

REPORT

Re-Accelerate Insurance in the Post-COVID Era



Financial Services



#ReAccelerateWithPraxis

Foreword

COVID-19 will have a far-reaching impact on all economies and sectors. We believe that the recovery process is likely to be a long-drawn and arduous journey, however, the Indian economy is resilient, and its long-term fundamentals remain intact.

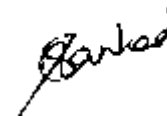
This report is intended to provide an overall perspective on the impact of COVID-19 on the Insurance sector as the economy starts recovering post a nation-wide lockdown announced on 22 March 2020. In the section on **‘Immediate impact of COVID-19 on economy and Insurance sector’**, we have discussed the impact of the current economic crisis on the Indian Insurance sector, new business premium, share prices of listed Insurers and specific interventions aimed at providing relief.

In the section on **‘How customers and Insurers reacted in these trying times’**, we have looked at the impact of COVID-19 on 3 key operating parameters – business mix, distribution channels, and servicing and claims. In the section on **‘How will COVID-19**

reshape the Insurance industry?’, we have examined impact of COVID-19 on key parameters like overall premiums and investment portfolios of private sector Insurers across different product categories with forecasts for FY21. Finally, we discuss some of the key trends that could potentially reshape both Insurers and InsurTech. Finally, we outline the **action agenda** for Insurance companies as they rethink their business model in the post-COVID world.

Amidst the uncertainty and the rapidly changing situation, it is quite possible that there may be variances from the projections and hypotheses stated here.

We, at Praxis Global Alliance, look forward to continuing the discussion with key stakeholders in the Insurance, InsurTech and the broader financial services industry, and relearning as the industry reaccelerates post-COVID.



Shishir Mankad
Head, Financial Services



Madhur Singhal
Managing Director

Key takeaways

- **COVID-19 will have a deep impact on Indian economy and almost every sector.** We expect the process of economic 'recovery' to be phased out over the next seven quarters, and a contraction of ~3% in FY21 real GDP.
- **We believe that COVID will impact key operating parameters of the Insurance industry quite significantly:**
 - **Customer preferences:** COVID has resulted in a shift of customer preference in favor of protection-based life Insurance plans. Health Insurance to see strong growth in H1FY20 and for the rest of the year as well; Motor Insurance premiums will continue to fall.
 - **Distribution channels:** COVID has already led to a doubling of customer intent to use digital modes for purchasing policies, feedback from Insurers and agents indicates significant traction already. We expect this trend to accelerate, driven by concerted action by Insurers as well as InsurTech players.
 - **Claims and customer servicing:** We expect Insurers to make substantial investments in technology to deliver a contactless experience to customers with respect to their servicing and claim payments.
- **InsurTech sector expected to recover strongly** as the crisis accelerates transition to online and mobile sales
- We believe that COVID-19 will accelerate industry-shaping changes that were possibly inevitable with massive focus on digitization and analytics, emergence of large platforms to distribute Insurance, and consolidation.

Agenda

1



What is the **immediate impact** of COVID-19 on the **economy and Insurance sector**?

2



How have **customers and Insurers reacted** in these trying times?

3



How will COVID-19 **reshape the Insurance industry**? What should be the **action agenda for Insurers** as they look to rethink their business model and strategy?

This economic crisis is different in four ways

More pervasive

- Has started across countries, simultaneously
- Impacting industries and verticals

Very fragile backdrop

Difficult geo-political backdrop (escalating US-China trade war, US-Iran conflict, HK protests, Turkey/Europe refugee crisis, US elections)

More intense/sudden

Sudden drop in business volumes and consumer confidence





Global economies more integrated

Exports as % of GDP grew from ~19% in 2001 to ~30% in 2018

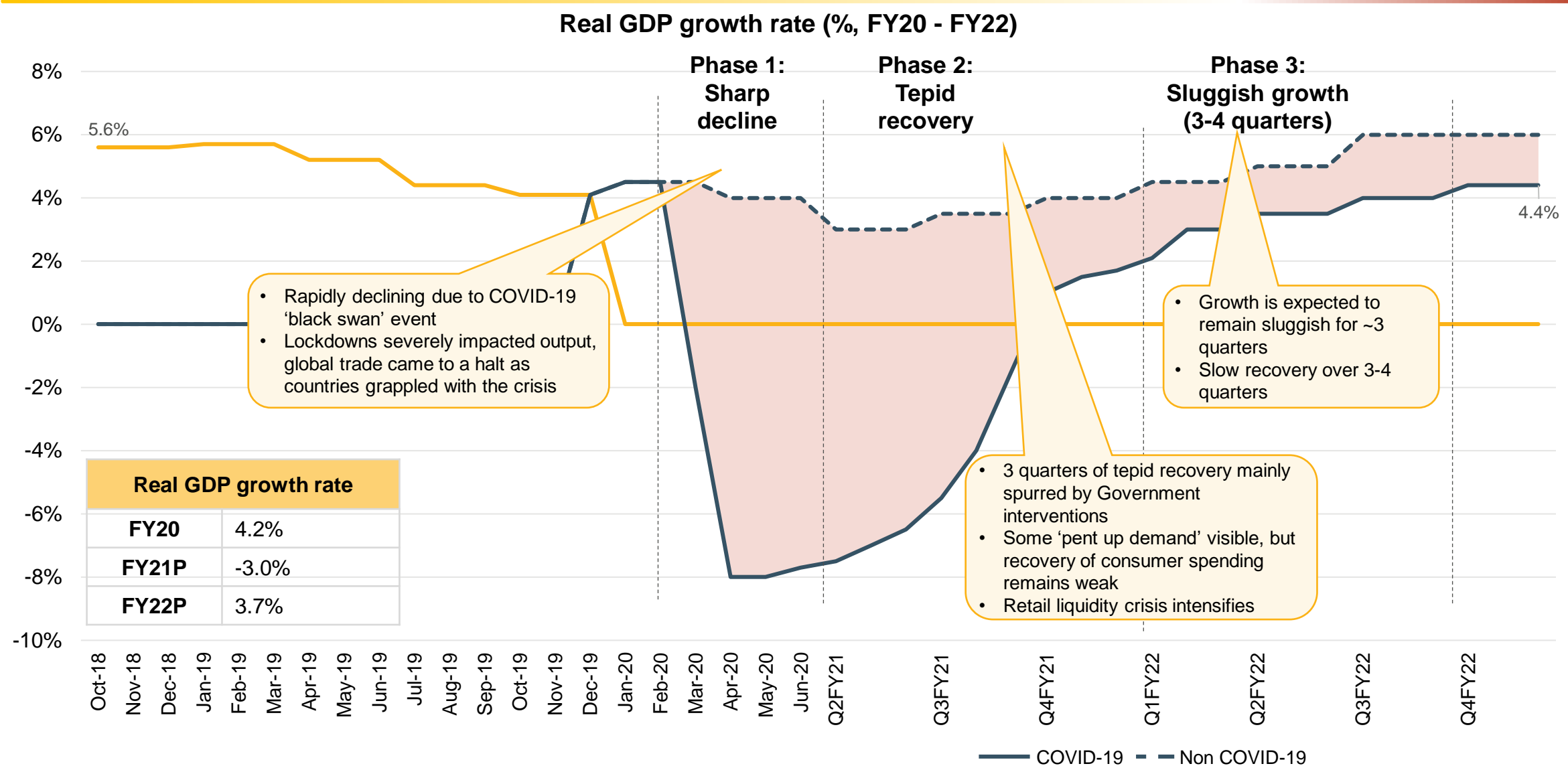
International tourist arrivals increased from 682M in 2000 to 1.4B in 2018



















Worldwide impact of COVID-19 makes this ‘Black Swan’ and ‘more intense’ compared to SARS and MERS, albeit with lower fatality rates

