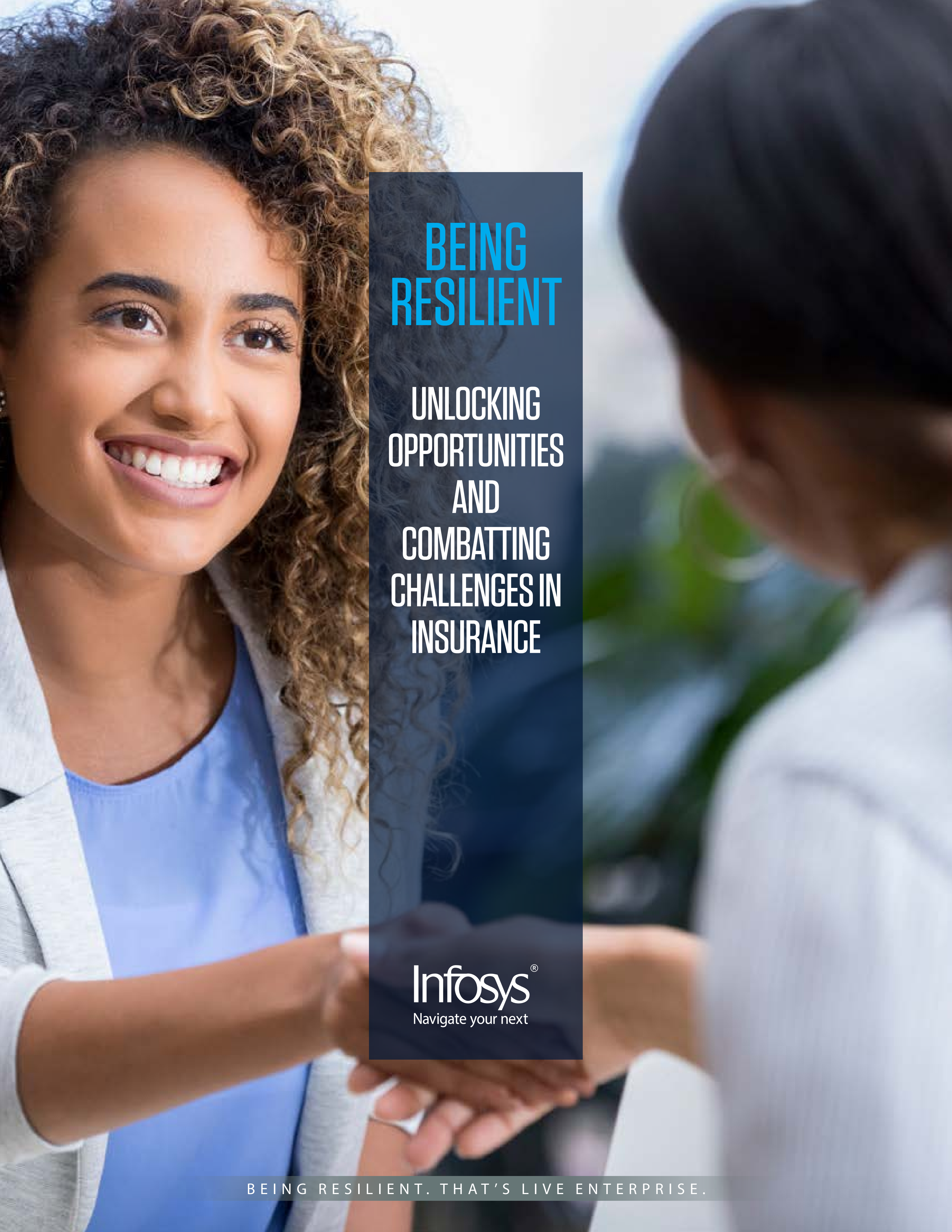

BEING RESILIENT

UNLOCKING OPPORTUNITIES AND COMBATTING CHALLENGES IN INSURANCE

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Introduction

The current pandemic has delivered shocks to the way enterprises operate and fulfil their business mandates. This is true across industries, where the new way of working is taking precedence, as businesses plan and perfect their response strategies. The Insurance industry is one such sector which is witnessing significant changes, which may perhaps revolutionize the way Insurers operate for years to come. With businesses reassessing their business models and finding new ways to incorporate customer experience in their operations, digital transformation and agility in execution are now more important than ever.

We sat down with two industry leaders and experts, Michael Gould, Former Group COO, Brit Insurance and Kannan Amaresh, SVP, Head of Global Insurance, Infosys, to understand the impact that the global pandemic has had on the players in the Insurance industry, the challenges that need to be battled, the opportunities that are awaiting to be unlocked and the transformation that COVID -19 has started which will disrupt the Insurance sector for years to come.

Kannan:

Michael, the COVID-19 pandemic is an unprecedented event at a global scale. Can you give us your perspective on its impact on carriers.?

