Beyond COVID-19

Action plan for Singapore Insurance industry

Financial, operational and regulatory impact and perspectives

pwc

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COVID-19: Navigating the crisis

COVID-19 continues to cast a long shadow on societies, economies and businesses worldwide. As insurers, your immediate imperatives have been business continuity and customer and employee support.

The insurance industry has generally responded well, enabling remote work and addressing immediate capital questions. With the circuit breaker measures easing gradually from 1 June 2020, Singapore insurers' focus is now turning to what the competitive landscape will look like in the immediate future, what it means for their business and how to emerge stronger.

Here is our take on some of the specific challenges that insurance companies in Singapore might be facing. We also offer some thoughts on what you can do now, as well as in the medium to long term, to manage effectively through this crisis.

Financial considerations

Volatile markets and credit spreads resulting in increased risks to the solvency position and profitability; Concerned customers and impact on demand/consumer behaviour; Liquidity considerations; and Slowing premium growth and changing business mix.

How can you respond appropriately and stay financially resilient during these times?

Operational & Technology considerations

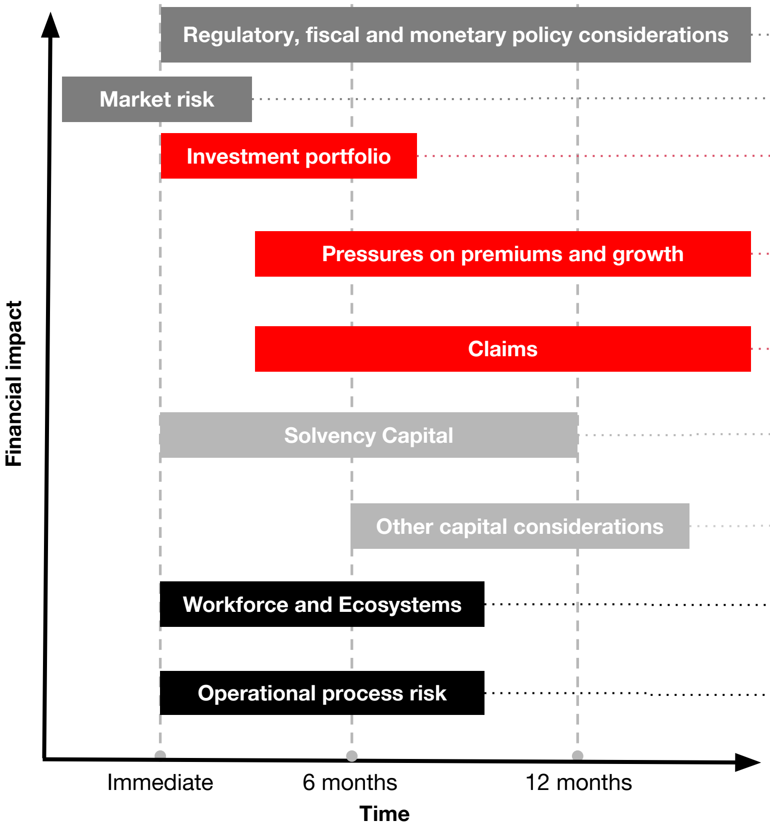
Staff and working practices; Ability to work remotely and satisfy ongoing data and operating requirements; Challenges with third-party service providers; Digitisation of sales channels; and Untested recovery and continuity scenarios.

How can you support your organisation to keep the business running as smoothly as possible?

Regulatory considerations

Prior to COVID-19, insurers in Singapore were in the midst of performing RBC2 reporting as well as implementing IFRS 17. What should you consider to ensure you maintain momentum on your IFRS 17 implementation programme and navigate the impacts of the RBC2 regime?

The impact of COVID-19 on insurers may continue over a longer period



Uncertainty regarding **regulatory measures** from MAS, **fiscal and monetary policy** responses, the first year of **RBC2** reporting, disruption to **IFRS 17** programmes, and other policy measures (e.g. further circuit breaker measures).

An instant hit has already been observed through **equity investments, widening of credit spreads, increasing volatility** in financial markets

Impact on the **investment portfolio deepens** with potentially continuing market volatility, **low interest rates** and/or downgrades.

