

## **2020 ALUCA Turks Scholarship Winner's Paper**

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#### **Responding in times of emergency**

The recent natural disasters and the COVID-19 pandemic have interrupted Australian society on an unprecedented level. While these events have adversely affected Australia's economy, some businesses have used the opportunity to re-examine how they connect with customers in a more meaningful way.

How can life insurers and superannuation trustees positively change how they interact with their customers during times of social and economic interruption? For example, with a large proportion of the workforce working from home or interacting remotely, are there opportunities for insurers and trustees to better engage with customers in relation to their cover? Further, what practical steps can be taken to best ensure Australians don't lose their valuable cover in these unprecedented times of high unemployment and economic stress?

## Keeping up with the customer

2020: the year to believe the unbelievable. Social isolation, travel restrictions, and widespread work-from-home due to COVID-19 has changed the way we communicate with each other. This essay will examine what we can learn from the 1918 influenza pandemic, and how companies are responding to the current pandemic with digital solutions. It will also look at the roles of affordability, sustainability, products, and government partnerships as ways to ensure customers don't lose valuable cover.

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### Black Swan: an unpredictable or unforeseen event

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#### “Spanish Flu” in America

A pandemic is the Life Insurer's 'black swan'. Most sources conclude that a pandemic occurs every 15 – 30 years, making the annual probability of a pandemic between 3% - 7%.<sup>1</sup>

The 1918 influenza pandemic caused huge disruption. In just a few months' it killed an estimated 550,000 Americans, exceeding American combat deaths from WWI, WWII, and the Vietnam War combined. Many coastal cities attempted to quarantine new arrivals. Several cities closed schools, churches, and places of entertainment for weeks. Cities, like San Francisco, enforced mask law for people in public.<sup>2</sup> Sound familiar?

Insurers were using old mortality tables so the realized mortality was less than 90% of expected rates during the pandemic. A government insurance scheme covered war widows and injured veterans, so insurers were well placed to weather the storm.<sup>3</sup> Life insurers paid out \$125 million on death claims. That was 0.5% of US GDP, which today would be about \$30 billion.<sup>4</sup> The unusual conditions (old mortality tables, government scheme) meant insurers were able to cope. National Underwriter editors wrote the pandemic “has brought forward the benefits of insurance to the people in a way that they had not appreciated”. By the 1920's many governments saw the benefits of 'socialized medicine' (healthcare for all) with America favouring employer-based insurance schemes.<sup>5</sup>



Time Magazine Cover 15 May 2017

## Grey Rhino

It would appear the current pandemic is more “grey rhino” (highly likely yet ignored threat) than “black swan”. SARS, MERS, Swine Flu, Ebola....all red flags. The World Health Organization stressed it was not “if” but “when”. It was expected, yet we still feel unprepared. Now the grey rhino has charged, how are businesses responding?

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## Digital Transformation

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### “War is the locomotive of history” – Leon Trotsky

The pandemic has hastened digital transformation. Unlike the pre-pandemic model, we need to take into account large-scale work from home and changes in customer expectations. Organizations are responding differently to social distancing and travel restrictions, but there’s one commonality - change in customer expectation. Companies leveraging digital expertise to provide a superior customer experience leads customers to expect the same from any business they interact with. Customer engagement platform ‘Twilio’ recently surveyed over 2,500 enterprise decision makers worldwide.<sup>6</sup> They found 95% of all companies are seeking new ways of engaging customers as a result of COVID-19.

Now for some perspective.... Insurance companies are still wrestling with legacy systems and moving claims away from paper reliance. In the meantime digital manufacturing has gone from PC to laptop to smartphone to wearables. There is now heavy investment in Augmented Reality (AR). On 28 August 2020 Elon Musk showcased his Neuralink brain-machine interface implanted in pigs. It’s no secret the insurance industry is slow to modernize, but this is the most disruptive time for decades and a pivotal time to change the status quo.

KPMG note, with 80 percent of revenue growth predicted to come from digital offerings and operations over the next three years, IT leaders should invest in key enablers<sup>7</sup>, like:

- Integrated cloud platforms
- Agile ways of working
- Intelligent automation
- AI
- Blockchain
- Advanced data and analytics

Automation can support customer service but shouldn’t control it. Automation should allow employees more time to provide personalized service – digital transactions with a human touch. Human relationships aren’t any less important in the digital age.

