COVID-19 LIFE INSURANCE INDUSTRY MOOD SNAPSHOT

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MAZARS

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The Irish life insurance industry is not spared from the health and financial wrath caused by the spread of COVID-19. As an industry that has a strong presence in both the domestic market and into Europe on a cross-border basis, the challenges are varied.

Mazars Ireland interviewed senior management from 10 Irish life insurance companies in order to capture the industry mood at this time; to understand the initial and ongoing challenges they face and the changes that the crisis may lead to in the longer term. This report presents the views of the industry experts interviewed.

Which challenges did you face at the beginning of the crisis, and how have you been coping with them?

The pandemic and the eventual lockdown forced companies to take some quick measures to continue to stay in operation, efficiently run the business, communicate with clients and manage the emerging risks appropriately. The section highlights the key challenges that the life insurance sector had to overcome at the beginning of this crisis.

OPERATIONAL RESILIENCE

The biggest challenges for all companies were to set-up the VPN, procuring hardware (laptops) and shifting operations to the home office. Crisis management teams were formed, Business Continuity Plans (BCPs) was initiated, and management quickly organised themselves to make the transition successful. The BCPs had provisions for pandemic-type situations, but these typically involved only moving to a different office, or enduring a shorter-lived duration of disruption, not the transfer of the full employee body to work from home. Almost all entities had the capability of remote working but not for all employees at the same time. Also, the global impact of the pandemic meant that the response had to be managed on several fronts and liaising with offices and service providers in multiple locations was challenging. IT services managed to handle the situation very well by the time full lockdown was enforced. One other associated challenge that the majority of the companies are dealing with is cyber security.

Within two weeks of the lockdown, all companies had settled into the remote working space. Participants reported that they have been pleasantly surprised by how well it has been working since the move and praised their teams for the flexibility shown.

CUSTOMER SERVICES / CLIENT COMMUNICATIONS

Client communications, both inwards and outwards, faced major disruptions.

Call centres were the hardest hit as the infrastructure was not set up for remote working. Companies wanted to maintain a seamless customer experience. Insurers have managed to move the call centres to a remote working environment. It was noted by several interviewees that customer service quality has temporarily deteriorated but is expected to improve shortly.

Some companies operating in the cross-border market are using their distribution partners in those European countries to contact clients as Covid-19 has severely disrupted the international postal services.

The turn-around time to address the claims requests has increased. Some concerns were expressed about potential delays in reporting claims by beneficiaries due to delays in getting the necessary certifications and/or other documentation, and so companies are expecting that there may be a spike in death and unemployment claims when the communication lines running effectively again.

RISK & COMPLIANCE

Remote working and lack of face-to-face contact with customers has made it more difficult to carry out the standard Anti-Money-Laundering (AML) checks. This is a bigger issue for companies selling investment type business. Compliance teams are revisiting their AML procedures to ensure that sufficient checks are carried out. Some companies are looking into new digital options in this area.

MARKET VOLATILITY

The volatile market conditions at the beginning of the crisis were a major concern as they substantially stressed the balance sheet of companies selling investment and guarantee business. The strict Solvency II requirements have ensured that the companies are adequately capitalised in such situations. Also, insurance entities who carry market risk have significant experience in active management of their investment positions which allowed them to react quickly as they have done for previous market movements.

The volatility also caused an increase in fund switch requests which companies initially struggled to process in the normal timescales. The switch requests are back to normal levels now.

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What are currently the biggest concerns of Irish Life Insurers?

The single biggest concern for the industry is uncertainty - the uncertainty of what lies next for the economy, life insurance business, the investment market, life and health-related claims, and regulatory interventions. The section highlights some of the more common and unusual concerns raised by the insurance industry.

ECONOMY

The outlook for both the Irish and European economy is a growing concern for all.

The increased likelihood of recession will highly deplete household incomes and further depress new business sales in the remaining quarters of the year. Foreign Direct Investment (FDI) into the Irish market is expected to fall this year, and this too is expected to translate into lower new business growth in the coming quarters. Uncertainty remains regarding how long the crisis will last and how deep the impact will be.

NEW BUSINESS SALES

New business sales in Q1 2020 were not significantly below insurance companies' business plans, and Q1 was generally considered to have been a good quarter. In April, the impact of lockdown measures hit and new business took a nose-dive for many insurers. Expectations for Q2 overall are for premiums to be less than 50% of planned levels. If the situation does not improve, companies are expecting a very poor year for sales.

The situation is worst for those companies operating in the high net worth sector, as sales typically depend on relationships and face-to-face meetings. The tied agents and brokers executing the sales cannot interact personally with prospective clients. The bancassurance channels are partially shut, and those open are struggling to contact clients. These companies have already started considering online and other digital platforms to ensure unhindered interaction with existing and prospective clients.

The companies with consolidation portfolios see some light in the dark as the acquisition opportunity increases with more stressed insurance balance sheets.

CLAIMS

Concern over an increase in claims varies considerably depending on the products that are sold by an insurer.

Insurers with large blocks of Unit Linked business have seen an increase in partial surrender experience, and also in switch requests. Some interviewees alluded to concerns about potentially increased back-dating costs due to delays in processing the transactions and the increased volatility in the market.

While the total loss of life due to COVID 19 is yet to be determined, it appears that the largest proportion of the people who have died are in older age groups. Insurers' exposure to mortality losses at older ages is typically limited and adequately covered by surplus capital and reinsurance arrangements. However, some companies with mortality exposures in the high net worth sector are monitoring this experience.

The companies with portfolios of income protection and Involuntary Loss of Employment policies are expecting the claims to increase shortly as there are still some reporting delays. Insurance companies are assessing the expected level of claim exposure and performing stress testing to ensure they have sufficient liquidity and are adequately capitalised.