	SARS	MERS	COVID-19
 Peak outbreak time period	<ul style="list-style-type: none"> November 2002 to July 2003 	<ul style="list-style-type: none"> 2013 to 2014 	<ul style="list-style-type: none"> December 2019 onwards
 Geographies affected	<ul style="list-style-type: none"> 29 countries 	<ul style="list-style-type: none"> 27 countries 	<ul style="list-style-type: none"> Worldwide (70+ countries)
 Impact on human lives	<ul style="list-style-type: none"> Fatality rate: 9.5% 8,908 cases 	<ul style="list-style-type: none"> Fatality rate: 34% 2,494 cases 	<ul style="list-style-type: none"> Fatality rate: 2-5% 5.69M cases
 Impact on Insurance	<ul style="list-style-type: none"> China Life Insurance Company experienced 40% and 34% CAGR for short- and long-term health Insurance respectively In Hong Kong, there was a sharp uptick for life Insurers as there was an increased demand for protection plans 	<ul style="list-style-type: none"> Bupa Arabia, one of the leading health Insurers in Saudi Arabia, reported 44% and 81% YoY growth in premiums during 2013 and 2014 Overall industry health Insurance premiums increased 22% YoY in 2014 compared to 14% CAGR over 2010-13 and 2% CAGR during 2015-19 	<ul style="list-style-type: none"> Customer queries on health Insurance policies have gone up by 30-40% in the past month in India Insurers are creating standalone COVID-19 coverage policies Insurance sector is ensuring an end-to-end digital delivery of Insurance products

Current economic crisis will have deep impact; we expect economic ‘recovery’ to take seven quarters before we settle into a new normal

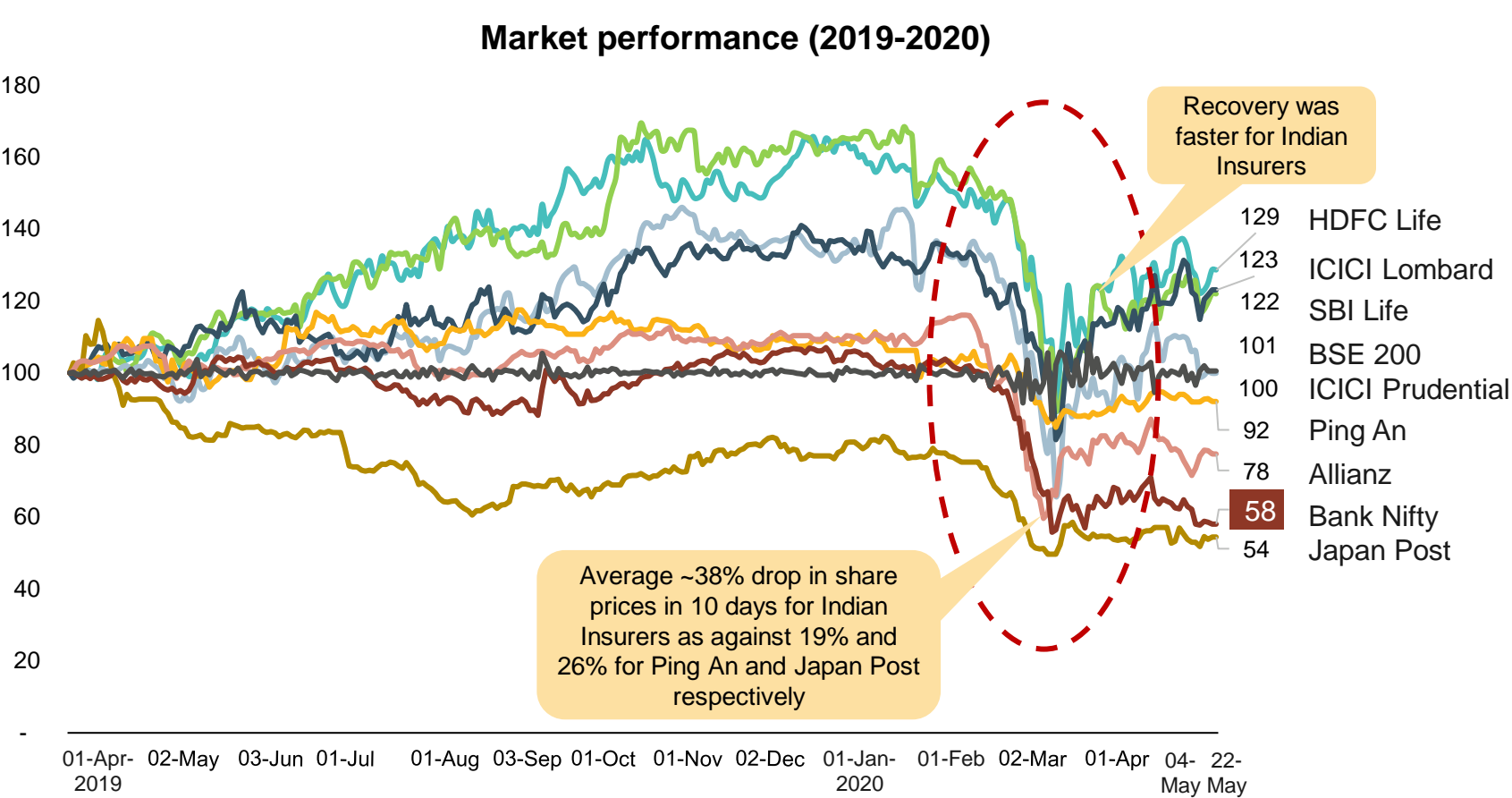





We expect essentials and digital businesses to rebound faster; travel, hospitality, and real estate to take longer to get up to speed

Industry	Q1 – FY21	Q2 – FY21	Q3 – FY21	Q4 – FY21	Q1 – FY22	Q2 – FY22	Q3 – FY22	Q4 – FY22
 Healthcare equipment and supplies	↑↑	↑↑	↑	↑	↑	↑	↑	↑
 Media and entertainment	↑	↑	↑	↑	↑	↑	↑	↑
 Pharmaceuticals	▬	↑	↑	↑	↑↑	↑↑	↑↑	↑↑
 IT and SaaS	▬	↑	↑	↑	↑↑	↑↑	↑↑	↑↑
 Agriculture and food	▬	↑	↑	↑	↑	↑	↑	↑
 Education	▬	↑	↑	↑	↑	↑	↑	↑
 Consumer FMCG	↓	↑	↑	↑	↑	↑	↑	↑
 Business and knowledge services	↓	▬	↑	↑	↑	↑	↑	↑
 Retail & consumer services	↓	▬	▬	↑	↑	↑	↑	↑
 Apparel	↓	↓	▬	↑	↑	↑	↑	↑
 Technology and internet	↓	↓	▬	↑	↑	↑	↑	↑
 Financial services	↓	↓	▬	▬	▬	↑	↑	↑↑
 Consumer durables	↓↓	↓↓	↓	▬	▬	↑	↑	↑
 Automotive	↓	↓	↓	↓	▬	▬	↑	↑
 Real estate and infrastructure	↓↓	↓↓	↓	↓	▬	▬	↑	↑
 Travel, tourism and hospitality	↓↓	↓↓	↓	↓	▬	▬	▬	↑



COVID impacted share prices of Insurers, however, Indian Insurers have reclaimed lost ground much better than other Asian Insurers and Indian banks

