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Beyond COVID-19: Five key strategic priorities for a post-crisis world

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As parts of the world begin to emerge from the peak of the COVID-19 pandemic, insurers' strategic focus is turning to what the competitive landscape will look like in the aftermath, what the new reality means for their business and how to come out in front. If you're an insurance leader, focussing on five key priorities will help you be stronger and more resilient in the post-crisis world.

A new world emerges

The novel coronavirus continues to cast a long shadow on societies, economies and businesses worldwide. As an insurer, your immediate imperatives have been business continuity and customer and employee support. The industry has generally responded well, enabling remote work and addressing immediate capital questions.

Now, as insurers learn to manage through the immediate crisis and governments begin to tentatively ease restrictions, two key considerations emerge. The first is operational: how to prepare your organisation for the return to work in this 'new normal.' Although this will be a difficult challenge, it should be resolvable in the near term. The other — and in many ways trickier — thing you'll need to do is determine what the mid- to long-term implications of the crisis are and how you should respond strategically.

Several related questions are emerging within boardroom discussions and strategic planning sessions (see “The strategic questions that need to be addressed,” at right).



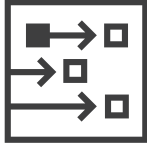




The strategic questions that need to be addressed

- How is the recovery likely to look (a V, U or W curve), and what are the implications of that?
- What are the long-term implications for the economy, consumer sentiment and customer behaviour?
- How will the insurance sector and our business be affected by regulatory and government actions?
- What can we learn from the crisis about our business, changing market demands and our readiness to meet those demands?
- How can we be best positioned to benefit from the rebound?
- How do we need to refine our strategy and business model?
- What does the future of work look like, and what are the impacts on our employees, operation and footprint?
- How should we align our cost structure with our strategy?

Coming through the crisis stronger than before

Exploring these questions will require considerable scenario analysis and planning. And the answers will depend on the nature of your business — property and casualty insurance face different challenges than do life and pensions, in particular. Regardless of the shape of the recovery and your line of business, we believe that five overarching strategic priorities will help your organisation emerge from the crisis stronger than before.

Five key priorities

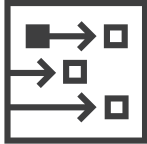
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These five key priorities shouldn't be new — any good strategy should have included some or all of them already. However, COVID-19 has ramped up the urgency of these competitive imperatives.

Before we delve into these priorities, we would be remiss if we didn't highlight the need for leading with purpose. Insurance has always had a greater purpose than just revenues, profit or shareholder value. Its role in providing peace of mind to consumers and businesses and coming through in times of need and distress is more important now than ever before. This is a time to renew and refresh your purpose — your true north driving your company's culture. Your purpose also guides, motivates, and aligns your decisions, actions, and behaviours with respect to all your stakeholders.

In this brief, we'll outline which actions you should take and which potential benefits you should target.





01

Realign your cost structure and sharpen productivity





In the years since the global financial crisis that began in 2007, most insurers reduced costs, though often with mixed results. In the wake of the COVID-19 crisis, efficiency and productivity are once again front and centre in the strategic debate.

Your initial impulse might be to cut discretionary expenditure and pause or stop capital investments. However, we encourage you to take the long view and make sure near-term savings don't jeopardise your ability to capitalise on the rebound. Capabilities that would enable you to gain market share, create new revenue streams or significantly simplify your business should continue to be at the top of your agenda. Everything else is fair game for cutting.

Productivity is an enduring challenge to resolve, not just a temporary issue caused by our current circumstances. Operationally oriented functions, such as IT, underwriting, claims and customer service, are ripe for a re-engineering of what they do, why, how and where. Performing this re-engineering provides a fundamental opportunity to simplify, automate and right-source many functions.

Action points

- Develop COVID-19 recovery scenarios and assess potential impacts on revenue, profit, capital and shareholder value.
- Stress-test your scenario planning models.
- Launch a strategic cost structure and operating model review and realignment for each scenario.
- Drive productivity improvements in alignment with cost reduction and digital investments.
- Re-evaluate capital spending priorities with a focus on capabilities and customers.
- Establish a culture of continuous cost and productivity improvement.

