Ready and resilient: Insurance strategy for a COVID-19 world

With the arrival of the COVID-19 pandemic, insurance companies found themselves in the center of the storm. In a matter of hours and days (not weeks), many carriers had to take their entire operations remote. At the same time, they were fielding calls about changing coverage, answering questions about business interruption policies, continuing to pay claims for life, health, disability insurance, and more.

Insurance companies are designed for this. Risk analysis and crisis planning are at the core of their business. With policyholders — individuals and businesses — suffering as a result of the crisis, regulators and legislators expect insurance companies to live up to their responsibilities. Those that don’t will face enormous reputational consequences. Getting it wrong is not an option.

So far, insurance companies have weathered the crisis exceptionally well, largely due to investments they’d already made in networks, applications, laptops, and more. The crisis did expose a number of gaps and vulnerabilities, and it reinforced the need for additional technology investments. But overall, industry leaders can feel secure in the knowledge that the battle is being managed and the near-term path forward, while precarious, is one they know how to navigate.

The big question now facing leading carriers is this: How do we adapt our business strategies to accommodate the new normal? In our conversations with insurance clients, three topics come up time and again as the industry looks to the future:

- The need to accelerate digital transformation
- How to bolster the balance sheet
- How to get employees back to the office
The need to accelerate digital transformation

Insurance companies were nimble in deploying remote technology in response to the crisis. But many have delayed investments in additional technology (for example, customer data and technology to integrate mobile apps, websites, and call centers) due, in part, to concerns over employee resistance. It’s now evident that an incremental approach to technology adoption won’t be sufficient to thrive in an industry that’s rapidly moving toward virtual operations.

Preparing for a virtual future

The current crisis has accelerated the trend toward automation and digitization, both of which were previously fueled by changing demographics, customer expectations, and competitive pressures. The current situation has forced many insurers to rely on virtual conferences and meetings. Many are now realizing that telework is working quite well in most circumstances. As a result, we foresee that remote work may remain the norm at many firms. In fact, virtual interactions may open up new opportunities for servicing, selling, and building customer relationships. We anticipate that conversations with customers that are supported by technology will lead to greater efficiency, more informed decisions, and better outcomes for both buyer and seller.

Accelerating toward digital

Before the crisis, many insurance companies were already pursuing a digital transformation roadmap. Now they’re trying to accelerate the process, compressing implementation from ten years to two in order to move ahead of competitors and deliver sustainable profits.

In the years ahead, we expect leading carriers to leverage technology to reduce costs, improve data analysis, streamline claims and underwriting, bolster customer service, and drive efficiency. Companies will transition to digital documents, leverage AI, and implement other “bionic” capabilities to help employees make better-informed decisions and focus on higher value work.

Evolving the operating model

The pandemic has revealed gaps and vulnerabilities in operations, and that’s likely to speed the evolution of insurer operating models that focus increasingly on digital technology. We anticipate greater adoption of online and omnichannel distribution, more robust analytical capabilities for improving products and underwriting, and growing involvement with InsurTech and new partnerships to refine core customer services. Some firms will also pursue improvement through acquisitions or divestitures.

Helping the workforce adapt

We know that returning to the office won’t mean returning to work as it was before. Some jobs will change, and not all employees will feel comfortable with the new, more digital ways of working. Insurers will want to help their existing workforce adapt, by providing relevant technology training for their teams. This includes employees involved in delivery as well as those who handle service and operations. Recruiting additional tech-savvy employees may also be key to the success of any digital transformation.
How to bolster the balance sheet

While carriers routinely monitor capital and liquidity, their main focus now is ensuring their balance sheets are strong. Some companies may seek to acquire new businesses to bolster the balance sheet, and many may find that valuations could become quite reasonable in the near term. Others may want to identify non-core assets that could be divested. Some will need to divest properties in order to fund the acquisitions they seek.

Whatever their strategies, company leaders are asking the same questions: What should my business look like in the future? How can we best position ourselves for success in the new normal?

Hot topic: Business interruption insurance

Business interruption insurance has gained a high profile as the crisis has evolved. With business interruption at the center of P&C losses, there will be pressure on carriers to cover claims. As of mid-April, seven states had proposed legislation that would require insurance companies to cover business losses caused by COVID-19. If we start to see lawsuits related to business interruption insurance, policies which don’t specifically exclude “virus”-related damages could take center stage.

Many in the insurance industry would prefer the federal government to back an insurance plan that would support businesses that suffered BI losses due to COVID-19. This is what happened after Sept 2001 with terrorism insurance. While the idea of federal pandemic insurance has gained some momentum, we’re not likely to see much progress in the near future, given the substantial effort required.