## Anywhere, anytime, any device

In the process of writing this essay I found myself on the other side of the insurer-insured relationship when a member of my immediate family was taken seriously ill. After several days in hospital, it became clear I needed to investigate the possibility of an insurance claim.

There were a few things that struck me about being on the other side of the fence.

1. I wanted information to be readily available online
2. I wanted to be able to do everything on my phone
3. I wanted to be able to do it at any time

I found myself searching for information at 3am, staring at my phone while doing mental gymnastics about what had happened and what I needed to do. I found the website I needed, which kept telling me how “easy” their processes are. I eventually found a forms and resources link in a footnote. Not being the life insured (not having portal login details) I had 2 options for communication: phone or post.

Employees I spoke to were helpful and empathetic, extra care that was needed at a time when hospital visits were extremely limited and family couldn't visit due to travel restrictions. I couldn't help feel the disconnect between my online experience and people experience, and wondered how many others felt the same. While digital may be the new normal, it is still only a part of a broader experience which needs to be seamless for the customer. There are two important considerations in making that happen.

1. Deliver a consistently positive experience at hand-off points in the customer journey. Whether they are on an app, on your website, or calling you, they need the same level of customer-centric and frictionless service.
2. You cannot deliver a positive customer experience without a positive employee experience. In 2019 PwC introduced the consumer-centred metric of ROX 'return on experience'. They stressed the importance of employees when creating ROX. Customers interact with a company through frontline employees, who embody the brand, so investing in employee experience improves customer experience.<sup>8</sup>

The COVID-19 conditions won't be permanent but people's changing expectations when buying and managing all products, including insurance, are likely to remain.

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## Marketing

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“We are not in the same boat, but we are in the same storm.”

Insurers and super funds must not blinker themselves by only looking at what others in the industry are doing. Home-bound customers who are changing their habits, needs to be considered in a broader context. What do customers want to see in advertising? Should insurers be selling or simply responding to queries?

## The Good

Ford, a 117 year old company that built tanks and planes during WWII, quickly acknowledged the changing environment due to COVID-19 and replaced their vehicle advertising campaign, focusing on their history assisting during difficult times and offering support for customers struggling with their vehicle credit payments.

Guinness, a 260 year old company that survived two World Wars and the Great Famine, also pivoted their advertising, encouraging social responsibility and asking people to stay at home during St Patricks Day.

Insurers also have a history of surviving through the decades. During the Spanish flu insurers rarely mentioned influenza, reportedly because customers attracted during a pandemic would probably not stay when it was over. Not using the pandemic as a selling tool is a wise approach. Being quick to pivot and remove any advertising that doesn't show regard for the situation is just as important.

## The Questionable

KFC's "finger lickin' good" campaign received 163 complaints in the UK, because right now.....finger lickin' isn't good!

In America people took to social media to bemoan overly cheery advertisements for Lysol disinfectant wipes and Hershey ads featuring hugs and handshakes. They were interpreted as showing lack of care and being out-of-touch. Cleaning product companies were accused of profiting off fear.<sup>9</sup> The court of public opinion delivered swift verdicts via Twitter.

The message for insurers is to proceed cautiously. Marketing during a pandemic needs to respond appropriately. This is not BAU, and marketing needs real-time insight.

## Q&A

Customers want clarity. Common queries received in March were:

