



COVID-19 Sector Implications

Insurance

Please note that this sector summary should be read in conjunction with the [Overview](#), and that the information below considers the impact to date of COVID-19, then looks to the future under two different recovery scenarios. Additional information about the scenarios can also be found in the [Overview](#) document.

- **The first scenario assumes recovery by the end of 2020**
- **The second scenario assumes a longer-term recovery**

The COVID-19 outbreak puts a spotlight on insurers who can expect to be inundated with general enquiries and claims across multiple different lines, whether that be for health, life or non-life cover. Balancing the need for responding to this influx of activity in the contact centres with a quickly shifting remote workforce is an area that insurers are working to address.

Impact to date

The impact to date for insurers has centred on the valuation of their investment portfolios, with financial market volatility and international stock markets posting trading losses rarely seen since the Great Depression. Our New Zealand insurers typically have balanced investment portfolios, more heavily weighted in fixed-interest securities, than international counterparts. Interest income and investment earnings are at risk for the sector. Central banks, including the Reserve Bank of New Zealand, have been slashing interest rates. We were already in a low interest rate environment - which is always difficult for insurers in general, especially for life insurers - now rates are heading down even further.

Recovery by end of 2020 Impact

Under this scenario, we can expect a challenging period for insurers with a spike in claims costs and a reduction in investment earnings impacting insurance trading results.

Many insurers have exclusion clauses for communicable diseases and epidemics/pandemics in most non-life products such as business interruption and travel insurance. Despite these exclusions, insurers can expect to be inundated with inquiries and claims. It is likely that the reinsurance sector will bear some of the brunt here, as insurers claim under their reinsurance agreements.

For our health insurers, the national public health system is mature and provides the primary response during a pandemic. Yet, we simply do not know what the ongoing treatment requirements and eventual morbidity rates from the coronavirus will be and therefore what the cost might be for health insurers.

Of all insurance segments, it is life insurers who are facing the most difficult challenges. The level of sudden unemployment is rising quickly which has the potential to put pressure on insurers that have provided income and wealth protection products. The industry is closely monitoring the potential impacts on job losses and mortality rates, however, we expect that life insurers may also feel significant impacts due to what is happening in the financial markets, because of the long-term assets and liabilities that life insurers hold.

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Longer-term recovery impacts

As with other countries around the world, New Zealand has now put in place economic bailout measures and is expanding them on a regular basis in response to the outbreak and market developments. It is unclear what the New Zealand Government's stimulus package and the planned large-scale asset purchases will deliver in terms of broader economic relief and in:

- protecting insurer investment portfolios;
- mitigating the size and extent of business interruption and income protection claims for insurers; and
- preserving the levels of insurance cover held by individuals and businesses.

A longer-term recovery and reduction in interest income and investment earnings and the valuation of insurers' investment portfolios will result in solvency ratio challenges. Insurers will need to closely monitor solvency ratios in order to meet economic, regulatory and rating agency capital requirements. If market volatility continues and fluctuations persist, insurers may need to reassess their investment portfolios and exposures to potentially reduced investment earnings, as well as protecting capital and security for policyholders and key stakeholders

We have additional information, insights and practical advice on the business implications of COVID-19 available for you here:

- [Business implications](#)
- [Cyber safety](#)
- [IT resilience](#)
- [Financial reporting](#)
- [Business Continuity and Crisis Management](#)

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