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Insurance Practice

How Indian insurance companies can respond to coronavirus

To navigate the next normal, Indian insurers must consider the potential recovery scenarios and act quickly and decisively.

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As the COVID-19 pandemic continues to unfold, what began as a health crisis is quickly turning into a financial one. The global economy is in turmoil and expected to shrink significantly. Although potential scenarios depend on virus spread and the readiness of public-health systems to respond,[1] McKinsey analysis suggests that global financial-rebound scenarios show GDP reverting to precrisis levels as early as Q4 2020 or as late as Q3 2022.[2] India will likely face similar scenarios.[3]

The outbreak has already heavily affected the global insurance sector; the insurance index decreased by 22.6 percent between December 31, 2019, and April 9, 2020, and this impact will likely last until Q4 2020. In India, share prices in the insurance sector dropped by 25.9 percent during the same period (Exhibit 1).

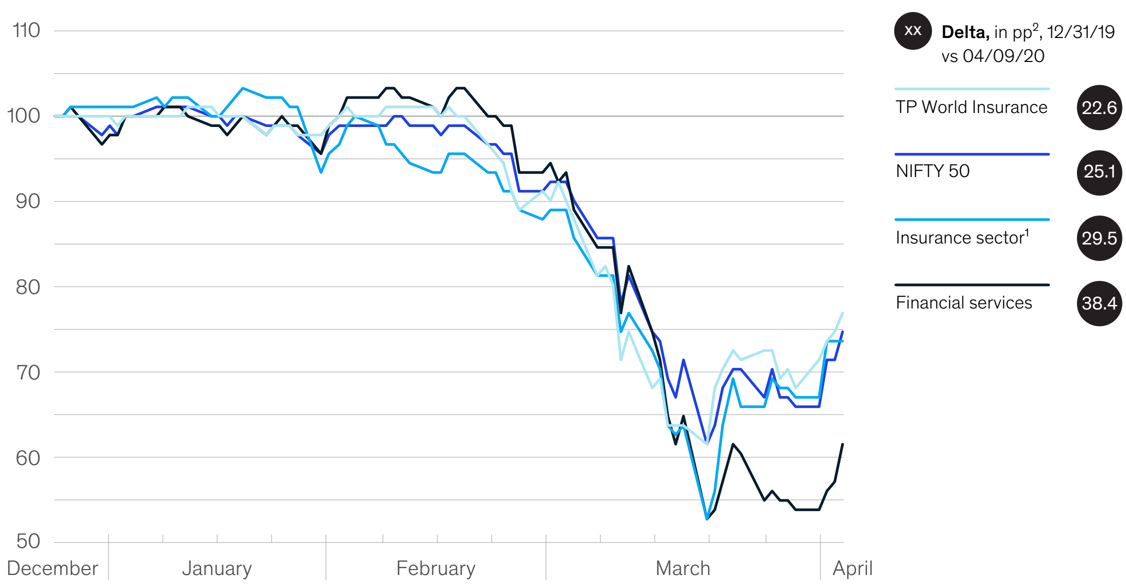
This sharp decline in the insurance sector has been largely due to the operational and balance-sheet challenges posed by the crisis, including disruption in new business and policy servicing as well as drops in interest rates and pressure on in-force blocks with rate-sensitive guarantees.[4]

1 For more, see "COVID-19: Implications for business," April 2020, McKinsey.com.
2 For more, see Sven Smit, Martin Hirt, Kevin Buehler, Susan Lund, Ezra Greenberg, and Arvind Govindarajan, "Safeguarding our lives and our livelihoods: The imperative of our time," March 2020, McKinsey.com.
3 For more, see Rajat Gupta and Anu Madgavkar, "Getting ahead of coronavirus: Saving lives and livelihoods in India," April 2020, McKinsey.com.
4 For more, see Anshuman Acharya, David Hamilton, Pradip Patiath, Zachary Surak, Grier Tumas Dienstag, and Jasper van Ouwerkerk, "Insurance resilience in a rapidly changing coronavirus world," April 2020, McKinsey.com; and Ramnath Balasubramanian, Alexander D'Amico, Aditi Jain, Nick Milinkovich, and Karthi Purushothaman, "Maximizing the value of in-force insurance amid enduring low returns," April 2020, McKinsey.com.

Exhibit 1

India's financial sector has faltered because of the COVID-19 pandemic.