Michael:

As in most industries Covid 19 is having a profound impact on the fundamentals of many carriers. Some of these include:

People

- People working from home has proven possible
- Mental health has to be top of mind
- Requires strong and engaging leadership

Claims

- Dealing with Claims using Catastrophe processes
- It has been stated Covid-19 could be the largest "event" ever, where > $100bn was recently quoted as a realistic scenario

Financial

- Investment losses have been huge. These are likely to take a long time to fully recover
- Liquidity is paramount as companies charter their way through this crisis.
- Capital adequacy

Operational Resilience

- Companies resilience plans have been tested in the extreme. Most companies had not planned for such a far reaching and long lasting situation requiring remote working, where demands are placed on virtually every facet of a business.
- It is pleasing to hear how so many companies have managed to operate effectively

Covid 19 has proven to be one of the most challenging periods for companies to grapple with. Two CEO's recently shared with me that this has been the toughest and most complex crisis they have ever had to deal with; more than 9/11, Katrina, the 2008 financial crisis and other such events. The impact is so far reaching with so many dimensions to think about: the health of the business itself, people's personal lives, the impact on clients, suppliers and the community as a whole. Added to this complexity has been the widespread geographic spread of the virus.

My view is there are going to be some companies that come through this crisis with their reputations enhanced and others where this will have been significantly impacted. Some will also cope financially better than others. Companies that have capital to deploy, are liquid and prepared to invest in their growth strategies (such as their digital plans) could well gain profitable market share. My expectation is that a number of companies will not survive and/or will be forced into mergers/takeovers.

Some sectors within Insurance have been impacted more than others. For example, insurance companies that write event coverage and travel have experienced large exposures. Whereas, Motor has been less so, in particular because customers (policy holders) have not been driving. It was interesting to see some insurers giving token premium refunds to motor customers, which received positive press coverage. Now that lockdown is easing motor claims are likely to increase accordingly.

Kannan:

Any early prognosis on which companies are likely to falter? As you said, there will be winners and there will be losers. From your vantage point, who do you think would possibly end up on the losing scale especially when it comes to the parameters that would matter in the classification of the winning or losing side?

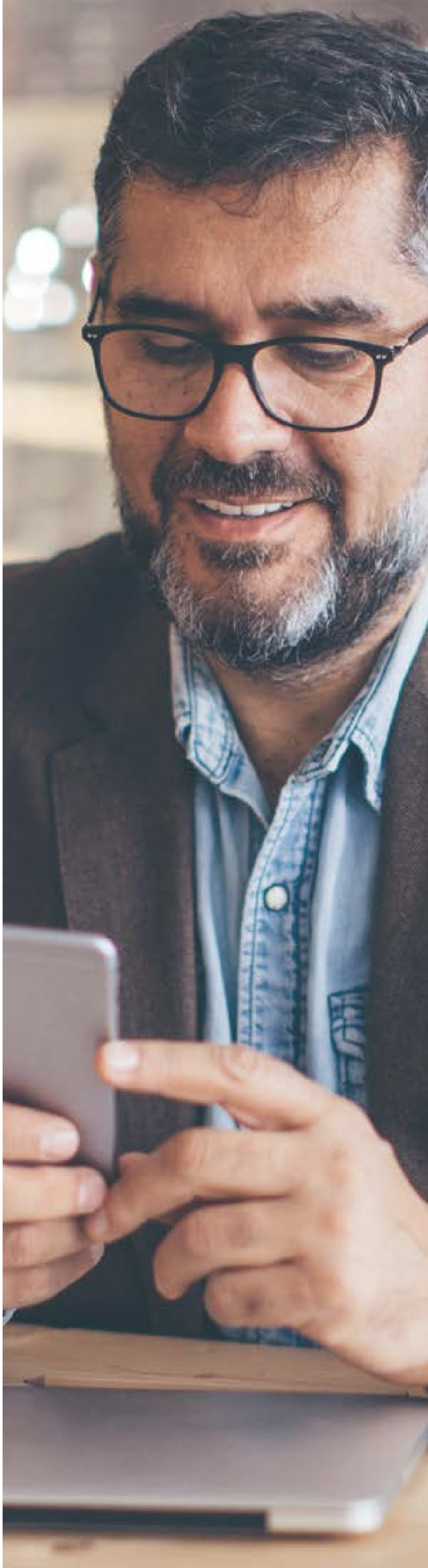
Michael:

As I've already stated, both capital strength and liquidity have been very high priorities on the agenda of insurance companies' Boards and executive teams. Actions have been taken regarding the investment portfolio with these two fundamentals in mind. Quite a few carriers have sought to strengthen their capital base either through raising equity and/or increasing their borrowing capacity.

Most companies' share prices have fallen significantly, ranging from 30-60%. Most have partially recovered over recent weeks. The impact on share prices has been driven as a result of large investment losses, significant potential claim exposures in quite a few classes of business, the adequacy of their balance sheets and the uncertainty brought out by the pandemic.

