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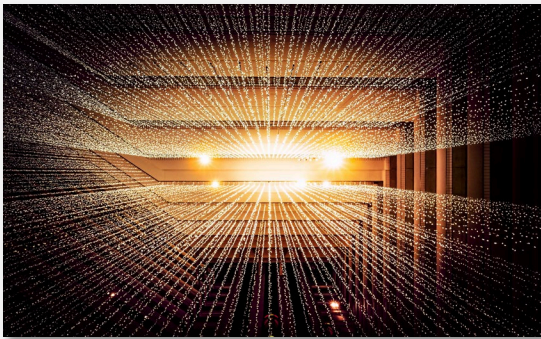
MINET THOUGHT LEADERSHIP

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INNOVATIONS IN INSURANCE COMPANIES: COVID-19

May 28th, 2020



The two world wars are thought of as the most significant events of the last century that permanently changed the world. Without diminishing the enormous tragedy, the legacy oftentimes, goes beyond the millions of lives lost and redrawing of boundaries to the introduction of sophisticated weaponry, and most importantly spurring the development of practical innovations such as; Kleenex, daylight saving-time, blood banks, sanitary pads, drones, computing and

satellite technology¹. This is not forgetting the setting up of non-profit and/or non-government organizations and supra-bodies that would prefect the world and aid in averting, mitigating and managing crises and disasters.

There is no doubt that the covid-19 pandemic is the single biggest phenomenon that most of the current living generations have ever witnessed. The current disruption will change how we eat, work, shop, exercise, manage our health, socialize, and spend our free time - at an unprecedented rate of change. Its impact on the socio-economic welfare of humans can be said to be the biggest trigger of imminent paradigm shifts. Profound socio-economic changes are beginning to emerge even if at nascent stages. A much-quoted saying goes, "you never waste a good crisis". The profound pandemonium brought by the Covid-19 pandemic will trigger a wave of coping and adaptive innovations among households, companies and the government.

Prior to the Covid-19 Pandemic, the financial sector and particularly the insurance sector was undergoing sector introspection inspired by the desire to overcome the viscous adoption of technology. As if from insight or prevailing jinx from the last global financial crisis of 2008/9, the insurance sector has been lobbying and preparing to roll out and adopt technology invariably characterized by automation, tokenization and elimination of physical collateral interventions in payment, underwriting, claims processing and risk management. It is touted that many organizations will go beyond personalization by segment, to develop individualized communication and experiences. This is the ultimate level of innovative personalization allowed through data, advanced analytics and digital technologies. Organizations were largely seen as strategically focusing on SME segments and taking a 'GAFA' (Google/Amazon/ Facebook/Apple) approach, leveraging insights and data derived from services and individual organizations to boost their core business².



SHIFTS IN HUMAN BEHAVIOR



- Remote working
- Enhanced work/life balance
- Access to e-commerce & logistics
- E-health
 - Increased focus on fitness and sports
 - Full adoption of home delivery and robots



- Limited gatherings
- Travel restrictions
- Imposed/Regulated hygiene requirements
- Protecting vulnerable groups

Insurance will accommodate for new risks and shifts in risk profiles due to:

- Increased anxiousness and loneliness and depression affecting the scope and focus of healthcare policies and wellness programs;
- Optimized work-from-home setups beyond typical office jobs, meaning a redesign of workers compensation policies, potentially less personal accident covers, enhanced cyber-security policies etc.;
- Rising prominence of certified immunity and consumables-handling requirements, affecting healthcare solutions and liability policies. Digital handling certifications may also accelerate the adoption of blockchain technology; and
- Extended travel restrictions, even within a country, will have an immense impact on volume of travel insurance, on international healthcare policies, and will also see major substitutionary developments for a new way of life³.

INDUSTRY IMPACT ANALYSIS⁴

Industry Human-Behaviour Characteristics

Detailed impact analysis per industry in dedicated reports	Large gatherings essential	Close, Human gatherings essential	Hygiene is critical	Dependent on travel (business / leisure)	Service or product is deferrable or unessential	Impact analysis
Tourism and Hospitality	Very High	Very High	High	Very High	High	Very High
Sports	Very high	Very High	Medium	Low	Medium	High
Music and Entertainment	High	High	Low	Medium	Medium	High
Automotive	Low	Low	Medium	Low	Very High	High
Manufacturing	Low	Low	Medium	High	Medium	High
Construction	Low	Medium	Low	Low	High	Medium
Beverages	High	High	Medium	Medium	Low	Medium
Wholesale and Retail	High	High	High	Medium	Low	Medium
Finance and Insurance	Low	Medium	Medium	High	Low	High
Professional Services	Low	Medium	Low	High	Medium	Low
Pharmaceuticals Supply	Low	Low	High	Low	Low	Low
Health	Low	High	Ver High	Medium	Low	High
Agricultural	Medium	Medium	Very High	High	Low	High



