



COVID-19: THE HIGHS & LOWS FOR THE INSURANCE INDUSTRY

ANALYTICS WILL BE KEY TO DESIGNING NEW POLICIES

DECISIONPOINT™
— by **WNS**



INTRODUCTION

According to the International Monetary Fund's World Pandemic Uncertainty Index (WPUI), uncertainty surrounding the COVID-19 outbreak is double that of the uncertainty that was prevalent during SARS and avian flu that slowed the global Gross Domestic Product (GDP) growth. Persistently low global GDP growth rates could result in low premium growth for the insurance sector. The increase in insurance claims will depend on the spread of infections and the business disruption caused by the outbreak. Forecasts from healthcare experts¹ suggest that the number of cases

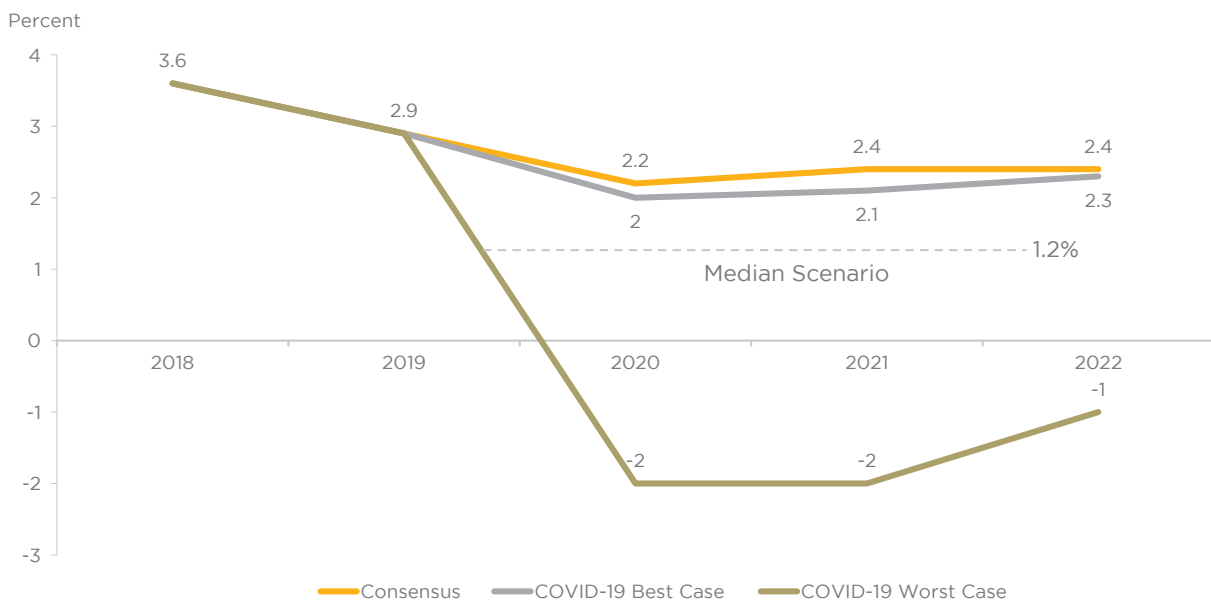
could rise to anywhere between 2.5 million and 4.4 million world-wide by the time COVID-19 runs its course. However, the outbreak has also created an awareness among individuals about the necessity of insurance coverage, thereby resulting in a spurt in demand for insurance.

Consensus forecasts from economists and financial institutions predict global GDP growth between 2 percent and 2.5 percent from 2020 to 2021 (Figure 1). In the best-case scenario, the spread of infections will be confined between

2.5 million and 3 million cases. In the worst-case scenario, global infections will peak at 4.4 million cases. Based on the best-case scenario, economists predict global growth to hover around 2 percent and 2.2 percent. The worst-case scenario could witness a negative global growth rate of -2 percent for the rest of 2020 till 2021.

Calculating an average of forecasts from financial institutions, WNS DecisionPoint™ estimates median global growth of 1.2 percent between 2020 and 2022.

