Insurance news analysis

Video transcript

November 2020

Natalie de Freitas
Media & Analyst Relations—Insurance, Accenture
Hello and welcome to Accenture's Insurance News Analysis—November 2020 edition. Hello, I'm Natalie de Freitas, and I'll be interviewing Accenture's global lead for Insurance, Kenneth Saldanha for his views behind the biggest insurance news stories of the month. You blogged this month about the role of the insurance industry and how they are helping with the long-time care needs of the elderly and supporting their families particularly as we see the virus causing disproportionate mortality rates in care homes. There was also striking news last month that the pandemic is disproportionately affecting people with little to no life insurance. And, particularly in the US, life insurers are seeing far fewer COVID-19 claims than they initially expected. Has the pandemic shone a light on the underinsured, and, you know, how can insurers build better relationships with their communities?

Kenneth Saldanha
Global Lead—Insurance, Accenture
Yes, this has been a very, very long standing issue that has now had the light turned on it based on the COVID situation. First and foremost, I think we are all very relieved to see that we are not facing the mortality rates that were initially being talked about around COVID. And that, obviously, is a very, very good thing. What the situation has done though is really spotlighted both the under-insurance levels in certain markets, as well as the general need to revisit how we think about eldercare. You could almost follow the sun east to west and look at the levels of insurance for life insurance by market, and historically there's always been a much higher degree of general savings and life insurance in particular as you go east, and then you see a drop-off in Europe and Western Europe and then into the US. And, I think, we're seeing that in the current situation. As the elderly population gets really tested by this particular pandemic, that disproportionate impact is felt on the financial side as well, because the under-insured levels for these markets are absolutely being exposed.

And, it's not just at the mortality rate level. As well, even fundamentally, eldercare has really come under the spotlight because, as you mentioned, the care homes have seen disproportionate impact here. We also see a much higher need to find ways to have remote interactions. And so, there's always been kind of the ongoing push to have the ability to connect with grandma and grandpa over, you know, iPads or by video conference, etc. Now, that's become a much more difficult interaction, cause it's no longer about, you know, checking-in and saying hi to the grandkids; it's actually now about fundamental health care.

Natalie
Kenneth, can digital technologies reach people previously underserved by insurance?

Kenneth
You know, Natalie, life insurance...everyone talks about the fact that, you know, life insurance is a product that has to be sold. It's not one that is, you know, innately bought, right? As opposed to auto or home insurance, which is a legal requirement, right? So, life insurance... Historically, the agent has played a very key role and a high-EQ role to actually have the conversation about the requirements for life insurance, you know typically, at a time of some sort of life stage. So, you have a baby, you have a death in the family, and that's the kind of time in which the awareness of that need really emerges, and life insurance agents are actually able to make the right connection with customers to say, "Look, actually, you are exposed on this, and it's an area that you haven't really thought about before, but now that you have, you know, let's talk about this," right?

So, good life insurance agents and those who really are engaging with their customers effectively in the best interest of their customer, have historically had, you know, very high-EQ conversations about this. As you can imagine, that's typically been an in-person kind of, you know, conversation either in a celebratory or a difficult life event. Now, we actually find ourselves in a situation where there has to be a remote or digitally-enabled conversation about a product that is probably even more relevant now than it ever has been. So, we do see digital technologies making a big difference. And, this isn't just, you know, agents now talking to you on a video conference versus in their offices. But, really even extending into how can we do some of the monitoring; how can we do some of the testing? One of the routines of life insurance has historically been, you know, a nurse coming to your home to actually take your vitals and draw some blood, etc., right? Even that is now changing with the ability to do some of that monitoring, some of the testing digitally. So, you know, in the environment that we see ourselves in in 2020, where the need or the visibility of the levels of under-insurance and life insurance are more evident than ever, I think we absolutely are seeing the ability of digital technologies to both change the agent conversation, the distribution conversations, as well as the underwriting and the product initiation conversation. I think it's a very important trend and one that actually is critical for us to actually weather this pandemic that we're facing right now.