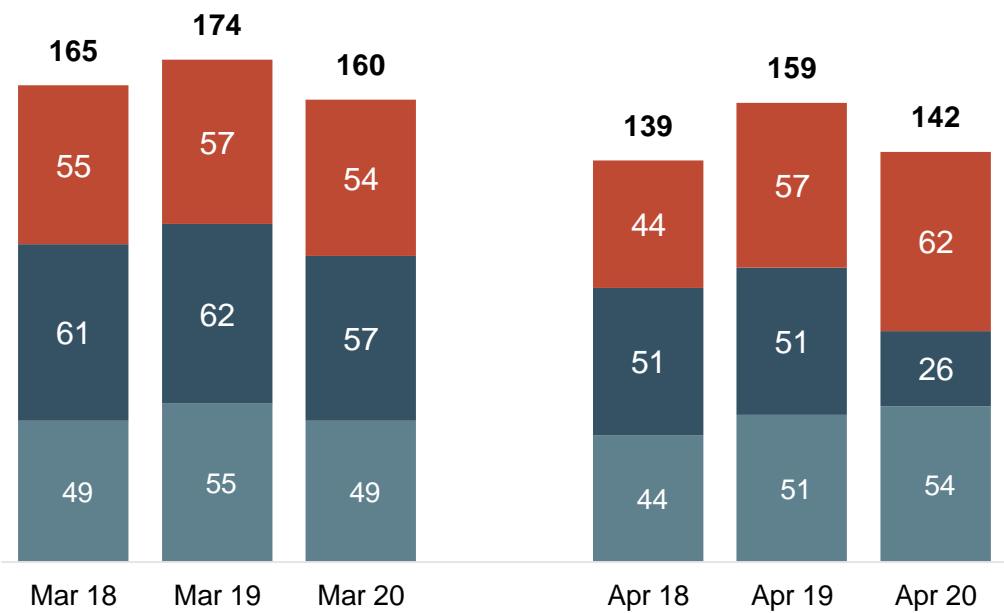
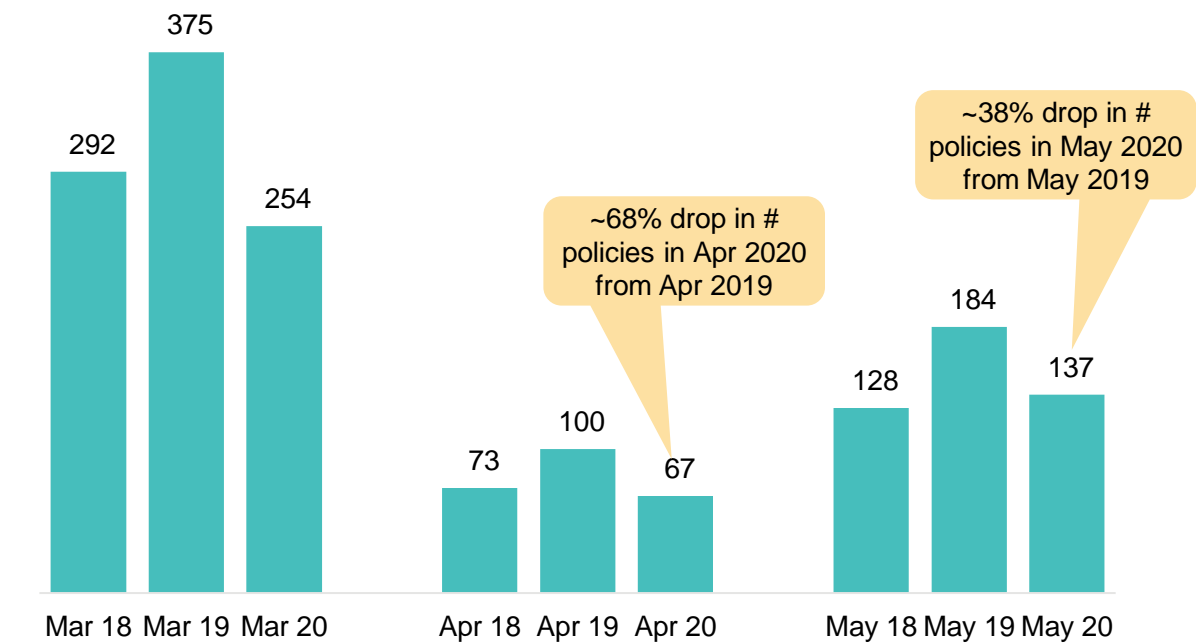


Market cap / Embedded value	31 st March 2019	31 st March 2020	22 nd May 2020
 HDFC Life	4.23	4.29	4.84
 SBI Life	2.67	2.44	2.78
 ICICI Prudential	2.41	2.22	2.15

New business premiums for life Insurance down nearly 33% in Apr 2020 with 68% drop in number of policies; Motor Insurance premiums declined by ~49% in Apr 2020

Gross premium underwritten by first year life Insurers (INR B)

Gross premium underwritten by first year non-life Insurers (INR B)



MoM premium growth % - Life					
28%	-32%	37%	-33%	43%	-25%

MoM premium growth % - Non Life				
Health	12%	-11%	16%	6%
Motor	2%	-8%	1%	-49%
Others	3%	-5%	27%	10%
Overall	5%	-8%	14%	-10%

Several interventions and initiatives to bring relief to policyholders and agents



Policyholders

- 3-month moratorium for premium payments falling due from March '20 to May '20
- Grace period for health Insurance policyholders: premium for policies due for renewal between 25 March '20 and 14 April '20, can be paid till or before 21 April '20
- Travel Insurance policyholders allowed to defer travel date without any extra cost for policies valid between 22 March '20 and 30 April '20



Insurers

- Government directions to Insurers to make special efforts to enable policyholders to pay premium using digital modes, increase awareness and education using SMS, emails etc.
- Additional 21 days granted for response time (15 days) for complaints received from 15 March '20 to 30 April '20
- Additional time of 15 days allowed to submit monthly returns for the month of March '20
- Instructions that claims arising on account of COVID-19 should be processed expeditiously



Distributors (agent)

- Future Generali India (general Insurance) announced relief grant of Rs 50,000 each to its 'active' agents, if they or their immediate family members test positive for COVID-19
- LIC announced that it would be granting approximately INR 2,710 Cr as an advance to over 6L agents

Agenda



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What is the **immediate impact** of COVID-19 on the **economy and Insurance sector**?



2

How have **customers and Insurers reacted** in these trying times?



3

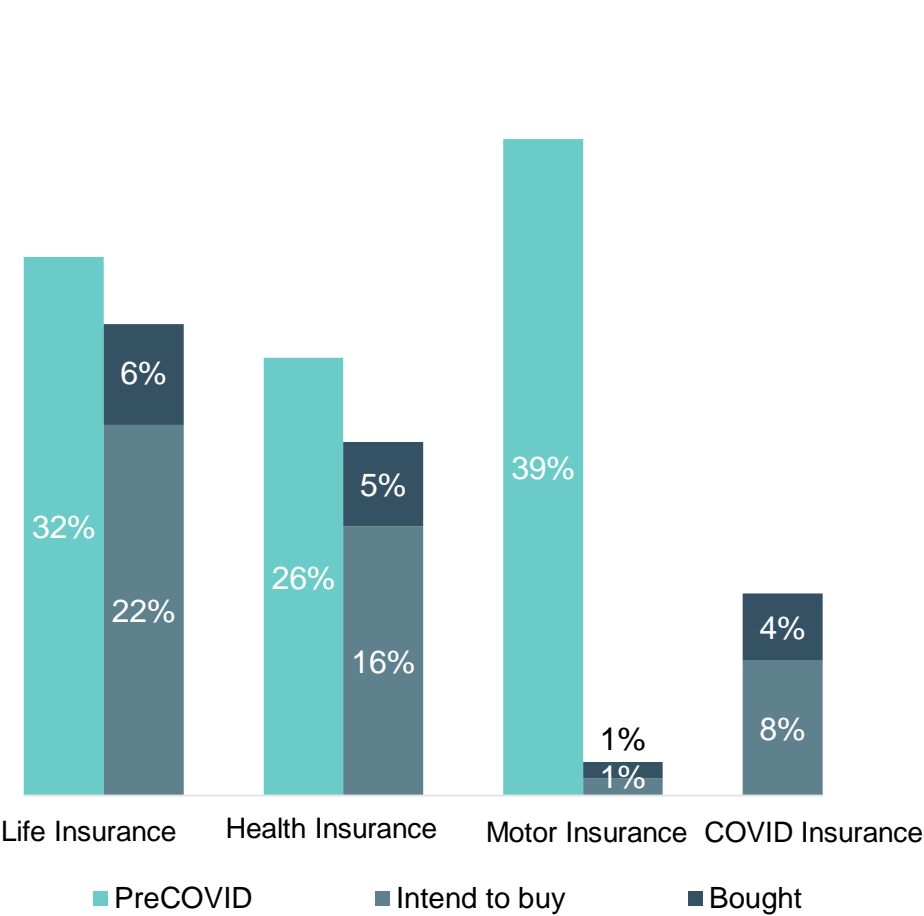
How will COVID-19 **reshape the Insurance industry**? What should be the **action agenda for Insurers** as they look to rethink their business model and strategy?