Figure 1: GDP Growth Scenarios



Sources: WNS DecisionPoint™ analysis based on forecasts from OECD, Goldman Sachs and Insurance Information Institute. Median scenario arrived at by average of forecasts from OECD, Goldman Sachs and Insurance Information Institute

1. Article by Stat news, Disease modelers gaze into their computers to see the future of Covid-19, and it isn't good, Feb 2020

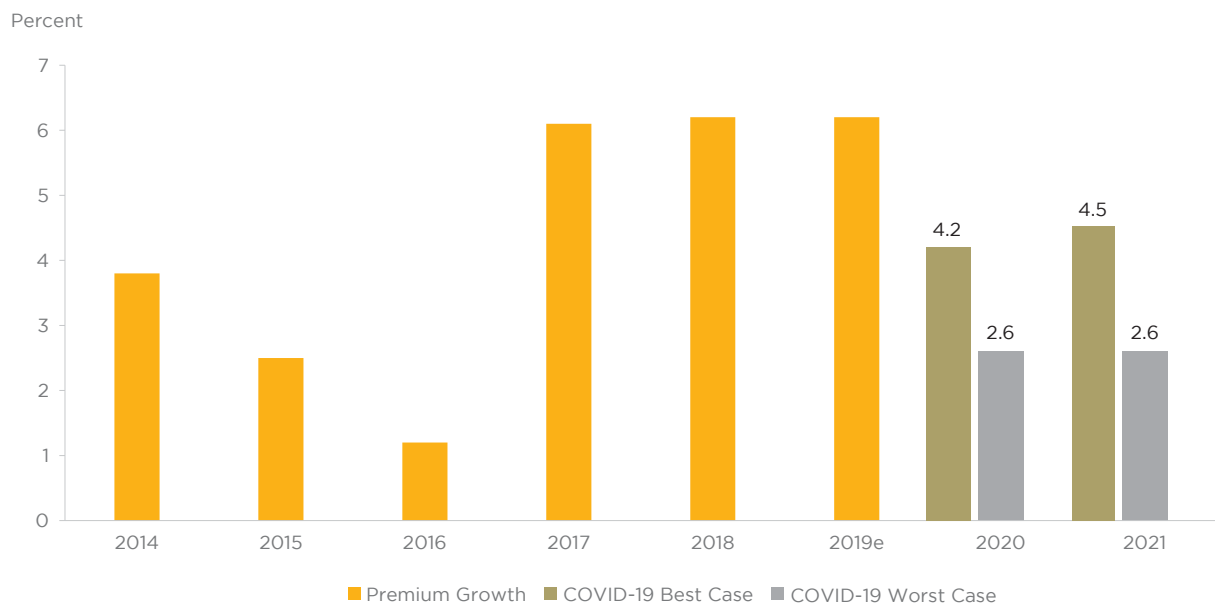
Impact on Premiums

Europe is the worst affected region from the outbreak, with Italy and Spain emerging as the hotspots for the infection. According to figures from Insurance Europe, total premiums in Europe grew by

6.2 percent from 2017 to 2018 from EUR 1241 Billion to EUR 1311 Billion. Assuming premiums grew by the same rate between 2018 and 2019, a sharp drop in premium growth can be expected between 2020

and 2021. The degree of decline in growth will be determined by the extent of decline in GDP growth rates as outlined earlier.

Figure 2: Premium Growth



Sources: Insurance Europe; WNS DecisionPoint™ Analysis

Premium growth for 2020 and 2021 has been estimated based on the COVID-19 scenarios outlined

earlier. Premium growth for 2020 and 2021 is set to decline to anywhere between 2.6 percent and

4.5 percent, based on the severity and curtailment of the outbreak.

Impact on Insurance Sub-sectors

The insurance sub-sectors will experience varying degrees of impact from the coronavirus

pandemic. Table 1 highlights the intensity of the pandemic on various sub-sectors and we look at

some of the key sub-sectors in detail.

Table 1: Intensity of COVID-19 Impact

Sector	High	Moderate	Low
Travel			
Health			
Workers' Compensation			
Life			
General Liability			
Business interruption			
Auto			

Source: Insurance Information Institute



Travel Insurance

The outbreak has resulted in a host of travel cancellations for businesses and individuals. In the U.K., the Association of British Insurers expects the industry to pay out at least GBP 275 Million worth of coronavirus-related claims, primarily to cover trip cancellations. This surpasses the previous record of cancellation pay-outs worth GBP 148 Million in

