

How can insurers
navigate the post-
pandemic era to survive
& potentially thrive?

Global Insurance
Services, EMEA

23 June, 2020



WINNING
ON THE
REBOUND



Foreword: Insurance as a force for good in uncertain times

It may be too optimistic to see the next few months as *the* rebound from COVID-19. As I write, we are beyond the initial peak in infection rate in many countries. Nevertheless, Latin America faces an up-surge and we watch to see if lockdowns can be lifted without unduly risking a second wave.

Perhaps it is more balanced to say that if we are now on *a* rebound, then it is a first-half counterattack in a football match, or the first leg completed of a transatlantic yacht race.

Insurers are a key part of society's response to the crisis. We need to find a way to drive our businesses forward - to energise our people, to engage with our customers, and to deliver critical services.

Actions and Anxieties

It is now two months since we issued our first version of this analysis, and it feels like the right time to playback a few specific items that have chimed with senior insurance practitioners and investors.

Firstly – **product**: Insurers (life and non-life) are split into those who see their product offering as relatively unchanged, and those who see significant shifts ahead.

- Interpretation of cover, and political intervention, have re-emphasised the risks around coverage gaps, and the need to improve communication from industry to customers
- Do we better serve our customer by offering limited cover at a lower price, or by providing comprehensive protection and charging accordingly?
- Even with the right products, how happy are we with how customers gain access, and how underwriting decisions are made?

Given the advice gap in both protection and wealth arenas, we need to find more ways to help customers make these evaluations.

Secondly – **change**: there is widespread acknowledgement that insurers' ways of working have moved dramatically in the right direction in a short time, and that this momentum should be maintained.

- Those offices who had invested in digitalisation of processes have been able to move faster to a lock-down rhythm
- The same is true for firms who already encourage and embrace flexible working and self-direction amongst staff
- Driving further change requires investment – for which we still see significant appetite. But with staff and management dispersed, making new change *happen* is harder than keeping old processes going.

In an uncertain world, strong focus and leadership is needed to drive large scale change in the midst of short-term volatility. Change *has* to deliver – particularly in relation to achieving service whilst reducing the overall cost burden.

Finally – **capital**: balance sheets have held up well thus far – testament to the solvency regime and the maturity of risk management. However, it is not difficult to envisage other major shocks in the near future:

- We expect to see more disposals of non-core assets, elimination of volatility in the form of pensions, long term provisioning, and raising of fresh capital
- Risk management, strong governance, and focused decision making will be as important as ever

Given this, communication with the Board has been as frequent in the last three months as ever before and must continue in the same way.

There are of course many other angles to consider beyond these. We cover the full breadth of activities that C-suites should be undertaking in the pages that follow.

Graham Handy
FTI Consulting
June 2020

Table of Contents

1

Charting a course through troubled waters

2

Doing the right thing is always the right thing

3

Tomorrow will not be like today – emerging trends

4

The current State of play

5

What you need to be doing right now

6

Shaping the future

7

Armoured optimism – what will define a likely winner?

8

Global insurance services – how and where are we helping?

Doing the right thing is always the right thing

Policyholders will remember the goodwill generated by Insurers going above and beyond to help

There is a belief among many consumers that some Insurers will do what they can to avoid paying a claim* as evidenced by recent press headlines.

PAYOUT APOCALYPSE Millions of Brits are about to find out their insurance does not cover coronavirus **Sun**

Covid-19 has exposed the hypocrisy of insurance companies

Coronavirus: Will life insurance, income protection and critical illness cover pay out? **INDEPENDENT**

Retroactive Covid-19 legislation 'a mistake' - ERM expert warns

ERM

In contrast other Insurers are determined to make a difference and reassure customers in difficult times.



"We want to give the money we would have used to pay these claims back to our loyal customers in this difficult time" - The Admiral Group has begun to refund £110m of premiums to motor insurance customers as people are driving less during the lockdown. The group is the first major UK insurer to offer a blanket refund to all customers.



"As Covid-19 continues to impact the UK, we want to reassure Bupa's UK health insurance customers that we will do the right thing for you" – BUPA UK has committed to passing back any exceptional financial benefit arising as a result of COVID-19 to their customers in addition to redirecting its people and resources to assist the NHS and bodies where they can.




One of the largest primary insurers in the US, with over 19 million policyholders, Farmers is assisting more than 115,000 of its customers under its Farmers Cares Initiative by **giving business customers** in the restaurant, office, retail and services **sectors a 20% monthly credit on their policies over the next two months.**



USAA provides insurance services to military families in America and is **returning US\$520m to its policyholders** as members are driving less and having fewer accidents during the pandemic. They are repaying motor policyholders **20% credit on two months' premiums** and offering **special payment holidays and arrangements** to those who need financial assistance.