Life and health Insurance products have gained traction due to growing importance of protection products post COVID-19 outbreak

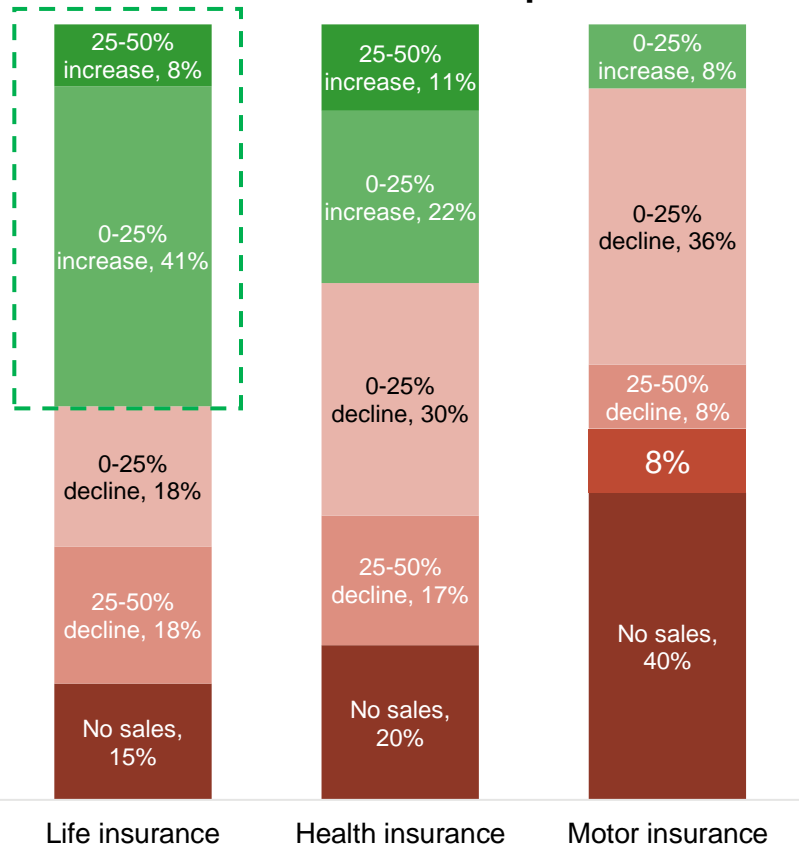
New car sales have declined significantly due to COVID-19 leading to decline in motor Insurance sales

Motor Insurance has been hit the most with ~40% agents not able to sell any policy

Customers: New policies purchased post COVID



Employee / agent: Impact of COVID on new sales vs pre COVID



“I took a COVID Insurance policy despite having an existing health Insurance policy as they are very cheap and provide sum assured on testing COVID +ve without hospital admission”

- Customer, Mumbai

“New sales of Insurance is expected to increase as earlier people bought Insurance and considered it as an expense but now it will be considered as an essential cover”

- Corporate agent, Mumbai

“I did not buy a life Insurance policy pre COVID but the deadly virus and life uncertainty that comes with it has changed my mind and got me buying a life Insurance policy for me and my entire family”

- Customer, New Delhi

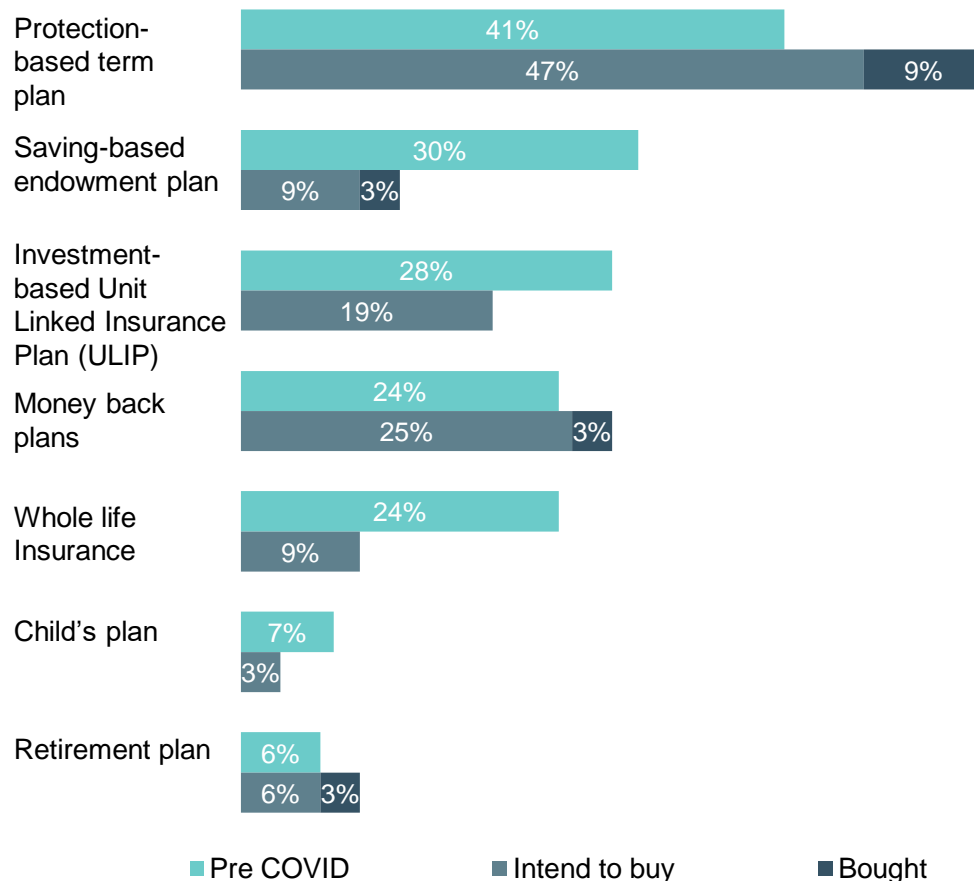
“Almost negligible new car sales have led to a half in new motor Insurance sales post COVID”

- Insurer, Bengaluru

COVID has resulted in a shift of customer preference to protection-based life Insurance plans given increased uncertainty about the future

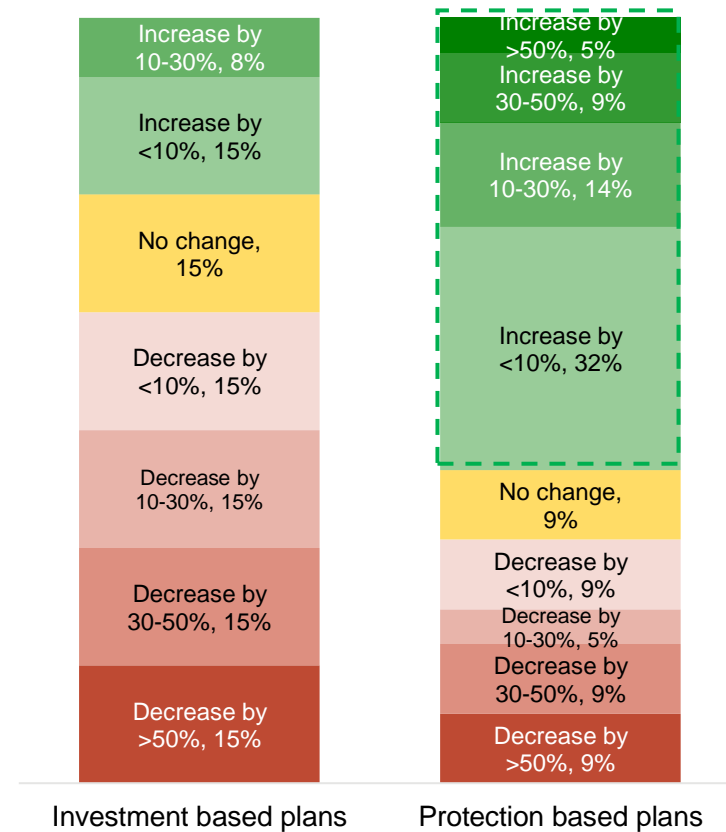
Customers to prefer purchasing protection-based life Insurance products post COVID

Customers: Impact of COVID on type of life Insurance



Demand for protection-based plans have increased post COVID

Employee / agents: Change in demand of life Insurance



"Demand for protection-based term plan is going to increase over the next few months as people already have investments in mutual funds and stock market for their return needs and hence will prefer an Insurance predominantly for protection due to uncertainty"

