Covid-19 and Insurance industry implications
HCL Technologies
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Abstract

As of April 7th, 2020, the world continues to reel from the impact of Covid-19 (Corona Virus disease) caused by the new Corona Virus that spreads person to person. This has impacted more than 200 countries and resulted in greater than 81000 deaths. Almost all the countries have implemented various degrees of quarantine and social distancing measures to mitigate the spread and impact of the disease. This has resulted in severe disruption of the economy with impacts across the board.¹

This paper attempts to summarize the overall impact to the insurance industry while outlining the various short term and long-term areas of focus. While the short-term focus is on Business continuity, conserving cash , reacting to legal, pricing and service implications², it is also important to look at the “new normal” for the industry during and post recovery. Despite the difficult situation and the obvious challenges , this will also be an opportunity to roll out new models, products and eco system to engage customers.

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¹ COVID-19 The Economy, The P&C Industry and TECH Spending - Time is of the essence , Celent , Donald Light, March 31, 2020
² COVID-19 Three scenarios for Insurers, Celent, Karlyn Carnahan, March 25, 2020
Covid-19 Impact

Most of the analysis around the COVID-19 impact use a variation of the best case, Median and Worst case scenarios.  

<table>
<thead>
<tr>
<th>Optimistic Scenario</th>
<th>Median Scenario</th>
<th>Pessimistic Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2 months of impact</td>
<td>3-8 months of impact</td>
<td>Continuing impact post 2020</td>
</tr>
<tr>
<td>Normalcy by late summer 2020</td>
<td>Normalcy end of 2020</td>
<td>Significant economic and social impact</td>
</tr>
</tbody>
</table>

1. COVID-19 Three scenarios for Insurers, Celent, Karlyn Carnahan, March 25, 2020
2. The Impact of COVID-19 on P/C Insurance, Triple-I presentation to NAIC, March 20, 2020
Immediate Impact considerations

While the normal business process volumes i.e. claims, will vary based on the lines of business (e.g. decrease in auto and home vs increase in travel, worker comp), there are some overall trends which will cause the insurers to go into cash conservancy mode along with focus on sustaining operations. This will happen due to many reasons.

Continuing customer service escalations around enquiries and claims

Increase in legal remedy situations even in case of policy exclusion around business interruption

Legislation being considered that include directing carriers to pay claims in full or part where liability is non-existent or not clearly defined. A few US legislators are exploring options to bring bills that will make Business Owners Policy to pay for business interruption claims (e.g. Massachusetts, New Jersey, New York and Ohio)

Significant impact to life insurers due to high death and disability claims in the high impact areas

Increase in medical professional liability claims

Increase in worker compensation claims

Potential impact to business volumes due to impact in ability of insureds to pay the premium

Falling equity markets and interest rates – significant impact on investment income of insurers, as also reduced profitability on life and annuity products

The impact will also vary for different categories of insurers/reinsurers – those with a diversified product portfolio have a better shot at weathering this storm, while single line carriers or those with limited product offerings, specifically focused on impacted lines like life, health, travel and to some extent, workers comp, will face significant headwinds.

The cash conservation will take multiple forms and will focus on expense and discretionary spend reduction. From an IT perspective, all non-critical effort will be relooked for deferment or cancellation to reduce cost unless there is an immediate short-term ROI.

1. COVID-19 Three scenarios for Insurers, Celent, Karlyn Carnahan, March 25, 2020
## Business implications

The below table provides high level impact and implications for various lines of businesses

