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PRODUCT INNOVATION IN THE MIDST OF A PANDEMIC: REWRITING AND RETAINING RULES.

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Scenario and Economic Impact

The Current Pandemic Scenario

- Coronavirus disease 2019 (COVID-19) is a novel viral disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)
- The WHO declared the rapid spread of SARS-CoV-2 a pandemic on March 11, 2020
- As of 4th November 2020, the total infected cases across the globe was a staggering 47,362,304!!
- The total number of deaths was 12,11,986 (Approximately 2.56%)
- For the SARS epidemic in 2003, the mortality rate was close to 11%
- As one can see the mortality rate for this diseases is not very high
- What makes the COVID 19 so deadly ?
- Its ability to spread amongst the population – many a times with no symptoms from the carrier
- Prolonged treatment in case of the virus reaches the lungs causing financial hardship to the victim
- No vaccine in sight
- And to add, we still don't know many things about it – reinfection, hot weather, cold climate etc



The Impact on Economy

- At the initial stages, more out of fear of the unknown, to combat the disease and its spread
- Several countries across the world resorted to lockdowns to “flatten the curve” of the infection.
- Flatten the curve refers to the efforts to let the number of infections rise gradually rather than a spike
- These lockdowns meant confining millions of citizens to their homes, shutting down businesses and ceasing almost all economic activity
- This meant families were without any source of income to sustain their lives
- GDP of countries went spiralling down since there were no economic activities
- A snapshot of the decline in GDP is given in the next slide.
- It is for the quarter ending September 2020



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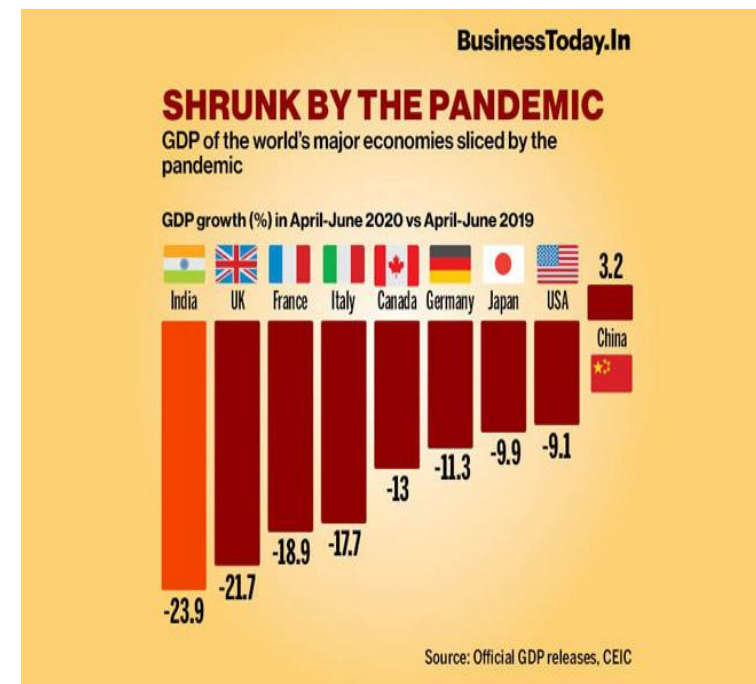
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Scenario and Economic Impact



Except for China, all other countries have had close to 10% or more than 10% decline in GDP Year on Year basis

The true picture will emerge once we have some control over the virus



Scenario and Impact on Insurance Industry

- Impending economic slowdown and rising unemployment post Covid to impact the sale of new policies and the renewals.
- The stagnating growth of savings linked plan and rising claims may impact profitability of life companies.
- Strain on the asset side as investment may suffer losses, Interest rate decline to impact reserving assumption



- However, this unfortunate scenario may also lead to increase in term insurance sales due to rise in awareness
- Term Plans and Riders are profitable
- The demand for Group products will be more than individual
- Reduced claim due to less economic activity – such as death due to driving will benefit

- Short term may be negative due to stagnating growth and rising claims but in long-term change in consumer behavior and rise in demand for pure protection product due to improved awareness and importance of life insurance will benefit the industry provided insurance risks are managed well.