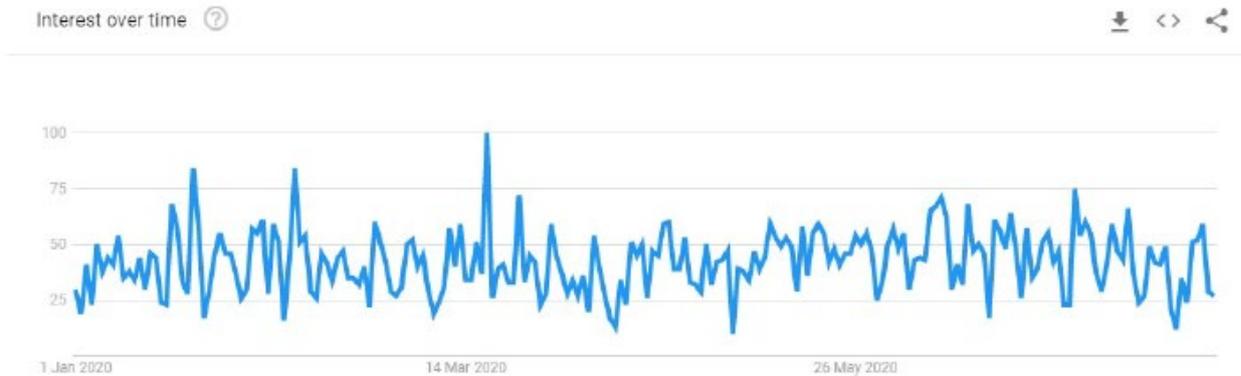
☎ *"Does my policy cover coronavirus?"*

&

☎ *"How is your company responding?"*

The first is easy. Most policies do not have blanket pandemic exclusions so most existing customers are covered. The second question was harder to answer. Changes were happening quickly and it was a scramble to figure out how to respond. A broker told me every company she rang in March was saying the same thing - "not sure yet". Insurers, who are generally slow and steady, suddenly had to adjust and do it quickly to avoid risk exposure and backlash from customers with delayed applications.

The 18<sup>th</sup> of March 2020 saw the biggest spike in google searches for 'life insurance' in Australia. The same day the Governor-General declared a biosecurity emergency. There was a brief knee-jerk spike in insurance applications.



*Google search 'Life Insurance' from 1 Jan – 1 Aug 2020*

Insurance, knowing if they're covered and getting new cover, was on people's minds. So what's the best way of communicating with them?

With email coming thick and fast, requiring careful and legally signed-off wording, more organizations realized the value in social media to quickly get crucial messages to customers. Super funds are well versed in this approach with Facebook posts describing 'Putting Members' Interests First' legislative changes, and early release of super payments.

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## Social Media

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### Habits

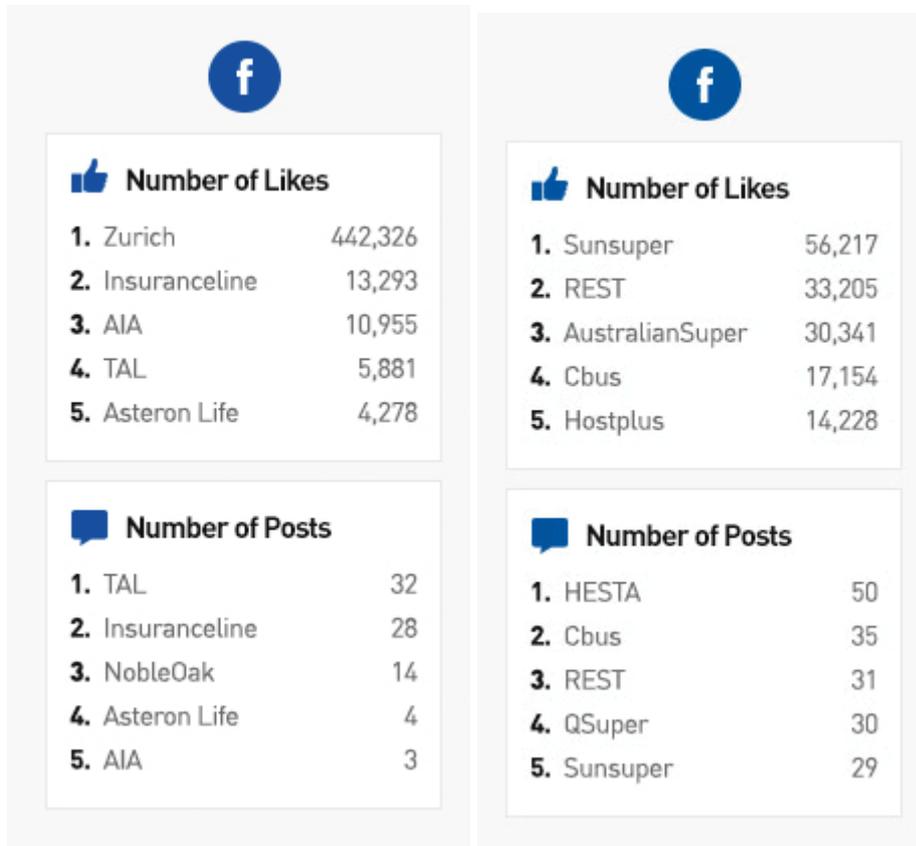
COVID-19 lockdowns and social distancing have accelerated changes in people's social media habits. In Italy, one of the first Western countries to go into complete lockdown, group Facebook Messenger calls increased by 1,000% in March alone.<sup>10</sup> In Australia, by 2019, smartphone penetration reached 91%.<sup>11</sup> It is important to meet people where they are. People are on their devices and that's where insurers and super funds need to be.