Market performance of Indian and global insurance companies, index (100 = Dec 31, 2019)



1 DS Insurance Index (Thomson Eikon).
2 Percentage point.

Source: Thomson Eikon; McKinsey analysis

Potential recovery scenarios

Two scenarios outline ways in which the current pandemic might unfold and its implications on India's economy:

— *Delayed recovery.* Recovery could be delayed if an intermittent or partial lockdown were to remain in place for up to two months (starting March 25, 2020). With an economic slowdown in Europe and the United States, Indian exports could face pricing pressure. Eventually, supply chains could be restored, and a near-complete economic recovery could take place by mid- to late 2021.

— *Prolonged contraction.* A prolonged spread of the virus could see the lockdown enforced for more than two months. India might see an initial drop, and economic recovery might take longer as resurgence occurs in pockets. This scenario may lead to economic slowdown across all major regions in the world. Consumer confidence is likely to drop, recovering only at the end of 2021. In this scenario, the economic recovery might be pushed to mid-2022.

Effect on insurance

In life insurance, low interest rates pose a risk to the profitability of existing nonparticipating portfolios (Exhibit 2). Insurers' existing unit-linked insurance plan (ULIP) portfolio assets will be mostly unaffected, as customers will likely bear the brunt of the impact. However, new ULIP books and insurers' bond and equity investments will likely drag for the next few quarters.

In general insurance, motor claims are expected to decline, given fewer vehicles on the road amid lockdowns, and there may be a significant drop in motor insurance premiums after lockdowns end (Exhibit 3).[5] However, insurers may see an uptick of business-continuity insurance claims

[5] For more, see Ari Chester, Sylvain Johansson, Steven Kauderer, Erwann Michel-Kerjan, and Andy Pinkes, "Coronavirus response: Short- and long-term actions for P&C insurers," April 2020, McKinsey.com.

Exhibit 2

In life insurance, the impact of the crisis will be most visible in the value of unit-linked insurance plan (ULIP) portfolio assets.

Possible impact of scenarios on life insurance business on planned GWP[1]

● Favorable impact ● Moderately unfavorable impact ● Considerable unfavorable impact

Channel	Delayed recovery	Prolonged contraction
Digital	Favorable	Favorable
Bancassurance	N/A	Moderately unfavorable
Corporate brokers	N/A	Moderately unfavorable
Direct	N/A	Moderately unfavorable
Agency	Moderately unfavorable	Considerable unfavorable

Product	Delayed recovery	Prolonged contraction
Protection	Favorable	Favorable
Savings par	N/A	Moderately unfavorable
Savings nonpar	Moderately unfavorable	Considerable unfavorable
ULIP	Moderately unfavorable	Considerable unfavorable

[1] Gross written premiums.

Exhibit 3

While motor claims are expected to decline, business continuity, commercial risk, and health insurance claims may increase.

Possible impact of scenarios on general insurance business on planned GWP[1]

● Favorable impact ◐ Moderately unfavorable impact ○ Considerable unfavorable impact

Channel	Delayed recovery	Prolonged contraction
Digital	●	●
Corporate brokers	◐	○
OEM	◐	○
Agency	N/A	◐
Bancassurance	N/A	◐

Product	Delayed recovery	Prolonged contraction
Retail health	●	●
Commercial risk and fraud	◐	◐
Motor	○	○
Travel and PA[2]	○	○
Business continuity	N/A	○
Fire	N/A	○
Marine	N/A	○
Crop	N/A	N/A
Group health	N/A	N/A

[1] Gross written premiums.
[2] Personal accident.

and commercial-risk claims due to the economic slowdown, though effects will vary for small and midsize businesses compared with larger corporations. If cases of COVID-19 increase significantly, a spike in health insurance claims will likely follow.

How to respond to the crisis

Although the crisis has created uncertainty, it has also offered a time to think more deeply about innovation, improved customer experiences, fundamentally different cost structures, and an upskilled and reskilling workforce. Insurers in the Indian market could benefit from thinking through a comprehensive and ambitious response across five horizons: resolve, resilience, return, reimagination, and reform (Exhibit 4).

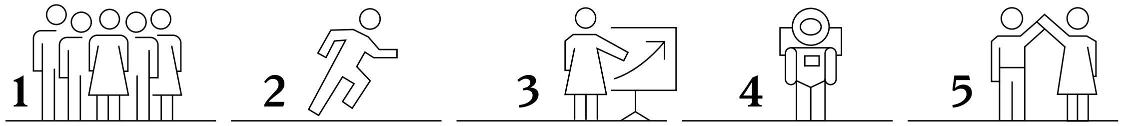
Resolve (May 2020)

The first step in navigating the crisis is addressing the immediate challenges that COVID-19 presents for the workforce, customers, and business partners. Leaders of Indian insurers can prioritize two actions: managing personnel well-being and supporting customers.

