



Financial Risk & Regulation

What are the implications of COVID-19 for the insurance industry?

Newsletter summary – March, 2020

A crisis such as Covid-19 affects all business sectors – but it especially puts a spotlight on insurers who can expect to be inundated with general inquiries and claims across multiple different lines, whether that be for health, life or non-life cover.

Non-life insurances

Expected damages for certain existing insurance contracts e.g. in the case of comprehensive car insurance or Motor Third Party Liability are significantly reduced in the short term due to reduced vehicle traffic due to people staying at home. The same may be true of home insurance e.g. it is more challenging for burglars to do it during this time than raiding vacant properties. At the same time, new contracts are expected to decline significantly for that period, depending on the sector, e.g. in the case of travel insurance, the business is virtually eliminated in the short term. New acquisitions in sectors where the primary channel of acquisition through personal sales (i.e. agents) may be very limited due to a drastic reduction in personal encounters.

Event cancellations may cause greater losses to insurers as some large events (but certainly not all) have policies that may cover them even for epidemics or pandemics. The largest event taking place this year is the Tokyo Olympics where analysts estimate approximately \$2bn of coverage.

The other area is workers' compensation claims. We could see spikes in workers claiming they were not adequately protected by their employers against exposure to the virus brought about by their normal working duties. It is impossible to know at this stage how significant such claims could become. But insurers offering this type of cover to employers may need to brace themselves, depending on how things develop.

A mixed diagnosis for Health Insurers

The impact on health insurance is hard to determine at a global level because the impacts will be very different country by country. This is both because the number of actual cases and deaths could vary greatly between countries/regions, and because of the varied make-up of health coverage itself. In some countries, such as the US for example, most healthcare is privately provided (except for the elderly where Medicare plays a big role), while in others, such as Hungary, there is much higher public provision.

Life insurances

Of all insurance segments, it is life insurers who are facing the most difficult challenges. The industry is closely monitoring the potential impacts on mortality rates, however, we expect that life insurers may also feel significant impacts due to what is happening in the financial markets.

Because of the long-term assets and liabilities that life insurers hold, market volatility is always challenging for the sector - and we have seen extreme volatility in recent weeks. Major exchanges around the world have experienced some of their worst falls in decades, even if ground has later been made up again. Movements in equities, interest rates and credit spreads can create tremendous asset liability management risks for life insurers as yield curves flatten.



Conclusion

Like other industries, the insurance sector has to calculate with the a sudden slowdown in the global economy as well, which may limit the growth of the insurance sector due to a decrease in insurable exposures and potential contracts.

One of the tasks now is to maintain customer confidence in the insurance sector. In the current situation, many clients experienced, for example, the exclusions and limitations of their insurance contract regarding a pandemic situation. If, at the time of the conclusion of the contract, they are not properly communicated and the clients are not aware of the terms of their insurance, the clients may feel that they are not getting the proper service and their confidence in the insurance companies may be shaken. In these situations, it is very important to handle incoming claims and complaints properly and in a timely manner, and the quality of communication with customers, which can be challenging.

Insurance businesses - as other sectors - need to embark on the digital transformation of their organizations, to become more agile, responsive and connected enterprises. Perhaps one legacy of the coronavirus crisis could be that it actually propels more insurers to do that. These are extremely challenging times for individuals, families, businesses and indeed whole societies and economies. The insurance industry has a key role to play in supporting customers and societies through the crisis and the recovery.

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