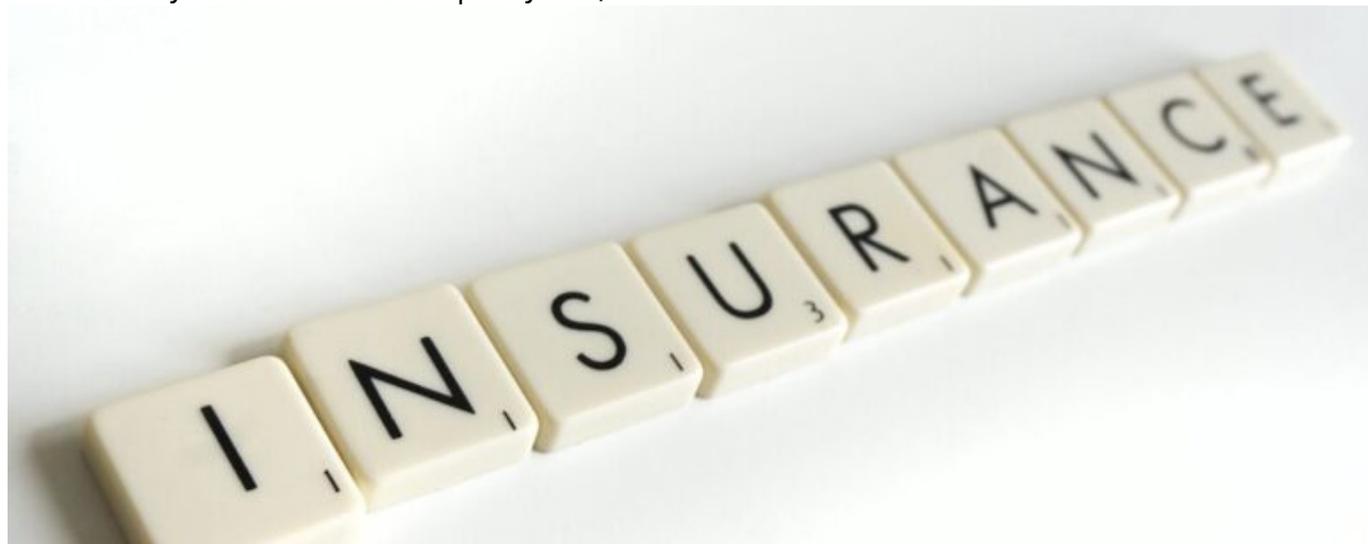


## New Horizons for the Life Insurance Industry after COVID-19

written by Chandni Arora | May 20, 2020



The spread of Covid-19 has affected all industries worldwide and the insurance industry is no exception. Long-standing industries with established practices are having to revisit age-old models of operation to meet growing uncertainties in this 'New Normal'. Insurance companies particularly those dealing in life insurance and health insurance are bearing the brunt of these uncertain circumstances.

We explore the challenges faced and possible innovative new solutions which can be adopted by insurance companies in the race for survival in the succeeding paragraphs and the New Horizons for the Life Insurance Industry after COVID-19.

Challenges Faced During COVID-19

Direct impact through loss of sales:

As per GlobalData, a data and analytics company, the Indian life insurance industry is expected to decline by 0.9% in 2020 as compared to a growth of 8.8% recorded in 2019. Premiums from new business account for 42% of the life insurance market in India[1]. Life insurance companies have reported a decline of 32.6% in new business premiums in the month of April 2020 due to the series of ongoing lockdowns. Life Insurance Corporation of India registered a decline of 32% whereas private life insurers have recorded a decline of 33.3% in April 2020.

While online distributor channels such as PolicyBazaar are being heavily promoted, the majority of insurers rely on offline sales through agents and distributor banks [bancassurance] contributing to almost 90% of new business. Due to social distancing norms being advocated by the Centre as well as State Governments, the physical sale of new policies has been severely impaired despite insurance and insurance related services being deemed as essential.

Adverse effect on investments:

With market volatility being a lethal side effect of Covid-19, the balance sheets of insurers will be brutally affected. Investments may suffer losses leading to a decrease in liquidity and increased strain on the capital of the insurer company. Market crashes may further demotivate new investors from venturing into Unit Linked Policies (ULIPs) preferring instead safer and more reliable investments albeit having lower growth potential.