Exhibit 4

India insurers would benefit from implementing a multiyear response.

Five Rs response horizons



Resolve
Current month

- Managing personnel health and remote working
- Supporting customers

Resilience
Q1 FY 2021

- Streamlining claims management processes
- Optimizing costs

Return
Q2–3 FY 2021

- Implementing digital underwriting and automated renewals
- Focusing on investment and cash management

Reimagination
Next 6 months

- Innovating the product portfolio
- Modernizing distribution channels

Reform
Next 1–2 years

- Undertaking strategic moves to build a strong industry position (eg, ecosystem play)
- Focusing on mergers and acquisitions

Managing personnel well-being. Many Indian insurers have already implemented policies such as minimizing in-person meetings and scaling work-from-home arrangements. Minimizing in-person meetings encourages customers to opt for digital self-service and paperless processes to avoid field visits—though protocols to minimize contact for unavoidable field visits should still be put in place. Meanwhile, working from home requires unambiguous expectations: insurers can establish decision and escalation paths and clear workflows (with well-defined roles and responsibilities) to facilitate handovers. Managers can define objectives and key results (OKRs) and key performance indicators (KPIs) to communicate goals to teams and track progress. For example, multiple insurers in Asia and globally have completely shifted noncritical activities to remote operations. To that end, policies that ensure employees have the necessary tools and resources to collaborate are essential; IT teams must prepare for an increase in capacity of critical services and heightened cybersecurity needs.

Insurers can also implement other soft practices to facilitate a smooth experience for employees. These include providing regular updates about the outbreak's impact on the company and its consequent response to various challenges; hosting town halls, retrospectives, or role-modeling sessions to regularly engage with personnel and form a cohesive group identity; and communicating among functions through internal-messaging platforms.

Supporting customers. Indian insurance companies could take a three-pronged approach to customer outreach: communicate policy changes to support patients, clarify the focus on health and well-being, and explain changes in policies for improved monetary assistance.

Insurers can start by informing customers about their COVID-19 coverage and related policy inclusions through emails and text messages. For example, multiple insurance companies across Asia have expressly stated that their medical plans will cover the treatment of coronavirus. Next, insurers can offer telemedicine and preventive healthcare to facilitate digital claims processing. Finally, insurers can support COVID-19 patients by allowing deferred repayments and providing "hospicash" benefits, discounts on copays, and so forth. Insurers could also launch products with COVID-19 coverage and engage with regulators to expedite the approval process, as well as announce monetary-relief packages for COVID-19 patients.

Resilience (January to March 2021)
Beginning sometime in the first quarter of 2021, Indian insurers could address some near-term cash-management challenges, increase customer-service capacity, and stabilize operations. We suggest actions on two fronts: streamlining claims management and optimizing costs.

Streamlining the claims-management processes. As the economy starts to recover from the impact of the lockdown and economic activity resumes, it will be critical to simplify claims processes. Insurance companies could prepare for this by upgrading chatbots and interactive-voice-response systems to reduce turnaround times and free up agent capacity. Some of the largest insurers in Asia have already taken similar steps by fast-tracking claims or allowing for submission via online messaging platforms. Insurers can also reduce field visits by opting for alternatives powered by artificial intelligence and image-processing technologies.

Optimizing costs. Insurers could focus on cash management by improving efficiency in operations and reducing costs by renegotiating contracts (using zero-based budgeting), consolidating vendors, and employing competitive bidding.

Return (April to September 2021)
In quarters two and three of 2021, Indian insurers could begin detailing a plan to return the business to scale quickly by focusing on two priorities: digitizing underwriting and renewals and focusing on investment and cash management.

Implementing digital underwriting and automated renewals. Insurers could benefit from digital and automation tools to support a return to normalcy. To start, they can update policy-issuance guidelines for prevention and incident response, as well as engage with regulators to seek approval for Central Know Your Customer exemptions to simplify policy issuance. They could also focus on improving digital underwriting to maximize reach among customers. Finally, insurers can also implement autorenewal for the majority of cases and reduce the number of customer touchpoints by taking advantage of digital and analytics.

Focusing on investment and cash management. Insurers could create a detailed plan to return the business back to scale quickly by optimizing liquidity management. This can involve implementing dynamic balance-sheet management—with capital infusion in high-yield areas only, to manage solvency—engaging with regulators to temporarily reduce or suspend solvency requirements, altering the product mix to focus only on less capital-intensive products during this period, and stopping the sale of endowment products to reduce capital requirements. Finally, insurers can consider de-risking ULIP products by shifting the investment portfolio to safer instruments.

