

COVID-19 – A New Beginning for Insurers

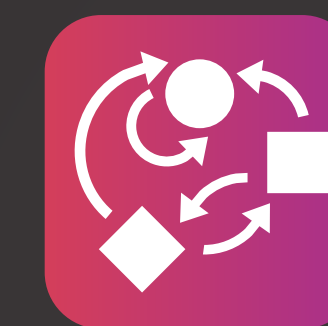
Banking, Financial Services and Insurance



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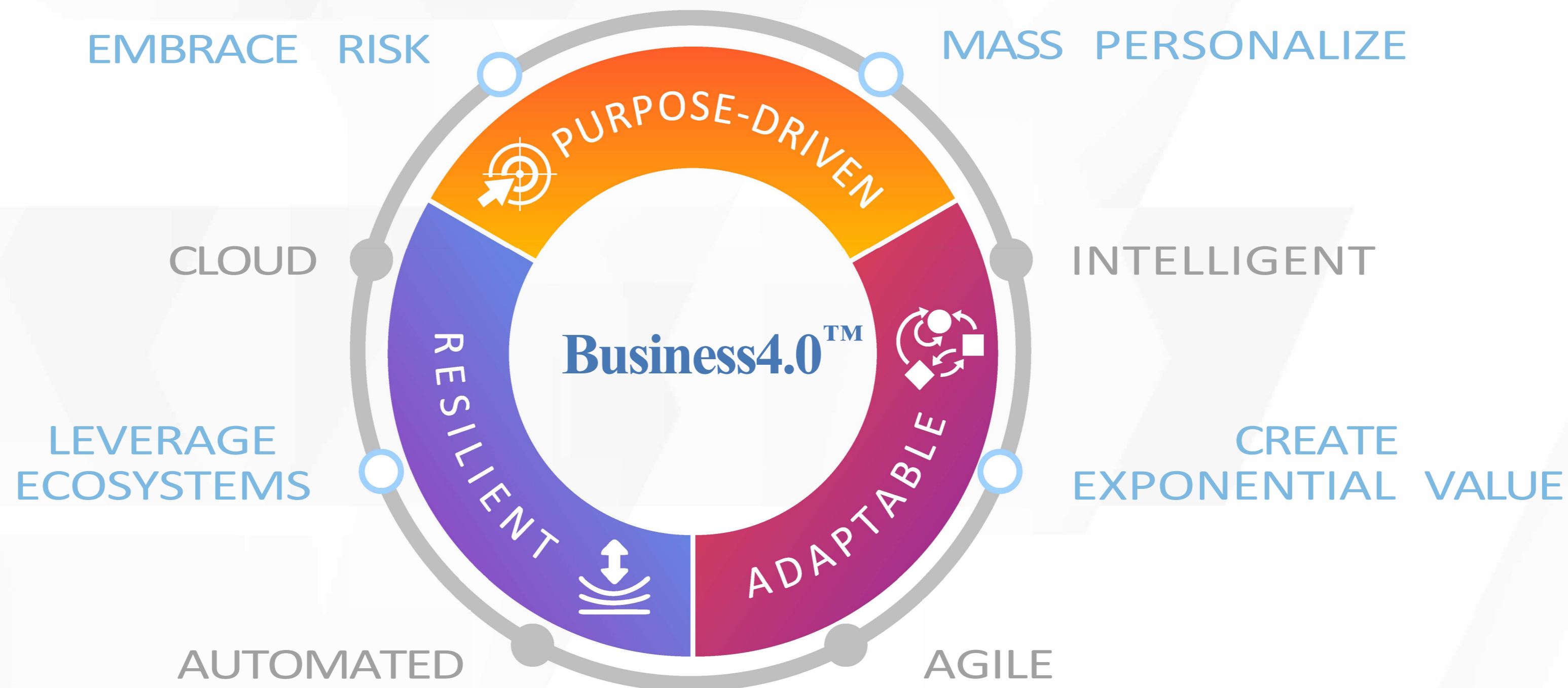
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Abstract

Insurance is a business of trust, of making promises, and keeping them when the time comes. The COVID-19 pandemic is a time for insurers to prove their value to customers, communities, and ultimately the economies where they operate. Given the way COVID-19 has spread around the world, nations are at different stages in battling the pandemic. Examining the response of nations that are at an advanced stage in the COVID-19 war, from varied standpoints, will help insurers in countries that are still in the early stages prepare a strategic response. This white paper discusses the impact of COVID-19 on insurance business from the three dimensions of resilience, value, and growth, and suggests measures to address the impact.