Stay tuned.
Reviewing assets and liabilities

To address these questions, insurance companies should take a close look at their assets and liabilities. Among other things, they’ll have to determine whether they have sufficient high-quality liquid assets and have properly valued their liabilities. Government lending programs set up in response to the current economic situation may also give insurers access to alternative capital sources. Insurers will want to think through which program(s) to access, which assets might be eligible, the regulatory requirements involved, as well as the accounting and tax implications. At the same time, margin pressure has some companies considering higher risk investments in search of performance. Taken together, companies will need to reassess asset/liability management (ALM) strategies to balance yield with risk-based capital (RBC) requirements.

Carriers should also assess their cost structures and return on assets, especially in non-core businesses and product portfolios. That includes evaluating the performance of business units, divisions, and portfolios, and posing hard questions: Which businesses are weak and should be shed? Which businesses are performing well and should be scaled? In the midst of an uncertain environment, now is a good time for insurance companies to focus on generating returns on their own businesses.

Examining real estate

We think now is also the time for insurance companies to review their investments in real estate, including both the office space they lease and the buildings they own. Most companies are considering less office space as they shift more toward a work-from-home model. This will be partially offset by the need for more space per employee to ensure physical distancing for onsite workers. Still, the net cost of office space could decline.

For companies that own commercial property, we may see reduced occupancy rates economy-wide as companies shift towards work-from-home strategies they implemented during the crisis. This could result in a substantial excess of office capacity and transform the commercial real estate landscape.

Because this is a particular concern for life insurance companies, which traditionally have invested heavily in commercial real estate, we suggest that carriers pay particular attention to their real estate portfolios.
Returning to the office

Insurance companies are starting to think about workforce models that combine a new mix of remote and on-site employees. For many, this will require at least two phases: one which includes some employees returning to the office soon, and a longer-term version that is more comprehensive.

If, when, and how to return to the office

The sweeping scale of a return-to-work program (which may take 18 months or more to complete) offers insurers an opportunity to revisit priorities, plans, and strategies. At the heart of any program are three questions that carriers should explore: if, when, and how employees should return to the office.

If employees go back to the office:
Before deciding whether to bring workers back to the office, companies should determine if employees want to return and how successful a work-from-home model is likely to be. This will vary across job types, and we’re likely to see hybrid models, with employees working at home much of the time but visiting the office weekly or monthly as needed.

When employees return to the office:
In making this decision, carriers should follow government guidelines, prioritize the return of employees whose work requires them to be onsite, and be prepared for another shutdown. Worksites shutdowns may be necessary because of a local worksite infection or if we experience a second wave of the pandemic resulting in government-mandated stay-at-home orders.

How workers can return safely
Before bringing workers back to the office, carriers should understand their employees’ work/life needs (such as childcare commitments if schools aren’t open), risk tolerance, and safety concerns about exposure during the commute or while on site. Reconfiguring office space to meet social distancing requirements will help to ensure safety. So will testing, tracking, and sanitation.

There are many other issues to address, such as critical issues of liability should a returning employee contract COVID-19. But answering the questions of if, when, and how employees can return to the office will allow leaders to consider the technology and operational infrastructure needed to support a new workforce model.
**Investing in the future**

The insurance industry is facing enormous challenges as a result of COVID-19. It’s time for carriers to develop new business strategies, prioritize investments, rethink what industry verticals and customer segments to target, and develop products, services, and pricing strategies for prioritized segments. Doing so will help to drive revenue.

We believe the right strategy for carriers, if they believe their roadmaps are directionally correct, is to invest in the future—in the digital capabilities, talent, and other strategic resources needed for long-term success. Companies that invest today in their capabilities and strengthen the bond with their customers have the potential to emerge from the crisis ahead of their competitors.

**Contact us**

Matt Adams  
Insurance Practice Leader, PwC US  
matt.adams@pwc.com

Marie Carr  
Insurance Advisory Partner, PwC Strategy&  
marie.carr@pwc.com

Ellen Walsh  
Insurance Advisory Leader, PwC US  
ellen.walsh@pwc.com

Bruce Brodie  
Insurance Advisory Partner, PwC Strategy&  
bruce.brodie@pwc.com

Jim Quick  
Insurance Life Advisory Partner, PwC US  
james.m.quick@pwc.com

Scott McMillen  
Insurance P&C Advisory Partner, PwC US  
scott.mcmillen@pwc.com