Due to downward trends of stock markets, ULIP policies may not perform well and therefore existing policy holders would prefer early closure or premature

surrender of the policies. This may result in unsatisfactory surrender value of the policy and not being as per the expectations of the policyholder, the same may result in unwanted litigation against the insurance company.

#### Increase in Claims:

An obvious and significant challenge faced by life insurers will be the rise in claims during and in the immediate aftermath of the pandemic. While most critical illness riders will not cover death due to coronavirus, the sum assured amount will be payable to the nominee. Due to novelty, it is difficult to estimate the number of deaths due to Covid-19 in India but it would not be remiss to say that the death rate will continue to see a surge in the coming weeks with a proportionate rise in claims.

Another factor to be considered here is the overburdening of the healthcare systems in the country. With healthcare facilities severely constrained, sufferers of chronic diseases may not be able to obtain access to the care needed which may possibly lead to increased deaths in non-coronavirus patients as well with a resultant rise in claims. Further, such claimants will also be entitled to critical illness riders if the direct and proximate cause of death is one of the illnesses covered in the rider.

#### Rise in litigation and consumer-centric approach:

An increased number of claims also means a proportionate rise in accompanying litigation from disgruntled consumers. It is an established practice in India that no matter how fair the repudiation, the customer prefers to engage in challenging the same usually through a complaint under the Consumer Protection Act, 1986. While consumer courts are notoriously pro-consumer already, it seems that the pandemic situation will further generate sympathies towards even undeserving litigating complainants.

A further reason for increased pressure on legal departments may be due to litigation arising from claims rejected due to incomplete documentation. Since health care facilities are not working at full capacity, hospitals and other medical institutions are unable to provide proper medical records as may be required by the insurance company to process the claims. However, such claims being genuine, if rejected by the insurer will lead to litigation and will most likely be successful in litigation.

Increased death claim payouts will lead to added stretching of the capital of the insurer and reduced growth levels will impact the absorption of overhead expenses. This may pose a danger to the financial solvency and will affect the credit worthiness of the insurance company. Despite being covered under essential services and allowed to function even during the lockdown, the employees of insurance companies may face the danger of downsizing. Increased litigation will also increase the running costs of insurers and creative solutions need to be found.

#### The Way Forward

While several unprecedented challenges stand tall before the insurance companies, things are not all bleak. We list below the possible means for the insurance industry to move ahead and overcome the trials and tribulations being faced.

#### 'A great time to invest in yourself':

With public health awareness at an all-time high, the current phase is being touted as the ideal opportunity to secure one's future through life insurance. Cautious investors additionally need a little push to encourage them to actually take the leap along with generating awareness of the

benefits of life insurance when the focus is almost exclusively on health. The means to generate customer interest may be as simple as providing discounts on online purchases of policy (no involvement of middleman) and conducting tele-medicals/video medicals for issuance of policy for eligible customers. Perfecting of one-stop online shops will benefit customers by providing all comforts at home without violating social distancing norms.

Digitalization all the way:

While the insurance industry relies heavily upon face-to-face transactions, it is purely out of force of habit and not any constraints. The process of issuance of insurance policies can easily be digitalized completely even for reasons beyond the present pandemic. Lower commission costs, centralization of data and easy access to documentation all point towards digitalization being the way to go.

Even for rural and less technologically developed locations, where the requirement of an agent is a prerequisite for an insurer to establish their presence, agents can be provided training for utilization of digital means and issued tablets which will enable insurers to bring technology even to the most remote areas after the end of the pandemic.

The Insurance & Regulatory Development Authority of India (IRDAI) has also moved a step forward in this regard. Vide circular dated 24.04.2020[2], IRDAI has detailed the list of insurance companies granted permission to avail Aadhaar authentication services for fulfilment of KYC (Know Your Customer) requirements.

Building and maintaining a loyal customer base:

Securing new business for the first time is only winning half the battle. With fierce competition amongst insurance providers vying for the satisfaction of potential policyholders, maintaining a loyal customer base is a daunting task. However, there is no better time to secure commitment from customers than now. Extended deadlines, longer grace periods and EMI options are the way to go. Uncertainties are plaguing the minds of investors and going over and beyond by an insurer will go a long way in cinching the policyholder's faith for a long time.