- Independent agent, Mumbai

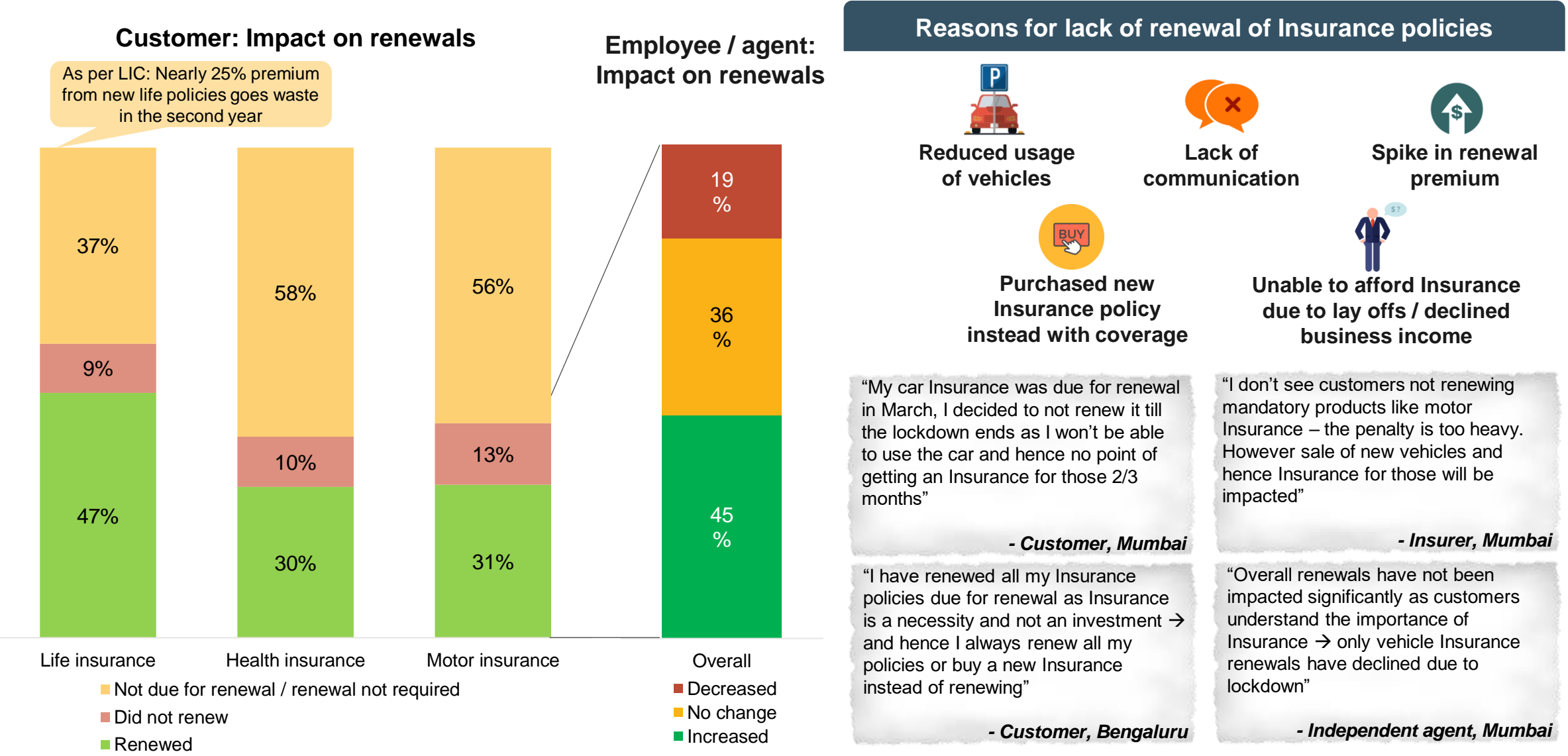
"Customers will not prefer to put large amounts of money in the current scenario and hence sales of savings / endowment plans and ULIPs is expected to decline as customers do not want to lock up their money for long"

- Insurer, Mumbai

"I never invested in protection-based plans as the return was very less (less even by Insurance standards), but it's the hour of the need to protect you and your family and hence I am planning to buy soon"

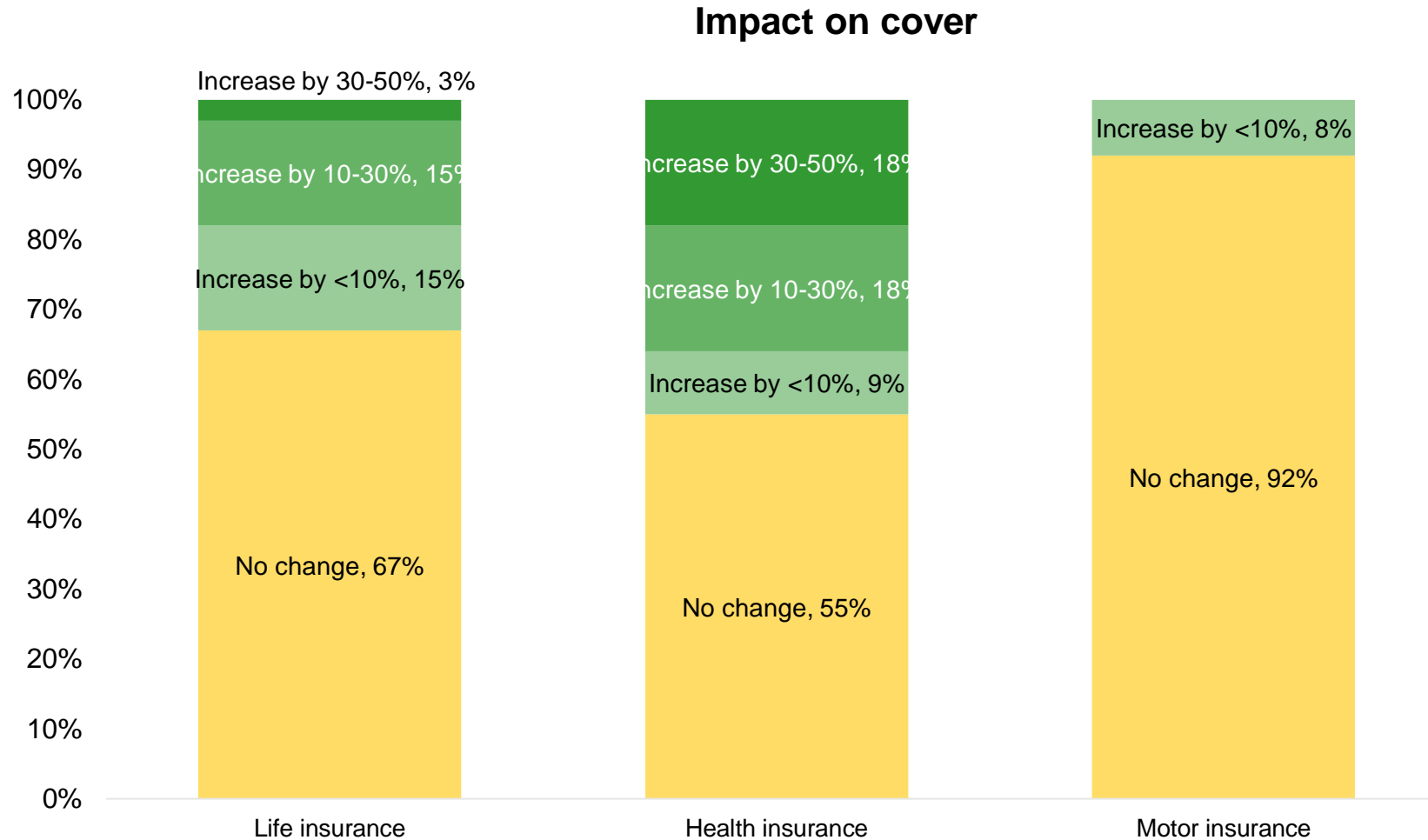
- Customer, New Delhi

COVID-19 likely to have a marginal effect on renewal of Insurance policies



Sources: Customer survey, Employee / agent interviews, Insurer interviews, Praxis analysis

Nearly a third of customers increased the cover / sum assured for their life and health Insurance policies



“My existing health Insurance policy includes COVID and my sum insured is for a decent amount and hence I do not need to opt for a new policy or increase my cover of my health Insurance policy”

- Customer, Ahmedabad

“I have decided to opt for a new life Insurance policy with ~20% higher coverage than my previous Insurance policy for my entire family → it is necessary to have higher coverage policies especially with COVID scare”

- Customer, Mumbai

“Currently customers are not wanting to increase their coverage as they do not have free cash to do so, people with no Insurance policies are buying one for protection but ones with existing policies are not wanting to increase coverage”

- Corporate agent, New Delhi

“Queries from customers to increase coverage of policies have not significant affected for any of their policies

