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Broadly speaking, the COVID-19 virus is sweeping westwards across the world - beginning in China at the end of 2019, reaching Europe from February/March 2020, and now taking increasing hold in North America. How greatly it will hit other parts of the globe remains to be seen.

When we look at the response of insurers in different jurisdictions around the world, the stage they are at corresponds to where they are geographically and how far they are through the timeline of the virus' spread.

In Asia, where the virus struck first, insurers took rapid action to respond to the rapidly unfolding situation and are now, one hopes, on the verge of moving into a period of assessment to gauge where the market heads from here and what the long-term impact may be.

In Europe and North America, however, insurers are still very much in the eye of the storm - configuring their operations to cope and trying to establish what business as usual looks like in extraordinary times.

It is still early days in a situation that will doubtless have repercussions and implications for many years to come. However, certain common themes are already becoming clear for insurers around the globe.

The most obvious theme has been the suddenness of the impact of the virus and the substantial effect on how insurers (along with businesses of all kinds) run their operations. Insurance companies have had to shift almost their entire workforces to operating remotely, while dealing with significantly increased activity in their claims functions. We will examine these operational issues in more detail in another article in this series.

Insurers stepping up

Encouragingly, we have seen a picture of insurers stepping up to the challenge, supporting businesses and the communities in which they operate. This has been the case in two countries, hit particularly bad by the virus - China and Italy.

In China, some insurers have extended coverage on existing health policies to cover treatment costs or provide Covid19-specific death cover. One of the major life insurers, for example, launched a special pre-compensation program for existing policies and provided agents

10 million free policies totalling 1 trillion RMB (about US$10,000 per policy) to be distributed to customers. Other health insurers have initiated 'Emergency Response Plans' to ensure fast claim settlement for policyholders. Additional coverage has also been provided to millions of healthcare workers and reporters working in the worst-affected area, Hubei province. There was a similar picture of free extensions to cover in Singapore and Hong Kong, even though the pandemic was much more contained there.

In Italy, healthcare costs are largely covered by the public health system. Some major insurers have already developed policies designed specifically to protect policyholders from the risk of Covid-19 as a standalone product or extensions on existing products. These policies are primarily aimed at businesses and families and are contingent on being diagnosed with coronavirus. For families, they may be provided with a hospitalization allowance in the event this is required and the provision of additional funds in the case of intensive care. For companies, they may be given an insurance coverage solution that can be offered to all company employees regardless of the existence of health insurance plans (daily allowance for hospitalization, convalescence and an Assistance Guarantees package).

In other countries, governments have committed or are considering to cover the wages of workers laid off for a period of two months - but there is ongoing discussion about what insurance payments, if any, might be made to compliment social security support for those who are sick or need to care for relatives. Finally, we are starting to hear of insurers from a social purpose perspective donating monies or other assistance in support of healthcare workers, hospitals or others in need. Insurance companies, like many other industries, are looking at meaningful ways to contribute to society.

Agent networks interrupted

In many countries around the world, there is a prevalence of tied agents as part of insurance companies' sales and distribution networks. A widespread impact of the virus has been the implications posed for agent networks, who still usually rely on face-to-face meetings with their clients in order to sell new business. Technology is used more and more by these agents, but this is mostly from an enablement standpoint. In China, providing free policies for agents to 'sell' was one way of keeping the agent network active. Other countries are considering compensation boosts to stimulate agents in this current period of plummeting sales. Longer term, the crisis is sure to accelerate the digitization of sales channels, to better enable agents to do more business digitally rather than face-to-face and of course, will likely open up new lines of direct sales. Customers will vary on how they would like to transact business, and there are wide variations by geography and by product, so we don't see face-to-face disappearing.

Non-life story of ups and downs

This concern about future sales is not only confined to those with large agent networks. It is an issue for non-life insurers generally. For commercial insurers, 1 April renewals are upon them - but insurers may be facing some delays to this, postponing some income that they will have been anticipating. More broadly, if the pandemic provokes recessionary conditions in economies around the world, commercial premiums can be expected to drop. SME (small and medium enterprise) business, for example, has been a strong growth area for many insurers internationally, but many small businesses will be looking for ways to cut costs or some may not even exist if this pandemic is sustained for a long period - insurance covers may suffer for a more extended period.

Balanced against this, however, is the widespread sense across jurisdictions that the direct impact on non-life business from a claims perspective will likely be limited. The pandemic exclusions built into products such as business interruption and travel insurance means that insurers' exposure is limited. Meanwhile, other areas such as motor have seen a significant drop-off in claims already as people are travelling much less. However, we also have to consider the possibility that policyholders (and, perhaps, regulators or governments) might expect or call for some form of concessions on active policies now or when life has returned to normal.

The business interruption debate

Business interruption cover, however, is the `elephant in the room' for many countries. In several, debates are swirling about whether the insurance industry should be forced to provide some degree of business interruption retroactively to cover the pandemic where exclusions were already part of the existing contract. In the US, COVID-19 business interruption insurance coverage is becoming a topic of legislative debate. Elected officials in New Jersey[1] and other states are in discussions or have proposed legislation that require insurers that provide business interruption insurance coverage to cover COVID-19 related claims, despite virus exclusions in many policies.[2] The National Association of Insurers issued a statement, expressing concern for the insurance industry around these types of actions[3] and Members of Congress have begun weighing in on the issues as well.[4] Additionally, some businesses have begun legal action filing lawsuits against insurers over their business-interruption policy.[5] Restaurant Suit Tests Business Interruption Insurance for Coronavirus Shutdowns. Retrieved from The impacts of these actions are far from clear and could have far reaching consequences for the insurance industry.