* "I'm embarrassed", Mendel (2020)

Tomorrow will not be like today



The economic impact of the coronavirus will not be short term and it is becoming increasingly clear that a new order will emerge during 2020 and beyond.

For many organisations near-term survival is the only imperative, however others are considering the critical questions of how to position themselves to build resilience, restructure and build the core capabilities required to effectively operate when the crisis has passed.

Emerging trends

Although no one can predict how long the crisis and associated economic fallout will last, it is possible to review lessons from the past and think constructively about the future to identify key elements that are likely to shape the 'new normal'.

Resilience versus Agility

The crisis has forced a radical rethink on current business operating models, in particular, where low-cost has been preferred to flexibility. Tweaking business models may not be sufficient. Resilient organisations can absorb the 'shock' of the crisis, adapt and recover more quickly.

The Rise and Rise of Digital

"Lockdowns" have accelerated a shift in customer and working practices, a trend that is potentially irreversible. Digital technologies including collaboration tools will continue to reduce the need for physical contact through process automation and an increasing shift to online business models.

Increased Scrutiny on Organisations

During the crisis the role of government has assumed greater importance and how quickly this role reduces will impact organisations. There is also a growing sense that shareholder value should not be the only measure of success which has the potential to profoundly shape customer attitudes.

Accelerated Change in Operational Areas

Many of the operational norms have been dispelled. Operational efficiency and effectiveness will become increasingly critical to building resilience and addressing customer concerns regarding physical proximity. It will take time for infrastructure to catch up.

Identifying the Opportunities

Although the cost has and will continue to be profound in terms of both the human and economic context there will inevitably be positive outcomes and new opportunities for organisations.

The current state of play

The impact of Coronavirus will not be limited to the short term and how we structure ourselves and work in the future will require organisations to invest and build resilience to survive. There is still significant uncertainty ahead but a workable operating procedure has formed, and management are now able to turn their minds to what their future business needs to look like.

Operational challenges have been all-consuming to this point...



- Effective Working-from-Home for Insurers has presented challenges but most are now settling into a rhythm.
- 'Most Workers' are able to perform 'Most Tasks' however **VPN capacity is still a constraint**.
- Insurers who had already embraced **new ways of working** have transitioned faster.
- Management Information is **constrained and untimely** – especially claims, financial position, activity monitoring.
- Insurers' attentions are now turning to key suppliers' capacities.

Balance Sheet and P&L factors will begin to take precedence...



- **Solvency holding up**: hedging programmes proving to be effective. Liquidity considerations are rising in prominence.
- Most insurers are still operating within Risk Appetite.
- Business volumes are being affected by Insurers' appetites, and by **customers' changing needs**.
- '**Blunt**' actions taken quickly on products during the early stages will require revisiting.
- Reinsurance positions are firming up.
- **Asset default risks** may be misaligned with current credit ratings.

Governance & regulatory oversight require attention...



- **Litigation threats** are rising, in particular, due to coverage disputes and ambiguity in policy wordings (e.g. Business Interruption). Individual firms exposed to differing degrees.
- There is **no consensus** on deferral of, or re-calculations of TMTP, ORSAs, etc.
- Specific **governance** committees have been set up to manage through the crisis (meeting 2-3 times per week)
- We are starting to see **impositions** on insurers **from government or regulators** (dividend retentions; retrospective coverage, etc.)

Risks require effective management during volatility



- **Hard decisions**: balancing existing commitments versus NB growth.
- Suitability and completeness of **reinsurance coverage**.
- What has historically made sense may no longer – assets, defaults, liquidity, customer behaviour **norms may no longer hold**, at least in the short term.
- **Fraud and cybersecurity** concerns are rising.
- **ORSA scenarios** to be re-evaluated.

What you need to be doing right NOW....

Organisations that build active defences will ultimately prevail. The global perspective has continued to evolve rapidly, changing almost daily, and has and will require organisations to take a number of actions over the coming days, weeks and months. Organisations that execute well during this period will distinguish themselves in their chosen markets through and beyond the crisis.

Of immediate consideration for YOUR Organisation...

1

People - Looking after your people, aligning with suppliers.

2

Position in the market - Visibly taking the customer's side and being on the side of society.

3

Privacy & security - Protecting data and defending against fraud.

4

Efficiency - Hibernating non-critical activities and processes.

5

Balance sheet - Ensuring liquidity, creating optionality, reviewing and applying rating agency views.



and HOW...

Success in these early days has been more about haste and the art-of-the-possible than about perfection or elegance.