### Say what you're doing, and do what you say.

Timely dissemination of accurate information builds trust and confidence. Social media is a quick and easy way for Insurers to reach customers directly.

Responding directly to Facebook comments demonstrates commitment to customer experience. However, compared to Super funds, as evidenced by the 2017 comparison below, insurers' reach on social media remains limited. When ABC reported on a leaked

document about TAL’s COVID-19 underwriting guidelines, their Facebook post had 3.3K reactions and 550 comments. TAL’s response confirming the article was factually inaccurate and misleading garnered 32 reactions and 54 comments.

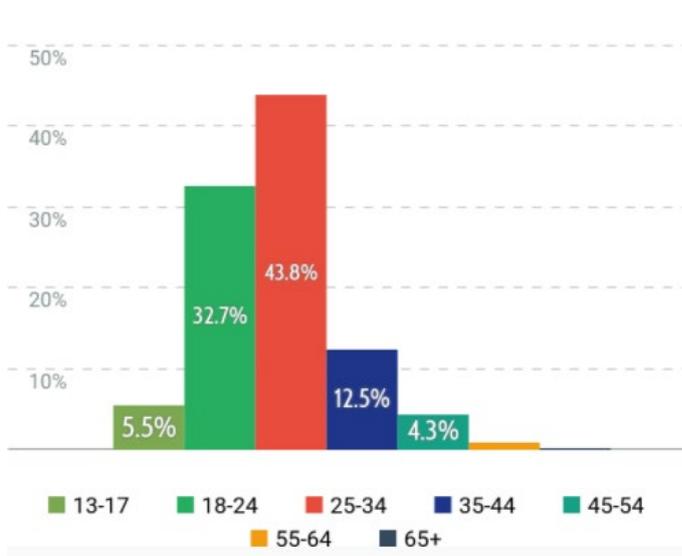


Source: *thedubs.com*

Social media presence pivots on the principle that customers are at the core of the system.<sup>12</sup> Simple interactions like responding to Facebook comments provide transparency and authenticity in customer engagement.

## Keep other channels open

Social media is an effective tool for communicating with customers, but it is important to keep other channels open. The most vulnerable to COVID-19 are the elderly who are less likely to be on devices or social media, but are also less likely to have insurance cover. The table below, from 2019, shows Australians in their 30’s and 40’s are also less likely to be on social media. Phone, print, and virtual marketing material remain relevant and should direct people to a central location like a company website with more in depth information.



Source: talkwalker.com

## Keeping Cover

### Affordability

AMP, Zurich, OnePath and TAL put advice on their websites about affordability options to help customers keep their cover during times of economic strain. AMP's advice includes details on how premiums are calculated and ways to reduce premium costs, like removing extras and declining indexation.<sup>13</sup> Insurers are also offering financial hardship assistance with some forms able to be submitted online.

### Proactive Assistance

The Financial Services Council (FSC) and its members co-ordinated to ensure frontline healthcare workers were not excluded from cover due to potential or actual exposure to COVID-19.

In Malaysia AIA offered extra cover for COVID-19 at no extra cost. People who are hospitalized due to COVID-19 will receive RM200 (AUD \$65) per day up to 30 days. AIA Australia are waiving their Vitality Contribution Fee for 12 months for frontline workers.<sup>14</sup>

General insurers have also stepped up with AAMI making roadside assistance available to nurses, doctors, paramedics, firefighters and police officers free for a year.<sup>15</sup>

### Product

Stripping back products and removing add-ons, like OnePath's 'Essentials' IP product, is a good start to cater to a wider audience.

Difficulty obtaining medicals during lockdown has impeded obtaining cover. A move away from medicals may gain traction. People will expect a less burdensome and quicker application process.<sup>16</sup> Even before the pandemic, insurers were looking at ways to use electronic health records and prescription databases.

Now is the perfect time to promote health initiative, shifting focus from mortality to longevity, and increasing customer touch points.

## Sustainability

Insurers were already under strain in recent years. \$3.5 billion has been lost on income protection in the last 5 years.<sup>17</sup> APRA addressed this in a letter to all life insurers dated 2 December 2019.<sup>18</sup> This led to the cessation of agreed value IP contracts so IP could remain a viable and sustainable product offering. During 2019, Australian life insurers paid out over \$12 billion in claims to 101,821 people. 97% of lodged death claims were paid.<sup>19</sup> We know Insurers need capital to support customers during extraordinary times, so sustainability is key.