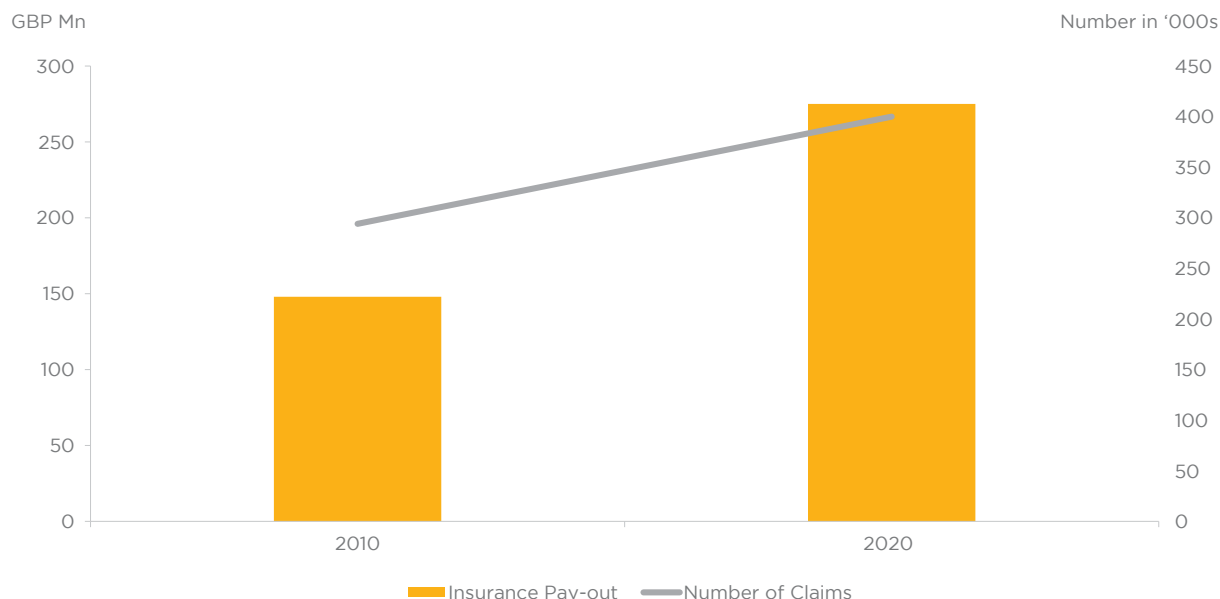
2010 when travel was disrupted by the Icelandic volcanic ash cloud.²

The U.K. travel industry expects 400,000 claims this year resulting from the outbreak, up from a total of 294,000 in 2010 since travel insurance policies are not designed to cover infectious disease outbreaks.³

In the U.S., several travel

companies have tightened the terms of future coverage in order to avoid coronavirus-related claims. During March 2020, U.S. travel insurance companies limited the number of medical benefits available to residents while undertaking non-essential travel as defined by the government,⁴ which could be extended after travel resumes.

Figure 3: Outlook for U.K. Travel Insurance



Source: Association of British Insurers

While COVID-19 has resulted in trip and flight cancellations across Europe, it has also led to a record increase in demand for travel insurance, which was observed in the rising sales of travel insurance in February and March 2020 when

the virus started to spread in Europe. World-wide Google searches for 'travel insurance' surged by 92 percent in February 2020.⁵ Insurance companies across Europe saw sales skyrocket to as high as 425 percent during the last

week of February 2020.⁶ An increased awareness among consumers is likely to result in more demand for travel insurance once lock-downs are lifted and travel restrictions are eased.

2. Article by Financial Times, UK travel insurers set for year of payout pain, March 2020

3. Ibid

4. Article by Forbes, This is the surprising way Coronavirus has changed travel insurance, April 2020

5. Article by Financial Times, Soaring demand for travel insurance as coronavirus spreads, February 2020

6. Blue Insurance, February 2020

Health Insurance

The largest impact will be experienced by health insurers who are caught between the twin struggles of increase in hospitalization and scarcity pricing of medical equipment, emergency services and treatment drugs.

The magnitude of the impact will depend on the degree of involvement of government and private healthcare insurance providers. Insurers that provide add-on policies to supplement existing primary healthcare coverage will experience less strain in comparison to insurers providing only primary coverage, especially with large exposure to senior citizens.

In the U.K., the National Health Service (NHS) has enlisted the support of the private healthcare sector to strengthen existing healthcare infrastructure and personnel by maximizing ventilation and intensive care support for hospitals. This has had an impact on the value of private healthcare insurance available to customers.

