

COVID-19: Impact on Insurance and Industry Response

Discussion document

April 28, 2020

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Objectives of today's discussion

1 COVID-19: the Imperative of our Time

Presentation of McKinsey perspective on COVID-19 scenarios and the impact on Europe

2 Overview of the impact on Insurance industry

3 Discussion of how insurers / Insurance Europe can respond

4 Q&A and open discussion



Agenda

COVID-19: the Imperative of our Time

Impact on the Insurance industry

How Insurers / Insurance Europe can respond



The Imperative of our Time

“Timeboxing” the Virus and the Economic Shock

Imperatives

1

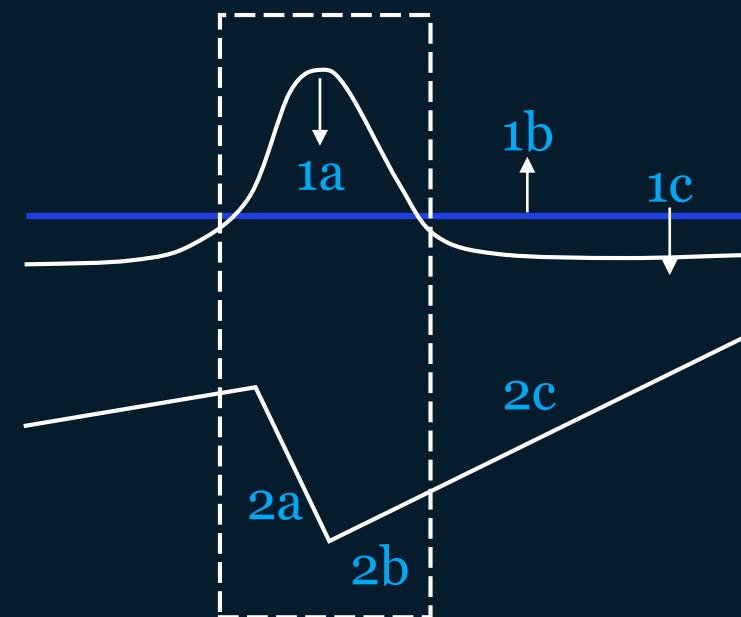
Safeguard our lives

- 1a. **Suppress the virus** as fast as possible
- 1b. **Expand testing, quarantining and treatment** capacity
- 1c. Find “cures”; treatment, drugs, vaccines

2

Safeguard our livelihoods

- 2a. **Support people and businesses** affected by lockdowns
- 2b. **Prepare to get back to work safely** when the virus abates
- 2c. **Prepare to scale the recovery** away from a -8 to -13% trough



Executive expectations about the shape of coronavirus crisis in the World and Europe