Organisations that will look back with most satisfaction on their Q1/Q2 response will have:

- **SEPARATED** the urgent from the important.
- **AVOIDED** new commitments they regret.
- **MAINTAINED** constant communication with customers, distributors, investors, regulators.
- **ADDRESSED** 'problem' contract terms and products head-on.

Shaping the future

The 9 key steps to an effective rebound

1

ESTABLISH a 'macro' view – what will the economic outlook be?

- How will recession impact your market and position?
- How will government/regulator/central bank intervention impact you?
- What are your (sector and firm) constraints, reputational and litigation risks?

2

CONFIRM strategy – Are plans & objectives still valid?

- Recut business plans – realism around Q2-4 2020; modified view of demand and investment needs for 2021+
- Implications for dividends; debt; funding; interactions within the group?
- What in-built agility do you have to respond to customer demand; liquidity; secondary pandemic outbreaks?

3

RESCALE and restructure

- Validate financial benefits of strategic rescaling
- Prepare business lines or assets to transact
- Ensure realism around timing and incorporate optionality into business planning and investment

4

ALIGN products, channels & customer experience – ensure relevance

- What is the impact to pricing models and coverage?
- How will inflation costs impact supply chains? e.g. claims?
- How do shifting operations translate to unit costing?

5

REINFORCE the balance sheet

- Consider underlying counterparty exposures (plus any parental guarantees), debt covenants, rating down grades
- Accelerate plans to separate/transfer legacy books
- Overcommunicate with regulators – act to secure waivers and optionality

6

PRIORITISE transformational initiatives – are they the right ones?

- Prioritisation of activities versus strategic re-plan
- Build in agility around ongoing uncertainty
- Update talent management processes to reflect future needs of your people

7

IMPROVE – efficiency and effectiveness

- Move faster to lock in new ways of working; extract non-payroll savings wherever possible
- Are key person dependencies still the same? Who stepped up, who stepped back?
- Re-negotiate external supplier contracts, leases. Mothball non-critical activities

8

REASSESS your risks and develop resilience?

- Reassess key risks and mitigants – new operational controls, new risk appetites
- Apply macro-economic outlook to financial risks, ORSA, monitoring – wargame your ability to absorb another system shock
- How are behaviours shifting – customer, staff, suppliers – and how do you reflect this?

9

COMMUNICATE with your customers

- What are your constraints and obligations?
- What do your customers need and what are the objectives of Q2, Q3, Q4 marketing?
- Formulate detailed communication plans

Armoured optimism - what will define a likely winner?

Organisations that build active defences will ultimately prevail

Protect your customers and firm


- Maintain strong capital position and high liquidity; access deeper funding as required
- Protect strong revenue across diverse sources – may be depressed due to crisis but inherently expected to rebound – merge or acquire for scale if necessary
- Protect your staff and customers: maintain staff loyalty and customer-centric brand
- Manage credit exposure and supplier exposure
- Support online (DIY) customers (investment and protection)

Take on your weaknesses and prepare

- Reduce your expense base in response to lower demand
- Improve your resilience in management and operations
- Develop and improve USPs that appeal to revitalised demand – through new strategic partnerships if necessary
- Engage constructively to strengthen corporate reputation across your stakeholder universe, including regulator, media, customers and society
- Develop resilience plans for demand shifts and to support long term growth

Elegantly exit non-strategic lines or assets

- Reduce pressure for unplanned and forced sales
- Identify potential partners if required for a merger or acquisition
- Optimise business for sale in whole or in part



“Firms that struggled after previous crises were those that had failed to keep the innovation capability on life support.”

Global Insurance Services – How and where are we helping?



Strategy & Performance Improvement

- Strategic Consulting
- Merger & Acquisition
- Target Operating Model
- Cost Optimisation & Performance Improvement
- Transformation Programme Recovery & Remediation
- Governance, Regulation & Compliance



Actuarial Solutions

- Pricing & Reserve Estimation
- Capital & Reinsurance Modelling
- Actuarial Due Diligence
- Captive/Alternative Market Advisory
- Recovery & Resolution Planning
- Liability Estimation



Litigation & Dispute Resolution

- Accounting Forensics
- Dispute Resolution
- Expert Opinions & Testimony
- Fraud Investigations
- E-Discovery
- Coverage Litigation
- Class Action Certification
- Claims Management
- Recoveries
- Witness Preparation



Digital Insurance Solutions

- Claims & Predictive Analytics
- Customer Segmentation & Lifetime Value
- Price Optimisation
- Portfolio & Distribution Analytics
- AI & Machine Learning Based Predictive Modelling
- ...
- Robotic Process Automation

FTI Consulting - How and where are we helping? (Continued)

Additional Relevant FTI Consulting services...



