COVID-19
Adapting to the new normal

The COVID-19 outbreak has disrupted the global economy at unprecedented levels in a short span of time. As the world fights a massive health crisis, there is a significant impact on economic activity and high volatility in global financial markets. Though companies are trying to navigate through the crisis, they are not yet immune to financial, regulatory and legal aftershocks.

Impact of the pandemic

1,133,000+ infected worldwide

62,700+ casualties globally

195+ countries impacted

4% global mortality rate, **3%** cases fatal and **20%** require hospitalization

350+ regulations by **100+** countries

3,300+ infected in India

2% India mortality rate

4,836 cases in India by 15 April and **58,643** by 15 May

22 notifications/ **9** advisories issued in India by MoHFW

MoHFW: Ministry of Health and Family Welfare

Source: WHO Covid-19 Situation Report 76; 'Predictions and role of interventions for Covid-19 outbreak in India' by Covid-Ind-19 Study group

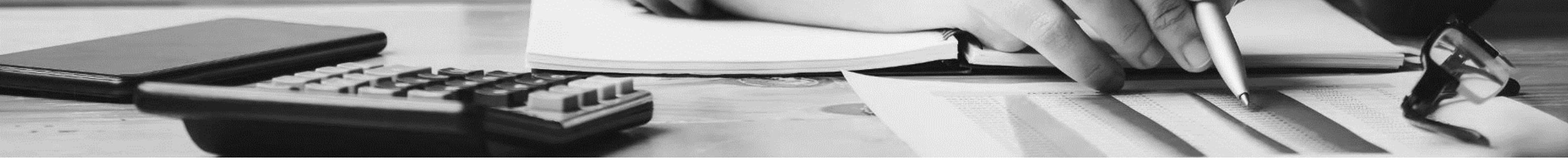
Are insurers insured against this business disruption?

Insurers are confronting the new reality in which the COVID-19 is a long-term disruption to their customers, employees, investors and suppliers. The following are the unprecedented challenges which are likely to have an adverse impact on financial performance of the organizations:

1. Sustaining employee productivity, morale and engagement
2. Decline in new business revenues and renewal collection
3. Increase in claims outgo for health and death claims
4. Weakening investment returns and cost ratios

Source: EY analysis

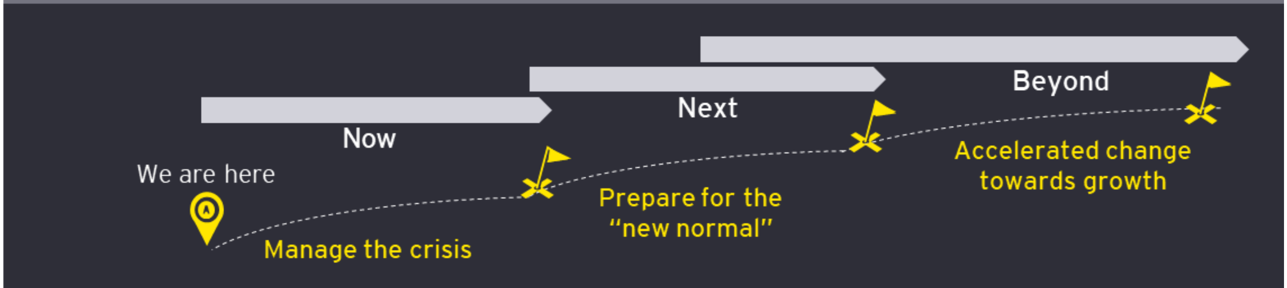
While the growth and profitability of insurers is under question, the **immediate need is to address employee safety, business continuity and enterprise wide risk management concerns** while maintaining communication with customers and investors. Building enterprise and cyber resilience will also be critical.