Bearing the table in mind, our take-aways per primary sector would therefore be::

Tourism and Hospitality sector (Very High impact):

- This sector contributed approximately 1.3% to Kenya's GDP in Q3'2019, facing hard times due to lockdowns in major economies where tourists originate from (e.g. Italy),
- Lockdowns caused a reduction in revenues to the aviation industry which also greatly contributes to the tourism sector, and
- The hospitality industry (meetings, incentives, conferences and exhibitions (MICE)) is expected to take a hit due to travel cancellations and bans on public gatherings.

Agricultural sector (High impact):

- Freezing of fruits/vegetables orders to China, coupled with reduced orders from consumers in Europe & Middle East caused a drop in exports,
- Hike in imported products' prices used for food processing and other processes, and
- Reduction in airfreight volume, cancelled shipping vessels and drop in export volumes.

Manufacturing sector (High impact):

- This sector heavily relies on intermediate goods from China. With the supply chain disruption, the sector is likely to be adversely affected.

Health sector (High impact):

- Increased spending and direct funding towards public sensitization and training of medical personnel, and
- Governments to increase fiscal spending to ensure hospitals are well equipped to deal with the pandemic. The fiscal deficit is therefore likely to increase.

Wholesale and Retail sector (Medium impact):

- Imports from China account for 21% of total imports in Kenya; supply chain disruption and uncertainty may affect this sector due to delays in importation and reduced customer confidence.

Finance and Insurance sector (High impact):

- Banks are expecting to recover from the effects of the interest rate capping. Increased caution on lending is expected (especially to businesses that rely on imports) thus inhibiting private sector credit growth with the possibility of heightened Non-Performing Loans if the pandemic is to continue.

Construction sector (Medium impact):

- This sector is facing delays in equipment delivery from the main import market (China) which may cause a slowdown in the growth of this sector,
- Delayed payments and decision making, especially from Chinese affiliated projects, and
- Postponement of projects and delays in payments.

Professional Services sector (Low impact):

- This sector is expected to suffer from delays in payment from clients in China, thus causing a delay in project implementation, which in turn has a negative impact on revenue.



IMPACT ON HEALTH AND LIFE INSURANCE

Health and Life insurance covers inherently take into consideration mortality and morbidity exposures to set the premium. Given its contractual coverage of health and mortality risk, Covid-19 has a significant impact on the insurance sector in multifaceted ways. Not all effects are necessarily negative for the insured, but its significance is reflected in the impact it will have on the financial assets and on the interest rate movements. It is with this in mind that transmission mechanisms covering a diversity of liability, assets and operational elements is explained.

Transmission channels can be summarized in three main categories: (1) those related to the obligations under insurance contracts; (2) the impact of asset-market changes on values and on liquidity; and (3) operational risks.



Insurance Obligations

- Mortality
- Morbidity
- Travel
- Property risk exposures change
- Fraud risk and Cyber risk increases
- Positive and negative impacts to be evaluated
- Valuation of long term liabilities increases as interest rates fall
- Consequent pricing changes



Asset Values and Liquidity

- Asset valuation in equities largely negative
- Fixed interest valuations improve on reduced interest rates
- Credit exposure largely focused on corporates and investment grade entities deteriorating
- Potential for impact from FX rate changes
- Liquidity, or lack of need for it, can be an advantage for life insurers



Operational Challenges

- Claim remediation delivery
- Continuation of service delivery
- New Business declines through inactive sales channels, and client base activity reduction during short term closure phases and subsequent real economy contraction

Operational changes are mainly managed intuitively and should be resolved via the business continuity plans and via the activation of such plans at Supervisory and Regulatory Authorities (including close monitoring of solvency, capital adequacy ratios and reinsurance regimes). All such plans should emphasize the need to treat customers fairly and to avoid cancellation of clients' insurance cover or other adverse impacts due to virus-related policy exclusions⁵. The extent of interventions is within the scope of most insurers' forecasts and remedial actions thereof. However, the economic dislocation, to the extent currently evident, was generally not captured and is only now being incorporated in Supervisory and Regulatory assessments.