Survey of 2,079 global executives (769 in Europe); % of respondents

Virus spread and public health response

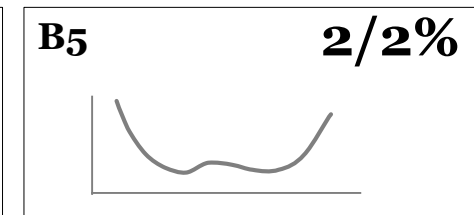
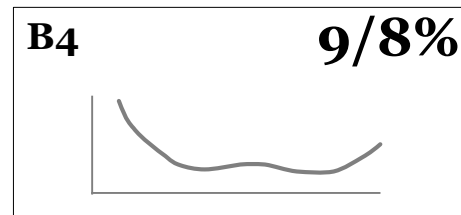
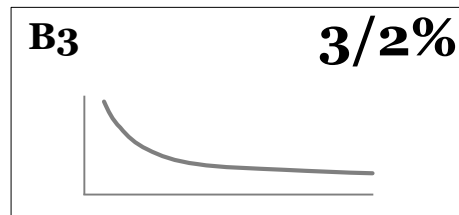
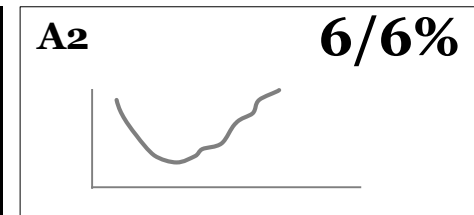
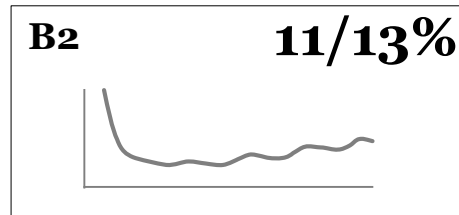
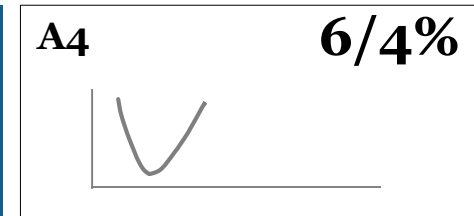
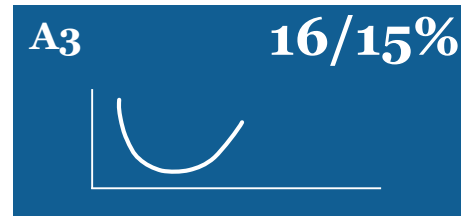
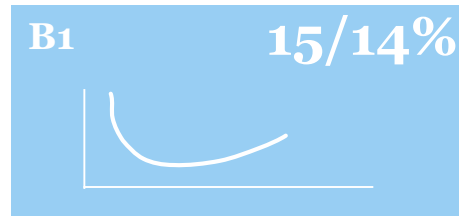
Rapid and effective control of virus spread

Effective response, but (regional) virus resurgence

Broad failure of public health interventions

Most likely scenario

World / Europe %



Ineffective interventions

Partially effective interventions

Highly effective interventions

Knock-on effects and economic policy response

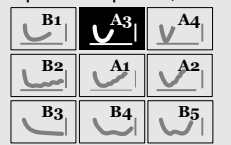
Scenario A3: virus contained, growth returns