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The Impact on the Insurance Industry

As the COVID-19 crisis unfolds, businesses are grappling with a series of challenges associated with logistics, workforce, operations and supply chain, finance and liquidity, tax and trade, and strategy and brand. The insurance industry, in addition, is expected to stand by their customers, and deliver on the trust placed in them by

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responding swiftly and effectively to customer queries on claims, withdrawals, and fund values. At the same time, protecting investment portfolios likely to be impacted by the economic downside and complying with new or updated regulations arising from the situation will emerge as priorities.



The response to the COVID-19 pandemic – social distancing norms, lockdowns, and travel restrictions – has resulted in a decline in global economic activity. The impact on insurers, and their response strategy, will vary depending on the stage in which the country or region is:



During the crisis:

as the pandemic unfolds, reaches a peak, and subsides

Transition:

as the pandemic subsides, restrictions ease, and cross-border travels resume, heralding a slow return to normalcy potentially through the remaining months of 2020

Post-COVID-19:

as the economy picks up, potentially from spring 2021

Future-proofing

beyond COVID-19 for long term.



The impact on insurance offerings will be determined by the risks that the products cover, whether the covered event has been triggered by the pandemic or related restrictions, or the consequent economic downturn and changed business scenario. However, it is indisputable that the impact will be felt across the business value chain, affecting key functions such as distribution, new business, servicing, claims, actuarial, product development, investments and risk management depending on the priorities facing insurers at different stages.

In the initial phases of the crisis, building resilience forms the primary focus of insurers' response (see Figure 1) followed by value delivery with growth at the bottom of the pecking order. However, as insurers navigate through the crisis to the latter phases, driving growth will be the top priority followed by value delivery and building resilience for the long term.

While the immediate priority for insurers is to build resilience, they will need to focus on value delivery and growth in the longer term.