## Government Partnership

Insurers in the UK, France, Germany and USA are seeking government-backed “Pandemic Re” cover for future pandemics.

Lloyd’s of London has recommended state-backed ‘black swan’ reinsurance, to cover a gap in business interruption policies with pandemic exclusions. The black swan cover would not just be for pandemics but for other disasters like cyber-attacks or a solar storm destroying critical infrastructure. The governments of Canada, UK, EU, and Singapore have shown interest.<sup>20</sup>

Finity Consulting released a report this July for the Insurance Council of Australia outlining options for the Australian Government to mitigate the effect of future pandemics. It was acknowledged the private sector alone cannot currently insure pandemics, and there is merit in public and private partnerships. The report noted the “Pandemic Re” and “Black Swan Re” solutions require more study.<sup>21</sup> This should be a priority.

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## Summary

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Our maths teachers weren’t predicting this future when they told us **“you won’t always have a calculator in your pocket”**. Today we have the world in our pockets. Customers can easily connect to the next best thing, and easily disconnect from the last. For insurers and super funds, brands are built on trust. Our industry refers to claim time as the moment of truth, when trust is demonstrated. However, in the digital age there are many moments of truth. A good claims experience will never be realized if customers don’t obtain and maintain cover. Proactive engagement, especially via digital channels, and partnership with IT organizations and governments, will help deliver sustainable cover with personal

service. The pandemic has tested our limits while giving the industry an opportunity to earn trust and demonstrate the value of cover. Insurers who pay out billions every year know the value of their products. Customer's need to value them too. That is the industry's challenge.

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- <sup>1</sup> <https://www.actuaries.asn.au/library/events/sum/2013/2a-sunvende.pdf>
  - <sup>2</sup> <https://digitalcommons.augustana.edu/cgi/viewcontent.cgi?article=1000&context=econfaculty>
  - <sup>3</sup> <https://digitalcommons.augustana.edu/cgi/viewcontent.cgi?article=1000&context=econfaculty>
  - <sup>4</sup> <https://www.thinkadvisor.com/2018/09/18/the-spanish-flu-centennial-1918-flu-pandemic-hit-insurers-hard/>
  - <sup>5</sup> <https://time.com/5797629/health-1918-flu-epidemic/>
  - <sup>6</sup> <https://www.twilio.com/covid-19-digital-engagement-report>
  - <sup>7</sup> <https://home.kpmg/au/en/home/insights/2020/05/covid-19-cio-insights-accelerating-digital-transformation.html>
  - <sup>8</sup> <https://www.pwc.com/gx/en/consumer-markets/consumer-insights-survey/2019/report.pdf>
  - <sup>9</sup> <https://adage.com/article/cmo-strategy/7-brands-ads-unfortunately-timed-coronavirus-pandemic/2244631>
  - <sup>10</sup> <https://www.smpert.com/resources/2020-social-media-statistics/>
  - <sup>11</sup> <https://www2.deloitte.com/au/en/pages/technology-media-and-telecommunications/articles/mobile-consumer-survey.html>
  - <sup>12</sup> <https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/strategy/insurance-social-media.pdf>
  - <sup>13</sup> <https://www.amp.com.au/insurance/insurance-basic/ways-to-reduce-insurance-premiums>
  - <sup>14</sup> <https://www.aia.com.au/en/individual/help-support/covid-19.html>
  - <sup>15</sup> <https://www.smh.com.au/money/insurance/insurers-face-parliamentary-probe-on-covid-19-response-20200423-p54mki.html>
  - <sup>16</sup> <https://www.forbes.com/advisor/life-insurance/buying-during-pandemic/>
  - <sup>17</sup> APRA, losses are before tax in respect of the 5 years ended 30 September 2019.
  - <sup>18</sup> <https://www.apra.gov.au/sustainability-measures-for-individual-disability-income-insurance>
  - <sup>19</sup> <https://www.experien.com.au/life-insurers-pay-over-12-billion-in-claims-to-101821-australians-in-2019/>
  - <sup>20</sup> <https://www.businessinsurance.com/article/20200717/STORY/912335666/Canada-mulls-Lloyds-deal-for-black-swan-events#>
  - <sup>21</sup> <https://www.insurancecouncil.com.au/assets/submission/2020/ICA%20Insuring%20for%20Pandemics%20Study%20July%202020.pdf>