Eos Venture Partners

NYIA
New York Insurance Association

How Covid-19 will change the insurance landscape and the implications for InsurTech

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Private & Confidential

Covid-19 effect on the Global Economy

Recessions, Depressions and Increased Unemployment	• The next 12 months will experience unprecedented recessionary pressures on the global economy • Corporate and government debt already increasing at a fast pace • Global markets (bonds, equities and commodities) will continue to be unstable for some time • As more companies (of all sizes) begin to feel the pressures of Covid-19, we expect to see a sharp increase in unemployment • According to research by NIESR, unemployment in the UK is expect to rise to over 6 million by the end of May (from 1.34m pre crisis) to take the effective unemployment rate to ~20% (more than 5x its current rate of 3.9%) • Since the beginning of the crisis, over 26m Americans have filed new unemployment claims – wiping out all employment gains over the last 11 years • This will lead to a global economic depression and makes a 'v-shaped' economic recovery less likely
Shift in Individuals, Businesses and Governments mindset	• Reduction in global travel (business and personal) • Increase in employees working from home - 25-33% of people now remote working won't go back to work • Higher expectations from consumers on digital capabilities and infrastructure • The virtualization of the way we live, work, shop and interact directly affects the future demand for products and services, and people skills and competencies – we will see jobs, products and competencies becoming obsolete as the virtual ways no longer require them. As a result, both companies and people will need to redefine who they are and what they offer • Shift from importance of physical infrastructure – expensive office space in city centres likely to face a drop in demand • Legacy business models will face pressure from digital alternatives – e.g. an increase in digital educational offerings and more online university courses • There is historical precedent to support this - The global flu epidemic of 1918 helped create national health services in many European countries. The twinned crises of the Great Depression and the second world war set the stage for the modern welfare state

Covid-19 effect on the Global Economy (cont.)

Hospitality, Leisure and Travel likely to be hardest hit	• If, as expected, Social Distancing measures remain in place for the foreseeable future (12-18 months) it will result in a sustained depression of the hospitality, leisure and travel sectors • The US alone is projected to suffer a $519 billion decline in direct travel spending translating into $1.2 trillion in lost economic output • As companies continue to survive without excessive business travel, we can expect to see many reduce their travel budgets even after the pandemic
Retreat of globalised supply chains	• We can expect to see a retreat of globalized supply chains and reductions in global trade in the aftermath of this crisis • Western companies and economies will want to rely less on China-based supply chains as they recover from the impact of COVID-19 • The trade-off will be between short term profit maximisation and longer-term risk reduction. • Japan has earmarked ¥243.5 billion of its record economic support package to help manufacturers shift production out of China as the coronavirus pandemic disrupts supply chains between the major trading partners • Governments will be pushing to become self dependent for essentials such as PPE and food security
Privacy infringements	• For governments looking to monitor their citizens more closely, and companies looking to get monetise by doing the same, it would be hard to imagine a more perfect crisis than a global pandemic • In China today, drones search for people without facemasks; when they are found, the drones' built-in speakers broadcast warnings from police • Germany, Austria, Italy and Belgium are all using data – anonymised, for now – from major telecommunications companies to track people's movement • In Israel, the national security agency is now allowed to access infected individual's phone records

Impact of Covid-19 on the Insurance Industry

"The Coronavirus has hit our industry like a meteorite impact. There will be huge losses for the industry coming, it just takes a while for those to materialize" Oliver Baete; CEO, Allianz

Catalyst for change	• Famously known as rigid and lacking behind digital development, the whole industry is now forced to face digital – immediately • Insurance companies must adapt to serving customers virtually. Now and post-crisis. • This has significant implications for most insurers, as they have to rethink their digital products, services and distribution channels. The majority of insurers are working on these elements, but few are ready to deliver a complete virtual customer product and service offering • According to McKinsey, the industry has lost $760 billion globally in market capitalization, the third highest among all industries. Recapturing this lost value will be skewed to the insurers who successfully embrace the new normal
Performance hit on investment portfolios	• Plunging markets and falling interest rates triggered by the pandemic are as much risk to insurers as losses arising from Coronavirus • An increase in investment allocation of riskier bonds from insurers in their hunt for yield will be problematic • The proportion of triple-B bonds — those rated at the lowest rung of investment grade — have increased from under a third of the insurers' corporate bond portfolios in 2012 to 43% today • Low interest rates make it harder for insurers to meet the financial guarantees they have already made to existing customers • Insurers will need to bolster their balance sheets – QBE has announced plans to raise ca. $825m of additional capital from the sale of additional shares in the company
Reputational damage	• Insurers are starting to receive backlash over perceived refusals to pay out on Covid-19 related claims • Some insurers are responding by giving customers premium holidays/refunds • Insurers are preparing for lawsuits over a reluctance to pay out on business interruption claims • Hiscox's UK business clients have formed the Hiscox Action Group and are seeking a legal opinion on the validity of claims having had their claims for business interruption refused by the insurer

Impact of Covid-19 on the Insurance Industry (Cont.)