Pressures on premium collection, persistency and new business growth:

- Economic uncertainty, slumps in financial results and circuit-breaker measures lead to **reductions in sales volumes**
- Demand for liquidity by consumers leads to **increased lapse, partial withdrawals,** policy loans and lower top-ups.
- **Collection of premiums** and existing receivables from policyholders can be delayed or even default.
- MAS has allowed **premium payments** on life cover to be deferred up to six months

Fewer motor claims, but higher business interruption, health, income protection, workers compensation and trade credit claims leads to **volatility in underwriting results**

- Even **lower interest rates**, **asset-liability mismatch** considerations, and an adverse hit on equity investments
- Rating migrations lead to **additional capital requirements** for fixed income portfolios
- **Asset revaluation** downwards

Continuous pressure on capital and policies

- Credit rating downgrade risk
- Potential increase in cost of capital
- Dividend pressure
- Lower ROI/ROE for many portfolios
- Pressure on unit (per policy) expenses

Own **workforce not fully functional** and suboptimal functioning of third party service provider/ ecosystem partners

Increasing operational risks

- Payment and transaction systems, maintenance of critical systems, **increased cyber risk**
- Increased **fraud risk**
- Internal control process deterioration
- Delay in repairs, improvements and innovations

Systemic risk | Income risk | Capital risk | Op risk

Note: The actions associated with these impacts may occur over a longer period and some events may have prolonged impacts.

Financial perspectives

We have highlighted some of the key financial challenges relating to new business, claim frequency and severity, and capital impacts emerging as a result of COVID-19.

COVID-19 Impact and Challenges

Uncertainty in business volumes

There is likely to be an adverse impact on new business volume and premium growth for personal lines carriers due to fewer auto and home sales. Travel insurance will also be adversely impacted through the travel restrictions in place (which may require product repricing at a later stage).

Further, the trajectory of major exposure bases, like revenue or headcount, will negatively impact line premiums for group insurance. However, with health concerns top of mind, there may be an increase in demand for term-life and health insurance for individuals.

Mixed consequences for profitability

The number of claim events for auto products is expected to be reduced due to stay-home protocols, and hence it is expected that there will be short-term increases in underwriting profitability. In some markets insurers are exploring ways to return these profits to policyholders to support longer-term retention.

However, there is likely to be an increase in health, disability income, trade credit and business interruption claims. The severity of workers compensation will potentially increase as overburdened healthcare services and stay-at-home guidelines will prevent back-to-work remediation activities such as physical therapy. These will drive lower underwriting profitability for these insurers.

Pressure on solvency position

Market conditions are expected to have a significant impact on investment returns. Lower interest rates and equity returns will drive a decline in RoI and RoE, with guaranteed products being the most heavily impacted.

There will be pressure on the solvency position and increased risk due to higher market volatility, lower interest rates, widening of credit spreads and potential credit rating downgrades.

Recommended Actions

Immediate

- Consider various stress test scenarios to assess impacts on revenue, profitability, liquidity and solvency.
- Assess the effects of lower sales of certain products, or changing the timeline for introduction of new products.

Short-term

- Assess the need for repricing current products or modifying product offerings to be more relevant in COVID-19 environment.
- Assess the expected timing and amounts of any Government subsidies and the potential impact on pricing.
- Assess the need to change commission schedules.
- Assess the existing reinsurance arrangements to understand the exposure to different counterparties and limits.
- Assess the appropriateness of the current investment and hedging strategies.
- Reassess and review the investment portfolio and ensure that qualifying tax free and concessionary tax investments are being captured and reported correctly for tax reporting purposes.

Medium to Long-term

- Assess your investment portfolio, macro and micro hedge strategies, and future asset allocation options in light of anticipated recovery scenarios, changing liability risk profiles, and the low interest rate environment.
- Undertake a capital optimisation exercise, including assessing reinsurance solutions, with the aim of releasing trapped capital and strengthening inter-company liquidity.

Financial perspectives

The economic impact of the COVID-19 pandemic has a number of flow-on financial implications for insurers, including impacting the ability for customers to make premium payments, and changing the insurer's risk profile and business mix.

COVID-19 Impact and Challenges

Diminished ability to make premium payments

Economic conditions will impact customers' ability to make premium payments and carry adequate coverage levels as a result of higher levels of unemployment and restricted working hours. In addition, customers are likely to become more price sensitive and reduce coverage in response to these economic conditions. Small business customers will also be disproportionately impacted.