Outcomes to target

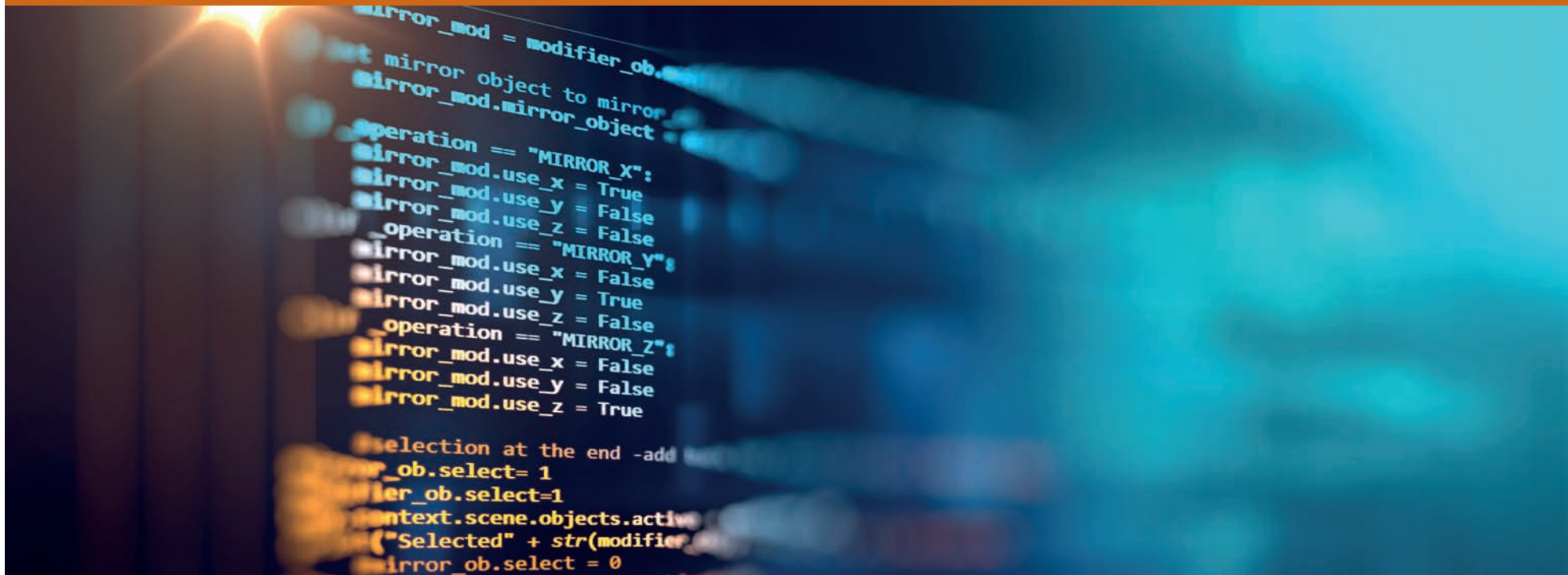
- Optimised business model, capabilities, operating model and structure
- Aligned costs
- Improved productivity





02

Supercharge digital transformation to create a digital enterprise





Like every other insurer, you've probably embarked on a digital transformation initiative, be it focussed on the front, middle or back office. Nonetheless, across the industry, operations continue to be beset by overstaffing, overreliance on manual workflows, fragmented technology and difficulties in making the most of available data.

The post-crisis shakeup is therefore an opportunity to put all your organisational focus and muscle behind the digital agenda to create a truly transformed enterprise, from front to back offices. This is the way forwards for all modern enterprises; as an insurer, your company is no exception. Digitally enabled sales, direct-to-consumer engagement, automated advice, digital underwriting and automated claims adjudication are just some of the high-value opportunities you should consider. Equally important is the ability to build foundational data, cloud and cybersecurity capabilities.

Action points

- Ensure you have a digital transformation road map for the entire business, including milestones by which you can measure progress.
- Ensure that your digital transformation plan is centred on simplification of the customer experience.
- Fast-track (with resources and funding) initiatives that can accelerate strategic benefits.
- Strengthen your data management, privacy and cybersecurity capabilities.
- Accelerate your cloud migration plan.

