# COVID-19: US insurance impact and response

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EY

Building a better working world

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# Contents

# We are hearing consistent themes

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Carriers have geared up for the wave of lawsuits and state legislation but believe they will prevail in their stance on business interruption (BI) coverage.

“

Everyone is swamped with state department of insurance (DOI) data calls and rushing to implement processes for newly established legislative processes, including non-renewal notifications and bill payment deferral.

“

We’re not seeing a significant spike in P&C call volume. **People aren’t driving** their cars.

“

We are seeing a **huge spike for disbursements in our retirement** business and are looking for technology to help.

“

We’ve pulled in resources to stand up a group of 60 FTEs to handle business interruption claims. The claims will be denied, so **we need a human touch.**

“

Our cities, towns and neighborhoods have always been there for us, in good times and bad. Their **health, well-being and prosperity** are vital to our future. We will not let them down in this hour of need.

“

Policyholders don’t want to touch checks. **No-touch payments** have become critical.

“

You’re focused on **health and well-being** — for your customers, your employees and yourselves. So are we.

# Pandemic response – P&C industry response so far

## Business continuity planning has mostly worked

**Most insurers have moved relatively seamlessly to business continuity:**

- Business continuity protocols have been actioned early, tested and seem to be working.
- Some isolated, specific issues have been noted, such as the need to stand up backup call centers and the ability to e-sign contracts.
- Pressure is increasing on offshoring and BPO capacity, especially in India.
- Long-term sustainability of current working models is untested, including dealing with illness, impact of school closures, cultural aspects of teaming, ability to change user access permissions, etc.

## Underwriting exposures have been limited thus far

**Selected classes are heavily exposed but broadly seeing a resilient outcome:**

- Travel, trade credit, event cancellations and health are seeing and expecting to see large claims experiences.
- Premium volumes are falling in aviation and marine, and some insurers have stopped writing new travel. Premium holidays are having a significant impact on liquidity in some markets.
- Many non-life policies have pandemic exclusion. Business interruption often requires physical loss to be triggered, and businesses need to be solvent for coverage to apply. This is under pressure from politicians.
- Mortality exposure is not currently at a material level.

## Customers need help at an existential moment

**With all nonessential businesses coming to a halt, the business and consumer impact is unprecedented:**

- Claims in core lines of business – like auto – are down due to low activity levels with virtually all consumers at home.
- Job loss is at historic levels, causing policyholders to defer payments and workers' compensation to be ripe for significant audit premium reductions.
- As a result, customers' inquiries about coverage, payment grace periods, etc., are at an all-time high.
- Business interruption claims are submitted in high volumes as companies pause or close their businesses.
- Customers hope to rely on provisions of the CARES Act for financial relief, and many companies are expected to turn to the Small Business Administration for emergency loans.
- Consumers' lives and the small business landscape could be permanently changed with work-from-home disrupting traditional models.

## Regulators and industry formulating response

**State regulators and insurers are closely monitoring and responding to the COVID-19 impact on multiple fronts:**

- States are rolling out legislation to protect consumers, which is having a direct impact on insurers, e.g., waiver of late fees, mandated payment plans and the prevention of canceling, non-renewing or conditionally renewing policies.
- State lawmakers are increasingly pushing for legislation that would force insurers to retroactively cover business interruption claims related to COVID-19.
- Insurers are being pressured to notify customers regarding the status of their coverage information, e.g., business interruption.
- The CARES Act provides businesses with loans to cover some expenses related to payroll costs, rent and utilities but does not address loss of income due to business interruption.

# Pandemic response – life insurance industry response so far

## Business continuity planning has mostly worked

**Most insurers have moved relatively seamlessly to business continuity:**

- Business continuity protocols have been actioned early, tested and seem to be working.
- Some isolated, specific issues have been noted, such as the need to stand up backup call centers and the ability to e-sign contracts and e-deliver.
- Long-term sustainability of current working models is untested, including dealing with illness, impact of school closures, cultural aspects of teaming, ability to change user access permissions, etc.

## Exposures have been limited thus far

**Selected businesses are heavily exposed but broadly seeing a resilient outcome:**

- Life and health are seeing, as expected, large cash-out and claims experiences.
- Many life and health policies do not cover pandemics. However, under the CARES Act, certain COVID-19 exposures have to be covered.
- Carriers are increasing underwriting requirement thresholds to promote issuing new policies.
- Mortality exposure is not currently at a material level.

## Customers need help at an existential moment

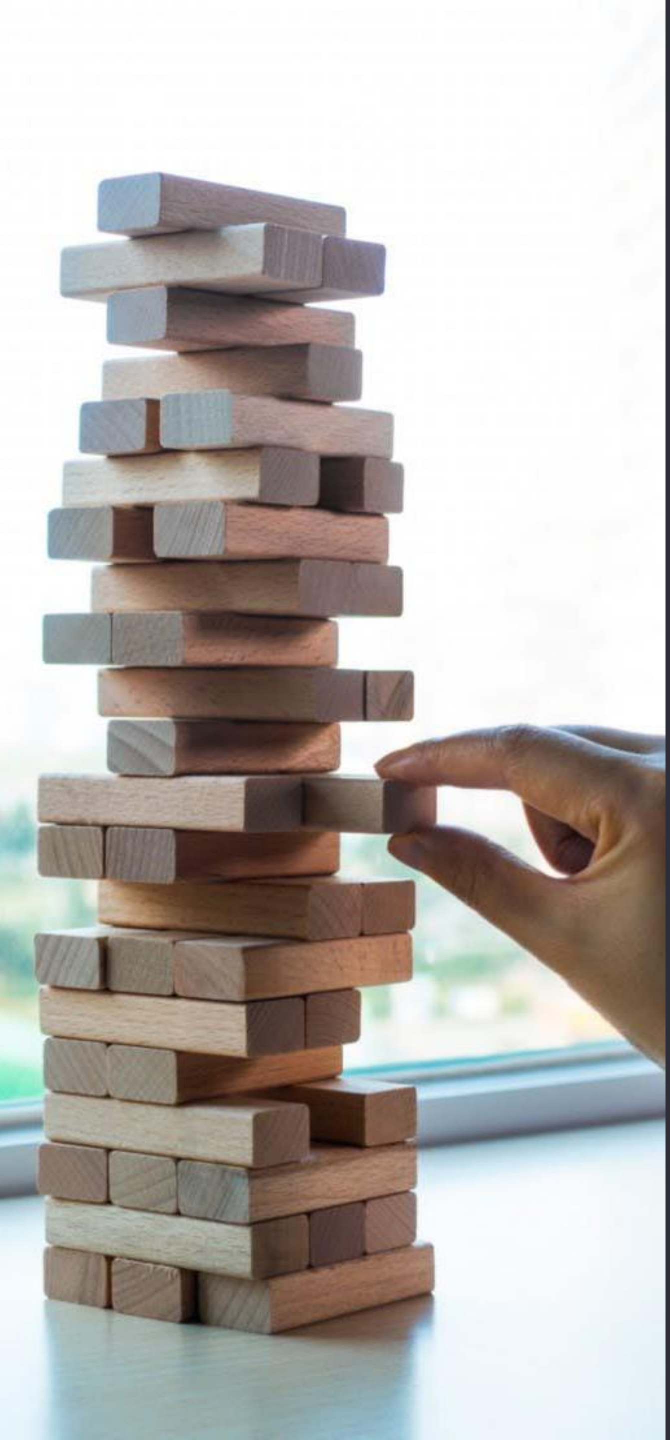
**With all nonessential businesses coming to a halt, the business and consumer impact is unprecedented:**