What this means for Europe

Eurozone

Updated April 20, 2020

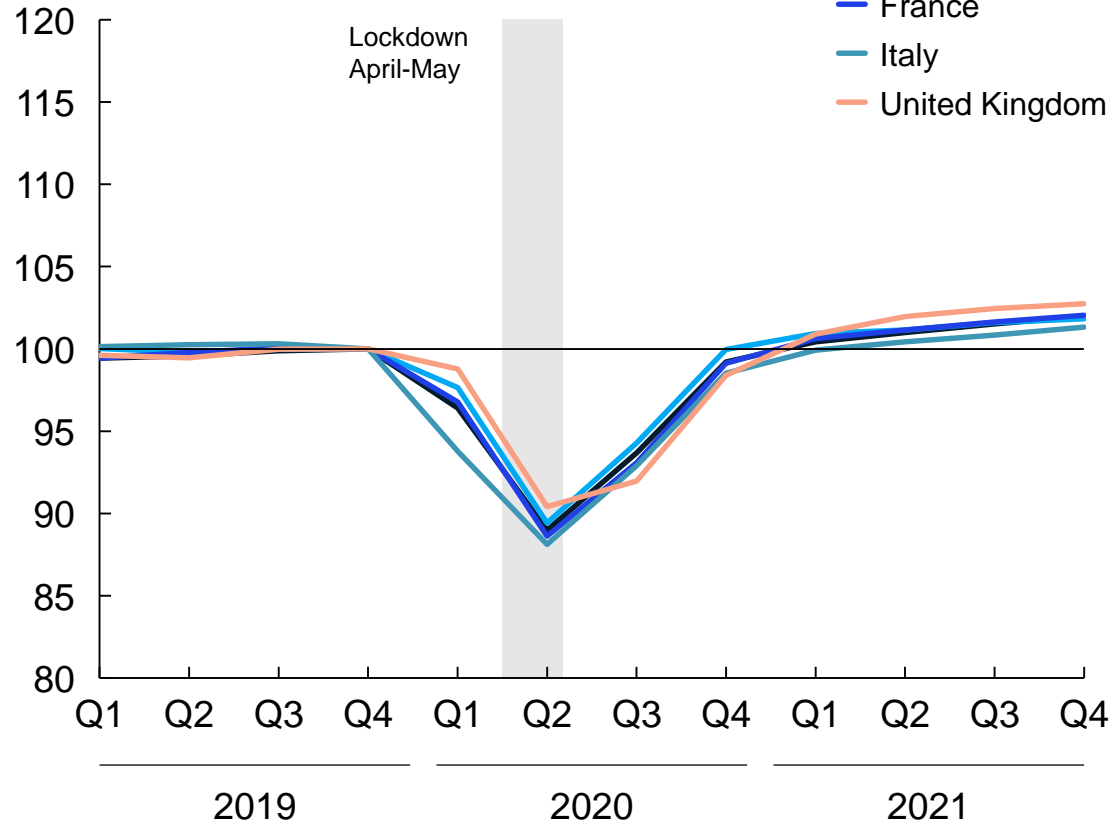
Health policy effectiveness



Economic policy effectiveness

Real GDP

Local Currency Units Indexed, 2019 Q4=100



	Real GDP Drop 2019Q4-2020Q2 % Change	2020 GDP Growth % Change	Return to Pre- Crisis Level Quarter (+/- 1Q)
Eurozone	-11.0%	-5.2%	2021 Q1
Germany	-10.5%	-4.6%	2021 Q1
France	-11.4%	-5.4%	2021 Q1
Italy	-11.9%	-6.8%	2021 Q2
United Kingdom	-9.6%	-4.9%	2021 Q1

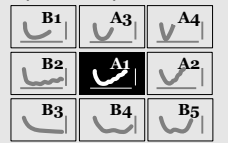
Scenario A1: virus recurrence, with muted recovery