P&C	• Auto insurers are seeing a significant drop in claims activity due to decreased driving activity – some are responding by refunding a portion of premiums to policyholders
	• McKinsey are predicting an increase in motor COR from 98% to a range of 97% to 120% based on various scenarios linked to the duration of the economic contraction and behavioural responses:
	  • 97%: Retrenchment – extended economic decline and more conservative behaviours
	  • 98%: Pause and rebound – relatively quick economic rebound and more conservative behaviours
	  • 106%: You Only Live Once – relatively quick economic rebound but more aggressive driving behaviour
	  • 120%: Black Swan – extended economic decline and more aggressive driving behaviour
	• Increasing awareness of how inflexible insurance can be and demand for usage based motor/insurance to reflect usage and then behaviour
	• Increase in levels of fraud, both personal and commercial
	• Insurance clients in the hospitality and tourism sectors are particularly exposed
	• Event cancellation insurance is most likely to pay out compared with other policies. However, travel, business interruption, workers' compensation, and general liability policies could also be affected
	• Across core property and liability coverages, most of the direct effects will be felt by lines that are priced based on payroll or company revenue, as well as other exposure units that directly decrease with economic contraction
	• Certain specialty markets, such as aviation, marine, and construction, will be affected by reductions in global travel, trade, and new builds during the crisis. They may benefit from reduced loss exposure in the immediate future (as the use of underlying assets has rapidly reduced) but will struggle to reach pre-crisis levels of activity until global trade activity fully resume

Impact of Covid-19 on the Insurance Industry (Cont.)

Life and Health	• We could see the collapse of individual life and health insurance companies • Ratings agency Fitch has already warned that life insurance companies could be particularly hard hit by the combination of falling stock markets and increasing mortality • Historical models become less reliable as current situation is so different, potentially accelerating move to analytics driven underwriting using real time information • Covid-19 will significantly strengthen demand for more comprehensive digital health offerings, including remote diagnostics, tracing, monitoring, real time advice (telemedicine), pharmaceutical support, early response communication and international cover
Reinsurance	• Reinsurers have started to de-risk their balance sheets by holding cash, which will have an impact on investment returns. • Willis Re currently estimates a 5% hit to the global reinsurance capital base, roughly US$30 billion • Additional pressures may emerge should economic conditions further deteriorate with a consequent impact on returns

How should insurers be responding?

As insurers begin to adapt to the ‘new normal’ some short and longer-term initiatives they should begin contemplating include:

Short term Initiatives	‘Why’ and implications
Immediate support for care workers	• Reinforces Insurance value as a force for social good • Positive touchpoints with consumers
Stay at home support and encouragement	• Positive touchpoint with consumers • Cost effective and simple
Reductions/refunds in premiums reflecting a reduction in usage (e.g. motor)	• Attempt to redevelop insurance as a ‘fair’ industry • Increase customer satisfaction • Those who don’t offer will suffer reputationally as more competitors decide to act
Agreement with governments and regulators about how any second wave of coronavirus cases and future pandemics could be covered	• Define insurers role in the crisis going forward • Avoid further reputational damage and potential legal implications • Industry has ‘weeks not months’ to resolve

How should insurers be responding (Cont.)

Longer term Initiatives	'Why' and implications
Develop comprehensive digital engagement capability across all aspects of the value chain	• Adapt to the 'new normal' • Customers expectation and demand for digital engagement with insurers will increase • Reduce operational costs and increase operational resilience
Increase roll out of digital tools for independent agents and brokers	• Adapt to the 'new normal' • Improve ease of business for all stakeholders , including need to work remotely
Develop enhanced UBI and fractional solutions (particularly for motor)	• Increasing demand as consumers realise insurance is inflexible and expensive • Focus on change in usage and use that as a springboard to behavioural based cover
Develop automated and AI assisted, self service and remote claims solutions	• Constrained by inability to perform physical assessments • Automation, efficiency and cost reductions during period of strain for the industry
New/tailored commercial coverages for areas including • disrupted supply chains • invoice and credit insurance • remote working infrastructure • A&H (leveraging telehealth • sharing economy (loss of income/A&H) • cyber (see below)	• Increasing demand and awareness of risk

How should insurers be responding (Cont.)