1. Being future ready for post-pandemic revival

Insurers can adopt a phased approach to identify and address themes that are disrupting their existing business. There is a need for them to evolve long-term strategies with business models fostering virtual interactions across the value chain, a lean and agile technology architecture, and enterprise and cyber resilience. **Insurers are likely to witness a surge in demand for insurance products due to increased customer awareness and they should revamp their operating models to leverage this opportunity.**

Now, Next and Beyond: disrupting the value chain to navigate the new virtual economy

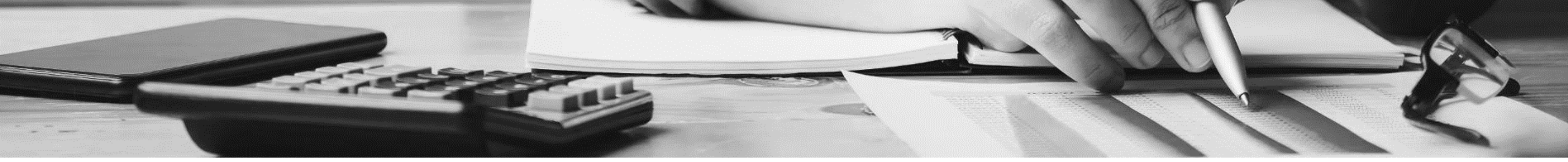


	Now	Next	Beyond
Workforce Management	► Health and safety ► Remote working readiness	► Engagement and communication program ► Sustain workforce productivity	► Up-skill and re-skill workforce leveraging virtual tools ► Lean and efficient organization
Product & Distribution	► Sales force e-governance and training ► Augment digital tools and distribution platforms	► Provide innovative products and hyper-personalized offerings ► Amplify persistency management	► Re-structure sales team and key performance indicators ► Shift towards a virtual workforce
Process & Technology	► Digital customer communication ► Prioritize critical service requirements ► Assess readiness for claims	► Enable self servicing using virtual assistants & tools ► Re-visit SLA with eco-system vendors ► Cost variabilization	► Accelerate automation through Artificial Intelligence, Robotic Process Automation and blockchain ► Build an agile IT architecture
Risk Management	► Strengthen cyber security ► Regulatory risk management	► Claims fraud control ► Review information security guidelines	► Review ERM framework ► Strengthen data privacy
Capital Positioning	► Stress testing for solvency ► Preserve AUM	► Manage liquidity risk ► Consider stress scenarios for business forecasting	► Work towards cost optimization and margin maximization
Start Now	Near term	Mid term	Long term

AUM: Assets Under Management, SLA: Service-Level Agreement, ERM: Enterprise Risk Management

Source: EY analysis

It is an opportune time for insurers to learn from this crisis and emerge with a strong business model.



1.1 Workforce management: applying a people first mindset

In the wake of the pandemic, workforce transformation will be a key strategic priority. The focus should be on creating a highly adaptive disruptor culture capable of adapting to constant change. With the Business Continuity Planning (BCP) resilience being put to test, insurers must figure out ways to sustain employee productivity as well as boost morale and engagement levels while people work from home.

Future-proofing the workforce

Communication across levels and townhalls via **virtual platforms** to manage physical disconnect of a distributed and diverse workforce	**Employee assistance programs** to support remote working	Opportune time for **re-skilling** and **up-skilling** of teams

Source: EY analysis

Insurers will need to rely on virtual solutions that offer both knowledge and the required level of engagement. As an example, organizations that needed to recruit people have already shifted to digital onboarding.

1.2 Product and distribution: rethinking about the approach to enable virtual and contactless sales

The pandemic will lead to increased customer awareness on the need for adequate insurance, thereby fostering insurance companies to launch specific products and enhance the existing ones. Social distancing, work from home, accessing data online, cancellation of large events like the Indian Premiere League and Olympics, and general business losses will have an impact on increasing demand for covers, such as business interruption and liability covers, including cyber insurance, event insurance and credit insurance. There may be an increase in the demand of protection policies in life insurance. The sector is likely to see product innovation replacing the traditional static long-term products with short-term coverages. Pricing of existing products will also need to be reviewed in light of changing claims experience.

Aligning product propositions to customer needs and impact of external environment

Refreshing the existing product construct

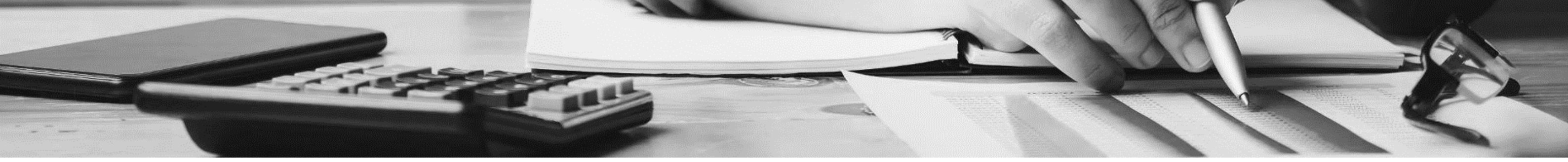
- Redesign existing offerings to accommodate pandemic cover
- Review pricing of Arogya Sanjeevani considering higher claims cost
- Re-price life and health products in line with claims experience and discount rates
- Increased demand for XOL reinsurance covers impacting premiums