What this means for Europe

Eurozone

Updated April 20, 2020

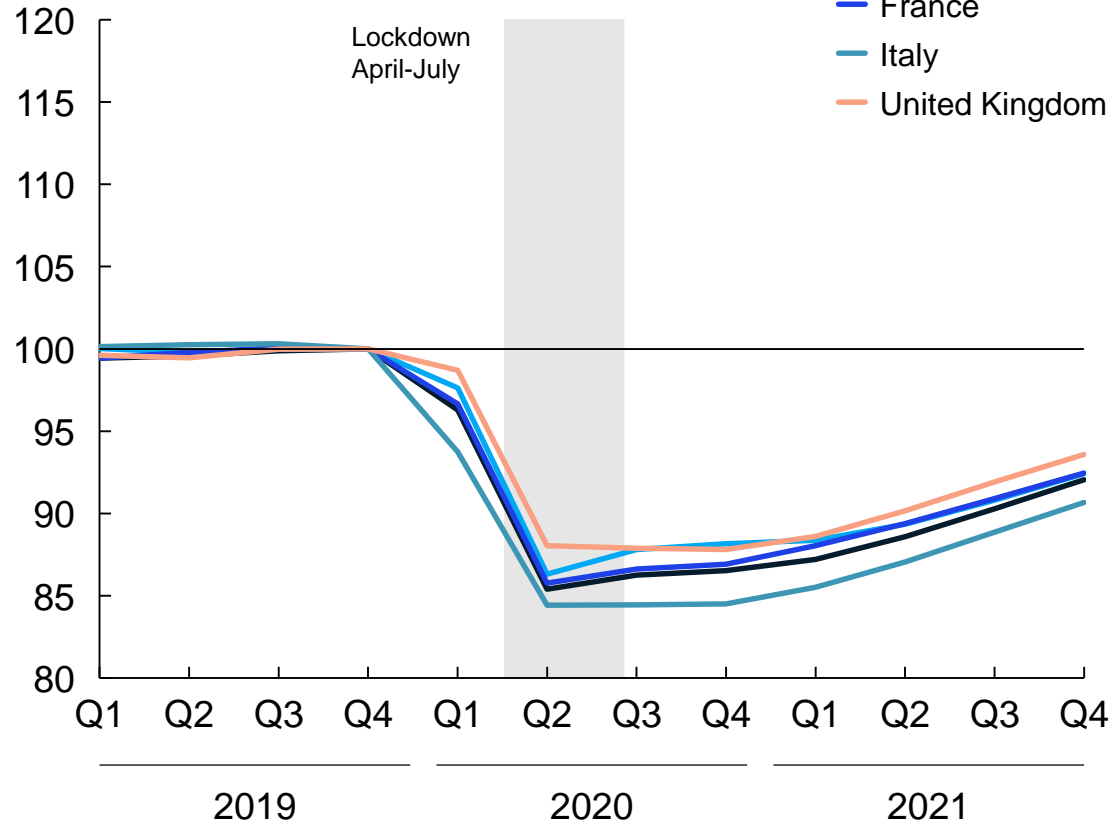
Health policy effectiveness



Economic policy effectiveness

Real GDP

Local Currency Units Indexed, 2019 Q4=100



Real GDP Drop
2019Q4-2020Q2
% Change

2020 GDP
Growth
% Change

Return to Pre-
Crisis Level
Quarter (+/- 1Q)

Eurozone	-14.6%	-11.1%	2023 Q3
Germany	-13.7%	-10.0%	2023 Q3
France	-14.2%	-10.8%	2023 Q3
Italy	-15.6%	-13.4%	2023 Q4
United Kingdom	-11.9%	-9.2%	2023 Q2

Our research shows that 60M jobs are at risk...