- For insurers with a retirement plan business, there is immediate relief for their participants through provisions of the CARES Act.
- Claims in some lines of business – like dental – are down due to low activity levels with virtually all consumers at home.
- Job loss is at historic levels causing policyholders to defer premium payments.
- As a result, customers' inquiries about policy loans and withdrawals, and annuity surrenders are at an all-time high.
- Customers hope to rely on provisions of the CARES Act for financial relief, and many companies are expected to turn to the Small Business Administration for emergency loans.
- Consumers' lives and the small business landscape could be permanently changed with work-from-home disrupting traditional models.

## Regulators and industry formulating response

**State regulators and insurers are closely monitoring and responding to the COVID-19 impact on multiple fronts:**

- Insurance companies need to monitor and respond to ongoing regulatory activities and legislation, which will continue until there is some stabilization.
- States are rolling out legislation to protect consumers, which is having a direct impact on insurers, e.g., waiver of premium and delays/prevention of lapsing policies.
- Insurers are being pressured to notify customers regarding the status of their coverage information.
- The CARES Act provides businesses with loans to cover some expenses related to payroll costs, rent and utilities but does not address loss of income due to business interruption.



# Planning in the face of uncertainty

- Insurers are confronting the new reality in which the COVID-19 pandemic is a long-term disruption to their customers, employees, investors and suppliers. **The scope, duration and severity of the threat is, as yet, unknown.**
- What tools do insurers have to confront this crisis? What tools need to be built to face unprecedented challenges? How can insurers learn from this crisis and emerge with a strong business model as a result?

## 1 Now

How do insurers proactively serve **policyholders in time of strain**? How does the industry manage coverage **exclusions and respond to government intervention**? How do insurers **manage solvency and liquidity** strains?

## 2 Next

How do insurers recover new business and growth plans through **product design and inventive distribution channels**? How can insurers manage existing **investments** and take advantage of investment opportunities, including **M&A**?

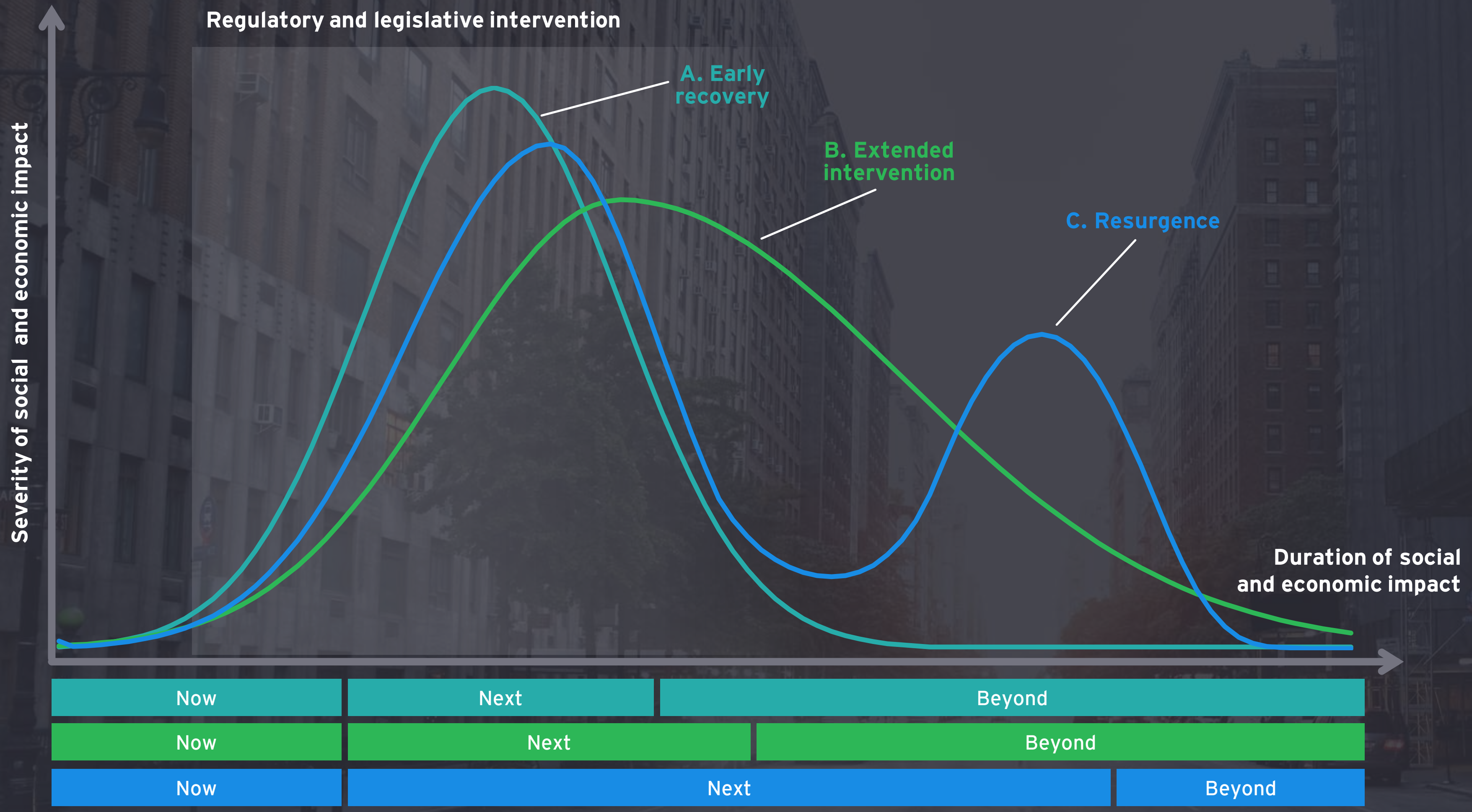
## 3 Beyond

How can insurers use learnings from this crisis to create a **more flexible, cost-effective organization**? Are **products and digital offerings** responding to changes in behavior, protecting against future risks and preserving trust and purpose?

**As circumstances change and new issues emerge, insurers require an agile approach to strategic planning.**

# Plausible pandemic scenarios

The COVID-19 pandemic is accelerating our information life cycle, **increasing the risk that outdated or incorrect data will result in poor decision-making.** We have **combined the views of medical experts, economists and industry analysts into three representative scenarios** to guide the dynamic planning process.