Longer term Initiatives	'Why' and implications
Enhance cyber coverage and risk mitigation for both personal and commercial customers	• New products to reflect increased risk exposure for individuals and businesses • Under penetrated segments
Increasing usage of digital exchange platforms for commercial lines business	• Improve ease of business for all stakeholders • Constrained by inability to conduct business in person
Enhance and improve workplace benefits	• As remote working increases and becomes the new normal there is a blurring of lines between work and personal • Important for insurers to maintain touchpoints with consumers at all stages
Increase pace of back office digitization, digital policy records and enhanced modelling/data science capability	• Reduce need for manual intervention • Support remote working • Reduce operational costs and improve resilience • Clean and structured data to support other initiatives • Historical models will no longer be reflective of future
Life and health insurance shift to digital engagement, smart rating factors, telehealth, health concierge and prevention leveraging health tech	• Reduce treatment costs based on monitoring and optimal intervention • Increasing demand for smart health care solutions
Monitor InsurTech landscape for struggling companies to identify opportunities to acquire IP, teams and businesses at competitive prices	• The crisis will create significant cash flow strain on many InsurTech's providing an opportunity to acquire technology to accelerate priorities

Impact of Covid-19 on innovation/InsurTech

Insurers can leverage existing InsurTech solutions, partner or develop capabilities in house

1 Marketing, Sales & Distribution

- Digital and app based sales channel
- Self-service digital interaction capabilities for brokers and policyholders
- Simpler and more transparent cover including parametric solutions
- Usage based and tailored coverage to reflect changing behaviours

2 Underwriting

- Automated underwriting for increased speed, efficiency and transparency
- Automated demand analysis & generation of new product offerings
- Reduce reliance on physical visits (e.g. medicals / property inspections) to write new business

3 Servicing & Policy Admin

- Automation of call centre & web chat services
- Digital input options and/or automate and digitize inbound documents
- A continued shift from protection to prevention

4 Claims

- Remote and digital claims assessment, including virtual and AI driven assessment
- Speed, efficiency and transparency
- Immediate payments, especially for businesses
- Prediction of claim volume patterns
- Augmentation of loss analysis

Examples of how insurers and InsurTech's have responded

Clara Insurance is targeting "millions of Americans" who face financial hardship because of a serious health issue with its single, simple benefit that sends fast cash in the event that someone is injured or sick.

PolicyPal has collaborated with FinTech firms Revolut and StashAway to launch a new programme called 'Medical Energizer' which offers insurance, financial and rides benefits to frontline medical workers - in order to support their wellbeing during the COVID-19 crisis.

Zego, which sells a range of cover to drivers and riders in the gig economy, is offering 14 days free insurance to any of its customers who have to self-isolate. Those affected can claim up to two weeks free insurance when they renew their policy.

Examples of how Insurers and InsurTech's have responded

Behold.ai

Behold.AI, which uses AI models to improve the accuracy of medical diagnoses, is using its Red Dot algorithm to instantly detect whether chest x-rays from suspected Covid-19 patients are abnormal. If the algorithm can be proven to identify which patients need isolation and specialist treatment from those who don't, it will save healthcare workers significant time and risk.

中国平安 PING AN

PingAn, the second-largest insurance company in the world, has developed a system that uses Natural Language Programming (NLP) to screen people calling into a helpline to describe their symptoms. It can handle 1.5 million calls daily, according to PingAn.

alan

Alan has launched a service called "un coup de pouce" or "a helping hand" which is free until 31st May and which offers advice on what to do day to day, a questionnaire to help identify if you are at risk, followed by personal recommendations, reimbursement for some medication, a consultation with a GP in partnership with Livi and two months free access to Headspace.

Examples of how Insurers and InsurTech's have responded

Veygo by Admiral is offering 75% off temporary motor policies to key workers who are struggling to get to work amid public transport cuts, or who do not want to add to their already high levels of risk by travelling on trains and buses

Health cover provider EquipsMe is offering SMEs with 2-20 employees free access to some healthcare plans until 1st August. The plans include 24/7 remote GP appointments, the use of a helpline staffed by nurses and support for stress, accessed by an app. SMEs that take up the offer will not have to pay until August and can cancel their plans before July.

Drone insurance provider Flock is allowing subscription customers with commercial cover to pause their policies as work dries up due to the events they would usually film, such as weddings and festivals, being cancelled. The company is also offering £10,000 of free cover to organisations that want to use drones to help fight the ongoing epidemic.