Health uncertain, Life looking clouded

The impact on the health insurance side is still difficult to call. Mortality and morbidity rates from the virus could significantly grow but it will take more time for the full picture to emerge. Health insurance varies widely by country as to how much is covered by the government versus through private insurers. In many ways, health insurers have been on the front lines in terms of concessions like free testing or removing other barriers to access with the goal of helping to reduce the spread of this virus.

On the Life insurance front, however, there is already a consistent pattern around the world: the sector faces a difficult path ahead. Extreme stock market volatility and in some countries - like Italy - Government Bonds volatility, zero or near-zero interest rates, and the potential for a prolonged economic downturn or recession are all combining to put increasing pressure on solvency ratios and liquidity. The industry is generally well-capitalized but nevertheless headroom is narrowing. This may be compounded by lower levels of new investments from customers and an increase in withdrawals to access cash. Currently there are restrictions, in many countries, on the policyholder's ability to access retirement funds, but under the circumstances, some of these restrictions may be lifted to allow immediate access to cash without the same penalties.

These factors could lead to some consolidation. In Germany, for example, there are hundreds of life insurance companies many of whom were already challenged by the low interest rate environment even before the Covid-19 situation began. The smaller or medium-sized life insurers are the ones that are most likely to have difficulty sustaining the impacts.

The circumstances could also spread a cold through the M&A market. Current large deals could now be in doubt - or, at least the price may be up for renegotiation. Other deals in process could be disrupted. Future deals could then spike after things settle down, especially if there are companies whose valuations have suffered, making them attractive targets.

Financial reporting and quarter-end is upon us

From a financial reporting perspective, all of this is bumping up against the March 31st quarter-end for these insurers. And in some countries, like Japan, March 31st is actually year-end at least on a statutory basis. Given the state of the coronavirus and the uncertainties, the amount of claims estimation and reserving implications will have considerably more uncertainty to contend with. More broadly, companies will need to consider how this impacts their disclosures and risk reporting requirements. Already many regulators are extending reporting deadlines to provide relief from disrupted workforces and to allow more time to make complex estimates in this uncertain environment.

Where will we go from here?

What does all of this mean in terms of the future impact on insurance companies? Much depends on the nature of the intersection in each country between insurers, customers/distribution and regulators/governments. There are complex interplays in each national market between what insurers have traditionally offered, what customers expect, and the stance of regulators and authorities take. However, I think that a number of trends and issues are already becoming crystallized by the challenging environment.

Firstly, there is no doubt that Covid-19 will propel insurers to increase the digitization of their operations and interactions with clients. Agent networks need to be more digitally-enabled. We may also see insurers scaling back on their physical office networks and moving more people to remote working. This could have significant impacts on the real estate industry as insurance might not be the only industry thinking in this way. At the same time, more focus will fall on the automation of processes for greater cost efficiencies and resilience.

Another impact of the pandemic may be that insurers - and regulators - take an in-depth look at their business continuity planning. No one could have predicted the size and scale of this situation, but nevertheless the scramble to keep operations running will have focused minds. Operational resilience has been on many regulators' radars for some time: now it will be right in the center of their field of vision. And everyone will have gone through a live stress test from which many lessons can be drawn.

More widely, the Covid-19 situation will reignite the debate about what exactly the role of insurance should be in our rapidly evolving and volatile world. The insurance sector is providing huge support to customers and businesses throughout this challenging time. But the business interruption issue brings back into focus the question of how best to mitigate major structural and societal risks. How can insurers price such policies and will customers have the appetite for this cover given the cost? Where do governments fit into the equation? In the US, this is a familiar debate in the context of floods, especially in Florida and Texas. Through the National Flood Insurance Program, the government provides the primary coverage but with limits and then specialty insurers provide excess cover, again up to certain limits. This means that governments (state and federal) ultimately provide the backstop in cases that rise to a catastrophe. But those insurers can only take the cover so far; there are limits beyond which it becomes too unpriceable to be commercially viable.

A pandemic may be unpriceable too. But too expensive to insure against at all? The insurance industry has shown itself to be innovative and responsive in the past, and I have no doubt that it will do so again. Cyber insurance was also seen to be too expensive when it first emerged, but the response was to bring in limitations to make it more affordable. Perhaps we will see a similar pattern here - insurers building pandemic cover or rider into new products, but with certain parameters, and priced appropriately. Ultimately, it will be up to clients whether or not to purchase it, in whatever form it is offered. Making sure to understand customers understand how to manage their business risks and assessing their risk appetites in the context of insurance coverage or otherwise will be critical for businesses in the future, large or small.

This is one area of many that the Covid-19 is bringing into focus. But mostly, this is for the future. Right now, in an increasing numbers of countries, insurers are working around the clock to support their own people, customers, distribution networks and partners as they deal with the immediate issues at hand.

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Footnotes

1 New Jersey A3844: 2020-2021: Regular Session. (n.d.).

2 McCarter & English, “NJ, NY, OH, and MA Consider Legislation Clarifying That Business Interruption Coverage Applies to COVID-19 Claims”, April 1, 2020.

3 NAIC Statement on Congressional Action Relating to COVID-19. (2020, March 26).

[4] Carrier Management, “Members of Congress Urge Insurers to Cover COVID Business Interruption”, March 20, 2020.

[5] Sams, J. (2020, March 20). Restaurant Suit Tests Business Interruption Insurance for Coronavirus Shutdowns.