Reimagination (April to December 2021)
Indian insurers could plan for a discontinuous shift between the second and fourth quarters of 2021, reinventing themselves by innovating the product portfolio and modernizing distribution channels.

Innovating the product portfolio. In the reimagination phase, insurers might consider selling more capital-efficient products with better flexibility and convenience—for instance, products such as those that are preapproved and sum assured without underwriting and medical checkups for specific segments in partner banks. They can also offer insurance products for specific risks (for example, life insurance for covering COVID-19) and reward life-insurance customers for maintaining a healthy lifestyle. For example, one Indian online insurer has already launched a coronavirus insurance product that can be sold through its partner program. Finally, insurers could offer life protection coupled with health insurance for critical illnesses or a few key diseases.

Modernizing distribution channels. To start, insurers can consider establishing a digital agency channel with end-to-end online recruitment, including selection, interview, and contracting as well as online training with videos and FAQs. They might encourage sales forces and intermediaries to abandon paper-based processes and move entirely online to improve productivity, as well as revise reward and recognition schemes for agents and intermediaries to emphasize performance-based incentives. Finally, they can rapidly drive the adoption of digital channels, not only for standard requests but also for new requests arising from the crisis. For example, a large Chinese insurer provides an online health-service application that has seen a significant uptick in new registrations in the past few months.

Reform (2020 to 2022)

As the most disruptive impacts of the virus fade, Indian insurers could look to sustain long-term competitiveness through some strategic big bets—though the best opportunities may differ depending on whether the economy experiences a prolonged contraction or a delayed recovery. They could also consider consolidation and expansion opportunities via mergers and acquisitions.

Undertaking strategic moves to a build strong industry position. Insurers could be well advised to take stock of their cash positions and investigate key areas that could enable their strong survival in either scenario (Exhibit 5).

In the case of a prolonged contraction, insurers could consider investing significantly in direct-to-customer channels to reduce dependence on intermediaries and reduce commission costs; focusing on artificial intelligence to promote bancassurance and improve efficiency; hiring high-skilled workers who can enable a truly digital

Exhibit 5

Insurers can base their strategy response on the potential recovery scenarios.

Potential strategic moves to strengthen insurers' position

Delayed recovery | Prolonged contraction | High level | Average level | Low level

Strategic moves	Level of . . . Impact	Familiarity	Predictions
Direct-to-customer (D2C) and digital play	Average level	High level	D2C could become one of the key channels to cater to the next generation of customers.
AI-driven bancassurance	Average level	Average level	Proactively identifying, underwriting, and selling to the partner bank's customer base via analytical models will create cross-sell opportunities.
Ecosystem platform to support health	Average level	Low level	A single platform will meet various needs of customers.
Premier agency channel	High level	High level	Premier agency channel could significantly increase annual premium equivalent per active agent, with each premier agent contributing 3–4× productivity of an average agent.

Prolonged contraction could have a longer impact on economy, thus restricting cash spend to only key strategic bets.

Delayed recovery could affect two quarters, after which insurers can use strategies to build strong positions.

and agile organization; improving retention by stepping up employee satisfaction; and reducing dependence on legacy operations to increase resilience for future risk scenarios.

If recovery is delayed, insurers may want to take the above actions and also focus on building or participating in ecosystems. Steps might include embedding insurance journeys into customer ecosystems, providing a single interface for all financial services, and using digital and analytics to facilitate transitions between services. Insurers could also invest in building a premier agency with highly productive agents (that is, active agents who each generate three to four times the annual premium equivalents compared with those at a regular agency).

Focusing on mergers and acquisition. Insurers may consider merging with players with complementary or supplementary skill sets. On the flip side, they may prefer to acquire small insurtech start-ups after regaining normalcy, given the win–win scenario: start-ups get scale and capital, and favorable valuations make acquisitions lucrative to insurers.

A practical way to get started

Some insurers are responding to COVID-19 by establishing a nerve center to guide immediate action and tackle evolving challenges (Exhibit 6).[6]