Cyber Security & Fraud

With many organisations implementing business continuity plans, split teams and working-from-home arrangements the risk of cyber attacks and the exploitation of vulnerabilities significantly increases as Hackers look to prey on individuals working outside the usual secure environments.

FTI Consulting's Cybersecurity experts can help organisations assess and understand their environment and cybersecurity risks, defend assets and infrastructure, identify threats, respond to incidents and recover operations quickly and sustainably where necessary.



Restructuring

Insurance organisations may find themselves in a very different situation post-Coronavirus than before. Organisations with a lower capital base and more borrowing may find themselves without the financial flexibility to manage the fallout from the pandemic.

Management may need to take pro-active steps to stabilise finances and operations and enhance value.

FTI Consulting's industry expertise allows us to identify key issues and react immediately on behalf of our clients. We can develop liquidity forecasts, improve cash flow management and guide complex debt restructuring.

If the best way to preserve asset value is to initiate formal insolvency proceedings, we can guide you through this process, while recognising the needs of stakeholders.



Crisis Management

Many organisations which have established crisis and business continuity plans designed to keep staff safe and manage business risks are now having to recalibrate their responses as regions lockdown, measures become more stringent and populations stay at home.

Measures must be joined up and global, providing consistent responses with local differences to manage the changing threat.

Plans must be put in place to navigate the business through the uncertainty.

FTI Consulting have deep experience helping organisations to strengthen crisis management, ensuring they have identified the mid to longer term business risks and scenarios which will evolve and change as the situation moves.



Strategic Communications

Even the best plans will not be effective unless you have established the confidence and trust of your key stakeholders that your organisation is well prepared with plans to ride out the virus pandemic and emerge stronger.

This means proactive and relentless engagement with employees on whom the company depends absolutely, customers, shareholders, suppliers, media, financial media, social media aggregators, partners, and governments choosing the means and channel of communication carefully.

FTI Consulting's Communications team are specialists in advising organisations on event-driven communications when confronted with critical situations.



APPENDICES

About FTI Consulting

Our Global Insurance practice is part of a worldwide family of domain expertise with nine specialised industry groups.



A LEADER AMONG LEADERS

Every year, FTI Consulting assists more than 6,100 organisations globally to transform their businesses, anticipate events and respond both at the critical moments and the long haul.



GLOBAL REACH

With more than 5,700 employees and offices in 27 countries on six continents, FTI Consulting's breadth and depth extends across every major social, political and economic hub around the globe.



INDUSTRY AWARDS

Internationally recognised as leading insurance experts by Who's Who Legal: Insurance & Reinsurance for the fifth consecutive year (2015-2019).



Recognised by Forbes magazine in 20 sectors in their annual America's Best Management Consulting Firms list (2019).



21 Turnaround Atlas Awards in 2018 by the Global M&A Network, including Global Turnaround Consulting Firm of the Year for the fourth consecutive year (2015-2018).



Selected as an industry leader in 14 categories in the 2018 Best of Corporate Counsel readers survey.



Recognised in the Financial Times UK's Leading Management Consultants 2020 Top 20 ratings for sector experience in Merger & Acquisitions, Financial Institutions & Finance, Risk & Compliance.



\$4.7B*

Market Capitalisation

5700+

Employees worldwide

53/100

Of Fortune Global 100 corporations are clients

82

Local offices in 27 countries across the globe

1982

Year founded

9

Specialised industry groups



Insurance



Financial Institutions



Energy, Power & Products



Healthcare & Life Sciences



Construction & Environment



Mining & Mining Services



Real Estate



Retail & Consumer Products



Telecom, Media & Technology

* Number of total shares outstanding as of April 23, 2020, times the closing share price as of April 30, 2020.



Experts with Impact™

Rory O'Brien

Senior Managing Director
rory.obrien@fticonsulting.com
+44 (0) 7775 730 436

Simon Grout

Managing Director
simon.grout@fticonsulting.com
+44 (0) 7710 329 487

Romy Comiter

Managing Director
romy.comiter@fticonsulting.com
+44 (0) 7794 031 295

Jeremy Riley

Managing Director
jeremy.riley@fticonsulting.com
+44 (0) 7522 939 040

Peter Kelly

Managing Director
peter.kelly@fticonsulting.com
+44 (0) 7469 253 514

Graham Handy

Managing Director
graham.handy@fticonsulting.com
+44 (0) 7876 877 083

Ian Marshall

Managing Director
ian.marshall@fticonsulting.com
+44 (0) 7718 248 615

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centres throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn. www.fticonsulting.com. The views expressed in any of the articles or other content hosted on this site are those of the author(s) and not necessarily the views of FTI Consulting, its management, its subsidiaries, its affiliates, or its other professionals.