The step of IRDAI by which grace period of the policies which were due for renewal premium from March 2020 onward was extended to 31.05.2020 vide circular dated 09.05.2020 will give a breath of relief to the legal department of the insurance companies and same will reduce unwanted litigation which may arise due to early lapse of the policies.[3] Effective communication about such benefits to customers is an ideal tool for establishing brand loyalty.

Really Know Your Customer:

With doubts and uncertainties about new and existing insurance products rampant, it would not hurt insurance providers to develop a strong customer support system. 24X7 customer support, WhatsApp helpline numbers, on-boarding of more physicians are just some examples which will enable insurers to provide personalized services to their customers. This in turn will inspire confidence in the insured towards the insurer and encourage referrals.

Innovation:

IRDAI, identifying the need of the hour suggested insurers to innovate and create need based products for coronavirus and a handful of such products have also been launched for prospective policyholders' needs in the current scenario. These include benefit-based plans where the policy benefit is

disbursed upon the occurrence of insured event without the requirement of supporting bills.

#### Flexibility:

It is a visible trend in the legal field in present days that judicial bodies are tilted in the favour of consumers and more of a humanitarian ground rather than a hyper-technical approach is expected in the near future as well. In such a state, it is recommended that frivolous repudiations on purely technical grounds be dispensed with and claims with a likely chance of success in future litigation be processed and passed. This will turn out to be more economical in the long run reducing litigation costs as well as accrued interest amounts.

#### Focused and detailed Pleadings:

As detailed above, one of the challenges faced by insurance companies will be consumer-centric litigation. A possible solution to this would be to restructure case pleadings to highlight the fact that it is not only the insured who are facing financial constraints and difficulties but also the insurers. Tactical drafting is required to be carried out which will also bring to the attention of courts that exemplary costs and empathic judgments in favour of consumers in fact harm the system.

The monetary costs of such uncalled for judgements will ultimately be borne by the policyholders in the form of disbursement of funds invested by the existing policyholders in the insurance company. A practice of courts preferring unscrupulous litigants does more harm than good. The solvency of insurance companies is in danger and such practices cause unsustainability and may ultimately lead to a collapse of the insurance industry.

An opportunity for settlement of pending litigation-A proactive role to be taken on by legal departments

IRDAI has directed insurance companies to reduce pending litigation by way of settlement with litigants. Since liquidity constraints are commonplace nowadays, it is likely that litigants will be more open-minded to settle long pending cases.

Perhaps with a quick fix solution being offered by insurers, settlement may be considered at an amount lower than what may be awarded in case of a favourable judgement. Legal departments of insurance companies can put forth settlement offers for sum assured amounts reduced by 15%-25%. Since litigation in India even under the Consumer Protection Act is by and large a lengthy and tedious process, at a time of financial crunch litigants may be happy to grab up instant resolutions even if they come at a premium.

Evaluating the success ratio of a case and offering settlement in those where likelihood of success is weak provides a double incentive to insurers, firstly as discussed above, the benefit of settlement at a lower than assured amount and secondly with reduced interest payments, litigation expenses and any ancillary costs which may be awarded by the Court in case of allowance of the complaint. By effectuating the principle of "A penny saved is a penny earned", legal departments of insurance companies can actually contribute to the financial health of the company and thus enjoy increased job security as well.

While locking down was easy, opening up the country is an unnerving task. There will be new and unexpected challenges and the need of the hour for insurers to survive will be to provide economic products with lightning fast approvals specifically catering to new situations as and when said situations

arise. It is the time for innovators in the insurance field to be on their toes with quick solutions handy as per the rapidly changing circumstances.

1. [1]

<https://www.globaldata.com/life-insurance-business-in-india-to-contract-in-2020-due-to-covid-19-says-globaldata/>

[2][https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral\\_Layout.aspx?page=PageNo4122&flag=1](https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo4122&flag=1)

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[https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral\\_Layout.aspx?page=PageNo4122&flag=1](https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo4122&flag=1)

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