



Insurance news analysis

Video transcript

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Hello and welcome to Accenture's insurance news analysis, December 2020 edition. I'm Natalie de Freitas and I'll be joined by Kenneth Saldanha, Accenture's insurance global lead, where we'll be discussing the biggest insurance news stories of the month. Kenneth, we're in December and we're approaching the end of the year marked by COVID-19 pandemic and reports coming in and that Reuters is reporting that Lloyd's of London believe global insurance losses from the pandemic will be higher this year than the \$107 billion that they previously estimated. Are insurers and reinsurers any closer to a long-term solution on how to cover businesses for huge, hugely disruptive events like COVID-19?

Kenneth Saldanha

Global Lead—Insurance, Accenture

Natalie, it's nice to see you again, first off, and nice speak with you again in December. It is the end of quite the year, right, 2020 with all of this happening in the year and the increased expectation of losses that you reference from Lloyd's is certainly one of the dominant stories around insurance, for sure, this year. I think what's happening with this is really an interesting shift, not just from a sort of continuous evaluation of the scale of losses, but really a core question around what's covered. And what we're seeing in London, as well as in many other jurisdictions, is a series of lawsuits being filed around whether, in fact, insurers cover the business interruption costs of the shutdowns. And that actually is a completely—it's a discontinuous change to the level of coverage that would be available through insurance policies, and as a result, it would dramatically change the level of cost and coverage that's provided to the policy [holder?] as a claim. So what you see in some of these restatements of the expected losses is really still some uncertainty as to whether, in fact, certain blocks of losses, which have been very substantial for these business owners, who are facing enormous losses from these shutdowns that have occurred and now are coming back in so many countries and in so many markets. That's what's going to be playing out for the insurers is going to decide whether, in fact, those losses are covered.

In terms of long-term changes, there's no question this is going to actually have a long-term impact on the insurance industry. We've talked pretty previously around the resurgence of interest in parametric insurance, which is a different kind of coverage, where the payouts are more determined by the occurrence of an event as opposed to a scale of losses. Right now—that was not a very popular or frequent coverage. I think that's going to clearly change as people go through the COVID experience. Same thing is true for general policy language and policy terms—nobody wants to be in this battle around, you know, what's covered and what's not, so I anticipate there will be continued clarification around policy language, about coverage levels, etc., coming out of this as well. So, no question that there is going to be a lot of debate for a long time about exactly what is the scale of losses and also, no question, that there will be substantial changes to the structure and the language of insurance coming out of this year.

Natalie

And, of course, stemming from that we've had disruption to business and the economy, but I suppose one bright spot, if we can call it that, is that we are seeing less, you know, workers' compensation and claims, you know, fewer workers are being injured in motor vehicle accidents, for instance, and we're reading new reports from the National Council on compensation insurance. Are there any other changes brought on by the pandemic which may cause a shift in workers' compensation claims, and how are insurers going to be dealing with this new future?

Kenneth

Yes, I think, you know, work comp certainly an example of this, we see it even, you know, on auto insurance on most types of coverage. In essence, what's happened is usage has really plummeted, right, and so whether it's because people are not driving back-and-forth to work or just out-and-about, you know, that's made a big change in what the level of auto premiums are. It's also made a big change in the level of auto claims—less people on the road, less accidents, less claims, right, so we're seeing insurers react with reductions or rebates on premium as well as reflecting that in what they expect for claims losses. Work comp is very much the same thing. Work comp is driven off, fundamentally, payroll, right, and, unfortunately, we are seeing a reduction in payrolls, we're also seeing a very substantial shift in terms of where work is getting done, and there are fewer workers in facilities, in factories, in offices, and that, again, has an implication both at the premium level, because it's driven off the payroll, as well as on the claims experience level. So, yes, I guess the silver lining on this is that there are fewer people being injured, you know, through this period of time and that's what you see reflected both in the premium levels for the industry, as well as in the claims experience, you know, that is now being reported.

The interesting thing about the about this pandemic has been that it's not just going to be the experience that is determined by the current work-from-home; the fact is we expect a lot of these changes to be sustained. It's not, you know, even post-vaccine that I think we're all very excited about seeing out in all these markets in the coming weeks and months, nobody expects work patterns to simply return to where they were in, you know, February of 2020 right off the bat. So there will be a sustained change in how work comp gets written, and what gets covered in work comp. Whether that's an increase in what we write for work-from-home or just a sustained reduction in what we experience in workplace, but there's no question that there will be sustained changes to what's really being what's really being written for work comp coming out of this year.