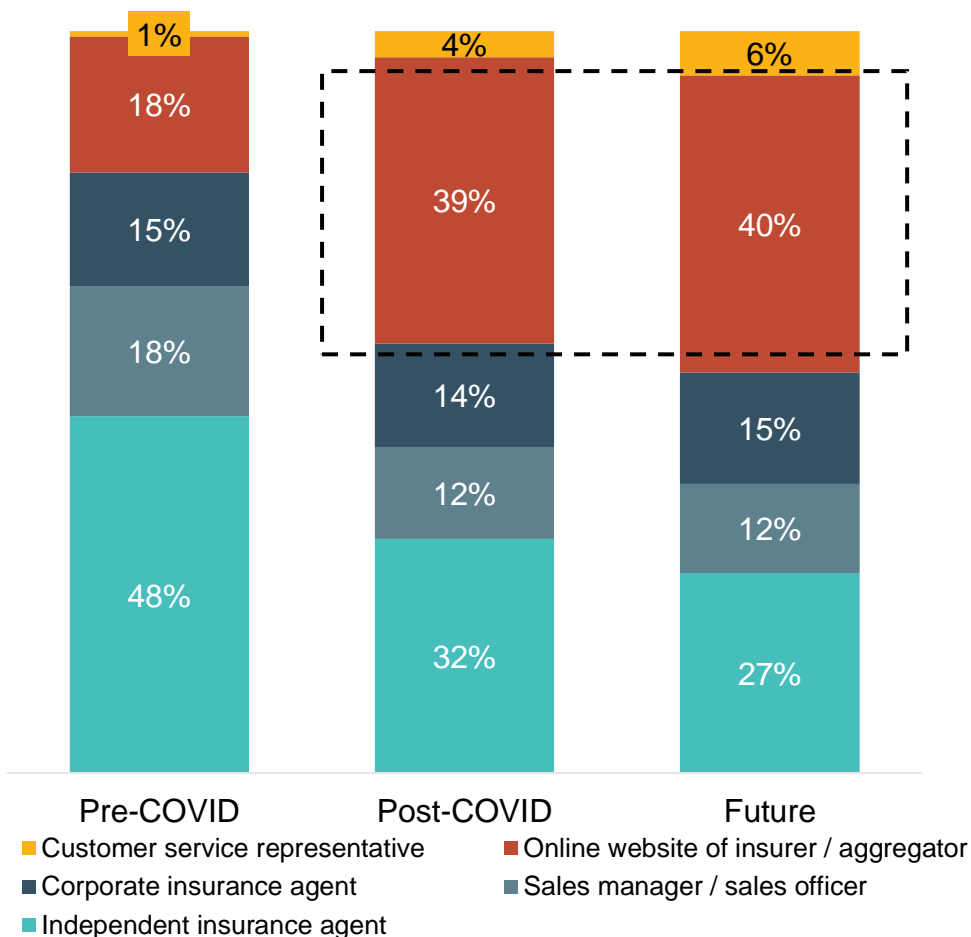
- Independent agent, Mumbai

Mission Digital: Doubling of customer intent to use digital modes for purchasing policies, feedback from Insurers & agents indicates significant traction already

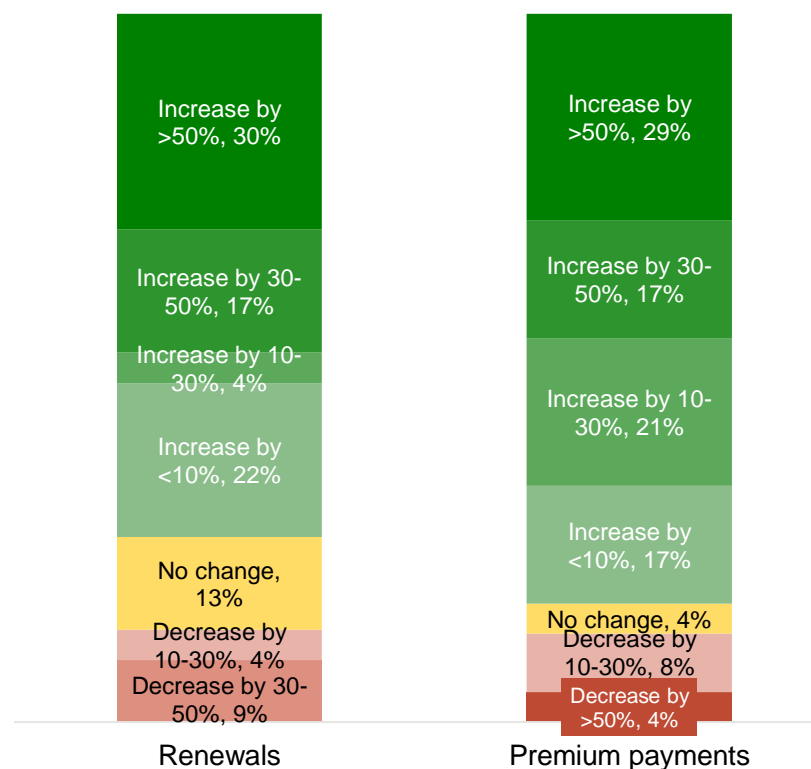
Customers are expected to increase purchase of Insurance policy directly from online portals

~75-80% agents have experienced an increase in digital renewals and premium payments

Customers: Channel wise split



Employee / agents: Renewals and payments through digital mode



"~50% of my customers already paid via digital modes but there were a few who preferred sending cheques. Due to lockdown everyone is paying digitally; I expect at least ~80% people to continue paying digitally"

- Independent agent, Bengaluru

"In the new normal, renewals and premium payments will only be done digitally, COVID has ensured traditional modes of payment never come back which is better for us agents as it helps us avoid the hassle"

- Corporate agent, Mumbai

"My Insurance agent has been handling my family's Insurance needs since the last 25 years and hence I buy all my Insurance policies from him"

- Customer, Mumbai

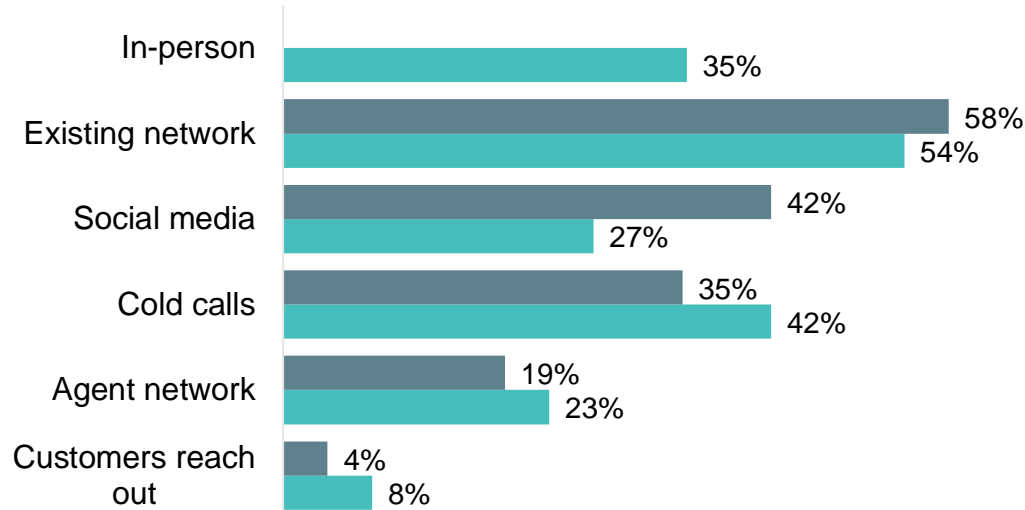
"Don't think the distribution landscape will change that dramatically, other than the share gain for online Insurance distributors. Both banks and agents will continue to fight for business"

- Insurer, New Delhi

Employees & agents have started using digital channels to acquire customers and intend to continue doing so in the future

Agents are expected to continue acquiring customers via social media and video calls

Employee / agent: Customer acquisition during and post lockdown



■ Customer acquisition during lockdown ■ Customer acquisition post lockdown

“Platforms like zoom and teams will be the new norm for acquiring customers but making personalized relations like earlier will be difficult as the emotional connect is usually missing”

- **Corporate agent, Mumbai**

“I a member of a BNI platform → there are people from various streams on the platform → we get on a zoom call every Tuesday and that's how I am acquiring customers during lockdown”

- **Independent agent, Mumbai**

Banks' perspective on acquiring customers and focusing on Insurance post COVID

Ability to target large set of customers

- Leveraging their customer base and space capacity (as transactions are lower)
- Building digital flows - lead generation to closure of sale