If you analyze Insurance companies' profitability over last 5-6 years, I would say that 70-80% of profit was generated through investment returns (as opposed to underwriting). Hence the investment losses experienced over the past three months have massively impacted the short to medium term financial health of these companies. There is also concern regarding the Regulators' response to the pandemic. For example, they may force Insurance companies to retroactively pay business interruption claims. To illustrate this, in the UK the FCA is taking an active role in determining whether small businesses should be paid for business interruption, where there has been disputed interpretation of the terms of the policy included as part of the coverage. No matter what the outcome of these determinations, the reputation of the Insurance industry and some insurance companies in particular has been damaged. It takes a long time to build a reputation and a short time to lose it.

I think companies that are perceived to have dealt with policy holders fairly and quickly will see their brand reputation being enhanced. I also think that companies that have sufficient capital to write incremental profitable business within their "sweet-spots" will win market share as we emerge from the current phase of lockdown. From everything I am reading it appears that rates should continue to rise with a similar, or perhaps increased, trajectory to what has been experienced over the past 18 months. There is a lot of talk about a hard market.



A bolder approach for survival: Move early and decisively to survive and thrive

Kannan:

Do you anticipate emergence of newer business models or products out of this current crisis? Do you see an increase of Parametric type of Insurance?

Michael:.

I am convinced new products and possibly business models will evolve, including parametric insurance. The latter could well turn into being more mainstream if the Insurance sector loses the "trust" PR battle. Pandemic government guaranteed Insurance coverage also may emerge from this crisis. In the UK Pan-Re has recently been announced. Also, COVID 19 could/should be a medium term opportunity for Lloyd's as a Market. It is also likely that specialist Insurtech firms will explore pandemics as a possible opportunity. There are a few that already do so. However, many early stage start-ups are finding it difficult to remain relevant as the Industry grapples with the crisis.

Kannan:

How do you see the current situation forcing any change in priorities as far as digital transformation initiatives of Insurance carriers go?

Michael:

For industries where volumes have increased exponentially as a result of the crisis, I believe digital transformation will occur out of necessity. Examples of this include the airlines industry (refunds/change of plans), travel Insurance and food fulfillment. But so many companies are focused on survival and not as much on seeing this as a watershed opportunity to pivot their organization. A recent McKinsey research study showed that through the 2007-08 recession, organizations who took a bolder approach to digitization achieved a 20% better return to shareholders. Eight years later, their lead had grown by more than 150 percentage points. This shows that companies that move early and decisively in a crisis do best. I am convinced that companies that take a similar approach will indeed get a huge return from this investment.

I have heard of examples where insurance companies are sustaining, or in some instances, increasing their investment and focus on their digital strategies, where they are doing things differently. It is worth noting how the Lloyd's market has managed to work effectively without its trading room. Electronic trading has now become the norm. I'm convinced that the majority of market participants will either have invested in integrating the Market electronic trading platforms into their ecosystems or will be doing so using the APIs that have been developed for this purpose.

Kannan:

Couldn't agree more. Also, I think this enables transition into the digital acceleration in some sense, right?

Michael:

Oh, very much so. Areas that I think will continue to get investment and attention, dependent on companies' business strategies, include:

- Making life easier for customers to deal with companies, such as electronic distribution
- Data and analytics
- Collaboration tools
- Cyber security

I think many companies either have already, or will, prioritize their change stack and pivot more funds to the above opportunities.

Unlocking the New Way of Working

Kannan:

As a COO, what strategies would you undertake now to ensure speedy recovery of the firm once the economy reopens from the lockdown?

Michael:

On the assumption that a company has sufficient liquidity and capital, areas that I would focus on as a COO include:

- Aligning with the executive team on areas of priority for the coming two quarters, so that these can be clearly shared across the company. Bring huge focus on the revised strategic priorities.
- Ensuring the continued orientation to the wellbeing of staff
- Communicating what has and has not changed in the "new normal world"
- Developing a clear return to the office strategy – which in all likelihood would include people continuing to work from home a lot of the time
- Overtly develop a transition plan for this new way of working
- Deliver initiatives that will drive company momentum, such as those highlighted above

About the Authors

Kannan Amaresh

Senior Vice President & Global Head – Insurance

Kannan Amaresh, is a Senior Vice President and Head of Global Insurance at Infosys. He has more than 25 years of experience in the areas of Banking, Finance and Risk Management. As a part of his current role at Infosys as the global industry head for Insurance, he manages global client relationships across Europe and North America.

Michael Gould

Michael Gould, is the Former Group COO at Brit Insurance, a market-leading global specialty Insurer and Reinsurer, focused on underwriting complex risks. He is currently serving as the Director at Thinking Operations, a Consultancy service which works to professionalize corporate Operations and IT functions.

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