Outcomes to target

- Simplification of functions and services
- Cost efficiency
- Greater productivity
- Organisational agility
- Operational resilience
- Improved customer experience





03

Carve out new revenue streams





In the aftermath of the novel coronavirus pandemic, it's likely you'll find yourself competing for a bigger share of a smaller market and smaller wallets of consumers and businesses. Finding new revenue opportunities will therefore be critical. Although specific strategies will vary by lines of business or markets, there could be opportunity across the board in collaborative ecosystems, product simplification and innovation, digital distribution, and wellness (financial and beyond).

To capture new markets, insurers need to design products that reflect today's evolving needs (e.g., usage-based insurance, employment loss protection for gig workers, pandemic business interruption coverage and cybersecurity for remote working).

If your business has a strong balance sheet and capital position, this is also a good time to consider strategic mergers and acquisitions. For global players, China and fast-growing Southeast Asian insurance markets remain attractive. And for the first time in a long time, the Southeast Asian market's growth potential might not be fully priced into its valuations.

Action points

- Reassess how the needs, expectations and behaviours of your target customers and clients might have changed.
- Evaluate your ecosystem strategy and think about how to develop and optimise it.
- Digitally enable sales and distribution, and simplify product architecture to support this shift.
- Look at how to develop products that reflect today's evolving needs.
- Strengthen customer retention programmes.
- Evaluate your strategic mergers and acquisitions options.

Outcomes to target

- Revenue, assets under management and market share growth
- Improved customer acquisition and retention





04

Prepare your workforce for the new world





The COVID-19 lockdown has forced all businesses to reassess almost every aspect of how they work. In whatever ‘new normal’ emerges for your employees – whether it includes continuing to work from home, interacting digitally or harnessing emerging technologies to innovate – it’s important to ensure that your people have the right skills and a willingness to embrace change. The speed of technological advances has already created significant demands for upskilling your workforce, and post-crisis demands will heighten that need.

Upskilling your workforce is not just a matter of pushing out technical training to your employees. Upskilling requires careful assessment of desired skills and competencies to be targeted, investment in a learning environment, assessment of the impact of change and a systematic way to measure the return on your upskilling investment. This initiative also will require significant leadership commitment and a push from the top.

Action points

- Define the skills and competencies you need to accelerate your competitive position and run a digital enterprise.
- Compare your current capabilities with your objectives to develop an upskilling programme, function by function.
- Ensure that your upskilling programme reflects individual needs, aspirations and job demands.
- Build an infrastructure and empower your employees to drive organic innovations.
- Manage change and adoption of your upskilling programme.

Outcomes to target

- Strengthened productivity
- Sharpened innovation
- Enterprise agility
- Enhanced employee engagement and satisfaction
- Bolstered recruitment and retention





05

Strengthen capital efficiency





Once you've steered through the immediate capital and liquidity stresses of the crisis, it will be important to focus on the longer-term capital management impact of lower interest rates, greater hedging costs, heightened market volatility and defaults, and increasing tax rates. The markets will reward those most adept at optimising their balance sheet position and efficiently deploying and freeing up capital. The pre-crisis emphasis on offering fewer investment guarantees and more fee-based services will intensify.

Action points

- Assess product design and pricing, especially where investment returns are priced in and tax advantages are expected.
- Revisit back books, for both life and general insurance, where the market offers more efficient runoff options.
- Assess your investment portfolio, macro and micro hedge strategies, and future asset allocation options in light of anticipated recovery scenarios and changing liability risk profiles.
- Evaluate your legal entity structure and operating jurisdictions to release trapped capital and strengthen inter-company liquidity.
- Consider strategic mergers and acquisitions options.