**Early recovery** Scenario A

Strong public health response and virus seasonality slow and contain spread of COVID-19. Quarantines and travel restrictions drive sharp contraction in consumer spending, but economy – supported by fiscal and monetary intervention – bounces back quickly. Continuity planning and remote technologies alleviate workforce disruptions.

**Extended intervention** Scenario B

Countries struggles to contain virus due to disorganized response and variable enforcement. Global recession caused by declining consumer spending and corporate investment continues even as infection rates decline seasonally. Global spread of virus strains business's supply chains, sustained contraction prompts layoffs and structural realignments, and technology constraints on remote workers depress productivity.

**Resurgence** Scenario C

Public health and economic measures lifted as virus abates, and public and policymakers caught off-guard by second wave of infections. Public fatigue dampens political appetite for further market intervention and industry "bailouts." Insurer operations struggle to keep up with customer activity and government action, and workforce attrition increases operational and cyber risks.

# CARES Act – implications for insurers

Insurers play a role in **operationalizing CARES Act programs**; they will see **benefits to their customers** and will potentially benefit themselves from **direct support.** Nine potential focus areas are highlighted below:

### Title I
**Small businesses**
- SBA paycheck protection
- Loan forgiveness
- Existing SBA loans
- Grants
- Bankruptcy

### Title II
**Worker assistance**
- Unemployment insurance
- Recovery rebates
- Individual tax provisions
- Business tax provisions

### Title III
**Health care**
- Health care-related provisions
- Education-related provisions
- Labor-related provisions
- Additional provisions

### Title IV
**Economic stabilization**
- Direct lending to specified industries – airlines, national security
- Loans, guarantees and investment to businesses, states and municipalities
- Midsize businesses program
- Potential legal lending limit relaxation
- Federally backed mortgage forbearance
- Credit reporting on consumer forbearance
- TDR suspension and optional CECL relief

1. Indirect impact – monitor impact on agency distribution force, customers and supply chain vendors
2. Evaluate tax provisions applicable to insurers
3. Adopt CARES Act into retirement planning, wealth advice, investment and insurance solutions
4. Evaluate impacts to insurance contract and retirement plan operations
5. Implement CARES Act provisions relevant to workforce
6. Determine impact to policies and ongoing coverage; consider prospectively expanding coverage/services during recovery period
7. Assess and respond to housing finance ecosystem impacts on investment portfolios
8. Manage investment portfolio, credit risk and restructuring impacts
9. Assess financial reporting impacts

# Challenges and opportunities for insurers

We see the threats and opportunities facing insurers sitting across eight core areas which all have significant ramifications for the reputational, financial and operational resilience of the industry.

**1 Product, customer and distribution**
CPO, CMO, Sales, Distribution Head, LOB Head

**2 People and workforce**
CEO, COO, CFO, CIO

**3 Capital and investments**
CEO, CFO, CRO, COO

**4 Shareholder value**
CEO, CFO, COO, CRO, Strategy Lead

**5 Financial reporting**
CFO, CIO, COO

**6 Protection and resilience**
CISO, CTO, CIO, CRO, COO

**Technology** CIO, CTO, CISO

**Operations** COO, CIO, CFO, LOB Head, Underwriting, Claims Head

# P&C product, customer and distribution impacts

The P&C insurance industry must react swiftly and proactively to demonstrate its protection purpose.

### Unparalleled volume of customer queries and stakeholder engagement

- Customer call volumes are up with customers inquiring about coverage.
- Announced programs for premium deferrals are driving contact and processing volume.
- Contact centers and distributors are seeing increased small commercial business continuity claims.
- P&C insurance carriers vary widely in terms of digital self-service capabilities (web, mobile) and have low adoption of what they have.

### Consumers and distributors are facing new challenges

- US carriers have only begun to see the impact of hospitalizations on their customers' insurance needs.
- Retention rates are expected to be high over coming months with potential for customers dropping coverage after a 90-day grace period.
- A focus on supporting existing customers (and independent agents) is essential, particularly in dealing with the paperwork associated with the CARES Act for small commercial customers.
- Insurance distributors are not fully equipped and trained for digital selling.

### The insurance industry has a crucial role to support the economic recovery

- Broad rejection of business continuity claims exclusions will create a reputational risk and legal jeopardy for the industry.
- Policymakers may decide on carriers' roles in massive business continuity cost.
- New coverages and products may assist customers and provide an antidote to reputational risk.
- The industry is likely to be questioned if the industry is not perceived to be supporting the economic recovery.

Remediating (digital) customer service gaps will help the immediate COVID-19 response.

Assisting customers and distributors alike in adapting to COVID-19 will strengthen loyalty.

Product innovation muscle originally built to defend against InsurTech may now help your agility to identify new coverages and products.

# Life product, customer and distribution impacts

The life insurance and annuity industry must react proactively to demonstrate its financial wellness purpose.

## Advise clients and provide immediate support

- Customer call volumes are up as policyholders inquire about access to cash.
- Service transactions are likely to increase with regulatory mandates to extend premium grace periods.
- Underwriting decisions and contestability reviews for death and disability claims may be "moments of truth" for carriers.
- Digital self-service and virtual capabilities will be severely stress tested with state work-from-home declarations.

Remediating (digital) customer service gaps will improve the immediate COVID-19 response.

## Help consumers and distributors with new challenges

- US carriers must plan for the impact of hospitalizations of employees, customers, wholesalers and financial representatives and related business interruption.
- Group insurance carriers could lend support to existing small and medium businesses, including distribution partners, filing for CARES Act assistance.
- Insurance distributors who are not equipped and trained for digital selling and advice will experience reduced productivity.

Assisting customers and distributors in adapting to the public health crisis impacts will strengthen loyalty.

## Play a strategic role in the US recovery

- Carriers will need clear strategic responses to the combination of volatile financial markets, increased death and disability claims and long-term business interruption of their customer base.
- Older consumers may defer retirement, and have a need for retirement income solutions in a continuing low-interest-rate environment.
- Having trust and confidence in the life insurance and annuity industry to be an engine of growth in economic recovery is critical and requires forward thinking.

Product innovation may lead to new solutions for improved resiliency in other crises.

# Potential action plan for insurance carriers

| Now | Next | Beyond |
|---|---|---|
| **Communicate** with customers and distributors to help calm nerves and provide clarity of how you can help | **Promote digital access** for self-service and provide quick fixes for immediate customer contact issues | Rapidly build, deploy and promote **digital self-service** transactions to take the pressure off customers, agents and your (now remote) contact center |
| Provide **premium payment flexibility** for consumers and small-medium enterprise customers | **Assist** your customers and independent distributors with the **SBA paperwork** they will invariably face | Support insurance distributors with **digital and remote selling** leading practices through tools and training |
| Provide easy **access to cash** for those products where customers are entitled to it | Provide **additional coverages** related to COVID-19 to support customers with hospitalization | Develop **new products** aimed at emerging needs to show commitment to customers and distributors |

# Insurance people and workforce impacts

Insurance companies must react proactively to demonstrate ongoing commitment to their people.