Treatments and benefits in non-urgent cases have been deferred in the wake of COVID-19. The value of private health insurance policies will remain constant over the next 12-18 months. However, the long-term value of these policies

has been driven higher with the potential addition of diagnostics and complex treatments that could emerge during the hiatus.⁷

The U.S. accounts for the largest number of confirmed COVID-19 cases world-wide. More than half of the U.S. population receives its healthcare coverage through direct purchases in the insurance market exchanges. A majority of the COVID-19 testing and treatment costs will be borne by commercial health insurers. According to projections from Covered California, testing, hospitalization and other treatment costs in the U.S. will start to emerge during the latter half of 2020.

Table 2: Projected First Year Costs for COVID-19 Testing in the U.S.

Estimate Range	Low	Medium	High
Commercially insured population	170 million		
Estimated number at higher risk	20 million		
Assumed percent of higher risk tested	25%	50%	75%
Modeled number tested	5 million	10 million	15 million
Remaining non-higher risk	150 million		
Assumed percent of non-higher risk tested	10%	20%	30%
Modeled number of non-higher risk tested	15 million	30 million	45 million
Estimated number of all tested	20 million	40 million	60 million

Source: Covered California Policy Brief, March 2020

7. Coronavirus Information Hub, Association of British Insurers

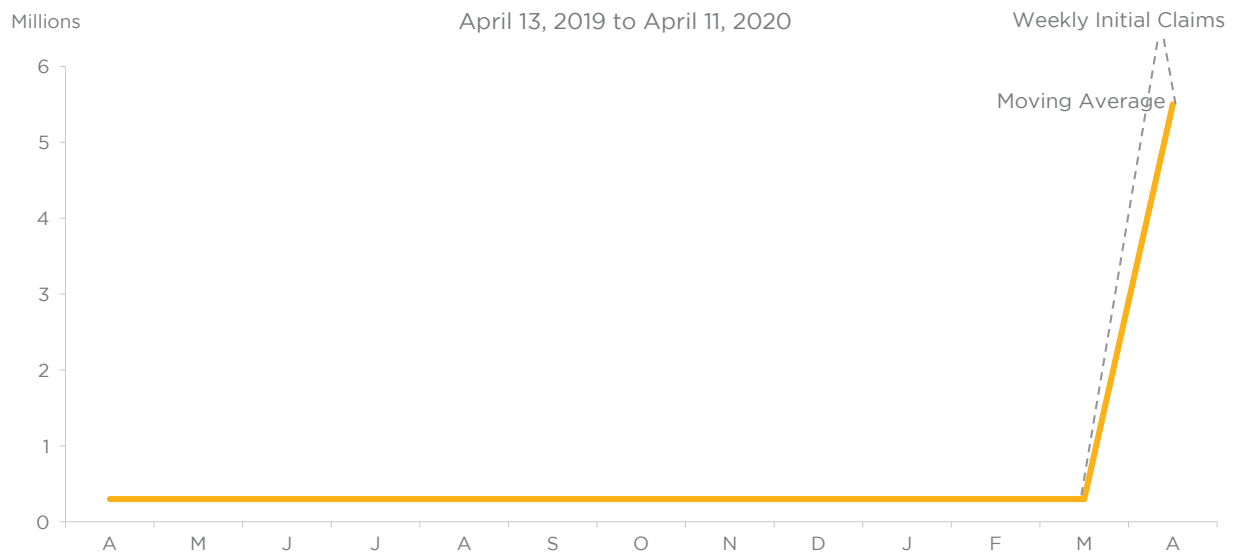
Table 3: Projected First Year Treatment Costs for COVID-19

Estimate Range	Low	Medium	High
Projected number of positive cases	4 million	9 million	15 million
Assumed percent requiring hospitalization (below 60 years)	10%	15%	20%
Projected number of cases requiring hospitalization	4,00,000	12,00,000	3,00,000
Assumed length of stay (severe cases)	12 days		
Assumed insurance reimbursement — commercial (includes consumer out-of-pocket portion)	USD 72,000		
Projected hospital costs for severe cases	USD 28.8 Billion	USD 86.4 Billion	USD 216 Billion
Assumed percent of cases that require outpatient services	90%	85%	80%
Projected number of cases that require outpatient services	3,600,000	6,800,000	12,000,000

Source: Covered California Policy Brief, March 2020

The outbreak has also caused a surge in the number of people filing for unemployment claims in the U.S. (Figure 4).

Figure 4: Adjusted Initial Claims



Source: U.S. Department of Labor

The week ending April 11, 2020 witnessed a record number of 5.5 million claims filed for unemployment insurance. Under federal law, every state runs its own unemployment insurance fund. States build their funds in good years and run them down during the bad years.

