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Ready and Resilient: An Insurance Strategy for a Post-Covid-19 World



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Almost a year after the first outbreak of the Covid-19 virus in Europe, the pandemic has turned out to be a catalyst for insurers to reassess their operations, technology infrastructure and physical locations as well as to revisit their strategies. In a matter of hours and days, many carriers had to make their entire operations remote. At the same time they were having to field calls about changing coverage, answer questions about business interruption policies, and continue to pay claims on life, health and disability insurance. Beyond Covid-19, people will continue to behave differently than they did in pre-Covid-19 days. How people meet, how they sit in offices, what they buy and where and how they work could all change. In addition, there are, of course, the economic effects of the crisis. Interest rates are low, and forward markets suggest they will stay that way until 2025.

Coming through the Crisis Stronger than Before: The Five Key Priorities for Insurers

Risk analysis and crisis planning are at the core of the insurance 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 do not will likely face enormous reputational consequences. Getting it wrong is not an option. So far, insurance companies have weathered the crisis exceptionally well, largely thanks to investments in networks, applications, laptops and more that they had already made. But the pandemic has also exposed various gaps and vulnerabilities (PwC, 2020a).

The big questions leading carriers are facing now revolve around how to prepare the organisation for the return to work in this «new normal», identify the

mid- to long-term implications of the crisis and respond strategically. Several related questions are emerging within boardroom discussions and strategic planning sessions. Depending on the nature of each particular insurance business, exploring these questions will require considerable scenario analysis and option planning. On the basis of our conversations with insurance clients, we believe there are five overriding strategic priorities that, if addressed properly, will help insurance companies to emerge from the crisis stronger than before (see Figure 1). These should not be new priorities – any good strategy should have included some or all of them already. However, Covid-19 has ramped up the urgency of these competitive imperatives.

Realign the Cost Structure and Sharpen Productivity

In the wake of the Covid-19 crisis, efficiency and productivity are once again front and centre in the strategic debate. The initial impulse might be to cut discretionary expenditure and pause or stop capital investments. However, it is advisable to take the long view and make sure near-term savings do not jeopardize the ability to capitalize on the rebound. Capabilities to enable insurers to gain market share, create new revenue streams or significantly simplify the business should continue to be at the top of their agenda. Everything else is fair game for cutting.

Productivity is an enduring challenge to resolve, not just a temporary issue caused by the current circumstances. Operationally oriented functions such as IT, underwriting, claims and customer service are ripe for a re-engineering of what they do, why, how and where. Performing this re-engineering provides a fundamen-

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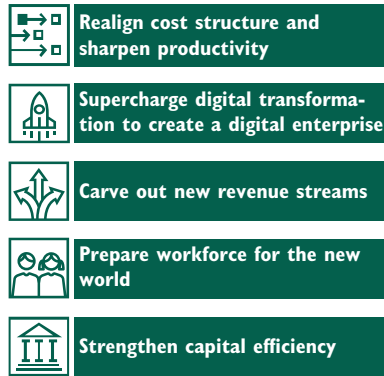


Fig. 1: Strategic priorities during the Covid-19 pandemic

tal opportunity to simplify, automate and right-source many functions.

In order to succeed, the following actions are of crucial importance:

- Developing Covid-19 recovery scenarios and assess potential impacts on revenue, profit, capital and shareholder value.
- Stress-testing the scenario planning models.
- Launching a strategic cost structure and operating model review.
- Driving productivity improvements in alignment with cost reduction and digital investments. Re-evaluating capital spending priorities with a focus on capabilities and customers.
- Establishing a culture of continuous cost and productivity improvement.

Supercharge Digital Transformation to Create a Digital Enterprise

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 analytics and technology to integrate mobile apps, websites and call centres) owing, in part, to concerns over employee resistance. It is now evident that an incremental approach to technology adoption won't be sufficient to help insurance firms thrive in an industry that

is rapidly moving towards virtual operations.

The post-crisis shakeup is therefore an opportunity to put all the organizational focus and muscle behind the digital agenda to create a truly transformed enterprise, from front to back offices. This is the way forwards for all modern enterprises – without exception. Digitally enabled sales, direct-to consumer engagement, automated advice, digital underwriting and automated claims adjudication are just some of the high-value opportunities that should be considered. Equally important is the ability to build foundational data, cloud and cybersecurity capabilities.

Concrete steps towards a digital enterprise include, among others:

- Ensuring that the company has a digital transformation road map for the entire business, including milestones by which you can measure progress.
- Ensuring that the digital transformation plan is centred on simplification of the customer experience.
- Fast-tracking (with resources and funding) initiatives that can accelerate strategic benefits.
- Strengthening the data management, privacy and cybersecurity capabilities.
- Accelerating cloud migration plans.