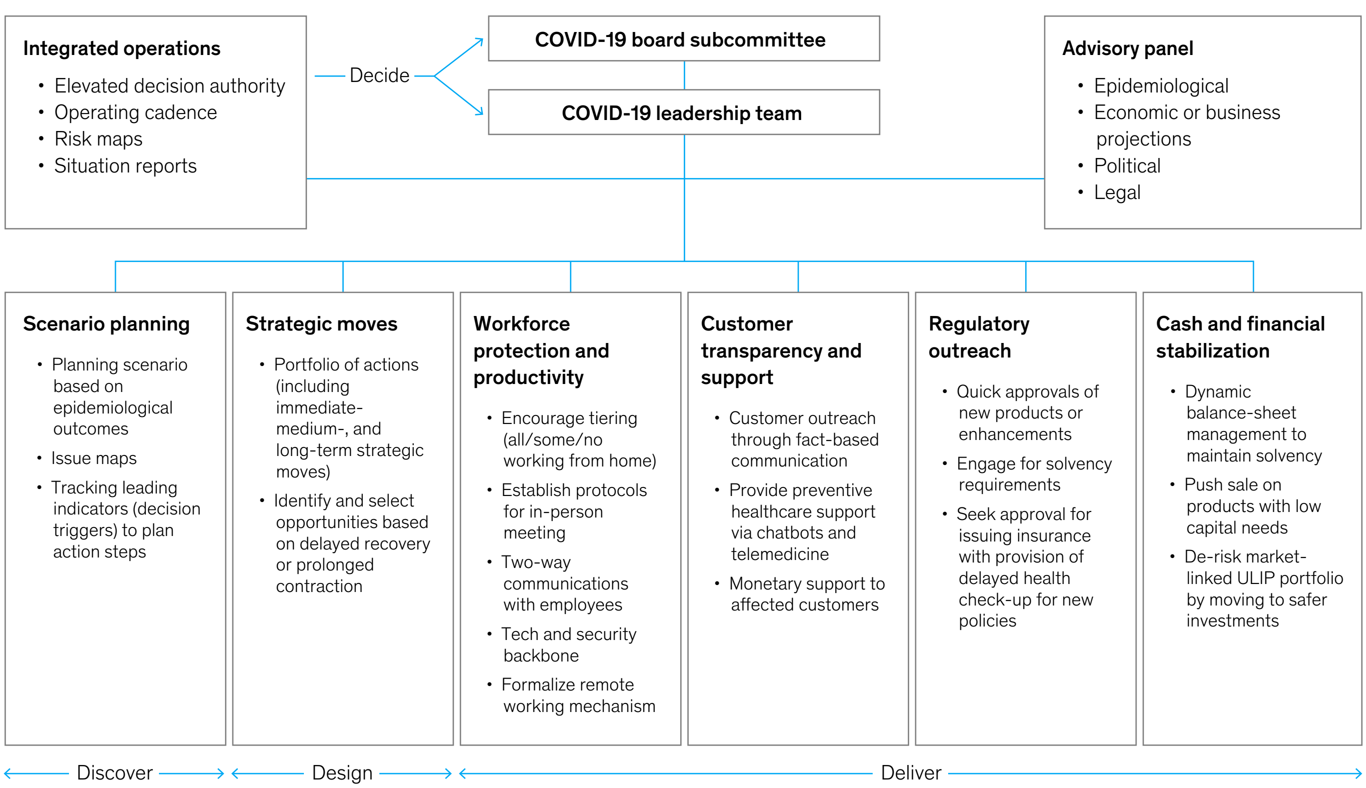
The core objective of this nerve center would be to manage the COVID-19 situation across the five Rs. It

[6] For more, see Mihir Mysore and Ophelia Usher, "Responding to coronavirus: The minimum viable nerve center," March 2020, McKinsey.com.

Exhibit 6

Managing through the COVID-19 crisis requires new architecture in the form of a nerve center.

A team of teams with clear responsibilities and decision-making authority



could mobilize resources across three dimensions—scenario planning, strategic moves, and integrated operations—balancing immediate action with the flexibility to tackle evolving challenges.

As a team of teams, the nerve center could have the following responsibilities:

— Maintain multiple business scenarios and identify the most relevant one based on the market conditions.

— Record observations to craft a trigger-based portfolio of strategic moves.

— Understand situation reports and risk maps, and act as an elevated authority that owns the timing and facilitation of strategic decision making.

— Deliver on aligned initiatives to ensure a smooth experience for employees working from home, establish customer-outreach protocols, engage with regulators on issues of solvency and new product approvals, de-risk the financial position of the insurer by pushing products with low capital requirements, and move the ULIP portfolio to safer instruments.

Insurance company leaders must act decisively to overcome the disruption created by COVID-19 and the resulting lockdown in India. In choosing solutions, the preference could be for pragmatic and fast rather than perfect. In addition to approaching the landscape across the five Rs, insurers could employ frontline engagement, execution discipline, and organizational culture to help rebuild momentum and make their changes stick—even in this most challenging of times. The ultimate goal would be to build more resilient operations as insurers adapt to the next normal.

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