Examples of how Insurers and InsurTech's have responded

SME and freelance insurtech Digital Risks and its partner UnderPinned have a joint temporary offering which includes free access to UnderPinned's admin platform, commercial legal protection, 24/7 helplines for legal, financial and tax issues, and mental health support until September.

Prudential Hong Kong has backed a new industry initiative entitled 'Project Screen' along with several Hong Kong-based start-ups and healthcare providers to roll out accessible RT-PCR COVID-19 testing kits

Sun Life Hong Kong launched a new digital sales system in support of the Insurance Authority's implementation of temporary facilitative measures, which allow distribution of eligible insurance products through non-face-to-face methods to reduce the risk of virus infection.

Examples of how Insurers and InsurTech's have responded

Tide launched a new Invoice Protection product in partnership with insurance solutions provider Hokodo, to help SMEs protect their cash flow against the late and non-payment of invoices.

Admiral is to refund £110m of premiums to motor insurance customers because people are driving less during the lockdown. The group is the first major UK insurer to offer a blanket refund to all customers.

Aviva has announced a number of measures to support the NHS and its customers feeling financial pressure during the crisis. NHS workers will receive free breakdown cover, enhanced home insurance for personal belongings, free courtesy cars and priority repairs as part of their Aviva policy.

AIG places tech unit Blackboard into run-off

The impact of Covid-19 are rapidly evolving for incumbents and innovation. The below two headlines were within a month of each other…

AIG's Blackboard expands underwriting team

6th April 2020 - Author: Charlie Wood

AIG subsidiary Blackboard Insurance has announced a series of appointments and expanded capabilities to include coverage in Washington State.

Blackboard is strengthening its underwriting team with the addition of Bobby Steinsdoerfer as Head of Industry Segments, Trey Martino as East Coast Underwriting Leader and Peter Buccola as West Coast Underwriting Leader.

BLACKBOARD

News

AIG takes $210mn write-down to wipe Blackboard

5 May 2020

AIG has put its tech-driven middle market insurance operation Blackboard into run-off and taken a $210mn Q1 impairment charge to write down the asset on its balance sheet in the process.

AIG places tech unit Blackboard into run-off

- AIG reported that it has decided, at the end of March, to place Blackboard, AIG's technology-driven subsidiary, into run-off

> ***"As a result of this decision, AIG recognized a pre-tax loss of $210 million, primarily consisting of asset impairment charges; this charge did not impact adjusted pre-tax income."***

- This news was announced on AIG earnings call in May 2020 where it also posted a 93% drop in quarterly adjusted profit, as it set aside money to cover claims related to the COVID-19 outbreak, which it called the single largest catastrophe loss the industry has ever seen

- According to S&P, Blackboard closed 2019 with $85m in DPW

- Blackboard was formed in 2017 when AIG opted to rebrand a newly purchased US technology-focused firm

- The Blackboard vision was to reimagine commercial insurance through digital technology, data analytics, and automation with packages including property, general liability, auto, and umbrella across the manufacturing, real estate, retail, wholesale and services industries

- AIG's decision is further evidence on the strain that Covid-19 is placing the insurance industry under and we expect many to (wrongly) abandon their innovation efforts and priorities – this provides opportunities for forward looking participants to leap ahead

Building the SME insurer of the future

AIG closes down Blackboard, its innovative SME proposition

- Was Blackboard an unlucky victim of Covid 19 or does it fit a broader pattern that suggests building a sustainable digital SME insurer is challenging?

- Of the ten or so digital SME insurers that launched in the noughties in the UK, arguably only one has been successful – Simply Business which was acquired for $400m by Travelers (setting aside the inflated purchase price)

- The lack of progress, with the market in Europe and US still dominated by smaller brokers and agents has attracted a number of InsurTech’s (Next and CoverWallet being the most high profile) but despite often generating profitable business building scale has been a challenge for many

- We believe the following factors, make the SME market particularly challenging:
  - SME owners have limited understanding of their insurance needs and solutions
  - A purely digital distribution strategy doesn’t account for this complexity and need for human interaction
  - Building a comprehensive data set is not straightforward
  - It’s expensive to build a brand and drive customer acquisition

- Probability of success can be enhanced by:
  - Work with partners to create a strong data asset (this is the focus of Digital Fineprint)
  - Create products that are customised and tailored to individual sub segments (the market is very diverse)
  - Multi channel distribution strategy that allows the customer to move seamlessly regardless of entry point
  - Automated underwriting (linked to data strategy) and a digital claims solution to keep costs low
  - Agile technology infrastructure to support the above requirements, including digital payments and policies

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