### Business continuity and productivity depend on alternative, inclusive and flexible ways of working.

- New technology and processes can help employees remain productive while working from home.
- Companies will want to measure employee productivity in a work-from-home setting.
- New policies will need to address hourly employees, sick pay, PTO and other issues.
- Proactive and regular communication will be critical to maintain morale and engagement.
- Increased use of automation can supplement the workforce and maintain service levels.

### Insurers that deliver on the total talent experience during this crisis will increase loyalty and brand intimacy.

- The organization must prepare for, and proactively address, an ongoing period of travel bans, collective and self-quarantines, and related implications for child and elder care.
- Company-wide and local events using various media can help maintain employee engagement and organizational cohesion.
- Performance management and rewards can increase incentives to high-performing and high-potential employees.

### Talent acquisition and recruiting will be impacted due to travel restrictions and possible brand damage.

- Develop new recruiting and onboarding models optimized for work-from-home arrangements.
- Implement new models and media to develop and deliver training programs (virtual classroom, self-study, etc.).
- Deploy new methods to communicate with employees, improve their experience and increase satisfaction.
- Implement new ways of working aligned with greater automation and increasing customer expectations; reposition human assets to higher-value analytical and customer-facing activities.

Flexibility and ongoing communication will be critical to the new working model

Workforce operating models must anticipate a recurring need for social distancing

Insurers will need to innovate to attract and retain top talent

# People and workforce actions

| Now | Next | Beyond |
|---|---|---|
| Identify key persons and ensure continuity; promote virtual teaming and new ways of working | Determine business impacts and implications related to ongoing policy options (e.g., bonuses, retention pay) | Assess lessons learned and develop robust business continuity plan and road map in case of future events |
| Implement short-term "hypercare" for employee well-being | Execute clear and consistent communication to maintain employee engagement and manage change | Create enhanced approach to workforce mobility to maximize employer and employee value |
| Deploy new processes, policies and technology to support working from home | Cross-train staff to increase deployment flexibility and mitigate single points of failure | Update talent and workforce strategy aligned to desired state of workforce well-being |
| Communicate changes and address concerns (e.g., FAQ, intranet, hotline, social media) | Assess new operating model, including org design, roles and skill requirement | Execute program for multichannel learning and skills development |
| Redeploy resources to highest-demand activities (e.g., from dental to health claims) | Evaluate options to align new workforce cost model with revenue plans (e.g., headcount, real estate, plan design, contractors) | Measure employee experience and monitor operating model effectiveness |

# Capital and investment impact

While there are different drivers, we expect insurers across the sector to have pressures on capital and/or liquidity:

### Significant and immediate impact on capital and liquidity

- Anticipated credit losses – bond spread increases may be a leading indicator
- Increased market volatility and cost of hedging will increase expectation of losses and will impact capital.
- Regulators will be closely monitoring positions. No regulatory relief as yet, but could provide future support.
- Asset adequacy testing/cash flow testing will likely lead to the need for additional reserves under the flat and low-interest-rate scenario.

### Emerging liquidity pressures from a number of sources

- Observing pressures from premium waivers, etc., will put a strain on insurers liquidity.
- Customers may stop premium payments, while life insurers are likely to see an increase in withdrawals from savings products driving a need for liquidity. Early redemptions will place strain on ALM, and may force insurers to sell assets below par.
- Potential downgrades to insurers could result in material business outflows and lapses.
- Liquidity of the financial markets could make it difficult to support the increase in cash to fund withdrawals/surrenders.

### Earnings pressure and evolving credit risk as mitigation actions are worked through

- Insurers may face shrinking revenue as policyholders may stop paying premiums, and expected fee income will be lower due to depressed asset values.
- Anti-selection behavior may lead to spike in sale of unprofitable new products (i.e., products with investment guarantees).

Insurers may need daily monitoring of capital and liquidity positions depending on circumstances, as well as forward-looking capital modeling

Capital optimization and hedging activities to preserve and protect capital position

Insurers will need to proactively consider changes in client/customer behavior and the impact on liquidity

Pre-emptive communication with regulators, rating agencies, and other key stakeholders

Thorough review of liquid and illiquid asset exposure to identify potential default triggers and covenant risk

Earnings will come under pressure as losses increase (e.g., credit losses, claims costs)



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# Capital and investment actions

Insurers have opportunities to respond to these across the pandemic life cycle:

| Now | Next | Beyond |
| --- | --- | --- |
| Ensure robust liquidity plans to be able to absorb cashflow stresses | Improve liquidity and capital stress testing capability and contingency planning process given lessons learned | Develop better insights into risk budgeting and capital allocation across businesses |
| Consider need for capital preservation actions and the impact of evolving asset risk | Review risk appetite and capital allocation strategies | Optimize risk and capital allocation through acquisitions, divestures and reinsurance |
| Consider the need for product-level actions, such as gating of certain products/asset classes to preserve liquidity and value | Ongoing stakeholder engagement, covering policyholders, investors, rating agencies and regulators | Anticipate and prepare for regulatory evolution in the post-crisis environment |
| Assess the readiness for Q1 and Q2 along with the financial impact | Assess tax impacts and short-term cashflow/ debt | Ensure financial due diligence and ongoing monitoring |



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# Shareholder value impacts

Insurers must react to the extreme market volatility in response to the COVID-19 pandemic by looking for opportunities to maintain shareholder value:

### The pandemic and resulting deterioration of market values create M&A opportunities.

- The unprecedented disruption to the economy caused by COVID-19 will create opportunistic acquisitions as attractive targets can be acquired at depressed valuations.
- Distressed sales by institutions in need of capital or with undesirable asset holdings and bankruptcy sales will result in opportunities for institutions with healthy balance sheets to create long-term value.
- Buyer due diligence should include an in-depth review of business continuity plans, supply chain assessment and business exposures due to the pandemic.

Buyers and sellers going through M&A transactions should be prepared for impacts on both sides of the businesses caused by the ongoing pandemic.

### Market volatility and industry sector disruption will result in liquidity issues.

- The recent downturn in economic activity will result in liquidity issues across the financial services sector, and institutions should be assessing the impact from factors related to the pandemic, e.g., change in consumer spending.
- The scope and duration related to the pandemic impact are uncertain, and institutions should be developing scenarios for modeling purposes and building financial projections to identify potential periods of risk.
- Short-term cash forecasting tools and methodologies should be enhanced, and additional sources of liquidity should be identified.

Consumer behavior will change, and cost may be volatile for a period of time, so adequate planning is crucial for long-term stability.