At the end of 2019, unemployed workers received USD 368 per week or approximately 45 percent of lost wages. Under general conditions, most states pay benefits for 26 weeks.⁸ The federal government also acts as a cushion for state programs during recessions. States can extend benefits for up to 20 weeks, half of which is paid for by

the federal government.⁹

The USD 2 Trillion aid package announced recently by the U.S. government is expected to provide the required boost to the struggling insurance market in the country. The federal government would add an average of USD 600 a week in addition to state benefits, and an additional month to the period of time that people can get checks. This will increase the wage replacement rate for some people to more than 100 percent.¹⁰

When over 10 million¹¹ people simultaneously file for claims, processing the multitude of claims will become a challenge. State

insurance systems will find it difficult to ramp up sufficiently. Approximately half of the states do not have enough funds to cover for unemployment insurance during a normal recession lasting for a year.¹² However, this will propel the federal government and states to set up a long-term funding source in the future, which will make it possible to secure funds at the cheapest possible rate and in the most cost-efficient manner.

A systematic budget execution plan, with procedures on procurement, will smoothen the process of doling out funds to a large population.

Other Insurance Segments

Insurers providing workers' compensation coverage to emergency service providers such as firefighters, hospital staff, and workers in vulnerable sectors such as entertainment, manufacturing, transportation and retail will witness a rise in claims. The extent of government lock-downs, effectiveness of quarantine measures and stopping high-risk activities will reduce the degree of increase in claims.

In the life insurance space, the primary burden of claims will fall upon insurers dealing with mortality risks. The mortality risk of COVID-19 will be determined by demographic sub-groups and insurers' exposure to those groups. In most countries, elderly and people with underlying health

conditions have seen the largest number of infections and death rates. There is no certainty in the continuity of this pattern. Life insurers use significant amount of re-insurance, reducing exposure by transferring it to capitalized global re-insurers.

Insurers providing general liability and employee coverage to emergency service providers and workers in high-risk sectors such as retail, transport and manufacturing will bear the bulk of the increase in claims.

The extent of the increase in claims will be determined by how favorable a country's legal system is for lawsuits. U.S. insurers are more prone to litigations than their counterparts in other countries.

Insurers engaged in the provision of supply chain coverage such as events related to political upheavals, business interruption and trade finance will experience an increase in the frequency of such events, but there is uncertainty regarding the degree of increase in claims.

For business interruption and political upheavals, policies usually have significant waiting periods that become applicable only under catastrophic pandemics. For trade finance, premiums are fixed and are set before finalization of coverage capacity, and hence are not linked to economic activity. Thus, the impact on supply chain coverage insurers will be minimal.

8. Article by Financial Times, Coronavirus creates new role for US unemployment insurance, March 2020

9. Ibid

10. Ibid

11. Article by Washington Post, Over 10 Million Americans applied for unemployment benefits in March as the economy collapsed, April 2020

12. Ibid

The Business Disruption Insurance Conundrum

As businesses and companies around the world are compelled to halt operations, questions on how much businesses can claim from

their insurance policies have emerged. Companies claim they have been paying premiums for business disruption coverage for

years, while insurers have stated that pandemics are explicitly excluded from such policies.

Table 4: Guide to Understanding Pandemic Coverage Under Business Disruption Insurance

Business Disruption Policy Question	Description
Inclusions	Business interruption insurance is designed to include costs of physical damage to a building. For instance, in case a factory closed down temporarily due to a fire, the insurance would pay for lost business
Exclusions	Businesses have been able to pay for add-ons to policies that include infectious diseases, but these add-ons do not cover the large-scale catastrophic damages caused by COVID-19
Exceptions	Experts have stated that customers can file claims under 'non damage denial of access' clauses, which cover occasions when the policyholders cannot access business premises for reasons other than physical damage
Forceful pay-outs	Several state legislatures in the U.S. have introduced bills that would compel insurers to pay out claims, especially to small companies
Duration of the process	Majority of these claims are likely to end up in legal battles which could take years to settle
Buying cover for pandemics now or in the future	Buying any type of insurance that offsets the costs of coronavirus is not possible at present since a majority of insurers around the globe have tightened their terms of coverage to exclude infectious diseases. In the long-term, new systems could be established that incorporate infectious disease coverage
Insurance prices	Prices are set to rise, irrespective of whether insurers end up paying out on disputed business interruption policies. Insurance experts predict prices to rise up to USD 50 Billion