Natalie
Secondly, Kenneth, I'd like to pick up that the Huffington post ran a feature this month reporting that homes in the US are becoming harder to insure thanks to climate change. I mean, given that insurers now have far more capabilities than they used to to assess the prospective risks of a property, and we're seeing, you know, the rise of extreme natural events. I mean, this year we've seen the fires in Australia and recently, tragically, in California. I mean, how are insurers preparing for climate risk?

Kenneth
You know, it's important to make the distinction, Natalie, that you did, which is there's the question of risk as it relates to, you know, what in insurance is called attritional risk—the ongoing risk of insuring a house. And, as you said, the capabilities for that have been really increasing and getting better over time.

What the industry is struggling with is some of this more systemic risk that is emerging from climate change. So, when we talk about the fact that homes are getting harder to insure, it's not because we don't have sensors in there, we don't have the ability to quickly, you know, address concerns around risks that emerge. What we're really talking about is the fact that fundamentally we don't have the same stable risk models for what truly is the exposure for the industry. So, we're seeing, you know, with the fires, with climate change, those are the changes that are making it much, much more difficult. And, you see insurers responding at multiple levels. You know, operationally, you talk to claims executives and they will tell you that it used to be a very clean line between catastrophic events and attritional losses. And, over the last several years, that line has completely blurred to where now you just have a string of, you know, many catastrophic events that feel more and more like just claims as usual. So, that attritional versus [catastrophic] events have really sort of started to blur as we see more and more of these events. It's no longer the case that you can just look at your business and say, "We'd like to actually plan for a certain level of growth and profitability." So much of this has now become much more heavily driven, in a scenario world, right?

So, you know, "If we see the same early trend of fires, how do we intend to move our book of business?" and its that kind of shift into scenario planning that we see all the time. And then, finally, there's actually a very, very harsh reality around capital management. Insurance companies have to have a substantial level of capital reserves in order to be well rated and to actually underwrite this risk. And, what we're seeing right now with all of the changes in climate risk, in fires with the general elevation of these, you know, large-scale risks or these systemic risks, is a demand for new levels of capital. Well, that's capital that the insurers have to choose between lines of business or segments that they want to write. And so, there's a whole different view on this now that's from a capital management perspective.

Natalie
And I'd like to pick up, because conversely AXA released a survey this month that said insurers ranked pandemics as the biggest risk to society for the next five or ten years. That was a bit different from last year where climate risk, as we were just discussing, was the biggest concern. Do you see COVID-19 as being the biggest risk that insurers need to sort of prepare for in the next five to ten years, and should they be mindful of other creeping threats?

Kenneth
You know, this is one where it's "six of one/half-dozen of the other." You know, what's the largest risk? Well, I mean, depending on who you ask or how you think about it… there's no shortage of horribles to pick from, right? As you said, clearly in 2020 no one's going to argue that COVID-19 and pandemic risk in general was the topic of conversation. You know, but not the only one, right? So, pandemics are out there, but it doesn't stop there, Natalie. If you look, you know, you can also extend that conversation and say what's happening with cyber risk? Because, there's another situation where a very, very fundamental change has occurred. We're talking about, you know, ransomware at completely elevated levels. You know, we're talking about ransomware in environments where, you know, it's absolutely inhuman to think about the fact that most of the attacks are currently being directed at healthcare facilities. Because, you know, if you want to hold society ransom right now, a health care facility is probably your best target unfortunately. So, we actually across the board… you know, how do you pick your biggest and worst risk, right? I mean, it's climate. It's pandemic. It's ransomware. It's cyber in general. So, I think all of these are at play, and just as we talked about on the climate side where insurers have to have a multi-layered response to this—operationally, planning, capital management—all of these things are happening across every one of these risks. So, you know unfortunately, my sense is we can't pick one. There's just… fundamentally the nature of risk in our society—in our societies—is changing and insurers are going to have to shift their business to actually respond to that, because it just is a different world.

Natalie

Thank you, Kenneth. Fascinating insights as always, and thank you again.

Kenneth

Absolutely—nice to talk to you again, Natalie. All the best.