Evolving risk profile

As insurers repurpose products and services in response to the pandemic, they will need to be conscious of allowing for this in pricing and risk management considerations. Consumer risk profiles may deteriorate towards non-standard because of selective lapses in coverages requiring insurers to adjust their pricing and/or underwriting rules and criteria. Further, as insurers assess the extent of their risk coverage, they have to consider both the legality of the policy terms underwritten and the market expectations on whether certain losses arising from the pandemic are covered by the insurance products.

Shifts in portfolio and product mix

Consumers may shift from investment to protection-focussed policies, as policies lapse, and through changing demand in the post-COVID-19 environment. Further, insurers' portfolios may need to be changed to support capital requirements, including through asset allocation, product suspension, and pricing changes (like integrating pandemic risk). There will also be implications on market share and size.

Actuarial assumption impacts

Actual experience over the COVID-19 duration will be significantly different to historical experience assumed in reserving bases. Actuaries will need to be cognisant of this and will have to use judgement in setting appropriate reserving assumptions.

Recommended Actions

Immediate

- Review action plans for premium collection.
- Consider customer communication and customer engagement plans and strategies. This includes leveraging digital platforms to provide clear communication to customers, providing simple means for customers to reach out to insurers, and ensuring claims processes are as digital as possible.
- Assess the exposure to pandemic-related claims during the circuit-breaker period. In particular, whether business interruption policies and trade credit cover claims related to this pandemic. Even if policy wording excludes such claims, there may be reputational pressures to provide cover.

Short-term

- Identify and quantify the impacts of the COVID-19 pandemic on short- and long-term reserving assumptions.

Medium to Long-term

- Assess product design and pricing, especially where investment returns are priced in and tax advantages are expected, or for long duration products, especially in light of the low interest rate environment.
- Consider strategic disposals, mergers and acquisitions options.
- Gain a deeper understanding of future risk and changing risk profiles. Risk management guidelines provided to customers will need to be adapted to ensure they appropriately plan for pandemic-related risk that may emerge in the future, particularly for business interruption and liability products.

Operational & Technology perspectives

COVID-19 and the resulting circuit-breaker have challenged insurers to rethink the way in which they engage with customers, change their working arrangements, and has put closer scrutiny on a large number of operational components of their business.

COVID-19 Impact and Challenges

Adapting to remote working

Some of your work locations may be inaccessible for a prolonged period of time as a result of the circuit-breaker, and as a result, working remotely is the new-normal for the foreseeable future. Insurers may face challenges in implementing changes at scale, even for functions where remote work is achievable.

Depending on how long and how restrictive the circuit-breaker is (and the phasing coming out of it), employees may struggle to adapt and employee wellness may be an area of focus for insurers. This could include stress due to income disruption, quarantines or illness among family and neighbours. Employee engagement is likely to be affected, leading to productivity, customer experience, and controls being adversely impacted.

Elevated data and cyber risk

The remote working arrangements, and the speed with which they have had to be implemented, also increases the exposure to cyber risk and data risk. Bring-your-own device policies, remote access from home networks which may not always require a VPN, and downloading of non-enterprise approved software is making organisations susceptible to cyber threats and potential data breaches.

To support the remote working arrangement, the data backup inventory and frequency should also be examined. A challenge is to be able to keep the data center running while most of the front-office workforce have all moved to virtual modes of working.

Distribution channel expansion

The current COVID-19 pandemic also highlighted the need for insurers to expand their distribution channels. Insurers that mainly rely on brokers, agents and/or call centres to sell policies saw a greater decrease in new business volumes compared to insurers that offer digital sales. Additional controls may need to be established to safeguard customers.

Recommended Actions

Immediate

- Be prepared to continue to operate under a formal business continuity plan (BCP) in response to the current pandemic, including the potential for a phased approach to returning to work.
- Set up a work practice to cultivate a corporate culture that encourages personal accountability by co-creating goals and expectations together. Engaged supervisors maintain continuity, keep approvals and processes moving as well as provide clear lines of communication and support.
- Digital upskilling is key across all business units.

Short-term

- Accelerate cloud migration plans to reduce the reliance on physical on-site data, actuarial and accounting centers.
- Review and update guidelines for data protection and data handling in the remote working environment. Insurers should also consider the inclusion of guidelines on "digital ethics".