### Anticipated economic rebound will require a strategy refresh to drive growth.

- As firms emerge from the early stages of responding to the pandemic crisis, focus will need to pivot to developing strategies to win in the new market environment.
- Institutions will need to address evolving customer needs, adapting to new ways of working, a revised approach to finance and risk, and enhanced operations and operating models.
- Mergers and acquisitions and divestiture strategy should change to take advantage of new opportunities emerging across the evolving market landscape.

Business models will continue to shift throughout the pandemic; a review of business portfolios will identify key growth drivers and laggards.

# Shareholder value actions

Insurers have opportunities to respond to these across the pandemic life cycle:

| Now | Next | Beyond |
| --- | --- | --- |
| Institutions with capital on hand should be scanning the market for opportunities while those needing capital should be looking to unload undesirable asset holdings | Financial/operational restructuring and continued liquidity and cash forecasting | Managing evolving customer needs, e.g., innovate products to adapt to changing demand (business interruption, cyber exposure, increased life coverage) |
| Sector concentration should be reviewed to begin identifying areas of greatest risk | Development or enhancement of real-time reporting and monitoring tools | Revising approach to finance and risk – e.g., substantially increase use of advanced analytics/AI and third-party data; review MGA/MGU/programs performance |
| Develop mitigation strategies and determine the immediate impact on liquidity and capital | Review strategic options to identify and access additional sources of liquidity | Create long-term value by looking at M&A and divestiture opportunities |

# Financial reporting impacts

With increased demand and strain of resources, we expect insurers across the sector to have pressures on their financial reporting processes:

## Financial close will take longer with a remote workforce.

- Operational continuity and resilience will be tested, including identification of critical resources, technology and vendors.
- Capacity issues, knowledge gaps and access to critical systems and data may be limited, putting strain on current processes.
- Availability of third-party data from distribution partners and outsource providers may be reduced or delayed.
- Increased production time will reduce time for management review. Close activities may need to be reviewed and re-sequenced.
- Management will have more requests for analysis of results.
- Change in operating environment will require updated risk and control framework, with specific monitoring of critical controls.

Most onshore back-office teams are experienced with remote work but may have to deal with increased workload due to limited capacity of offshore teams and third-party providers to maintain SLA.

Changes will be needed to execute controls in the remote environment and support FS certification process.

## Increased demand on and need for judgment will increase pressure on finance teams.

- Market volatility will drive increased requirements and analyses, particularly asset adequacy, cashflow testing, insurance contract liabilities and added tax matters.
- Business interruption, combined with significant claims activity, may result in incomplete information, from upstream operational activity, to support accounting judgments and earnings guidance.
- Reserve reviews become more complex as coverage and key assumptions need to be carefully considered.
- Increased cyber and fraud risks to be managed in new environment.

Finance and actuarial teams are being asked for increasing levels of analysis and reporting as the situation evolves.

Additional judgment and assumptions will be required as we face into a period of uncertainty.

## Federal and state regulatory bodies may revise guidelines and requirements to ease pressure.

- Regulatory reporting:
  - Extension reporting deadlines
  - Potential relief from adoption of new accounting standards in Q1
- Statutory reporting:
  - Disclosures on subsequent events covering the impacts of COVID-19
  - Impacts to governance and control landscape
  - Potential extension of certain filings

Regulatory reporting deadlines may be pushed out.

Some insurers are producing daily updates of their capital requirement position for internal communication.



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# Financial reporting actions

Insurers shouldn't stop at the tactical response; they should look ahead to planning future close periods to de-risk a critical path.

| Now | Next | Beyond |
| --- | --- | --- |
| Set up a virtual command center and align SWOT team to deal with accounting, tax, IT and investor issues in real time | Review and refine service levels, e.g., what stops in the event of constraints/events looking toward the next reporting cycle | Lift up data and technology capability across finance to increase visibility over evolving business and support cost reduction |
| Prioritize critical-path processes and controls over the nonessential and assess critical process resilience and tactical mitigation action | Replan close process and build contingency plans based on scenarios (e.g., quarantine extension) and continuously improve | Consider emerging technologies, e.g., claims automation/analytics, fraud management technology, and disease/outbreak modeling |
| Respond to the immediate requests from state regulators (e.g., NYDFS) | Look to reduce manual processes and automate workflow across production and analysis capabilities | Consider alternative models to provide stronger business continuity response, e.g., managed service for actuarial |
| Adjust assumption-setting process to account for changes in policyholder behavior (e.g., increased surrenders) | Assess impact business and how actuarial models can effectively monitor and manage this, e.g., with additional exposure data | Align investor relations messaging with the wider purpose of insurance |

# Protection and resilience impact

Insurers will need to continue to maintain customer trust through protection of personal data, fair treatment of honoring policy commitments and ensuring their reliance on third parties is not interrupted.

### Third parties may not have been as prepared for remote working

- Many insurers have outsourced key functions to third-party providers, including offshore centers.
- As a result of remote working, third parties may have reduced capacity, resulting in reduced service levels.
- Third parties may not have the same level of protection for your data in a work-from-home model, increasing the potential for a breach of customer data, loss of intellectual property or ransomware incident due to the third party.

Insurers should consult with third parties and, if needed, enforce contingency plans for outsourced services.

Insurers should ensure controls are in place for those third parties to operate securely, including the potential for enhanced monitoring.

### Remote working is opening the door to the next wave of cybersecurity risks

- Insurers are being confronted with an evolving landscape of cyber threats resulting from the impact of the pandemic.
- As the workforce adapts to new ways of working, they are increasingly vulnerable to malicious attacks as attempts are increasing.
- Insurers will need to find new ways to stay connected to their teams, suppliers and customers in a reliable and secure manner.
- Staffing contingencies should be in place as workers are unable to deliver their responsibilities in quarantine or caring for loved ones.

The current crisis has dramatically increased cyber threats for businesses as workforces transition to remote working.

The importance of security awareness and training is heightened as users perform their job responsibilities in a new manner.

### Financial crimes and fraud claims

- There is an expected increase in financial crime-related activity by those hoping to take advantage of the market disruption and social fear. Institutions need to be prepared for an increase in legitimate claims (e.g., hardship, death benefit).
- Customer experience may suffer if operations are inundated due to increases in volume and false positives and if working arrangements are not be compatible with existing processes.
- Economic uncertainty can create pressures that raise insider threat risk, and remote work infrastructure that has not been sufficiently hardened may leave insurers vulnerable to internal fraud.

Accelerate digital, financial crimes, anti-fraud and authentication transformation projects to serve the customer, manage leakage and control risk.

SMEs need to be embedded within teams developing solutions to combat disruption; otherwise, these solutions may become new attack vectors.

# Protection and resilience actions

Insurers' enterprise risk, internal audit and regulatory compliance functions should work with the risk owners so that the system of internal controls is resilient to the changes in operating model and demands from remote-working. Appropriate assurance should be delivered to the board.