Higher focus on Insurance

- Banks' focus on Insurance is **expected to increase** as other avenues for fee income generation face significant headwinds (e.g. cards, forex, trade, other lending/ transaction fees)

Cold calling to acquire customers

- Bank staff are **calling customers** using their existing database to sell Insurance
- Increased focus on compliance and right-sell will be key to sustaining the momentum

“Banks have to make sure that they offer whatever the customer needs, so they can get customers on board and make them switch or buy a new policy from them”

- **Private Bank, Mumbai**

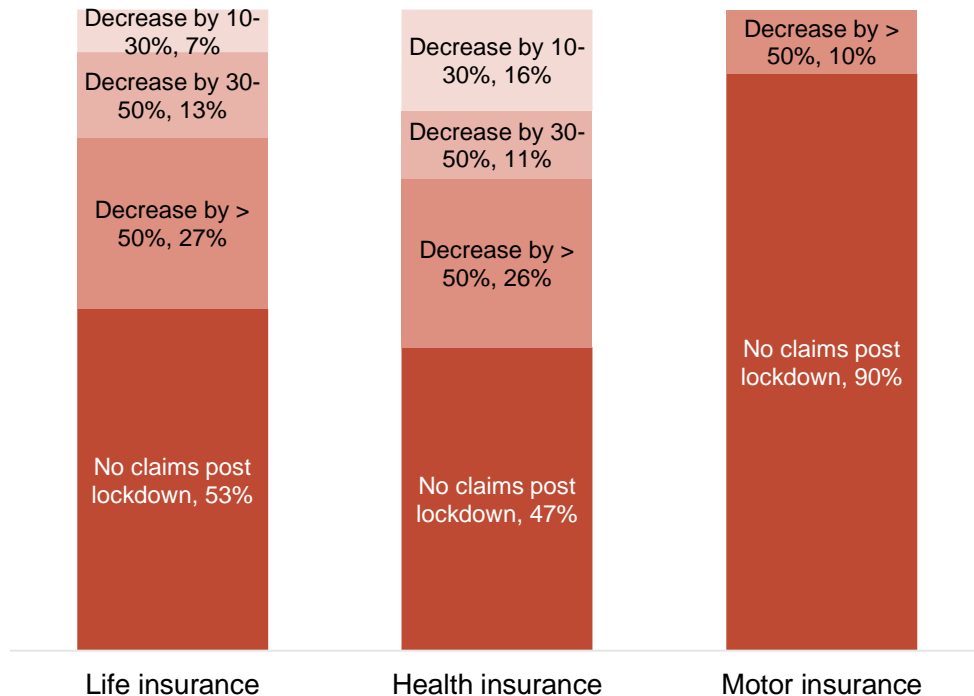
“Banks have large amount of data with them and with less physical transactions, they can focus on calling customers and pitching products”

- **Private Bank, Mumbai**

Claims have decreased for all types of Insurance post COVID; Insurers are doing their best to ensure seamless processing and settlement of claims

~90% agents have received no claims pertaining to vehicles post lockdown

Employee / agents: Impact on claims post lockdown



Steps taken by issuers to address claims

- **Digital processing** of claims → option of sending all claim related documents on WhatsApp / mail helps eliminate delay in claims
- **Force Majeure clause not to be applied** to COVID-19 deaths claims in life Insurance policies
- Insurers have issued guidelines for **quick settlement of claims** (<2 hours) filed by policyholders for COVID-19 diseases / infections

Medium and long term impact on claims

- **Increase in smaller health Insurance claims** → small surgeries which were kept pending due to COVID
- **Reduction in motor Insurance claims** in the **medium term** to continue **but to increase in the long term** as people to start driving more cars instead of pooling for safety reasons

"The life Insurance industry is doing their best to help customers by not applying "Force Majeure clause" → which basically includes events such as Act of god, pandemics, natural disasters, wars, etc."

- Insurer, Mumbai

"We will continue to honor death claims received from our customers pertaining to COVID-19 pandemic and assure them of any assistance on their policy in these crucial times"

- Insurer, New Delhi

"Whenever crisis like COVID-19 arises, IRDA announces relief measures to ensure that Insurance is for the well-being of people"

- Insurer, Bengaluru

"Usually claims get approved in 30-40 mins but there was no outer limit → now, we are ensuring no claims whatsoever take more than 2 hours to process"

- Insurer, Mumbai

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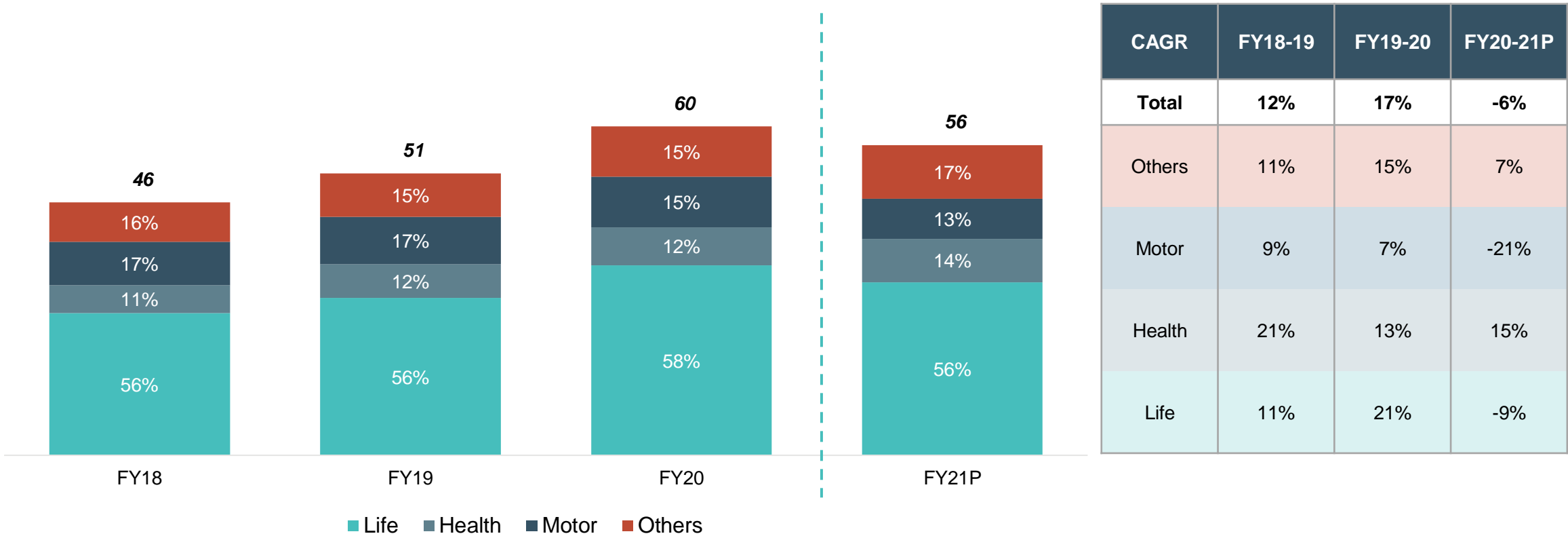


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How will COVID-19 **reshape the Insurance industry**? What should be the **action agenda for Insurers** as they look to rethink their business model and strategy?