Medium to Long-term

- Evaluate the extent to which remote working arrangements can continue and potential costs reductions can be achieved through reviewing office space and infrastructure requirements.
- Explore how flexible work arrangements can contribute to employee wellness and productivity.
- Consider the long-term sustainable operating model to adopt to ensure you are prepared for potential future pandemics. This would aim to ensure your business is resilient to changing market and operating conditions.
- Consider platform and data rationalisation in order to reduce reliance on multiple sources and systems.

Operational & Technology perspectives

The circuit-breaker has challenged insurers to accelerate their digital transformation and to assess their reliance on outsourced service providers. As a result, insurers need to assess the flow-on impacts on cost-structure and productivity.

COVID-19 Impact and Challenges

Acceleration of digital transformation

As a result of the circuit-breaker, insurers are having to fast forward their digital transformation and immediately look for means to engage digitally with customers. Insurers will also need to consider how to maintain human elements as part of customer experience while interactions become increasingly digital.

As part of this digital transformation, insurers also need to ensure there is adequate network capacity to support their operations without compromising network security. This is also resulting in insurers having to look at their cost-structure and productivity from a different perspective in the new digital-normal.

Disrupted outsourced service providers

Insurers' reliance on outsourced service providers for various key business activities will be tested during the circuit-breaker and beyond. These service providers could be external third parties, and may be physically located in Singapore or offshore. The ability of these service providers to provide business support during the circuit-breaker/country lockdown and beyond will also affect the service quality of the insurers, or potentially impair the ability of insurers to operate as business as usual due to non-availability or limited access to the resources.

Furthermore, insurers may have limited visibility into these suppliers' ability to execute. For example, there may be difficulty in observing data centers and other outsourced service providers, especially if travel restrictions continue.

Even if there is continuing support from outsourced providers, insurers need to consider how to identify control gaps in the service organisations, and establishing sufficient mitigation and/or remediation plans to prevent control lapses and hence insurers taking on unintended risks.

Recommended Actions

Immediate

- Review supplier networks and associated service agreements to understand the extent to which they are affected by COVID-19, and assess whether sufficient contingency plans are in place.

Short-term

- Continue assessing the performance and delivery of outsourced services. For example, engage internal audit to conduct reviews of the Service Level Agreements currently in place.

Medium to Long-term

- Establish a digital transformation road-map for the entire insurance business. This should consider the insurance lifecycle, starting with the initial customer touch point, to buying the policy, to ongoing maintenance and eventual claims disbursement. The plan should be centered on simplification of customer experience while ensuring sufficient understanding of products and associated risks as well as compliance with all relevant sales and other regulations.
- Maximise the tax benefits from the investment costs in operationalisation of digital transformation.
- Consider alternative cost structures and operating models as well as increasing the use of data analytics to enhance business insights and inform decision making.

Regulatory perspectives

Prior to COVID-19, insurers in Singapore were in the midst of preparing for RBC2 reporting and implementing IFRS 17. COVID-19 has not only disrupted the momentum but has also added in new challenges in the implementation of these programs concurrently.

COVID-19 Impact and Challenges

RBC2 reporting

Insurers in Singapore are in the midst of their first year of RBC2 reporting. This poses additional challenges for insurers as they are busy preparing for this new reporting and ensuring the associated controls operate as intended. This is in addition to fulfilling their normal BAU reporting, while operating in a remote working environment. While the parallel runs aided in understanding the impact of the new capital regime on insurers' solvency positions, the current conditions are proving to be different from the base scenarios tested, and insurers may experience higher capital strains than expected due to the low interest rate environment, widening of credit spreads and/or credit rating downgrades.

IFRS 17 programmes

The effective date of IFRS 17 has been deferred by one year in order to provide insurers with more time to implement the standard. However, this is amidst the global challenge of COVID-19. The two are clearly very separate events; but connected coincidentally by timing. As insurers adapt and change in response to COVID-19, they also need to be making adaptations and changes to their IFRS 17 timelines, or indeed re-plan to ensure they carry on the momentum. Allowing the situation to turn into a 3 - 6 month IFRS 17 project hiatus may put undue pressure on the project later in the timeline.

In addition, many IFRS 17 programmes use a global mix of resources, and are working across multiple territories. International travel is now severely restricted in many parts of the world, resulting in insurers needing to consider new ways of working.

Recommended Actions

Immediate

- Assess the impact of the current market conditions and additional stress scenarios on the balance sheet and the solvency position based on the new RBC2 regime.
- Assess the appropriateness of the existing IFRS 17 plan and timelines. Considering critical path milestones is a key step to determining how to use the time most effectively.
- Consider how effective IFRS 17 programme communications are currently. Uncertainty around the business continuity plan, or changes to the IFRS 17 programme plan, could have a multiplier effect and set back productivity.