Strategic Area	Desirable Effect	Potential Innovation(s)
DISTRIBUTION	AI, Bots, Video sales, Technical sales through webinars etc.	Online broking and sales / Disintermediation
REGULATION	Capital Adequacy, Regulators to be drivers of technology, Increased KYC Tools	CARs, App Requirements, Digital Certificates, online supervision etc. Collaboration with personal apps, government integrated services and insurance software
R&D	Human Centered designs, Need-based products, Big-data analytics	Insurance classes to be reassessed for suitability Incorporation of telemedicinal capability into insurance
RISK FOCUS	Repackaging for critical illness, Post Retirement, Healthcare technology, Re-evaluation of exclusions to make insurance more client friendly	Healthcare, Cyberinsurance and new Liability solutions



INSURERS' RESPONSE

The insurance industry has a range of response options to the pandemic, both aimed at protecting policyholders' interests and mitigating/managing the impact to the insurance business. The insurance sector related policy measures and interventions focus on;

- I. Ensuring that business continuity arrangements are put in place;
- II. Emphasizing the need to ensure fair customer treatment;
- III. Research and design of new insurance and risk products;
- IV. Fostering innovations;
- V. Reinforcing supervisory arrangements as Supervisory and Regulatory Authorities transition to more remote working arrangements;
- VI. Suspending unrelated policy reform programs and extending routine regulatory reporting timetables;
- VII. Increasing surveillance of COVID-specific issues.

For some specific insurance products, we unambiguously see an opportunity for innovation arise from the COVID-19 pandemic (Adapted from Worldbank Group):

Motor Insurance: Renewals will reset, and the reduced economic activity will cause a shrinkage in the portfolio size, with equal reductions in contributions to expenses. In addition, changes in work patterns may mean that some clients change their vehicle usage in a way that was not anticipated under the existing policy. Some authorities have asked that insurers take this into account sympathetically to ensure continuation of coverage. Opportunity for innovations and interventions: Digital insurance certificates / Remote vehicle diagnostics / Enhanced pay-per-use / tokenized insurance / Risk consulting on car-care / GPS based risk assessment for motor insurance

Household Property Insurance: To avoid spreading the virus, homes are often converted to workplaces and some people are forced to live elsewhere for periods that are outside of their control. Continuation of coverage is an important market conduct issue for properties that are effectively unoccupied and for personal possessions that are not in their typical location. Opportunity for innovations and interventions: Workmen compensation synchronization and adjustments to the new realities / Enhanced focus on policies for the acquired sophisticated household items / Attendant shifts in cyber-risk profiles / Wellness/ healthcare synchronization and adjustments to the new realities

Business Interruption: Many business coverages include not only the impact of the risk, but also some remediation of the cost of interruption to business viability. At the same time, and with reputational and market conduct risk implications, many business interruption policies tend to exclude virus-related losses. Opportunity for innovations and interventions: Shifts in risk profiles and pricing / Enhanced risk consultancies on audits and firm preparedness.

Cyber Risk: Until now, Cyber Risk policies and products have been fairly profitable, but the sector is cautious about the outlook given the higher-than-usual uncertainty of tail risk. Opportunity for innovations and interventions: Robust and broader risk policies, covering the new connectedness and risks / Cyber-risk awareness and consultancy modules.



Commercial Insurances: With altered risk profiles due to changed working conditions and the potential need for ongoing liquidity, customers may seek to reduce and/or cancel their coverage to obtain refunds. Although insurers are able to adjust cancellation terms, they will moderate these decisions with the desire to maintain ongoing customer relationships. Opportunity for innovations and interventions: Innovations in line with new funding/credit models adopted by individuals and firms / More behavior centered design (BCD) of commercial policies responding to shifts in mode of business.

Reinsurance and Other Risk Transfer: Reinsurance and other risk-transfer instruments will provide direct relief for insurers with high claims costs. Additionally, a number of securitized instruments have been issued to share this risk into capital markets and are expected to be triggered. Opportunity for innovations and interventions: Assessment of clauses evaluate how reinsurance may or may not respond to the multi-line exposure of the pandemic / Changes in rating and quantification of risk parameters by regulators.

Investments & Equities: Short-term volatility in values impact insurers. Some insurers have a greater share of contracts that pass this impact on to policyholders (either in full or partially). Opportunity for innovations and interventions: Digital adoption / Shift to companies providing digital solutions; re-evaluation of attractive industries) / Big-data and telecom power consumption.

Investments & Fixed Interest: Defaults on corporate bonds are a concern. However, the far greater impact is expected to come from downgrades in the portfolio to non-investment and absent material default events. Opportunity for innovations and interventions: Shifts in investor decisions which are volatile.

Boaz Bureti | Assistant Manager Economics and Research | Minet Kenya

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