## Now

- Identify and manage the immediate resiliency challenges linked to critical and Tier 1 third parties, including reinforcing information security protocols
- Confirm all systems are fully updated, patched and properly configured
- Roll out additional employee training and awareness for remote work "bad practices"
- Evaluate the impact on security posture of additional remote access capacity, including ability to monitor new connections
- All activities need to comply with regulatory requirements and should leverage any regulatory relief proffered by the regulators
- Embed Fraud SMEs within project teams that develop solutions to combat disruption
- Review financial crimes and fraud strategy road map and accelerate initiatives around authentication and decision management
- Determine how the risk of case or alert backlog due to workforce or third-party disruptions, and prioritize efforts by risk

## Next

- Develop or refine contingency plans or alternative provider strategies as well as review ongoing monitoring and support protocols of third parties, focusing on areas such as financial health, cyber, geopolitical and operational risk
- Ramp up security resources to handle the next wave of attacks from malicious attackers exploiting the malware they deployed in the early days of the pandemic
- Evaluate the impact of privacy regulations and protection of key data due to the pivot to remote working
- Implement tactical authentication solutions to support operations
- Deploy automation and machine learning solutions to improve efficiency and quality, lower false positives, and reduce backlog and workforce stress

## Beyond

- Enhance TPRM function based on COVID-19 learnings to future-proof third-party operations by performing root cause analysis on known failures, updating business continuity and pandemic plans, and developing high-level tabletop exercises with learnings from Pandemic
- As shelter-in-place restrictions are being lifted, build a transition plan to ensure security is not compromised
- Conduct crisis simulations to model future disruptions based on business and technology strategies regarding pandemic
- Consider implementing an orchestration platform to deliver an omni-channel and customer-centric anti-fraud customer experience across the enterprise
- Deploy cloud-based FinCrime technology and monitoring solutions, reducing need for on-premises resources, and providing flexibility in business continuity plans

# Technology impact

Insurers are facing an increased amount of stress on their technology infrastructure and workforce to provide key business services to their customers and stakeholders.

## Technology infrastructure and scalability

- A remote workforce will test the preparedness and scalability of communications infrastructure. This includes the availability of phone or videoconferencing, document sharing, etc.
- The anticipated increase in the need to access data remotely by both customers and employees will put a strain on data and network infrastructure.
- Expected high volumes and loads on call center infrastructure will need to be managed, where voice network may be prioritized over others.
- Several high-impacted operating areas will need alternate arrangements to function smoothly and may introduce automation.

## Technology security and backup

- BCP and DR plans will need to be adjusted given that they did not account for an extensive work-from-home scenario (>75% of remote workforce).
- A crisis like COVID-19 increases probability of cyber crimes and security breaches for which carriers need to be vigilant.
- Current technology workarounds may not be sustainable in the new environment and will need adjustment.
- Insurers' control and security frameworks will be under stress and will need adjustment in light of new ways of working.

## Technology program management

- Potential impact on existing IT projects, especially ones that are close to release, due to changing underlying assumptions.
- Immediate changes may be required on critical business applications (e.g., e-apps, underwriting workbench, billing, etc.).
- Unavailability of critical resources may drive the need to create contingency plans.
- Potential new product and feature development.
- The crisis will accelerate plans for digital front- and back-office transformation across the enterprise.

Insurance carriers have executed BCP plans for remote access

Heightened awareness of IT security risk

Infrastructure scaling is becoming a challenge

The current crisis is dramatically increasing cyber threats for businesses as workforces transition to working from home

Remote collaboration tools for workforce productivity are being revisited

Increased pressure on outsourced IT providers to continue to provide same service levels

# Technology actions

Insurers will need to predict and be proactive in their decision-making to preserve business continuity and build enterprise resilience.

## Now

- Make critical communication infrastructure and tools available for employees and agents
- Continue to meet SLAs and OLAs while remaining cognizant of employee needs
- Increase preparedness with cybersecurity and disaster recovery measures
- Prioritize critical business application updates required for business continuity
- Quick technical patches for exceptions on hardship withdrawals from qualified insurance and investment products
- Robotic process automation enabled monitoring of production batches and automated incident management

## Next

- Ensure accurate understanding of the new technology environment and processes that impact business performance
- Change project management procedures to accommodate remote working for ongoing and new projects
- Invest in electronic capabilities for business operations if they are currently not available
- Reprioritize IT portfolio to help meet long-term objectives
- Invest in product development and implementation focusing on pandemic impacts that could likely have strong demand and could be priced at higher ROEs

## Beyond

- Extend and promote digital capabilities across the organization
- Enable e-capabilities across all products
- Assess solutions available to test and rapidly deliver new capabilities to the market
- Utilize big data and advanced analytics to understand the overall impact of COVID-19 on customers and operations
- Build a strong and sustainable IT-enabled business continuity process for future adversities

# P&C operations – product, underwriting, policy processing and billing

P&C insurers face increases in demand across several operational areas while grappling with enabling remote employee productivity and supporting customers and producers.

### Customer and producer service demands surge

- Premium audit demands will surge for insurers with workers' comp and general liability portfolios.
- Requests for billing and payment plan adjustments will surge for both direct bill and account bill. Insurers with personal lines and small commercial lines portfolios will see the largest near-term impact.
- State DOI will tighten rules for non-renew/ cancellations and in some states, require EOBs for all customers.

### New business and renewal processing models will need to flex

- Retention rates will increase due to state DOI guidelines on non-renew/cancellations. Insurers will need to support renewal processing with remote employees and should plan for renewal segmentation to monitor retained unprofitable accounts.
- Distributors, including wholesale, retail, MGUs and brokers, will face challenges due to remote work, and insurers will need to offer additional processing support and enable digital capabilities for ease of doing business to prevent premium erosion.
- Managing brand reputation from denied claims is important for retention.
- Replacing premium and rightsizing expenses.

### New or expanded products and services will assist with COVID-19 response

- Participation in the CARES Act in support of payment distribution on behalf of government will generate sector and brand goodwill.
- Expanded risk engineering/loss control support for workers' comp customers for industry classes facing increased demand such as medical, frontline food retail, trucking/transport, etc., will moderate some claims and preserve reputation/brand.
- New products to assist with future pandemic response will mitigate some frustration with denial of business income claims; rent/mortgage/car payment protection for personal lines and small commercial customers; loss-sensitive pandemic products for mid and large commercial customers.