New product offerings

- Launch pointed solutions for COVID-19
- Minimize time to market to provide cover to the uninsured
- Enhance simplicity and transparency in all types of insurance products with a view to enable virtual sales
- Leverage regulatory sandbox to test and drive further innovation in this direction

Source: EY analysis

Making the right product available to the customer is the play of effective distribution. Insurers have to upgrade their distribution strategies and renewal collection models to adapt to the changing environment.



Key enablers for digital distribution

► Increase focus on digital campaigns ► Leverage virtual tools and chatbots to support prospecting	► Focus on ULIP customers as most of them are at risk for renewal ► Re-alignment of KPIs to drive persistency	► Explore variablization of payouts across hierarchy ► Right sizing of field force and supplementing with the right skillsets	► Shift towards virtual workforce from dominating agents, banks and broker channels

Insurers should capitalize on the growing need for protection with increase in customer awareness and acceleration of digital adoption

ULIP: Unit Linked Insurance Plan, KPI: Key Performance Indicators

Source: EY analysis

Lockdown period may drive a shift in customer behavior, making them open towards virtual interactions. Distribution restructuring with a focus on increasing the digital sales skillset and capabilities could realign the focus of the company's large feet on street ensuring minimal disruption and optimizing costs. In commercial and specialty lines, the role of intermediary will continue to be crucial. Insurers will have to collaborate with and support the intermediaries to avoid any disruption in business sourcing. New ways of engaging customers and distinct customer value propositions for the new normal will support differentiation for insurers.

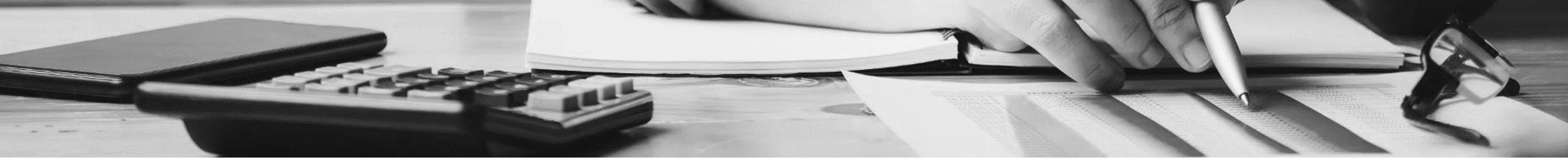
1.3 Process and technology: propelling digital operations

As physical contact becomes restricted, insurers will have to disrupt the current value chain and allow for higher integration, simplicity and convenience. There is need for companies to develop proactive outbound engagement plans that provide clear and consistent messages to substitute downsized call centre capacities for high volume of customer queries.

Way ahead

- Rethink a contact centre strategy and promote self-servicing
- Renegotiate supply chain contracts and service level agreements
- Variabilization of expenses to manage volatility
- Build an agile customer relationship management system with intelligent automation
- Curtail escalating claim costs by leveraging Artificial Intelligence/Machine Learning

Customer needs are evolving, and they are increasingly looking for simple online transactions which require seamless integration and guided assistance through chatbots. Enablers such as Optical Character Recognition (OCR)/Intelligent Character Recognition (ICR) for medical records and **real-time integrations** with third-party vendors can support **remote underwriting**. Breakthrough **technologies that support the evaluation of risk and health scores** would be pivotal in efficient underwriting and ascertaining claim probabilities. COVID-19 is likely to have impact on the third-party supply chains, thereby demanding alternate arrangements and focus on rapid automation. The aftermath of the pandemic will require efficient claim management by **identification of essential and non-essential claims**. Insurers will need to re-visit service level agreements with claim vendors and collaborate through mobile applications and video streaming technology. **Strategic partnerships with hospitals, diagnostics centers and pharmacies can promulgate better management of health insurance claims**. In the medium term, claims operating model should be able to handle remote assessment and processing.