REINSURANCE

Reinsurance was a point discussed in detail as the companies are monitoring the financial strength of reinsurers via the credit rating agencies and have frequent contact with the management of reinsurance companies. There are concerns with time lags in any Covid-19 related experience being reflected in credit ratings and so several insurers are also looking at other indicators, such as share price, as part of their monitoring of the performance of their reinsurers.

Overall it is expected that there is an adequate amount of capital held against the risk of rating downgrade of reinsurers.

Some companies indicated that they are likely to review the collateral arrangements in place in the future.

REGULATORS

Regulators across Europe were active at the beginning of the pandemic by guiding the insurers about the regular monitoring of solvency position, prioritising TCF (Treating Customers Fairly), and the review or cancellation of dividend payments.

There was an appreciation of the regulator's position about the importance of treating customers fairly, but there were some concerns about the practical implications of providing flexibility when it comes to policy terms and conditions.

In the 27 March letter to the industry the Central Bank of Ireland (CBI) stated that "where there is a doubt about the meaning of a term, the interpretation [of the policy wording] most favourable to their customer should prevail." It is yet to be seen what this could mean in practice. Survey respondents expressed that it would not be in the best interests of the insurance sector to change practices on interpretation of policy terms without due consideration. The insurance industry and the regulator should work together ensure that the right balance is found to maintain clarity and consistency and treat customers fairly.

The majority of companies are regularly monitoring their solvency position and, for most, the annual dividend is still expected to be paid, but a final decision has been delayed until later this year.

ADDITIONAL BOARD UPDATES

Though not a concern for management, it was noted that the Boards of the majority of insurance companies interviewed have requested management to provide regular updates on solvency, operational developments, client servicing and claim data. In the early weeks, these updates were done very frequently, but less frequent updates are now being produced as Boards have become more comfortable with the implications for their entities.

Almost all companies are working on producing updated financial projections and sensitivities. A number of respondents produce their ORSAs in Q2 based on the Year-End position but are looking at how best to update the base scenario to allow for current market and claims experience since YE2019.

PEOPLE MANAGEMENT

A common concern among the interviewees is that of employee wellness in the remote working environment. Although many employees are comfortable with the new working style, there was an awareness that some are struggling in isolation. It is considered important to address the social isolation and the effects on employee health and morale of a protracted lockdown situation.

Increasingly over the past weeks, people managers have been making additional effort to hold regular conversations with their teams - using the power of the many digital tools available - to keep them engaged and motivated. In addition, HR functions are running programmes to help look after the mental well-being of employees.

ASSUMPTIONS

Some insurance companies commented that long term assumptions might have to be reviewed as more claims data become available. However, few believed that the one-off event will materially impact the longer-term view. The situation will be monitored, and it is expected that the normal assumption-setting process will incorporate the latest available information at that point.

One insurance company suggested that after this is all over, we will have new data points available on the extreme events which will improve the calibration of tail or extreme events.

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Which long-term changes will the crisis trigger?

The current uncertainty is not deterring insurers from anticipating likely changes to how the life insurance industry will operate in the future. There was a broad appreciation and awareness that the industry is more agile and adaptable than previously thought. The industry responded to the need to change in a far quicker and more positive way than could previously have been expected. This has led to a sense that more change and faster change is possible, and that we as an industry are flexible & resilient. The section highlights some of the key changes that our interviewees consider likely to happen in the future.

REMOTE WORK ENVIRONMENT

The perception of working from home has shifted from being quite negative to be largely positive.
Deadlines are being met, the productivity of employees has not dropped, and it is expected that infrastructure can be further improved in the future to make the operating model even more efficient. The view of participants is that in the long term, more remote working is a possibility. Desk-to-people ratios are on more meeting agendas than previously, and some companies are already revisiting their lease and refurbishment plans for their premises. However, there will still be a need for some degree of physical presence in an office environment, albeit in a more flexible way. While concerns over productivity have largely been allayed by the current situation, culture and engagement and attitude to risk are more difficult to determine and influence in a remote working world.

FUTURE STRATEGY

A number of the companies, especially those who actively write new business, are expecting to review their future strategy, especially in the areas of distribution channels (face to face &/or digital), operating model (e.g. remote working, outsourcing agreements, approach to AML), and expense base (e.g. spend on-premises). For most, the BCP, the Risk Register and ORSA scenarios will be updated to incorporate the lessons learned from the current Covid-19 experience. The companies with a consolidation model may see a rise in opportunities presented as a consequence of the pandemic. However, no fundamental change in their strategy is expected.

CLIENT ENGAGEMENT

This crisis has shown how life insurance has lagged behind other industries in digitising its service offerings. For example, retail banks have provided extensive online services to customers for several years. Companies have now leaped forward in their appreciation of the importance of investing in digital technologies. The direct insurers have witnessed the biggest drop in sales primarily down to the traditional structure of offline broker and client engagement. Some companies are already working on plans to open online sales channels. The belief is this will not just help in sales but will facilitate greater communication and engagement with clients, thereby enabling companies to better understand and meet the needs of their customer.

*__*Methodology:__ 12 individuals were interviewed in 30-minute video interviews. The interview partners all held senior management positions such as CEO /CFO /CRO /HOAF /Chief Actuary at life insurance companies based in Ireland. The questions were shared with the interviewees before the interviews. The interviews were transcribed and shortened to core statements. In order to elicit the essence of the discussions, the contents were categorised. A new category was created if a content could not be assigned to an existing one. After some discussions, the categories were reviewed and adjusted. Based on this procedure, the answers to the three questions were summarised in 15 categories.*

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