

COVID-19: Impact on the Indian insurance industry

PwC Executive Leadership Interview Series



Interview with R Chandrasekaran

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Throughout his Insurance and Reinsurance career spanning over four decades, R. Chandrasekaran is well-known for his innovation and path-breaking solutions. His career in India, the UK and Middle East Insurance and Reinsurance markets has enabled him to gain a unique identity amongst the reinsurance professionals. Recognising his contributions, the government of India appointed him as an independent member on the Board of Life Insurance Corporation of India in October 2017 for a period of three years.

The impact of COVID-19 on the Indian insurance and reinsurance industry

1. As far as health insurance coverage is concerned, what do you think could be the extent of claims pertaining to the COVID-19 pandemic?

All health insurance policies cover hospitalisation expenses. COVID-19 would not fall within the definition of a pre-existing disease. Hence, all insurers would respond to the hospitalisation claims normally. The Government is quarantining people suspected of being infected and treating them once they test positive for COVID-19. Personal and family floater health insurance covers less than 10% of the total number of people covered under private and government-sponsored health insurance schemes.

In my opinion, there would be a marginal to normal impact on the health insurance portfolio due to COVID-19 related hospitalisation claims. In the health segment, there are two other products, i.e. personal accident insurance and overseas travel insurance. While personal accident policies cover death, disability or hospitalisation following an accident, COVID-19 cannot be interpreted as an accident.

Overseas travel policies could see some claims from travellers. This segment forms a very small part of the overall health insurance portfolio. As stated earlier, the impact on insurers would be marginal or less than normal.

2. Other than health insurance, what are the different types of insurance coverage that you think may be invoked in claims due to the COVID-19 pandemic (e.g. business interruption, advance loss of profit [ALOP], etc.)? What do you think could be the extent of damage to the Indian business landscape?

Property insurance policies provide coverage against fire, loss of profits following fire, interruptions in engineering operations, business interruption, ALOP, contingent business interruptions, etc. Such policies cover physical damage to the property insured and business interruptions caused due to such events.

Business interruption coverage is often a part of a commercial property insurance policy. Therefore, physical damage to the insured property is typically required to claim coverage. Business interruption by itself is not enough to claim coverage. Unless there is a valid claim under the property damage section of the policy, claims under the business interruption section would not be considered.

Even for ALOP or contingent business interruption, there is a requirement of insured peril impacting the suppliers of material for projects. Projects would face delays and cost overruns due to a shutdown.

Coverage for losses caused by forced closure of property by authorities typically requires physical damage to property to trigger the business interruption coverage. Shutdown of malls and

theatres, cancellation of sporting events and even denial of visa to visit a country for business purposes cannot be cited as reasons for loss of income to claim coverage.

Many MSMEs/SMEs are either underinsured or uninsured. Loss of income, business interruption coverage or natural peril extensions are not opted for by these firms.

There would be a significant impact on revenue/income and profits of corporates due to loss of business. Without physical or material damage, there would be no claims in their ALOP policies.

3. What kind of reinsurance claims do you think may result from this pandemic? How many such claims do you think would be raised by customers insured by Indian and foreign reinsurers?

Most of the COVID-19 claims from the health insurance segment would be retained by insurance companies for their net account. If the insurer has taken an epidemic or pandemic protection (excess of loss) from a reinsurer, and if the aggregate of COVID-19 claims exceeds the deductible (priority) of such covers, the reinsurance company would get claims from insurers.

4. Do you see hardening of rates in any insurance line during or after this pandemic? What about reinsurance policy conditions and rates?

It is too early to comment. I do not foresee a big impact to warrant any hardening or increase in health insurance premium rates. Similarly, health insurance is not a reinsurance-driven portfolio, so the possibility of hardening of reinsurance rates is low.

I believe a COVID-19 type specific illness or disease policy could be developed in the short term. I also believe that insurers would devise specific wordings to clarify coverages or exclusions.

5. What do you think insurance companies should do to proactively assess the damages and reach out to their customers? How should they use their machinery and network to help both individual and commercial clients?

The insurance regulator has advised all insurance companies to handle COVID-19 related health insurance claims expeditiously. In this regard, the industry would treat the claims similar to claims arising out of big catastrophic events like earthquakes or floods. The insurance sector would use all the infrastructure available to them to handle these cases. However, at present, the insurance sector would receive claim requests related only to health insurance.

6. From a global insurance point of view, what changes do you think the current pandemic will bring about?

There would be changes related to more clarity and specific wordings on coverage and exclusions. In all probability, newer

covers or wordings would emerge in dealing with business interruption events. The hospitality and tourism industries could seek better risk assessment of such situations and expect insurance coverage for loss of income or business interruptions. Loss of attraction was one of the covers being offered by major reinsurers to deal with disruptions in tourist traffic which affected the income generated by monuments, museums and places of heritage and history.

There were developments in the insurance sector following the SARS and Ebola virus outbreaks. However, in October 2014, in response to the Ebola epidemic, a London-based insurance body offered a new type of coverage called the Pandemic Disease Business Interruption Insurance to cover loss of income resulting from Government-mandated closure of healthcare facilities and diminished revenue in the aftermath of a quarantine period.

Post the COVID-19 crisis, insurers would look to further review/improve wordings and exclusions related to contagious disease, infectious disease and contamination.

7. Is there anything else that you think is relevant to the current situation?

Marine hull and cargo policies mainly cover damages caused by maritime perils. The COVID-19 pandemic cannot be termed as a maritime peril. However, taking a cue from cruise ships that were quarantined in Japan, people might wonder whether the shipowner or operator is liable to the passengers. The liability towards the passengers in a ship would be covered by the contract of carriage issued by the shipowner/operator. Liabilities of the shipowner/operator towards passengers and crew members are insured by protection and indemnity covers. These covers are offered by shipowners' mutuals and are popularly known as protection and indemnity clubs. COVID-19 lockdown or shutdown of cargo loading or unloading as well as release of cargo from bonded warehouses, could cause delay in delivery or some damage during storage to Cargo in Transit. These losses or claims would be handled as per cargo clauses.

In the case of airlines, the passenger liability would arise following an air accident. Even if a passenger holds an airline responsible for testing positive for COVID-19, it is for the passenger to prove that he/she contracted the virus on the flight and that the airline was negligent. Such claims would be complicated and could drag for a long time.

Causation and losses must be well documented and mitigation efforts should be made wherever possible. COVID-19 is a wake-up call for the general public to practice self-hygiene and change social habits, and for the healthcare industry and governments to increase the number of isolation facilities, set up more quarantine facilities in hospitals and make public places more hygienic.