The Impact on Life Insurance products

Scenario/LOB	Protection	Nonparticipative	Participative	Health
Impending economic slowdown and rising unemployment	Still Positive due to rise in awareness about protection and need for insurance	stagnating growth of savings linked plan due to need for liquidity	stagnating growth of savings linked plan due to need for liquidity	Still Positive due to rise in awareness about protection and need for health cover
Interest rate decline – to Impact reserving assumption, Asset side strain	Not Much impact expect impact on reserving assumption	Company may not offer due to high interest rate guarantee	Asset side strain – to impact bonus rates	Not Much impact
Improved awareness	Positive on sales and profitability	Less preferred due to increased preference for short term savings product	Less preferred due to increased preference for short term savings product	Positive on sales and profitability
Stagnating growth of savings linked plan and rising claims	Impact Profitability	Higher order Impact Profitability	Higher order Impact Profitability	Impact Profitability



Innovation in Insurance Products & Services

- Innovation means original and MORE effective
- Product Innovation means – Align customers' need, cost effective risk transfer mechanism
- Product Context – Distribution, customer service, flexibility
- Customer orientation- Respect for the policyholder and Empathy with the current situation
- Innovation with win-win proposition
- Innovation – to focus on long-term and look at the short-term



- Not apply the force majeure clause while accepting claims in their respective lines
 - Deaths due to Covid in life insurance
 - Indemnity claims in health insurance
 - Business Interruption Claims in General Insurance
- Providing time for premium payment in case of renewal premiums (especially if the zone / country is in lockdown)
- Providing alternative ways to underwrite policies and/or issue policies during these testing times. For example – contactless underwriting and issuance of policies
- Improve digital capabilities to improve operational efficiency

Innovation in Life Insurance



Existing Products and Services

- Easier mechanisms to pay renewal premium (digital / electronic mode)
- Extension of grace period for renewal premium from the usual 15 / 30 days
- Non application of Force Majeure clause while processing claims
- Cash payment of bonus if regulations permit

New Products and Services

- Introduce rider coverage for COVID risks
- Introduce nonmedical underwritten products; albeit limited Sum Insured; online preferably
- Can come up with some compensation for their sales workforce; to keep them motivated

Innovation in Health Insurance



Existing Products and Services

- Extension of grace period for renewal premium from the usual 15 / 30 days
- Can offer increase in Sum Insured without underwriting for family floater products since there might be an apprehension that covers will be inadequate for the family as a unit
- Nil / reduced deductions or reduce copay amounts while processing claims
- Alternatively, company can provide daily cash allowance to overcome hardships to people already under financial duress
- Can provide an option to reinstate exhausted limits; subject to regulatory approvals

New Products and Services

- Fixed benefit cover for COVID cover; can have a simple structure or can be a graded cover
- Graded cover – if the person is a standard risk or better than standard risk, then he/she may not expect to have a prolonged treatment; hence may opt for a lower sum insured
- Graded Cover – if the person is aged higher and/or has co-morbidities and expects to have a prolonged treatment in case of an infection; he/she may opt for a higher sum insured
- Pricing can take care of anti-selection; underwriting grids can eliminate high anti selection cases
- Product Which covers mental health issues and treatment

Innovation in General Insurance



Existing Products and Services

- Extension of grace period for renewal premium from the usual 15 / 30 days
- Nil / reduced deductions while processing claims
- May relax certain conditions on existing policies especially Business Interruption Cover
- Ideally BIC comes as a contingent policy to a Fire policy / Property Policy
- May think of looking at providing support to policyholder by changing conditions of contingency

New Products and Services

- Can provide for extension of coverage without additional premium; since lockdown meant zero exposure due to premium already collected (motor, engineering / property business etc)
- Can use technology to verify and settle claims quickly
- Can combine low correlated lines of business and come up with a single product (motor and health; employer's liability and group medical insurance)
- Subject to regulatory approvals

Insurance Pools formation



- Insurance Bodies can influence other stakeholders to help insureds in these periods
For eg: an Insurance Pool can be formed
- The pool acts as a collective vehicle for settling claims arising due to any pandemic reason
- The broad working of the pool can be:
 - All insurers, the Government or any other body can contribute to the pool (premiums / start up funds)
 - The pool will be administered by a designated body authorized by the Government / Regulator
 - All claims will be paid from the pool funds
 - A clear-cut mechanism must be in place before hand to deal with surplus or deficit in the pool

Summing up...

- Unusual times need unusual solutions
- The current environment has shaken up the insurance industry; from a top line perspective to profitability & solvency
- At the same time lots of policyholders have been adversely affected – job losses, loss of friends and family, draining out of their savings
- The trade off for insurance companies is between maintaining their profitability & solvency
- And ensuring their policyholders are not adversely affected; mitigate their situation if possible
- Insurance business is a long-term business for everyone
- If we can manage to win the trust of existing policyholders in these times, they will be with us for ever



Thank You