reserve, in its first emergency move since the recession in 2008, on March 3 cut the federal funds rate by 50 basis points, then cut it again to near zero on March 15.[6] This will likely have a major impact on life and annuity insurers, given their rate-sensitive products and investments. Many life and annuity insurers have already been recalibrating to address exposure to historically low interest rates. Some have modified products, often by lowering guaranteed rates. Additional adjustments of this sort may be required.

The situation is exacerbated by major volatility in the equity markets since the COVID-19 outbreak hit the United States. Property-casualty insurers tend to be especially vulnerable to stock market fluctuations, as they hold more liquid assets in case of catastrophic losses. US property-casualty insurers had 23 percent of their assets in stocks in 2018, compared to only 2 percent for life insurers.[7]

Financially, insurers will also likely need to adjust their budgets and implementation plans, cash flow expectations, and investment portfolios in light of recent developments.

Potential tax implications should also be evaluated for the contingencies discussed above. With recent tax law changes in both the United States and in jurisdictions around the world, previous tax planning may need to be evaluated during the current economic unrest. Some of the tax items to be cognizant of include, but are not limited to, US domestic and international regime changes as well as other global tax-related developments.

As this situation evolves, insurers are expected to continue to serve as shock absorbers for the economy and society. Financially, the industry prepares for large loss events such as COVID-19 and should be well-capitalized for any onrush of claims. Insurers are also helped, in large part, by reinsuring large parts of their books of business, which is one of the ways the industry is able to spread risk.

Endnotes

1. Deloitte, “10 key actions for enterprises in an epidemic,” March 2020.
2. Ibid.
3. Insurance Information Institute, “Global macro and insurance outlook,” March 4, 2020.
4. Ibid.
5. OECD, *Coronavirus: The world economy at risk*, March 2, 2020.
6. Jeanna Smialek and Neal Irwin, “Fed slashes rates to near-zero and unveils sweeping program to aid economy,” *New York Times*, March 15, 2020.
7. Insurance Information Institute, “Property/casualty industry investments,” accessed March 6, 2020.

Acknowledgments

The author, **Sam Friedman**, wishes to thank **Michelle Canaan** for background research support, and appreciates additional insights from practice specialists **Christopher Puglia**, **Eli Katz**, **Jeffrey Webb**, **Kevin Sharps**, and **Akash Tayal**, as well as the many others who provided insights and perspectives in the development of this article.

About the author

Gary Shaw | gashaw@deloitte.com

Gary Shaw, Deloitte & Touche LLP, is a vice chairman and partner and leader of the US Insurance practice. With more than 25 years of experience serving insurance clients in all sectors of the industry, Shaw advises insurers on solutions to enhance growth, operations, technology, risk, and compliance. As US Insurance leader, he works with Deloitte's teams to coordinate services to strategic clients, marshal resources globally, share thought leadership and industry insights, and connect client executives with their peers. He is a frequent presenter and author on insurance trends including financial management, risk, and controls.

Contact us

Our insights can help you take advantage of change. If you're looking for fresh ideas to address your challenges, we should talk.

Industry leadership

Gary Shaw
Partner | Vice chairman and leader US Insurance | Deloitte & Touche LLP
gashaw@deloitte.com | +1 973 602 6659

As US Insurance leader, Shaw advises insurers on solutions to enhance growth, operations, technology, risk, and compliance.

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

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

Sam Friedman
Research leader, Insurance | Deloitte Center for Financial Services | Deloitte Services LP
+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.

About the Deloitte Center for Financial Services

The Deloitte Center for Financial Services, which supports the organization's US Financial Services practice, provides insight and research to assist senior-level decision-makers within banks, capital markets firms, investment managers, insurance carriers, and real estate organizations. The center is staffed by a group of professionals with a wide array of in-depth industry experiences as well as cutting-edge research and analytical skills. Through our research, roundtables, and other forms of engagement, we seek to be a trusted source for relevant, timely, and reliable insights. Read recent publications and learn more about the center on Deloitte.com. For weekly actionable insights on key issues for the financial services industry, check out the Deloitte Center for Financial Services' QuickLook Blog.

Connect

To learn more about the vision of the DCFS, its solutions, thought leadership, and events, please visit www.deloitte.com/us/cfs.

Subscribe

To receive email communications, please register at www.deloitte.com/us/cfs.

Engage

Follow us on Twitter: @DeloitteFinSvcs.

Sign up for Deloitte Insights updates at www.deloitte.com/insights.

Follow @DeloitteInsight

Deloitte Insights contributors

Editorial: Karen Edelman, Junko Kaji, Blythe Hurley, Preetha Devan, and Rupesh Bhat

Creative: Molly Woodworth, Sylvia Yoon Chang

Promotion: Ankana Chakraborty

Cover artwork: Alex Nabaum