Short-term

- Re-assess balance sheet management strategies in order to ensure appropriate investment and hedging strategies are followed to ensure the RBC2 balance sheet is optimised.
- Consider how necessary travel is for their IFRS 17 programmes, and whether it is possible to operate without physical co-location once travel restrictions are eased.

Medium to Long-term

- Ensure that the ORSA process considers and incorporates sufficient stress scenarios and recommendations on the actions for each scenario, in particular, where the current situation highlights gaps previously not identified.

Regulatory measures across key Southeast Asian markets

Many insurers in Singapore have a presence across Southeast Asia. We have summarised some of the regulatory measures taken as a result of COVID-19:

Singapore

- Monetary Authority of Singapore - Holders of life and health insurance policies will be allowed to defer premium payments for up to six months, while maintaining insurance coverage.
- The Financial Supervisory Service - Insurers collectively confirmed that a policyholder would receive the accidental death benefits, if he or she dies due to the coronavirus, which is usually twice the amount of payout that the policyholder would otherwise receive. The financial authorities made a public announcement on this decision to ensure public awareness.

Malaysia

- Health insurance or takaful coverage for COVID announced in Malaysia. Life Insurance Association of Malaysia (LIAM) and Malaysian Takaful Association (MTA) mandate insurers to provide hospitalisation coverage or treatment for policyholders infected with coronavirus.

Philippines

- Government of Philippines - The coverage of COVID testing costs, the expenses for quarantine, and isolation costs of patients infected with the disease are covered by the Philippine Health Insurance Corporation (Philhealth).
- Insurance Commission - further extend the deadline for the payment of premiums (local insurance companies, preneed companies and health maintenance organisations);
- Insurance Commission - fast-track claims related to COVID-19 and make their processes easier for plan holders infected with it.
- Insurance Commission - granted temporary reprieve from capital requirement to insurers (which had failed to meet end-2019 capitalization requirement) amid COVID hardships.

Thailand

- Office of Insurance Commission - Guidelines on life, health and travel insurance policies related to coronavirus in regard to coverage and benefits for death and medical expenses arising from COVID-19. They have also introduced premium waiver requirement for life and health policies related to COVID
- Government of Thailand - reduced the withholding tax from 3.0% to 1.5% effective from April 1, 2020, for companies who pay the tax through an electronic system. The rate will increase to 2% from October 1, 2020, to December 31, 2020.

Indonesia

- Bank Mandiri (major state-owned financial institution) had offered life insurance to health workers, including doctors and nurses, partaking in the efforts to fight the coronavirus. Bank Mandiri has offered insurance protection, totaling up to Rp1 trillion, for health workers. This insurance is provided through its subsidiary, AXA Mandiri Financial Services.

Vietnam

- Ministry of Finance - Request to insurers to stop introducing and selling insurance packages related to COVID, issued on March 31, includes life and non-life insurance in compliance with the Directive No 16/CT-TTg on urgent measures to prevent and fight the disease. Many insurers had recently launched a number of insurance packages covering the virus with attractive costs and benefits. Some business teamed up with commercial banks to launch anti-COVID products.

Source: http://pubdocs.worldbank.org/en/687971586471330943/COVID-19-Outbreak-Global-Policy-Actions-on-Insurance.pdf

What's next?

Navigating through the challenging times

Our biennial Banana Skins Survey suggests, insurers in Singapore have been resilient, effectively navigating industry challenges over the years, as well as adopting new regulatory requirements. The insurers here are hence well equipped to deal with the current situation based on our past learnings.

Further, we have also seen the industry players reaching out to help the community through extended health cover for those who have contracted COVID-19. It is a chance for insurers today to uplift the reputation and branding of the industry and demonstrate how they can help the community overcome some of the challenges they are experiencing.

Access our website here.

As next steps, we recommend insurers to reflect on the following six points:

- Assess the agility and resilience of operations and contingency planning as a result of COVID-19
- Assess product offerings in light of changing risk profile and business mix
- Reconsider how best to utilise digitalisation and technology
- Reassess investment portfolios and strengthen capital efficiency
- Reassess current strategy and market positioning beyond COVID-19
- Assess impact on existing regulatory and other compliance programmes

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