1.4 Risk management: addressing the growing cyber and enterprise risk concerns

All insurers have responded to the risks to ensure clients are serviced in the hour of need and to comply with the directives of the Insurance Regulatory and Development Authority of India (IRDAI). However, with increasing dependence on technology, **security challenges may be at the forefront.** This is because this is the first time when so many employees from data intensive functions like investments, operations and call centers would have worked from home and for such long durations.

Credit defaults on corporate bonds due to drop in business volumes may impact returns. The inability to dispose assets is likely to impede the ability of insurers to meet pay-out obligations. Insurers may also find it difficult to comply with regulatory requirements like timelines for premium deposit under Rule 64VB of the Insurance Act, 1938 and to file various returns during the lockdown period. Some examples of mitigating actions for identified areas of risk are as follows:

Building a resilient framework to manage future risks

Risks	Cyber risk: data security and privacy challenges will be at the forefront	Regulatory risk: non-compliance/delays in reporting and financial disclosures	Investment risk: depleting AUM and investment returns
Mitigants	▶ Review information security policy and architecture ▶ Consider the policy of bring your own device ▶ Strengthen organizational security controls at asset and network level	▶ Insurers should communicate probable lags to the regulator ▶ Regulator should be consulted for required relief	▶ Proactive management of asset categories ▶ Permitted derivative transactions can mitigate risk on non-par non-linked portfolios ▶ Develop liquidity scores on assets

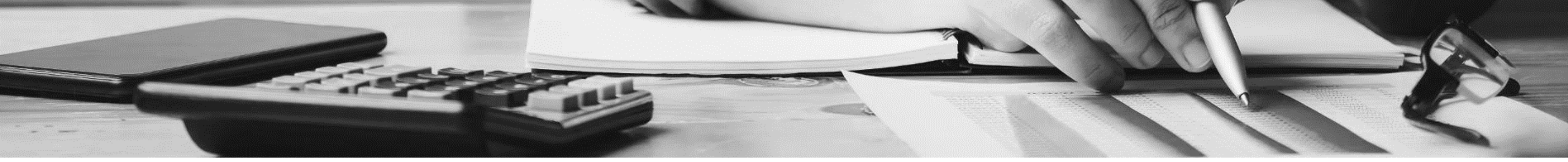
Source: EY analysis

Lack of prior experience of a catastrophe of this scale may have resulted in weak controls and possible breaches of risk appetite while implementing the immediate response. Insurers will need to review the enterprise-wide risk framework to ensure that risks in the new operating model are identified and are addressed by appropriately updating the policies and control environment.

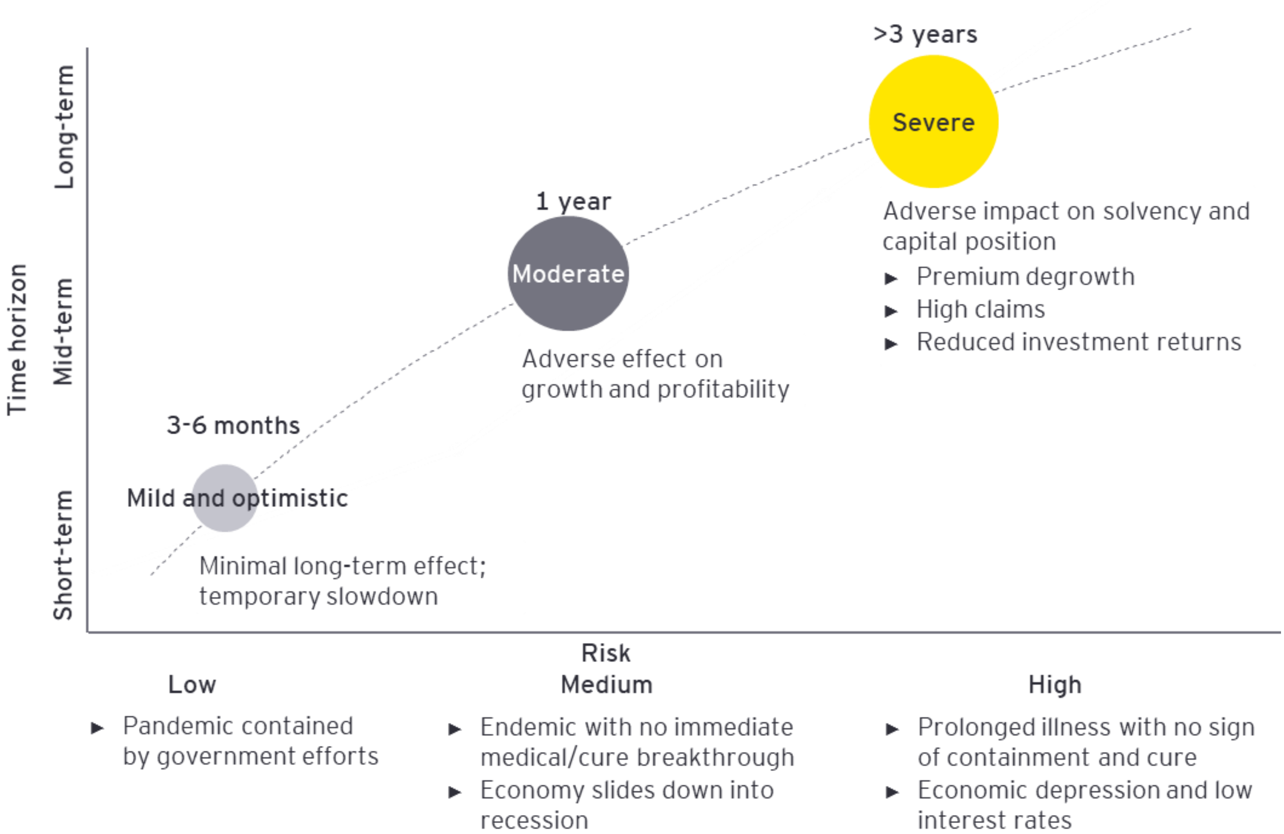
1.5 Capital positioning: surviving the financial turbulence