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Impact</th>
<th>Cost conservation implications</th>
<th>Business model implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto</td>
<td>Potential reduction in coverages</td>
<td>Discretionary spending closely reviewed</td>
<td>Increase in personalization to support increasing demand for coverage options</td>
</tr>
<tr>
<td></td>
<td>Premium refunds due to reduced mileage and accidents</td>
<td>Existing IT projects are closely looked for criticality - either from cost take out or productivity increase</td>
<td>Improvements in billing - new bill plans offering increased flexibility in payment terms</td>
</tr>
<tr>
<td></td>
<td>Businesses (e.g. Restaurants) switching to delivery may add commercial auto or non-owned coverages</td>
<td>Acceleration of cloud migration</td>
<td>Increased adoption of Pay as you drive (PAYD), Pay how you drive (PHYD) models beyond just “Driver score” discounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increase in remote workers particularly for specialized skills</td>
<td>Increased adoption of online engagement</td>
</tr>
<tr>
<td>Cyber insurance</td>
<td>Increase in claims due to increased online activity/remote working as well as increasing cyber attacks</td>
<td></td>
<td>Enhanced response and recovery services</td>
</tr>
<tr>
<td></td>
<td>Increase in cyber insurance coverage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>Real estate transaction and coverage reductions will result in property premium reduction</td>
<td>Discretionary spending closely reviewed</td>
<td>Distribution tie up with real estate firms to enable point of sale availability</td>
</tr>
<tr>
<td></td>
<td>Reconstruction costs will increase potentially resulting in addition cover</td>
<td>Existing IT projects are closely looked for criticality - either from cost take out or productivity increase</td>
<td></td>
</tr>
</tbody>
</table>

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</table>
| Life                                     | Increasing death and disability claims and reducing investment income will result in significant impact on bottom line | Anything without an ROI in short to mid-term (max of 12-18 months) will get deferred  
Acceleration of cloud migration  
Increase in remote workers particularly for specialized skills | Revised underwriting criteria to offer coverage; significant increase in offtake of non-med life insurance that does not require medical exams |
| Worker comp                              | Significant increase in worker comp claims (Hospitals, Medical services, First responders, Transportation and Retail)  
Job losses will result in shrinkage of the market |                                                                 | Surround services (e.g. RTW) will become critical  
Pricing optimization will become critical to continue to offer services  
State mandated coverages (e.g Kentucky) for First responders and Health workers may have implications for private insurers |
| Business Interruption (either as property or stand-alone) | Significant legal challenges will occur either due to lack of understanding of exclusion criteria or financial desperation  
Short term legal expenses will increase |                                                                 | Potential government guarantee or directly pay for business interruption losses |
| Aviation                                 | Dramatic reduction in premium as airlines ground their fleets |                                                                 | Aviation insurance market is likely to continue to harden with insurers increasing premium rates to improve profitability when the sector recovers from the crisis |
### Line of Business | Impact | Cost conservation implications | Business model implications
--- | --- | --- | ---
Contingency Covers | Contingency policies are responding to a wave of event cancellations worldwide. Even for events that are postponed and not cancelled, the delay is still likely to cost insurers in terms of likely payouts for money already spent and additional costs incurred to rearrange the event. Munich Re is reported to have a $500 million exposure to the Tokyo Olympics, while Swiss Re’s exposure is reportedly $250 million. Wimbledon is likely to collect over $140 million from insurers, due to the cancellation. |  | Contingency covers for event cancellation and postponement are likely to see increased offtake in the market while the industry works on fine-tuning the product offerings including wordings in clauses, sub-limits as also defined payouts triggered by specific events. |

### Business transformation initiatives

While the current scenario is very challenging, it also provides an opportunity for the various carriers to improve their client engagements by

- Adopt pay per use models specifically in auto
- Increasing direct to consumer channels or improving the current “non-digital” interfaces
- Personalization to enhance options and address customer needs
- Pricing optimization in commercial lines
- Creating a service eco system to improve recovery post claims

### Pay per use models

Currently there are broadly two categories of device driven mechanisms in auto (1) Vehicle data using plug in devices (2) Smart phone app for Driver behavior. This data provides multiple points of information around vehicle usage including distance driven, quality of driving, driver distraction and so on. Most of the carriers use this data to derive a score and offer a certain discount to the traditional pricing. Only a few carriers offer a true “per mile” premium e.g. Metromile.

