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Operational impact of the coronavirus on the insurance industry

The world was recently hit by a global public health pandemic - Covid-19. This crisis is taking its toll on the world by severe on-going disruptions to the human health, lifestyle, business, economy, society, government and technology. But how is the deadly virus impacting the operations of the insurance industry?

Employees and distribution channels

In order to minimise the impact on operations, it is of utmost importance for insurers to ensure that the health and safety of their employees and distribution channels, consisting of agents and brokers, is protected. Therefore, the adoption of the “work from home” strategy had to be rapidly absorbed and implemented by insurers in order to maintain social distancing.

The challenge with this is that employees are required to be well-equipped in terms of having the necessary IT tools, internet connectivity and application platforms for various types of internal and external communication. A further challenge for insurers is to respond to the increased risk of protecting the confidentiality of business information. In order to mitigate this risk, it is essential to have a forensics and IT team work closely in developing and implementing strict remote connectivity protocols and monitoring these controls for any unexpected or unusual activity. Employees and distribution channels should also be provided with training and continuous communication on remaining vigilant for any cyber anomalies.

Distribution channels may require additional attention from insurers to continue operations if they lack the necessary digital capabilities in order to connect with clients. The insurance industry is one of many sectors where client service is essential. Therefore, clients need to be provided with all the relevant information in order to make a purchase. Conducting meetings over video facilities, access to simplified online services and innovative information sharing facilities are some of the digital tools that addresses some of the difficulties agents and brokers face in remaining connected to clients. Due to the financial constraints

experienced by cash-strapped consumers, there has been a significant decline in new business. This in turn affects the commission and service fees earned by these distribution channels as these fees are dependent on the insurance products sold. Nevertheless, major insurance industry players are compensating their brokers and agents with ex-gratia payments during this difficult time even when there is limited, or no new business written. This move is critical in the long run as insurers understand the importance of the role these stakeholders play in the insurance business.

Clients and products

It cannot be emphasised enough that insurers must apply the principles of treating customers fairly and the Market Conduct requirements more now than ever before as they implement new business plans and processes to communicate with their clients. Some insurers have gone beyond what’s required in terms of treating customers fairly and taken significant steps to reduce policy lapses. Actions include reducing premiums, aligning the premium amount payable to the use of the insured item, cash back premiums and providing more flexibility in grace periods for premium payments. It can be argued that such a pandemic has also created an opportunity for insurers to innovate and

enhance current product offerings and, rethink future product offerings to cater for these unique situations. The aim is for insurers to understand the current needs of their clients and strive to align their business strategies to the current situation as it evolves.

Innovation

The Covid-19 crisis has brought about a number of changes that businesses have been forced to adopt and in doing so, the technological shortcomings in the insurance industry have been highlighted. Those insurers that have the necessary digital capabilities and are exploring other technological enhancements and transformations, are able to operate with minimal disruption; seamlessly staying connected with customers and employees. However, difficulties are being experienced by those that have not embraced continuous innovative development. The insurance industry is highly competitive – to stay relevant, insurers must embrace digitalisation to ensure they can continue to serve their customers' needs in an efficient and simplified manner and grow the customer base to achieve economies of scale in an environment of increasing costs.

Financial and strategic planning

Insurers must maintain their solvency, capital and liquidity above the minimum required levels. Striving to meet this requirement during the uncertain times we are living in may prove to be challenging as we experience the impact of the deteriorating economy. To date, South Africa's repo rate has declined by 250 basis points, with possible additional rate cuts expected for the months to

come. The unemployment rate has sharply increased, and the South African Reserve Bank's Treasury has predicted that this rate could surpass 50% leaving more than seven million people in the country unemployed. Furthermore, the country was downgraded to BB+ which is commonly referred to as "non-investment grade speculative" or "junk status". As a result, a number of foreign investors have disinvested in South African companies and some local investors are following the same route. Insurers can go a long way towards addressing their liquidity and solvency challenges by developing strategic and bespoke cash management plans which are closely monitored once implemented, creating a robust forecasting process which includes all parts of the business, performing stress testing and scenario analysis on business results and continuously evaluating alternative markets.

Going forward

The type of life we live now is different from that which we lived a decade or even a few months ago. It is critical for insurers to embrace change and adapt to an ever-evolving environment. This requires creative thinking and more importantly access to the kind of talent that can turn ideas into actions. Focusing on whatever is required to ensure resilience and adapting to more flexible ways will result in a transformed insurance industry for the future. Moreover, all insurers should remain transparent and well-connected to their customers, employees, distribution channels, external stakeholders and society in order to ensure continued trust and support in such unprecedented times.