The pandemic spread may cause the insurers across the world to face cashflow strains and adverse impact on their capital positions due to the poor investment returns, declining revenues and increasing claims outgo. The fall in the interest rates is also likely to impact the discount rate leading to higher reserves. While liquidity may become an issue for some insurance companies, others may even struggle to maintain minimum required regulatory solvency in case the pandemic spreads.

Since hospitalization cases and fatalities due to the pandemic are limited to date, there is a likelihood that this year's financials may not be significantly impacted. The real impact will be visible in the next financial year and may range from mild to severe consequences, depending on the spread of the pandemic. To assess the impact of COVID-19 on their plans, chief financial officers of different organizations may want to consider the following scenarios:



The impact of COVID-19 against variable scenarios



Source: EY analysis

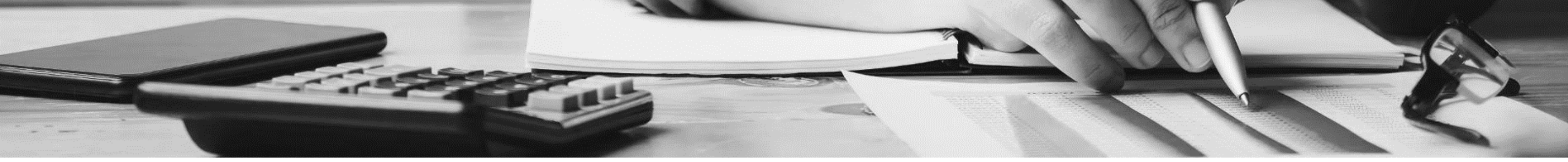
Survival of the fittest: new way of economic thinking

The full impact of the pandemic is yet to be assessed. However, the insurance sector will have to adapt to this disruption and change the future of business and working models. This crisis brings an opportunity for insurers to disrupt their value chain to enable virtual transactions and realign their operating model to build a lean and efficient structure in the following manner:

Now	▸ New ways of working for customers, employees and key stakeholders ▸ Identification of opportunities to mitigate risks faced due to disruption
Next	▸ Sustain workforce productivity ▸ Safeguarding against adverse business impact through robust enterprise risk management ▸ Accelerate the move towards digital processes
Beyond	▸ Strengthening enterprise resilience ▸ Shift to an agile business model to respond to future demands

Source: EY analysis

While the impact of Coronavirus on humans has been tragic, it is imperative for insurers to respond to the crisis and rise from global disruption. Having battled BCP, insurers can introduce transformational change to make the enterprises risk-resilient and future-ready.



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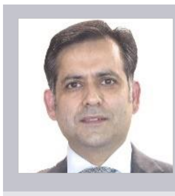

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EYIN2004-011