Given the current scenario with a few carriers deciding to refund premium (given the lower mileage and accident statistics), it makes lot more business sense to convert this data into a “true” pay as you drive (PAYD) or pay how you drive (PHYD) model. There is also an implication for the expected long term auto insurance future around fully autonomous cars and ride sharing adoption including the V2X technology. Standard pricing models would not be amenable for the upcoming adoption of technology in the industry.
Direct to consumer and reduction of “Non digital” interfaces

One of the fall outs of the current situation is the expected shift to an online process for even complex insurance scenarios. This impacts couple of focus areas

2. Enabling the broker/Agent eco system for a more embedded interaction with the carrier systems

This situation provides an opportunity to expose the underlying carrier functionality through consumable APIs that can get plugged into a variety of third-party environments – new distributors (enabling point of sale selling), traditional brokers and Agents and direct consumers.

Personalization

The ability to pay for the needed cover is going to be severely impacted due to Covid-19. It’s extremely critical for the carriers to provide coverage options to customers that suits their budget (“Name your price”). It’s also important to expose the overall product offerings to provide alternatives to the customer based on their need (“coverage options for your need”), while also offering additional flexibility in bill plans to assist customers make payments. The traditional “packages” or “coverage bundling” will become a bottleneck in attracting new and retaining existing customers.

Pricing optimization in commercial lines

Given the economic situation and job losses, it’s even more critical for commercial line providers to enable mechanisms to optimize their pricing in order to attract and retain customers. This is especially so in the small business segment that has borne the brunt of the COVID crisis. Most of the pricing optimization is done on a best efforts’ basis using predominantly manual mechanisms. In addition, an ability to quickly ramp down/ramp up business volumes, payroll data (for worker comp), offer mileage based discounts/premium pauses for small fleets and offer flexible payment terms will help carriers retain customers. There are offerings that can enable some of these needs on top of existing core systems1.

Creating a service eco system to improve recovery

Most of the carriers have a service eco system to support repairs and recovery from vehicle, property and asset damages. Improving the post claim support eco system will go a long way in enhancing brand image and stickiness of the customers with the carrier. Carriers should shift focus to the total life cycle value of the underlying asset or business e.g. service history, reminders for auto and IoT based loss mitigation initiatives for property.

Conclusion

COVID-19 has disrupted the traditional practices and understanding around remote working, virtual teams and online business models. Many see the possibilities around remote teams with varying skill sets coming together to deliver new business models and services in all industries.

The insurance industry is no exception and the role of digital in selling and servicing insurance is likely to see a dramatic push. The COVID-19 crisis has highlighted many of known inefficiencies and gaps with respect to technology, systems, products, and processes in the industry. Once the immediate reactive situation eases, insurers will have a real opportunity to create new business models, product offerings, distribution and customer engagement to address the market and customer expectations. This will also provide an opportunity for them to enable a customer focused, digital backed eco-system that will be more resilient in meeting future challenges.

About the author

Rangarajan Srinivasan
Head of Insurance Solutions

Ranga comes with 30 years of experiences across the entire Insurance spectrum, from multiple IT roles, Solutions covering both technology and operations, as well as being a CIO for an Insurance TPA. He has diverse experience across Insurance covering Life and Annuities, Property and Casualty and Reinsurance. As part of this experience, he was involved in large legacy modernization/digital transformation, conceptualizing and executing. As a service solutions provider, he provides end to end solutions across technology and operations. Ranga has also set up technology practices geared towards servicing Insurance organizations.

Based out of New York, Ranga is actively involved in creating and guiding clients in their transformation journeys focusing on New business, Underwriting, Loss control and Claims. Ranga drives HCL’s insurance propositions by coordinating across technology practices and partner eco system.

Balaji Srinivasan
Practice Manager – Insurance Solutions

Balaji is an insurance technology professional with over 25 years’ experience across core business including underwriting, claims, operations and product development as also in consulting, spanning project delivery, solutioning, capability development and operations management. Balaji’s experience spans primary insurance lines and functions including personal, commercial, life and claims as also reinsurance.

Balaji currently manages HCL’s Insurance Practice, engaged in conceptualizing solution propositions, creating reusable consulting/solution frameworks/POCs and building insurance domain competency, in addition to handling end to end solutions for a large P&C insurance carrier.
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