Natalie

Another story is that resiliency certainly is at the top of the minds of insurers. Broker Aon has launched a new product for the capital markets to protect insurers and reinsurers against systemic and catastrophic cyber-events. This is an example of insurance [inaudible] markets offering a risk transfer solution. Is this an area of the market that we expect to see a growing number of opportunities in the years to come?

Kenneth

We absolutely will, I think cyber and technology resilience has been a huge topic this year, right, for I think we talked last time in November about the increase in exposure to cyber risk, the resilience of technology systems, we're seeing that really play out in terms of increased demand for these services increased pricing for cyber insurance and then increased losses. So we see enormous spikes in ransomware in [inaudible] where exposure and that's what you're really seeing Aon and Hudson capital reacting to. Fundamentally, the capital demands of writing cyber insurance have just gone through the roof, right, and what you're seeing in this new structure is essentially alternative capital or different ways to bring capital into the market under different structures. What's being offered by Aon and the Capital Holdings is actually a fairly complex kind of reinsurance structure for products, but basically what it does is increase the industry's ability to underwrite risk in cyber insurance using different financial structures around it, right, and so I think that will stay. Again, I don't think the cyber risk is going to drop post-2020, I think it's here to stay, and given how tightly interwoven technology is with virtually anything that's happening in business today, that risk is going to stay. So I think this, you know, we've we've always seen a high degree of alternative capital flowing into insurance over the last, you know, several years I think that's going to stay and be probably focused in places like cyber for the foreseeable future.

Natalie

And, finally, I want to step outside a little bit from the insurance industry and talk about General Motors, because they've launched an auto insurance program with its subsidiary, OnStar, as it makes big moves to price premiums based on data generated by increasingly automated and connected cars. I mean, will we see insurers eventually stop using criteria like age, gender, the neighborhoods we live in, to price our auto insurance?

Kenneth

So I think General Motors recognizes they have an interesting asset in that they have the vehicles, they have, you know, the original equipment manufacturers, the O.E.M.'s, in this space have certainly been—you know, we've all been expecting them to make moves in this area, because they have the underlying vehicle themselves. And with OnStar in place, it's not a surprise that they would move into this space. So I think, you know, we're certainly going to see telematics continue to be the dominant force in underwriting, again, and in claims, because you don't need to rely on a police report—you actually know exactly how fast the car was moving, how fast it stopped, whether it was parked when the other vehicle hit it—all those kinds of factors, right. So I think we're just seeing this explosion of sophistication around data analytics and that's going to allow us to move into much, much finer-grained work around what really matters as it relates to both pricing and settling claims of insurance.

Natalie

Kenneth, of course, this is our last news analysis of the year and I want to thank you for wonderful conversations throughout the year, but obviously we're entering festive season—any nice plans for the holidays?

Kenneth

Yes, well, we're entering festive season with caveats, clearly, but, you know, so we actually had to diminish some of our family get-together plans over this last week with Thanksgiving in the U.S., but we are anticipating that—well, I have two kids in college who will be home for Christmas, we believe at this point, unless something changes. So that's the big plan—is having the kids home for Christmas, of course, as I think Natalie you know my wife owns a couple of toy stores especially toy stores, and so my holiday plans will include strategic choices on wrapping paper for various customers. My wife is very clear on the fact that I do not have the appropriate persona to be at the front of the store, but I will be required to work in the back wrapping gifts, you know, for the Christmas rush. So that will be the plan, is the kids home for the holiday, a pretty crazy time in at kiddywampus, my wife's toy store, and me working retail for a little break from the insurance world. Hopefully you have some more restful plans than I do for the holiday!

Natalie

I might be wrapping toys but that sounds wonderful! Yes, I'll be spending it with family, so we've had some good news in England that we got five days of being able to mix with three other households. So slightly better news than expected, so it'll be nice to have a family Christmas—and I do Portuguese on Christmas Eve and an English Christmas dinner on Christmas Day, so I get to celebrate your culture, and that's a bit of fun.