Outcomes to target

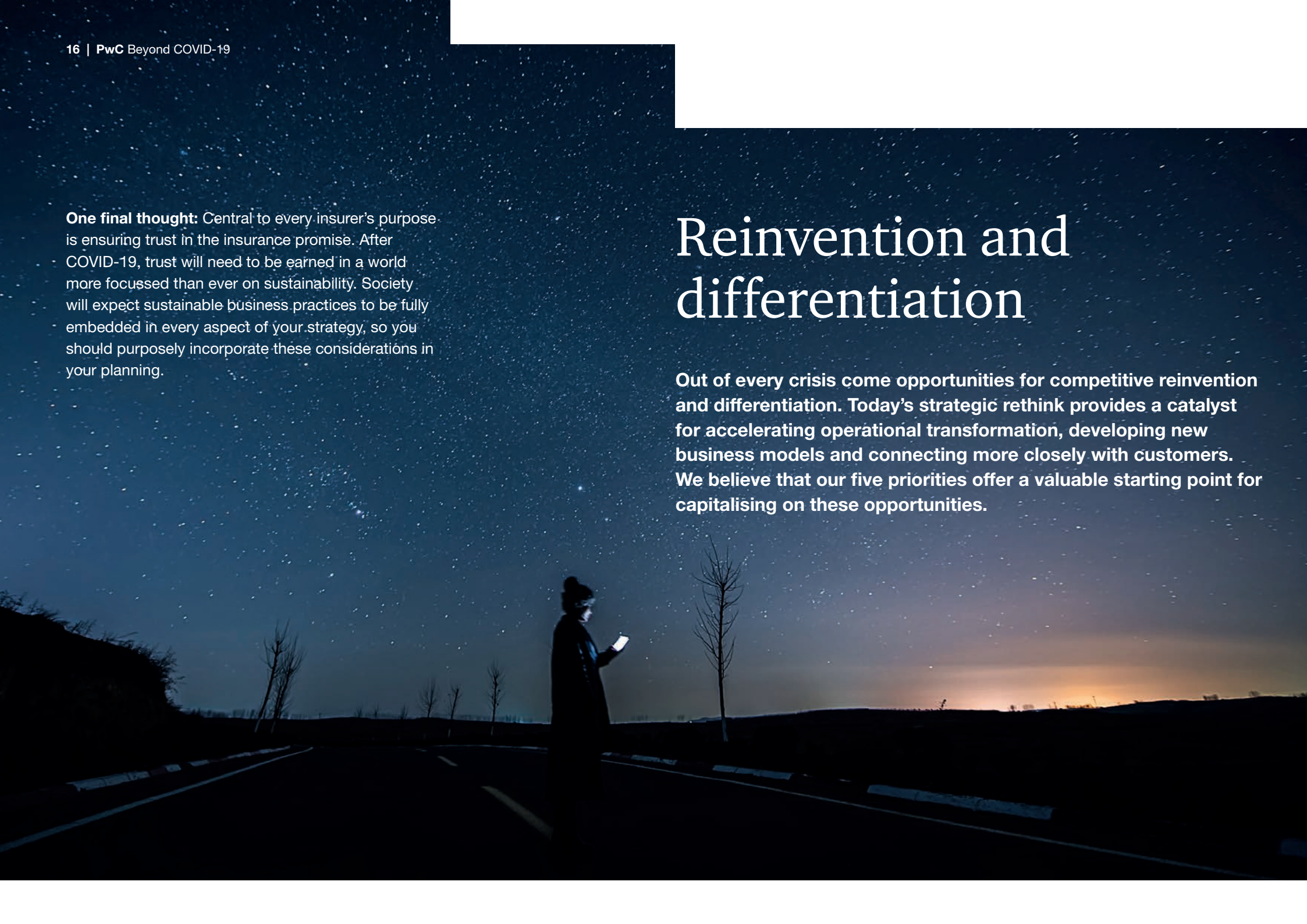
- Stable solvency
- Stronger shareholder backing
- Increased funds for investment
- Improved return on capital



One final thought: Central to every insurer's purpose is ensuring trust in the insurance promise. After COVID-19, trust will need to be earned in a world more focussed than ever on sustainability. Society will expect sustainable business practices to be fully embedded in every aspect of your strategy, so you should purposely incorporate these considerations in your planning.

Reinvention and differentiation

Out of every crisis come opportunities for competitive reinvention and differentiation. Today's strategic rethink provides a catalyst for accelerating operational transformation, developing new business models and connecting more closely with customers. We believe that our five priorities offer a valuable starting point for capitalising on these opportunities.



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