Prepare the enterprise for near- to medium-term increases in servicing demands

Re-balancing the book and rightsizing expenses to the new normal

Evaluate premium replacement strategies

# P&C operations – product, underwriting, policy processing and billing

Insurers have opportunities to respond to these across the pandemic life cycle:

## Now

- Identify areas of increased service demand and mobilize plans to support or automate virtual workforce during peaks
- Review near-term underwriting guidelines that need to be relaxed or tightened
- Understand actions to take to protect brand reputation
- Comprehensive COVID-19 risk planning, including personnel backup plans, vendor management, etc.
- Proactively communicate with producers to understand near-term intake processing challenges

## Next

- Evaluate impacts from payment plan adjustments and premium audits and mobilize remediation plans to return to premium equity and premium adequacy
- Identify strategies to rightsize expenses to adjusted premium base
- Prioritize quick-win digital or automation initiatives that improve ease of doing business and operational efficiency
- Drive profitable retention and strengthen brand by segmenting classes and products and identify initiatives

## Beyond

- Consider additional services that may be in demand such as premium financing and expanded loss control services
- Focus product innovation teams and technology investments on serving the new types of businesses emerging in the post-pandemic world
- 2021 planning is just around the corner – evaluate strategic initiatives and re-prioritize based on "new normal"
- Seek opportunities to replace lost premium and grow book, including acquisitions of portfolios, carriers and MGUs

# P&C operations – claims

Carriers are experiencing massive frequency changes across multiple lines of business as claims teams are retrained and redeployed to manage the surge in business interruption (BI) claims and prepare for the impact of regulatory action and lawsuits over coverage disputes.

### Near-term risks and opportunities: employee and vendor resilience

- Many carriers had BCPs in place that were quickly executed to allow for WFH across claims and call center operations.
- A significant drop in frequency of traditionally high-volume lines of business has helped claim operations transition to remote work.
- Core IT functionality and vendor capability for ongoing operations is holding up.
- Carriers in long-tail lines of business are capitalizing on settlement opportunities with previously unwilling parties.
- Emerging regulatory and rule changes impacting other LOBs, including workers' comp, medical malpractice and D&O should be assessed for potential severity increase.

Determine short-term retraining needs based on adjusting skill sets

Work with vendor partners and industry lobbyists to understand impact of regulatory and rule changes

### External regulatory and lawsuits challenging BI coverage terms are a major threat

- So far, large and small commercial property carriers are denying coverage for business interruption based on the lack of a physical loss, or a specific inclusion for pandemics.
- State governments and specific suits are challenging these decisions and seeking a more broad interpretation of BI coverage.
- Industry has proposed assisting with the distribution of additional phase of federal funding for COVID-19-impacted businesses.
- Political and societal pressure to provide coverage to impacted businesses will degrade carrier surpluses needed for traditional and seasonal CAT-type events.
- Leveraging advanced fraud analytics to assess COVID-19-related claims will be key.

Carriers should fully understand their worst-case scenario exposure across impacted LOBs

Carriers with smaller books of commercial property business should consider benefits of granting coverage based on risk/reward modeling

### There will be significant long-term impacts on claims operating models

- Societal changes triggered by COVID-19 will accelerate the move to digitize the claims experience for employees, customers and key vendor partners.
- Intelligent automation and sophisticated AI models will drive enhanced levels of interaction while minimizing the need for physical presence across most claims management activities.
- Continued social inflation and ongoing legislation/case law favoring claimants will place a premium on risk selection and loss prevention capabilities.

Evaluate long-term claims operating model strategy options based on LOB and geography

Continue to monitor federal action to provide industry support for commercial lines of business

# P&C operations – claims actions

Insurers have opportunities to respond to these across the pandemic life cycle:

| Now | Next | Beyond |
|---|---|---|
| Identify and aggressively move to favorably settle long-tail LOB claims | Conduct key claims vendor risk assessment to determine any over-reliance on significantly at-risk vendors | Determine if long-term regulatory and case law landscape significantly limits ability to successfully manage specific LOB exposure |
| Continue to stress test core claims systems and key claims technology capabilities to ensure ongoing operational execution levels | Thoroughly evaluate and document skill sets across enterprise to determine key gaps | Continue to expand investment in digital claims operating model, accelerating move to no/low-touch claims management |
| Fully evaluate potential exposure across PIFs to determine risk across medium-term impacted LOBs | Identify/train dedicated team to triage and manage BI claims based on emerging federal, state and case law landscape | Self-service and virtual adjudication models will require critical decisions on vendor partnerships and build vs. buy strategies |
| Dedicate team to anticipate and evaluate claims impact of legislative and case law changes | Align with underwriting and actuarial to understand long-term LOB impact based on evolving coverage and legal landscape | Foundational analytics capabilities required to support no/low-touch claims handling and to identify fraud, severity and litigation risk |
| Monitor employee wellness as remote work requirements continue into spring/summer | Establish KPIs to evaluate key claims management and process changes initiated in reaction to COVID-19 impacts | Evaluate physical office needs and overall staffing structure considering likely reliance on intermittent and long-term remote work |

# Life insurance and annuity operations impact

Life insurance and annuity companies will want to proactively address the mounting financial burden of their policyholders and advisors and policyholders, while maintaining efficient and reliable operations.

### Policyholder demands for service surge

- Requests will surge for policy withdrawals, loans and surrenders as consumers seek to increase household liquidity.
- Requests will surge for life insurance premium payment relief or forgiveness to avoid policy lapse.
- Customers will seek relief from annuity surrender charges.
- Claims will increase for disability policies and disability waiver of life insurance premiums.
- State DOI will tighten rules for policy lapses for late or nonpayment.

### Advisors are under stress and require improved support

- Advisors will seek support formerly provided by sales offices, which have recently closed.
- Significant slowdown of policies issued will occur due to face-to-face/human nature of the distribution model.
- During a time of reduced income, advisors seek to speed up the underwriting process and have policies issued (and commissions paid) faster.
- Advisors will use the most efficient support channels to drive new business, particularly those available through online self-service given lack of face-to-face access.
- Underwriting rules will need to be modified to account for changes to morbidity and mortality.

### Insurance company service models will need to flex

- Higher inquiry call volumes driven by COVID-19 concerns create longer wait times and increased load on self-service capabilities.
- Processing teams will face spikes in volumes of complex financial transactions (loans, withdrawals and surrenders).
- Carriers will struggle to maintain service levels and required turnaround times due to virtualized workforce.
- Under the CARES Act, certain COVID-19 exposures have to be covered; carriers may need to adjust coverage rules for many life and health policies that do not cover pandemics, driving up manual, exception-based processing.
- There may be an increase in claims volume and fraudulent activity caused by COVID-19 morbidity and mortality.