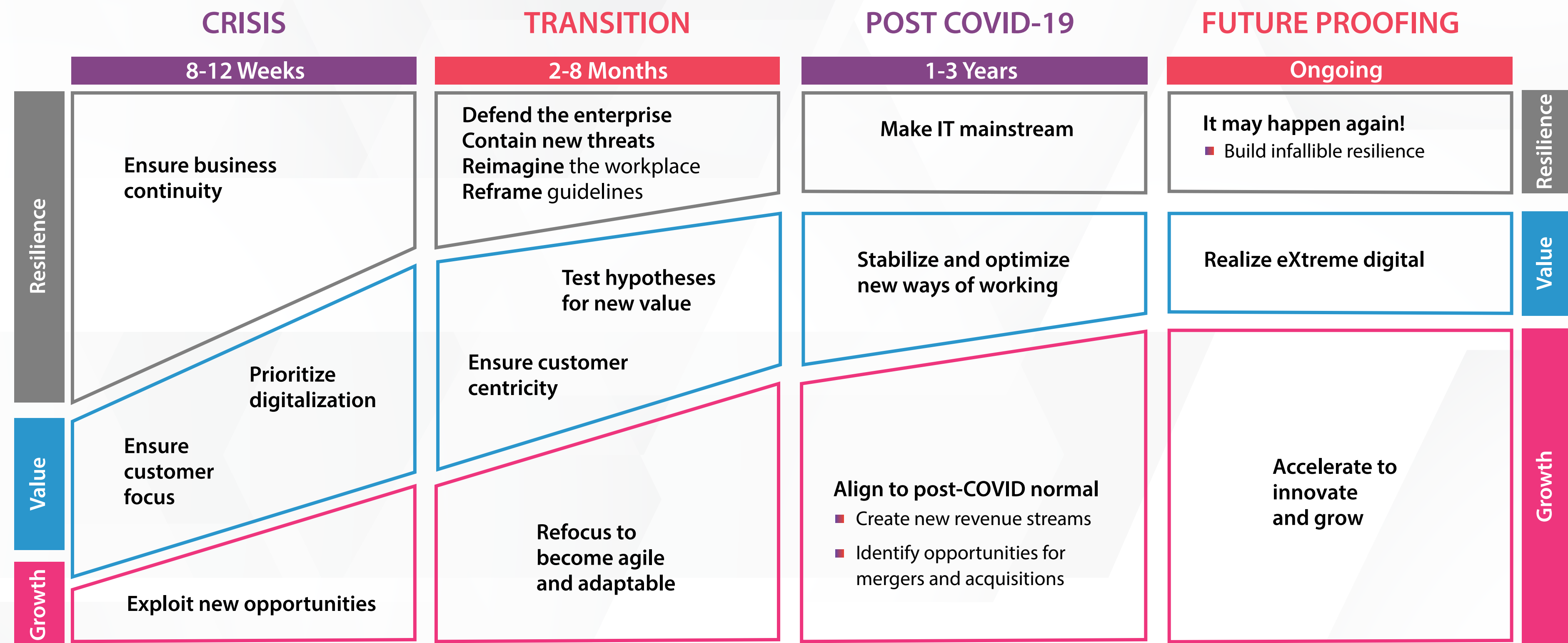


Figure 1. COVID-19 – Impact on Insurers and Proposed Response

Navigating through the Crisis

The pandemic is set to prolong into the medium-term causing further stress on the global economy. Given the impact of COVID-19 on insurance products as well as the sector as a whole will be significant, insurers must define a strategy with appropriate technology enablers to efficiently manage the continuously shifting situation (see Table 1).

Table 1: COVID-19 Impact on Insurers and Possible Solutions for Crisis Phase

Sl. No	Challenge	Insurer Impact	Possible Solutions
1	COVID-19 viral infection	<p>Spike in calls to customer care centers</p> <hr/> <p>Increase in number of life and health claims</p>	<ul style="list-style-type: none"> ■ Robotic process automation (RPA) and artificial intelligence (AI) tools ■ Bots to answer frequently asked customer queries ■ Search bots for employees <hr/> <ul style="list-style-type: none"> ■ AI and machine learning (ML) backed email automation tools ■ Cognitive computing tools to automate image processing and extracting information from documents
2	Travel restrictions	Increased travel and aviation claims	<ul style="list-style-type: none"> ■ Cognitive business operations including remote delivery through flexible team structures

Sl. No	Challenge	Insurer Impact	Possible Solutions
3	Lockdown restrictions	Increase in claims in areas like business owners, business interruption, home, renters and cyber insurance	<ul style="list-style-type: none"> Business process and IT application realignment to accommodate changes in claims processing
		Decline in productivity due to workforce disruption	<ul style="list-style-type: none"> Robust business continuity and disaster relief (DR) plans to address the needs of remote working models
		Increased usage of digital channels	<ul style="list-style-type: none"> Agile application development and enhancement of existing customer facing applications
4	Social distancing	Constraints in physical channels - both servicing and sales channels	<ul style="list-style-type: none"> Digital sales assistants with connect to back office through application programming interfaces (APIs)

The impact on different insurance functions will vary depending on the priorities before insurers in a particular phase – during the crisis, transition, post COVID-19, and future-proofing phases. The immediate priority is to ensure smooth working of customer-facing functions. The medium- and long-term priorities, on the other hand, will revolve around reimagining sales, products, and investment management functions to re-capture growth during economic recovery.

Sl. No	Challenge	Insurer Impact	Possible Solutions
5	Dislocation in stock and bond markets	Customer anxiety due to reduction in fund value decrease in pensions, and annuity products, makes end customers anxious Decline of enterprise investments, need to manage solvency ratios	<ul style="list-style-type: none"> Personalized video messaging for active customer communication Remote working options for the wider organization
6	Onset of economic recession	Spike in unemployment insurance claims Delay and defaults in premium payments, pension contributions, and loan repayments	<ul style="list-style-type: none"> Agile application development and enhancement Cognitive business operations

Transitioning and Future-Proofing

Countries recovering from COVID-19 are lifting restrictions in a phased manner. Consequently, the recovery time will be longer and certain restrictions may well become the norm. Given this characteristic of societal recovery, insurers will need to support businesses in restoring disrupted operations in the transition phase, while simultaneously abiding by COVID-19 restrictions to protect against a second wave of the infection, which according to scientists is highly probable.

