

AD-HOC SURVEY - APRIL 2020

HOW DO SWISS INSURERS EXPERIENCE THE CORONA CRISIS?



Zürcher Hochschule
für Angewandte Wissenschaften

The coronavirus pandemic is also affecting Swiss insurers. The Institute of Risk & Insurance at the ZHAW School of Management and Law and Mazars have interviewed 14 insurers about the challenges and implications for them*. Based on the interviews, the ad-hoc survey draws an overview of the current situation among insurers. Many thanks to all those who took the time to talk to us despite the turmoil.

What were the challenges at the beginning of the crisis?

The greatest immediate challenges were to ensure consistent and prompt communication and to move operations to the home office. Existing contingency plans, existing technical infrastructure and the crisis management teams proved their worth. Operations have continued without significant interruptions, and the mood among staff is good under the given circumstances.

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We are very positively surprised how well the transfer of operations to the home office has worked out.

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Ensuring consistent, companywide, supraregional and regular communication was a very complex challenge and, in addition to the mainly technical issues of infrastructure, an important key for the success of business continuity management (BCM). The gradual move to the home office, by the „lockdown“ on 16th March 2020 at the latest, was successful. It is estimated that more than 90% of staff are currently working in their home office. There were and still are operational issues such as the procurement of additional hardware for the home office and terminals with the mandatory data and security requirements, the management of virtual teams, the postponement or adjustment of projects, the balancing of data protection against the duty of care in the event of staff illness, and compliance with regulations on signatures.

At some companies, a challenge has proven to be dependency on key personnel as well as on external, especially offshore, service providers. Certain tasks which can no longer be performed by service providers due to local lockdown or for other reasons had to be dealt with inhouse at short notice. This represents an additional burden for staff in Switzerland. Considerations related to insourcing, nearshoring and supply chain diversification could take on greater weight in the wake of the crisis.

What are the biggest worries at the moment?

Insurers are concerned about the Swiss economy as a whole and how the insurance industry can support its customers during this difficult situation. Immediate measures mentioned include faster claims payments or waiver of dunning in the event of late payment. As regards goodwill in the event of a claim, insurers are tending to be reserved. Although pandemics are explicitly excluded as a risk which is difficult to insure in most insurance conditions and no premium is therefore charged for this risk, it is difficult to communicate this fact to customers. Another question is whether any goodwill payments made by direct insurers will subsequently be shared by their reinsurers. What is for sure is that insurers are receiving many customer enquiries about cover and the suspension of premium payments. Most of them are handled by the service centres or by the sales organisations, which are at the same time recording hardly any new business. The lack of new business was addressed by means of minimum pay guarantees, additional working hours credited and amended commission agreements.

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How can we support retail and SME customers? Frustration in the economy is real.

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Another concern frequently mentioned was the mental health of staff, if homeoffice work were to continue for a long time. Many fear a „collective collapse“ resulting from the lack of personal interaction. The psychological and social components, especially in the case of a protracted duration with the corresponding measures, have so far been given too little consideration in the BCM contingency plans, which are mainly geared to technical issues.

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What if people get tired of being cooped up?

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The crisis will undoubtedly have a financial impact, but is not causing sleepless nights yet. The situation equals a scenario of medium severity, for which insurers are well prepared. More worrying at present is the asset side of the balance sheet: increased volatility, falling prices, investment and hedging opportunities which are even more limited, uncertain and poor economic prospects. Here the rule is now: „Do not overreact“. With regard to loss amounts, the impact on respondents varies greatly depending on the size of their portfolio in the various lines of insurance. At present, the focus is on the sectors of life, health, business interruption, travel or event insurance and could in the medium term also affect other sectors such as credit insurance or other types of corporate insurance. The loss expectancies still need to be consolidated, however. Nevertheless, losses in terms of new business and premiums are already foreseeable. Against this background, some insurers are already adjusting their financial planning: they have one planning budget before and one after corona. As regards risk appetite, however, no adjustments or only slight adjustments due to the crisis have been made so far.

The respondents are feeling pressure from FINMA, which in times of increased uncertainty demands a solid capital base and thus an even more prudent dividend policy. In general, insurers must submit more reports; both FINMA and the FOPH want to be able to assess the capital situation of companies on a timely basis. Many of the respondents have introduced weekly reporting anyway so that they can promptly determine what impact market fluctuation and expected losses have on the balance sheet. In this context, the SST (Swiss Solvency Test) reaches its limits as an instrument for a dynamic mapping of the effects.

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The uncertain future is worrying us. What will the long-term effects on the economy be? How severe will the recession be? How will politicians and the National Bank intervene? How will interest rates develop?

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The uncertainty about the long-term effects on society and the economy is a major worry for insurers. The global extent of the crisis, the influence of

governments and central banks, how long it will last and the ensuing consequences such as insolvencies, unemployment, recession, stability and the level of the capital market are difficult to estimate.

What lasting changes will the crisis bring about in the insurance sector?

Respondents are unanimous that the crisis will act as a catalyst for digitisation. Changes will be apparent both in customer behaviour and in working practices. «There will be a change in attitudes», concludes one interviewee, «because digital work processes and forms are becoming established and will subsequently be professionalized even further».

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Everything that has now been adapted to deal with the crisis will continue to exist in one form or another.

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A pandemic, which is characterized by the fact that it occurs all over the world and is uncertain in terms of severity and nature of impacts, remains very difficult to insure. However, the crisis has clearly shown the need for innovation. Possible approaches could be pooling or capital market solutions and other alternative risk transfer instruments.

****Method used:** The three questions were posed to 14 insurers during 30-minute video or telephone interviews between March 25th and April 3rd, 2020. The 18 respondents are in charge of risk management, legal & compliance or investment management at primary, reinsurance or health insurance companies. The questions were sent to the respondents before each interview. The interviews were transcribed and shortened into core statements by means of inductive content analysis according to Mayring (Mayring, P. (2010). Qualitative Inhaltsanalyse. Grundlagen und Techniken. 11th edition. Weinheim und Basel: Beltz publishing house). To determine the essence of the interviews, the contents were categorized. A new category was created every time that content could not be assigned to an existing category. After several interviews, the categories were reviewed and adjusted. Based on this method, the answers to the three questions were classified into 16 categories.*

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