EXEMPLARY

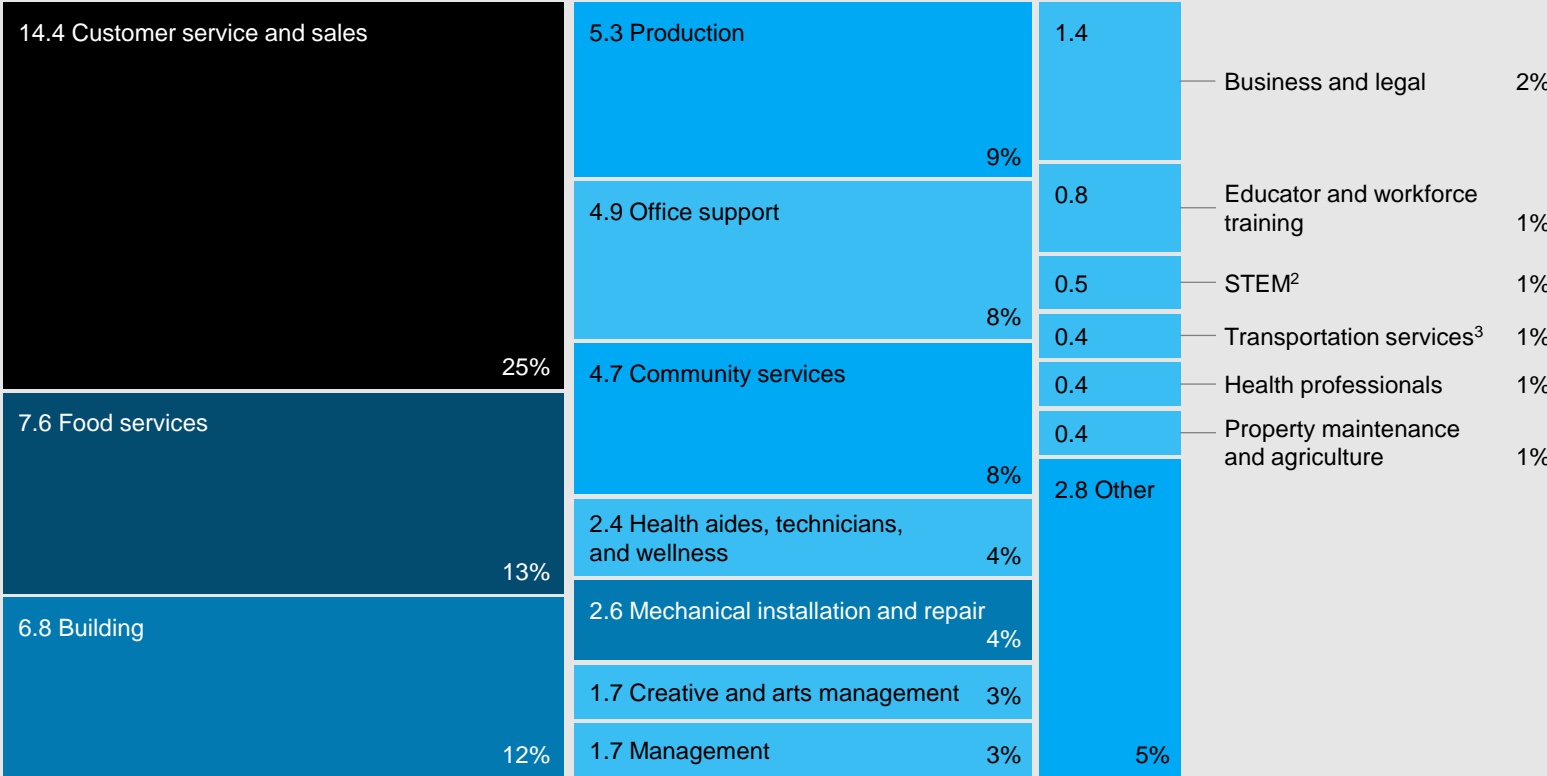
58.8 million jobs at risk in Europe

26% share of total employment

Customer service industry is affected the most

...with customer service industries being most affected

European jobs potentially at risk by cluster; millions, % share of total employment cluster¹