In our view, insurers must define a strategic response aimed at building resilience to withstand paradigm shocks and focus on value delivery to drive growth. We believe that such purpose-driven actions will need to be underpinned by new behavior patterns like leveraging the larger ecosystem and unlocking value from the compound effect. New restrictions could well become the norm in the post pandemic world. To successfully operate in such an environment, insurers will need to deal with the risk of adopting new or revamping existing business models, foraying into new geographies, designing new offerings, and embracing new customer segments. The path to new value creation lies in continuously adjusting the strategy in response to market shifts and tailoring offerings to suit changing customer contexts. Figure 2 maps the actions that insurers must take to emerge stronger from this crisis.



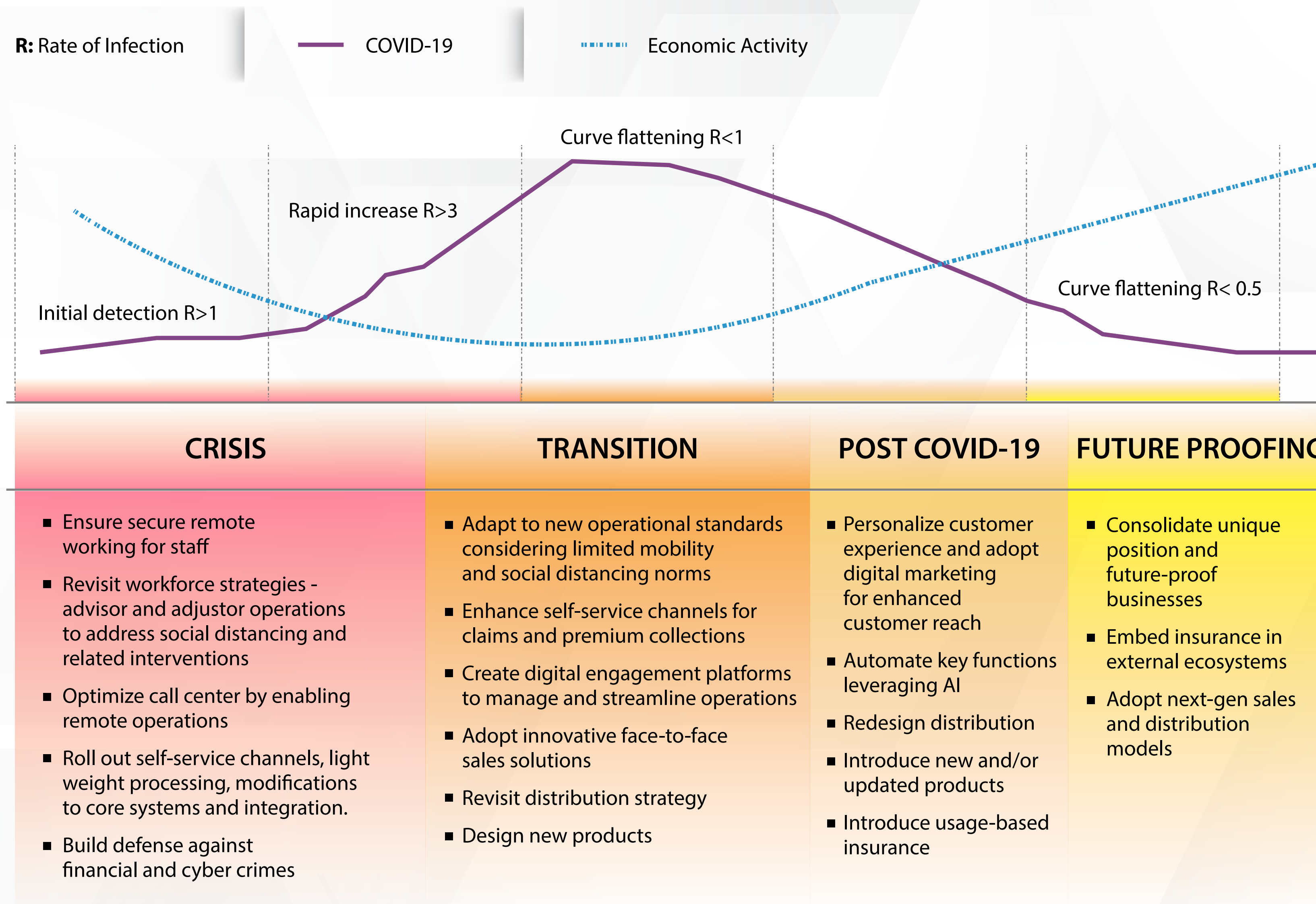


Figure 2. COVID-19 Response – Specific Insurer Actions in Various Phases



A purpose-driven approach to delivering value will require insurers to leverage their larger ecosystems.