Source: WNS DecisionPoint™ analysis based on FT research

Role of Risk Analytics in Designing Policies

Experts highlight the importance of incorporating risk analytics while designing insurance products, thereby enabling quantification of risks. Quantifying pandemic risks require data that is difficult to get, and separate sources of infection and death rates for familiar pathogens will be needed for the analysis.¹³

One form of analytics-embedded insurance product is parametric insurance. Parametric insurance is designed to pay out on the hazards of a disaster, and the terms of the

trigger are embedded in the insurance contract. This helps prevent probable gray areas or complications while settling claims. The claims adjustment process is a complex and expensive process, and can hurt the financial performance of insurance companies if not managed well. For this reason, parametric insurance products are ideal for pandemics, as they remove the administrative burden and reduce costs.

Risk modeling can also be used to increase the benefits of insurance

products. A detailed modeling process focuses on the full-blown pandemic situation and the likely outbreak scenario, and encourages the development of a restraining strategy for the event. A properly quantified risk may push businesses to purchase non-physical business interruption coverage because if the majority of workers in a company fall ill owing to the outbreak, the company will be insulated from the risk of the outbreak.

The Road Ahead for Insurers

Insurance companies will undoubtedly face mounting claims from businesses and individuals for

disruptions caused by the pandemic. However, there are certain segments in the industry

that could benefit in the medium term (Table 5).

Table 5: Potential Benefits to the Insurance Sector from the Pandemic

Potential Benefit	Category Benefitting	Description
Free-standing pandemic cover	Travel Insurance	Pandemic cover is embedded as a 'silent cover' in travel insurance. Many companies that write travel insurance will separate pandemic vulnerability for trip cancellation. Re-insurers could see a reduction in their travel insurance exposure since many hotels and airlines are providing refunds to their customers. With no loss to the policyholder, there is no need to make a claim
Lower loss ratios	Auto, Property & Casualty Insurance	With fewer drivers and vehicles on roads world-wide, there will be reduction in the number of auto accidents, which are a primary cause of insurance losses. Fewer people are going to work and accumulating in buildings, which reduces the threat of terrorist attacks and loss of life resulting from natural disasters such as earthquakes
Discounts on premiums	Auto Insurance	Customers of auto insurance could receive discounts on policy renewal as auto insurers world-wide are expecting reduction in claims as a result of reduced usage. Several auto insurers are offering discounts of up to 15 percent on policies renewed between April and October 2020.* The drop in claims could amplify profits

Sources: WNS DecisionPoint™ analysis based on information from Insurance Journal. *FT Research

13. Global Health Risk Framework, Pandemic Financing Workshop Summary, The National Academy of Sciences, Engineering and Medicine, 2016

CONCLUSION

COVID-19 has created global uncertainty of epic proportions that has surpassed the levels seen during the SARS and avian flu outbreaks. This has given rise to an uncertain economic outlook and tight financial conditions. Caught in this storm is the insurance sector which is struggling to cope with the dual challenges of low premiums and the vast number of claims from businesses and individuals. To ensure that only the

most valid claims are paid out, many insurers have tightened the terms of their business coverage to exclude COVID-19. According to experts, insurers have been closing loopholes within existing contracts in order to reduce their exposure to future costs, making them susceptible to forceful pay-outs and legal battles that could stretch on for years. However, the pandemic has also brought simultaneous benefits for insurers

such as low claims for re-insurers from travel insurance, reduction in losses for auto insurers arising from reduced vehicle usage and discounted insurance prices for holders of auto insurance. An increased demand for certain forms of insurance in the future (such as travel insurance) will help neutralize the damage resulting from increased cost of claims.

About DecisionPoint

Making key decisions that improve business performance requires more than simple insights. It takes deep data discovery and a keen problem solving approach to think beyond the obvious. As a business leader, you ought to have access to information most relevant to you that helps you anticipate potential business headwinds and craft strategies which can turn challenges into opportunities finally leading to favorable business outcomes.

WNS DecisionPoint™, a one-of-its kind thought leadership platform tracks industry segments served by WNS and presents thought-provoking original perspectives based on rigorous data analysis and custom research studies. Coupling empirical data analysis with practical ideas around the application of analytics, disruptive technologies, next-gen customer experience, process transformation and business model innovation, WNS aims to arm you with decision support frameworks based on 'points of fact.' Drawing on our experience from working with 200+ clients around the world in key industry verticals, and knowledge collaboration with carefully selected partners including Knowledge@Wharton, each research asset comes up with actionable insights with the goal of bringing the future forward.

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