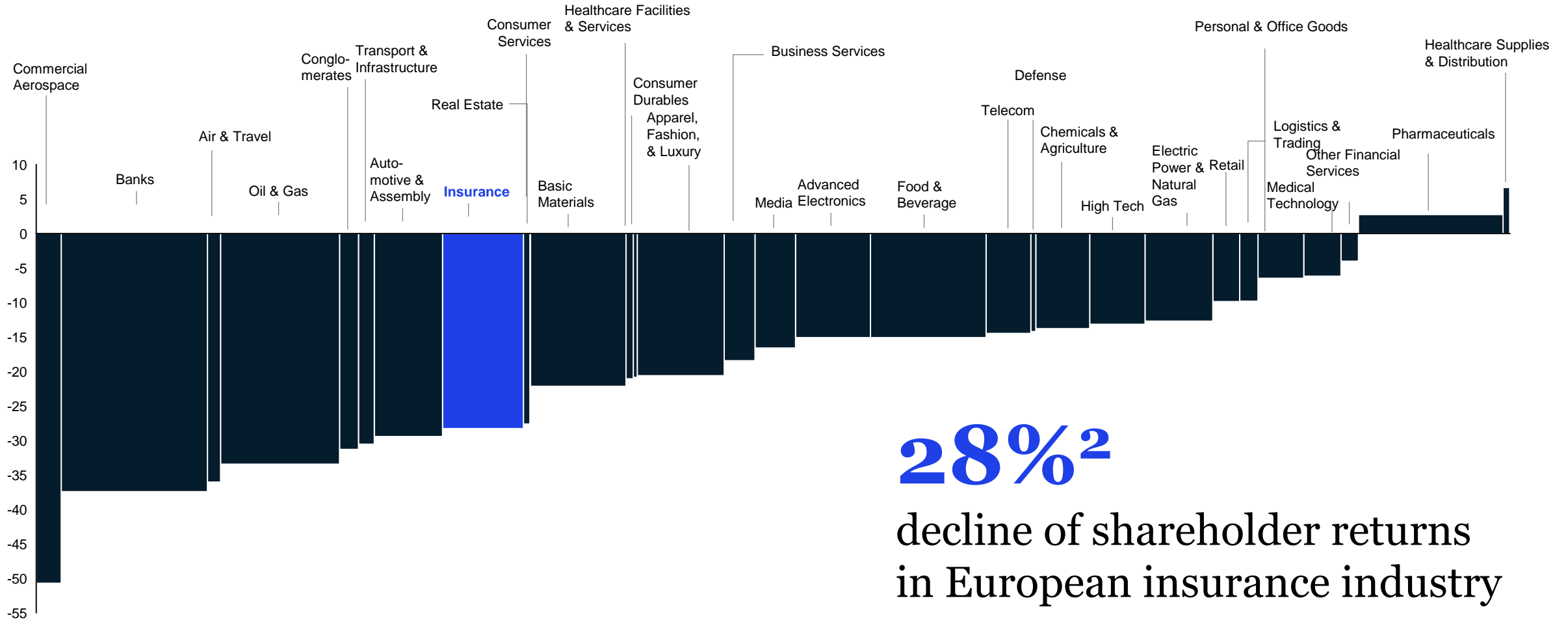


1. Based on the job-cluster framework defined by the McKinsey Global Institute
 2. Science, technology, engineering, and math
 3. Does not include any form of commercial-transportation jobs, such as heavy trucking and lorry driving (which is included in the "production" job cluster)
 Note: Analysis determines jobs at risk based on physical-distancing policies and their immediate knock-on economic consequences; assumes level of physical distancing (defined by shelter-in-place policy) based on state policies. Figures may not sum to 100%, because of rounding

Market capitalization has declined across sectors, with insurance being one of the hardest-hit

Weighted average year-to-date local currency shareholder returns by industry in percent¹. Width of bars is starting market cap in \$

Europe



28%²

decline of shareholder returns
in European insurance industry

1. European Data set includes largest European companies by market cap in 2019, excluding some subsidiaries, holding companies and companies who have delisted since
2. Approximately \$261 billion decline in market capitalization

Agenda

COVID-19: the Imperative of our Time

Impact on the Insurance industry

How Insurers / Insurance Europe can respond

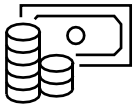


Mixed outlook from insurance executives ...

Many insurers are cautiously positive...



Limited short-term impact on Q1 results



Solvency levels expected to be resilient for the industry as a whole – strong starting point



Claims frequency is down across most Lines of Business

... although additional impact is still expected

...yet there may be more to come

Investment portfolio with **exposure to market volatility** and **credit risk**

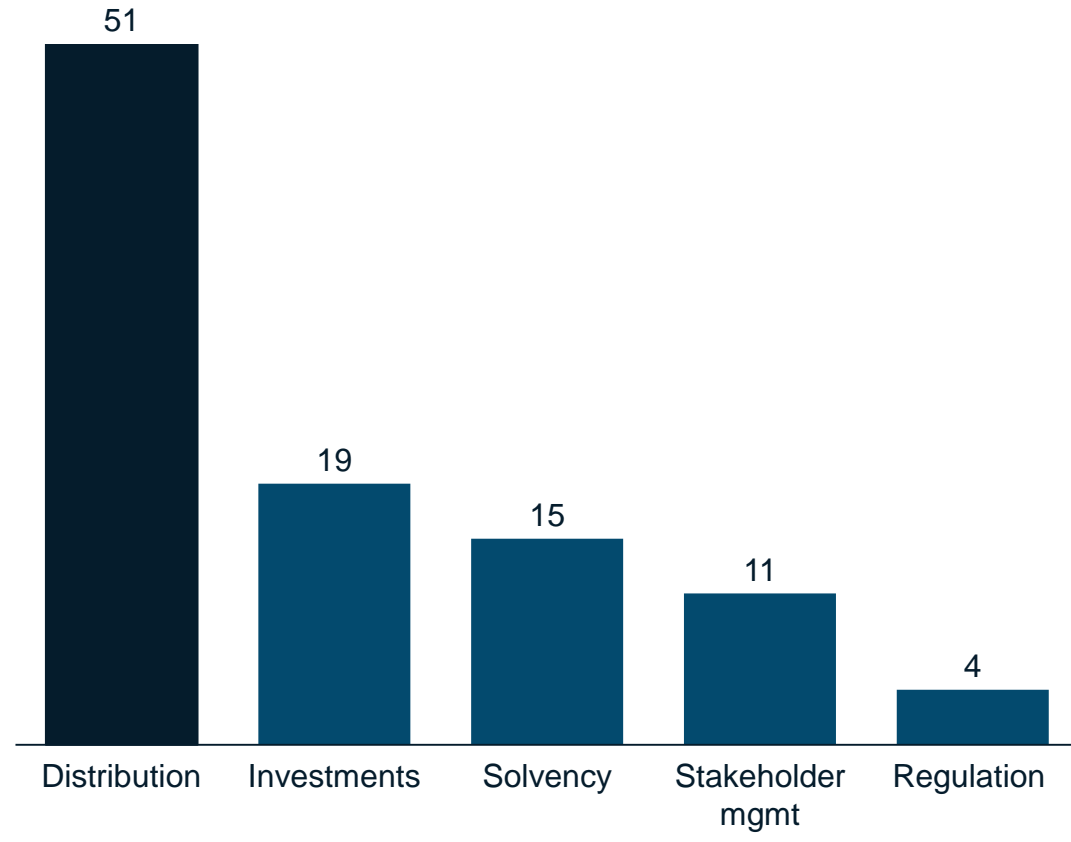
Claims frequency expected to rise when lockdown is lifted