Carve Out New Revenue Streams

In the aftermath of the novel coronavirus pandemic, insurance companies find themselves competing for a bigger share of a smaller market where consumers and businesses have seen their wallets shrink. Finding new revenue opportunities will therefore be critical. Although specific strategies will vary by line of business or market, there could be opportunity across the board in collaborative ecosystems, product simplification and innovation, digital distribution and wellness (financial and beyond).

To capture new markets, insurers need to design products that reflect today's evolving needs (e.g., usage-based insur-

ance, employment loss protection for gig workers, pandemic business interruption coverage and cybersecurity for remote working). If the business has a strong balance sheet and capital position, this is also a good time to consider strategic mergers and acquisitions (PwC, 2020a).

As carriers move from their initial response to a longer-term strategy, we recommend that they adjust their approach based on shifts in consumer behavior. PwC's June Covid-19 Consumer Insurance and Retirement Pulse Survey uncovered the potential influence of Covid-19 on service preferences, loyalty to carriers and attitudes toward auto, homeowner, life, dental and vision coverage as well as retirement. Major findings were (PwC, 2020a; PwC, 2020b):

- 15 percent of the survey takers say that they are likely to purchase life insurance due to the impact of Covid-19.
- 37 percent of the respondents fear that the pandemic may bring future financial impact on their retirement plan.
- 41 percent of the respondents say that they are likely or more likely to switch providers due to a lack of digital capabilities.

Addressing these behavioral changes is very important to ensure sustainable growth. Because of that, the management of the insurance company should pursue the following steps:

- Reassessing how the needs, expectations and behaviors of the target customers and clients might have changed.
- Evaluating the ecosystem strategy and think about how to develop and optimize it.
- Digitally enabling sales and distribution and simplifying product architecture to support this shift.
- Looking at how to develop products that reflect today's evolving needs.
- Strengthening customer retention programs.
- Evaluating strategic mergers and acquisitions options.

Prepare the Workforce for the New World and New Way of Working

Insurance companies are starting to think about workforce models that combine a new mix of remote and on-site employees. The Covid-19 lockdown has forced all businesses to reassess almost every aspect of how they work. In whatever «new normal» emerges for your employees – whether it includes continuing to work from home, interacting digitally or harnessing emerging technologies to innovate – it is important to ensure the right skills and a willingness to embrace change. The speed of technological advances has already created significant demands for upskilling the workforce, and post-crisis demands will heighten that need.

Upskilling your workforce is not just a matter of pushing out technical training to your employees. Upskilling requires careful assessment of desired skills and competencies to be targeted, investment in a learning environment, assessment of the impact of change and a systematic way to measure the return on the upskilling investment. This initiative will also require significant leadership commitment and a push from the top.

In this context, we consider the following actions to be crucial for preparing the workforce for the future:

- Defining the skills and competencies the company needs to accelerate the competitive position and run a digital enterprise.
- Comparing current capabilities with the objectives to develop an upskilling program, function by function.
- Ensuring that the upskilling program reflects individual needs, aspirations and job demands.

- Building an infrastructure and empowering the employees to drive organic innovations.
- Managing change and adoption of the upskilling program.

Strengthen Capital Efficiency

Once you have steered through the immediate capital and liquidity stresses of the crisis, it will be important to focus on the longer-term capital management impact of lower interest rates, greater hedging costs, heightened market volatility and defaults and increasing tax rates. The markets will reward those most adept at optimizing their balance sheet position and efficiently deploying and freeing up capital. The pre-crisis emphasis on offering fewer investment guarantees and more fee-based services will intensify.

In order to ensure capital efficiency, the following actions play a crucial role:

- Assessing product design and pricing, especially where investment returns are priced in and tax advantages are expected.
- Revisiting back books, for both life and general insurance, where the market offers more efficient runoff options.
- Assessing the investment portfolio, macro and micro hedge strategies as well as future asset allocation options in light of anticipated recovery scenarios and changing liability risk profiles.
- Evaluating the legal entity structure and operating jurisdictions to release trapped capital and strengthen inter-company liquidity.
- Considering strategic mergers and acquisitions options.

Investing in the Future of Insurance

Central to every insurer's purpose is ensuring trust in the insurance undertaking. After Covid-19, trust will need to be earned in a world more focused than ever on sustainability. Society will expect sustainable business practices to be fully embedded in every aspect of your strategy, so you should purposely incorporate these considerations in your planning.

The insurance industry is facing enormous challenges as a result of Covid-19. It is 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 can help drive revenue.

Out of every crisis come opportunities for competitive reinvention and differentiation. Today's strategic rethink provides a catalyst for accelerating operational transformation, developing new business models and connecting more closely with customers. We believe that these five priorities offer a valuable starting point for capitalizing on these opportunities.

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