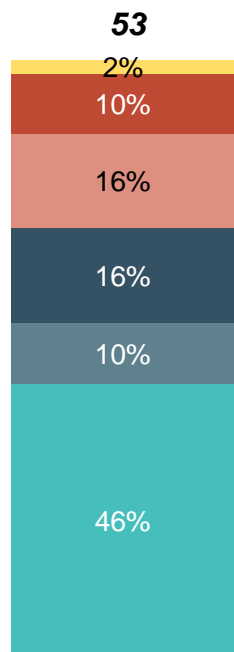
Premiums are expected to decline by ~6% in FY21, health Insurance possibly the only bright spot with a ~15% yoy growth

Gross premium underwritten by first year life and non-life Insurers (US\$ B)



Relatively minor impact (~US\$ 4B) on investment portfolios of private sector Insurers despite weak equity markets and benign interest rates

Category-wise total investments (non-ULIP) of private life Insurers (US\$ B)



FY19

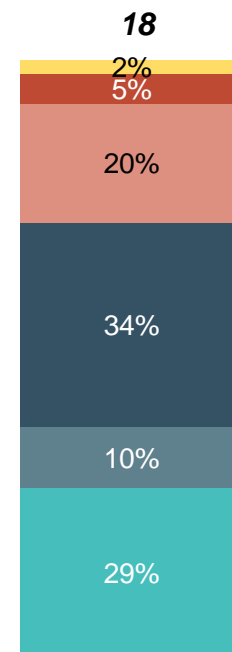
- Other Investments
- Approved Investments - Equity & MFs
- Approved Investments - Debentures
- Housing & Infrastructure Investments
- State Government & Other Approved Securities
- Central Government Securities

Note: US\$ 1 = INR 75

Investment categories	% loss expected	Amount of loss (US\$ B)
Other investments	30%	0.32
Approved investments – Equity & MFs	30%	1.6
Approved investments – Debentures	5%	0.43
Housing & infrastructure investments	2%	0.17
State Government & other approved securities	2%	0.10
Central Government securities	2%	0.49
Total	~6%	3.11

A part of this amount would eventually will be borne by policyholders by way of reduced bonus / participation

Category-wise total investments of private general Insurers (US\$ B)



FY19

- Other Investments
- Approved Investments - Equity & MFs
- Approved Investments - Debentures
- Housing & Infrastructure Investments
- State Government & Other Approved Securities
- Central Government Securities

Investment categories	% loss expected	Amount of loss (US\$ B)
Other investments	30%	0.11
Approved investments – Equity & MFs	30%	0.27
Approved investments - Debentures	5%	0.18
Housing & infrastructure investments	2%	0.12
State Government & other approved securities	2%	0.04
Central Government securities	2%	0.10
Total	~4.5%	0.82

Five key forces to reshape the Insurance industry - inevitable perhaps but accelerated by COVID-19



Emergence of true product innovations

- **Risk – based** pricing
- **Feature innovation** to cater to specific customer segments
- **New products** to enable **commercial segment** manage risks effectively
- **Deeper embedding** of Insurance with other products



Emergence of massive digital platforms as a key distribution channel

- Not just InsurTech, but other customer facing platforms as well
- **Direct – to - consumer** as well as aggregators for advisors
- **Shift of power** to platforms, especially in case of Insurers who do not have a large tied agent force / bank partnerships



Deconstruction of value chain

- Growing importance of **protection and risk management** products
- As Insurance companies focus more on protection products, some players will move **away from asset management heavy products**
- Emergence of **pure-play underwriters**



Significant investment in technology

- Building a truly, **end-to-end digital and omnichannel** customer journey
- **Analytics in pricing and underwriting**
- Customer servicing, claims management and even investments



Consolidation triggered by growing specialization and tech investments

- **Specialization** will drive scale in specific niches / parts of the value chain
- Large distribution platforms will drive consolidation of Insurers as they assume ownership of customer
- Large investments in technology and analytics will need deep pockets

Action agenda for Insurance companies



Up the stakes on product development

- Build deep customer / risk understanding
- Products and features for specific risks / customer segments
- Sharpen risk-based pricing
- Innovative product design and risk management solutions for commercial lines



Rethink distribution strategy

- Compete or collaborate with digital platforms?
- Leverage fintech ecosystem to meet distribution objectives
- Review product – channel mix



Leverage tech to empower channels

- Map customer's purchase journey
- Capture each step of the journey to be able to engage with the customer
- Empower the channels with analytics and workflow tools to increase productivity and reduce TAT



Truly digital and omnichannel customer journeys

- Create an omnichannel experience for customers
- Design contactless buying experience for customers
- Leverage AI to deliver an intuitive and powerful experience for new policies as well as renewals



Drive efficiency in claims, customer service

- How to deliver a 'no-operations' experience to customers?
- Automate operations and even fund management
- Leverage RPA and ML to reduce TAT, enhance accuracy and improve customer experience



Cost and capital efficiency

- Need to review product portfolio to optimize on capital
- Drive down costs, especially as tech takes over: how to cut flab but build muscle?



Financial Services

Specific practitioner expertise



Shishir Mankad

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Madhur Singhal

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Anil Jaggia

Domain Advisor

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Chandrashekhar Bhide

Domain Advisor

Financial Services



Varsha Agrawal

Practice Member

Financial services



Ankit Surana

Practice Member

**Banking and Financial
Services**

How we help our clients

We have partnered with banks, NBFCs, wealth managers, Insurers and fintechs to help navigate the rapidly transforming industry landscape, meet growing customer expectations and embrace the new digital world



Digital Transformation

Providing end-to-end digitalization solutions such as neo-banking and robo-advisory to reduce TAT, CAC and improve customer experience



Customer acquisition and engagement

Providing deep understanding of customer journey, pain points, customer behavior through extensive market research



Product and Sales effectiveness

Supporting clients in revenue growth and market share gain by identifying new opportunities and benchmarking various aspects of productivity with best industry practices



Cost optimization

Designing cost-effective ways to measure and manage the product and customer portfolio



Operational risk management

Elevating business performance by identification, assessment, modelling, monitoring and controlling of key operational risks

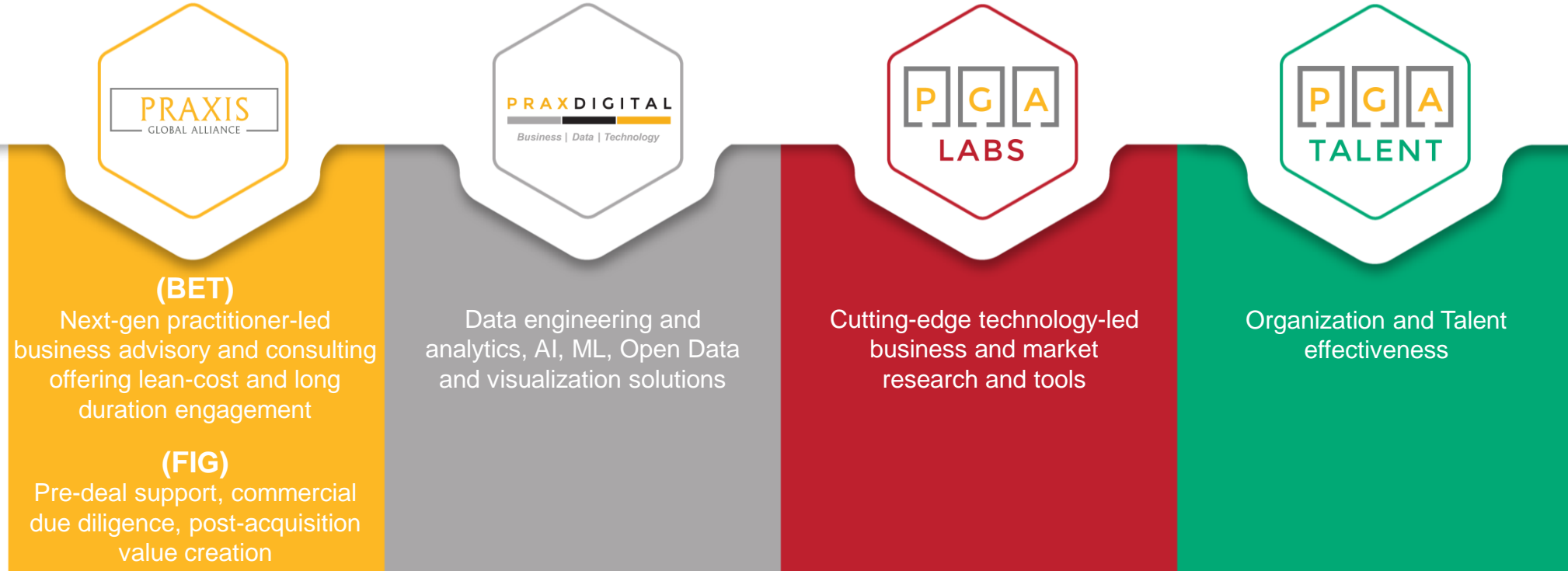


Network expansion

Designing and implementing rich branch growth models with micro market strategy and detailed branch model economics

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Praxis is 'Practical'



We bring the best domain expertise with our deep pool of industry practitioners and implementation teams as two-in-a-box



We work with agility, flexibility and embed with your teams to enable **SUPERIOR OUTCOMES**



We leverage technology deeply to enable higher ROI on your consulting and analytics spend

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