During the transition phase, insurers' response must center on retaining solutions implemented during the crisis and contain further impact, ensuring customer centricity, and renewing focus on enhancing adaptability and agility. The lessons learnt from the crisis become guidelines for driving the long-term strategy. In our view, insurers must:

- Assess crisis handling capabilities, analyze the changes and solutions implemented, and identify areas to strengthen, upgrade, and seek alternative solutions as necessary.
- Revisit health, auto, home owner, cyber, business interruption and workers compensation products and introduce coverage changes, rate changes, and additional pandemic coverage - update policy conditions and clauses based on the pandemic experience.
- Enhance the digital solutions in underwriting, customer servicing and claims functions and eliminate manual processes to deliver superior customer experience.
- Speed up cloud transition and automation program implementation.
- Revisit the enterprise transformation strategy, recalibrate core modernization programs, and continue with regulatory programs to overcome the lag left behind by the crisis.

The focus of the various initiatives taken during different timelines will change from building resilience in the initial phases to driving value delivery and growth in the long-term. In the post-COVID-19 and future-proofing phases, insurers need to capitalize on the action taken during the crisis and transition phases and stabilize and revitalize the business. Insurers need to leverage customer experience investments to deliver hyper-personalized interactions at every touch point and enhance customer value. AI and ML powered automation of back-office and mid-office functions must be prioritized to enable efficiencies beyond existing RPA solutions. From a distribution perspective, during this phase, insurers need to redesign the synergy between direct and advisor channels, promote symbiotic co-existence, and deliver omni-channel experience. Drawing insights from the pandemic impact on the existing product portfolio to design new offerings or modify existing ones – for instance by introducing usage-based pricing or parameterized claims processing – will help insurers deliver enhanced value and retain customer base and loyalty.



The current crisis gives insurers an opportunity to introspect and make plans to future-proof the business for unexpected systemic disruptions beyond COVID-19. Embracing end-to-end digitalization across the entire insurance value chain, establishing revenue streams beyond commoditized products, and delivering best-in-class customer and advisor journeys are crucial to weathering future storms. Specific actions that insurers must take can be grouped under the following key themes:

- **Socially-distanced customer experience:**
enable remote sales and servicing and digitalize customer journeys end-to-end
- **Products for a new beginning:**
facilitate flexible pricing, extended coverage and ensure ease of servicing; meet new needs emanating from the pandemic and stand by customers grappling with unprecedented situations
- **Touch-less claims:**
drive automated claims processing parameterized by external factors
- **Remote underwriting:**
facilitate collaboration between underwriters, advisors, and external information providers for underwriters working remotely
- **Purpose-driven ecosystems:**
leverage primary ecosystems such as retail, consumer, travel, and industry to seamlessly integrate insurance into their products and services
- **Resilient policy administration:**
enable the core for end customer experience and ecosystem integration
- **Adaptable agency and distribution:**
build channels that facilitate symbiotic co-existence of physical and digital channels

The opportunity in adversity: the COVID-19 crisis demands insurers to relook at their operating strategies and build shock-proof businesses.

Thriving in the Post-COVID Era

The pandemic has created unprecedented challenges for insurers in supporting customers and sustaining business in the changed social and economic scenario. In addition, insurance companies are expected to support communities and businesses through the crisis. Achieving this will require insurers to build ecosystems with adjacent industries like retail and healthcare and create products and services aimed at meeting the underlying need that drives customers to purchase their offerings. This in turn will facilitate a shift from protection to prevention – helping insurers graduate from after-the-event succor-providers to active partners in preventing the occurrence of the insured event. Aggressive digital transformation across business functions and building resilient IT infrastructure and adaptable systems and processes will be key to driving this transformation. Needless to say, insurance companies that act quickly will surge ahead of the competition.

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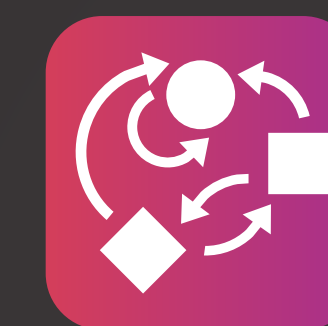
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