Carriers have a unique opportunity to provide exceptional customer experience

Advisors will value carriers who go “above and beyond” and can adjust their underwriting policies

Self-service capabilities can reduce the burden on now-remote call center and processing teams

# Potential action plan for life insurance and annuity companies

## Now

- Suspend fee payments and/or defer policy lapses for nonpayment; suspend/reduce surrender charges based on financial hardship
- Set clear daily productivity targets by function to limit service-level impacts
- Encourage advisor use of existing digital sales tools (e.g., e-app) and self-service capabilities
- Continue to reach out and communicate to new and existing clients (now more than ever)
- Add COVID-19-related underwriting questions (e.g., recent travel)
- Modify medical underwriting thresholds to require fewer requirements; eliminate need for health assessments
- Consider temporary life insurance premium waivers on late or overdue premiums to and demonstrate "focus on customer"

## Next

- Expand self-service capabilities for high-volume/routine transactions to allow CSRs to handle COVID-19 calls
- Consider direct-to-consumer model to allow customers to purchase policies online
- Develop robust self-service capabilities (including mobile app) to reduce call volume and load on call centers
- Accelerate auto-underwriting programs
- Employ call center analytics to staff for peak periods

## Beyond

- Deploy self-service capabilities to make premium payments and confirm account payment status
- Increase self-service capabilities for financial transactions (premium payments, loans, withdrawals) online or using an app
- Implement capabilities for agents to interact with clients virtually using online or mobile platforms
- Use data and predictive analytics to increase information used for underwriting decision-making
- Increase use of electronic health records for underwriting

# Group benefits and retirement impact

Group benefits and retirement providers will want to proactively address the mounting financial burden of their brokers and plan sponsors, while maintaining efficient and reliable operations.

## Plan sponsor and employee demands for service surge

- Requests will surge for account withdrawals as consumers seek to increase household liquidity.
- Additional withdrawal requests as consumers take advantage of CARES Act provisions that provide greater access to retirement funds.
- Requests will surge for for premium payment relief or forgiveness to maintain coverage.
- Claims will increase for absence and disability policies related to COVID-19.
- State DOI will tighten rules for policy lapses for late or nonpayment.

## Distribution partners are under stress and require improved support

- Significant slowdown of policies underwritten and onboarded will occur due to face-to-face/human nature of the distribution model.
- During a time of reduced income, brokers seek to speed up the underwriting process and have policies issued (and commissions paid) faster.
- Brokers will use the most efficient support channels to drive new business, particularly those available through online self-service.
- Underwriting rules will need to be modified to account for changes to morbidity and mortality.

## Insurance company service models will need to flex

- Higher inquiry call volumes driven by COVID-19 concerns create longer wait times and increased load on self-service capabilities.
- Carriers will struggle to maintain service levels and turnaround times due to virtualized workforce.
- Under the CARES Act, certain COVID-19 exposures have to be covered; carriers may need to adjust coverage rules to cover pandemic, driving up manual, exception-based processing.
- There may be an increase in claims volume and fraudulent activity caused by COVID-19 morbidity and mortality.
- Applicants/claimants may lack access to the medical community to obtain medical information needed for applications and claims submissions.

Carriers have a unique opportunity to provide exceptional customer experience

Brokers will value carriers who go "above and beyond" and adjust underwriting policies to expedite issue

Self-service capabilities can reduce the burden on now-remote call centers and processing teams

# Potential action plan for group benefits and retirement carriers

## Now

- Encourage broker use of existing digital sales tools (e.g., e-app) and self-service capabilities
- Set clear daily productivity targets by function to limit service-level impacts
- Continue to reach out and communicate to new and existing clients (now more than ever)
- Consider temporary premium waivers on late payments and ensure claims are not auto-declined based on past-due status
- Conduct health assessments using tele-health apps; reduce the need for health assessments
- Consider additional risk buffer related to COVID-19 and unclear impact on mortality
- Address provisions in the CARES Act related to retirement plan loans and distributions

## Next

- Develop robust capabilities for wholesalers to interact with brokers and clients virtually
- Leverage data and analytics to inform and expedite underwriting decision-making
- Accelerate auto underwriting programs leveraging data and analytics/third-party data sources
- Increase self-service capabilities to make payments and confirm plan payment status
- Enhance workflow capabilities to improve process management and tracking

## Beyond

- Implement common platform for brokers/ employers and employees to manage end-to-end interactions from quote to claim
- Integrate employer/broker data systems with billing systems to increase straight-through processing
- Deploy digital platforms to facilitate information access and sharing, reduce paper and expedite onboarding
- Leverage analytics to provide greater insight into operating performance and expedite issue resolution
- Implement improved data management solutions to increase processing speed and accuracy

# Legal impact

Working with our clients' legal departments to address potential financial and reputational risks stemming from COVID-19 events.

### Legal and regulatory consequences will result due to the outbreak

- Legal departments will be under significant stress and pressure handling the volume of customer claims and legal actions.
- Customer business interruption claims volumes are up, with customers challenging policy coverage.
- Increase in class action lawsuits based on policy coverage being denied
- Need for assessment and review of contractual obligations
- Personnel capacity issues putting strain on current processes and operations
- Change in operating environment will require additional monitoring of critical legal process controls

### Increased regulatory obligations, litigation exposure and risk

- Growing regulatory complexity and risk exposure due to rapidly changing legislation at the Federal and State levels, some requiring timely responses on plans
- Managing and tracking regulatory changes, inquiries and legal decisions and the impact on organizations and customers
- Law makers and regulators pressuring insurers to go beyond the legal language of policies to get cash to affected parties
- State governments and specific suits are challenging business interruption insurance coverage as policyholders seek to recover financial losses
- Increase in fraud and cyber risks due to volume of claims and remote work environment

### The legal department has a crucial role to support and protect the business

- Reviewing and defending policy terms and coverage for perils that were excluded and not priced into coverage and no premiums were collected
- Assessing the impact of changing legislation and on regulatory reserve requirements and assumptions needs to be carefully considered
- Assessment of legal, operational, financial and reputational ramification of broad denial of claims
- Pressure mounting on insurance industry to be part of solution to support consumers and the economic recovery
- Partnering with compliance and IT to evaluate where practices and systems need to be enhanced to further protect against new fraud risks

Integrated, scalable and automated approach will help the immediate COVID-19 response

Critical strategic preparedness plans and case management strategy

Assisting the organization with COVID-19 challenged will protect long term

# Potential action plan for legal departments

| Now | Next | Beyond |
| --- | --- | --- |
| Establish a playbook to plan and track communications or required responses to regulators on matters involving risk, compliance, or legal issues | Leverage legal managed services to track communications or required responses to regulators | Perform gap analysis / lessons learned of what could have been done better and update Business Continuity Plans |
| Identify the data sources needed to produce analytics on KPI's related to increased processing of applications and claims | Monitor processing using analytics to understand where internal risks may have been introduced by new procedures | Implement RPA on processes of high volume and low complexity to free up manpower for more critical processes |
| Evaluate fraud and cyber controls related to new remote workforce and implement new procedures as necessary | Implement rapid, scalable and automated approach to compliance monitoring and support protocols focusing on areas such as fraud and cyber | Incorporate advanced analytics (AI) to identify fraud and cyber (internal and external) risks |
| Assess staffing needs across various legal departments prior to spike in demand (e.g., regulatory response and monitoring, litigation. coverage responsibilities) | Implement managed legal contract services to assist with increased volume of claims and lawsuits to areas of heightened focus | Conduct spend analytics to identify / reduce costs and implement low cost alternatives (e.g., data analytics, legal managed services) to handle spikes in legal issues |

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