Some Lines of Business under **pressure to pay uncovered risks** (e.g., Business Continuity), or **return premiums** (e.g., in Motor)

Consumer behavior is changing rapidly, **shifting towards digital** – across purchasing and servicing

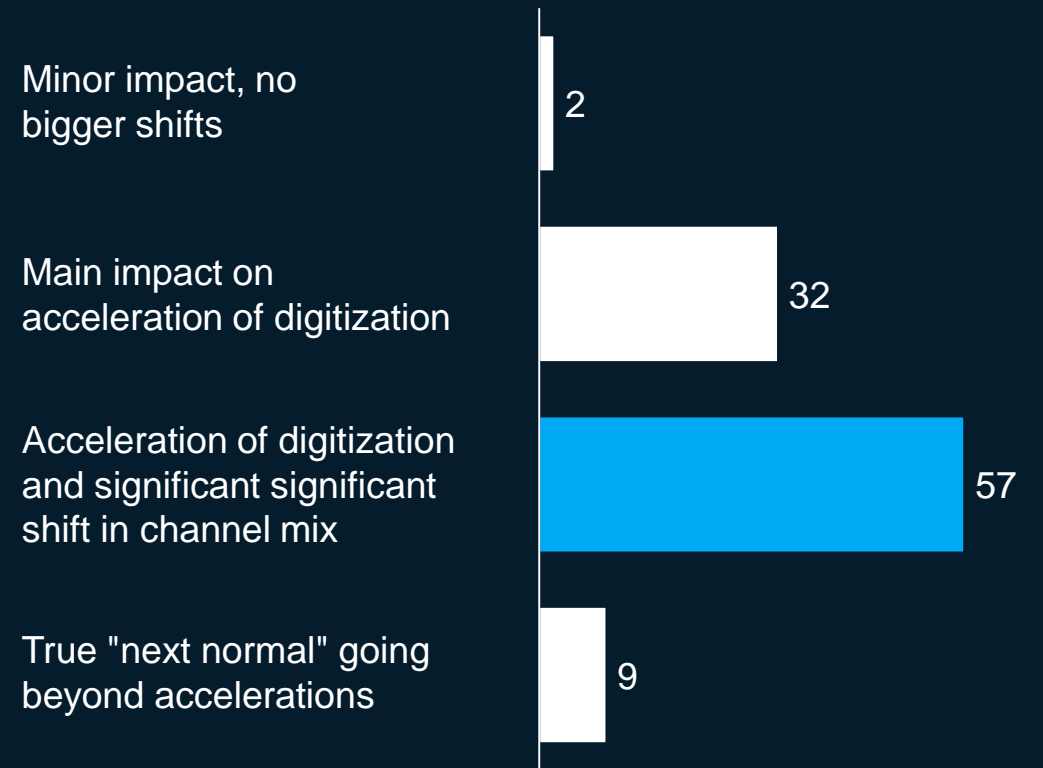
Insurance executives are mostly focused on distribution ...

Immediate challenge prioritized by insurance executives, % (n=80)



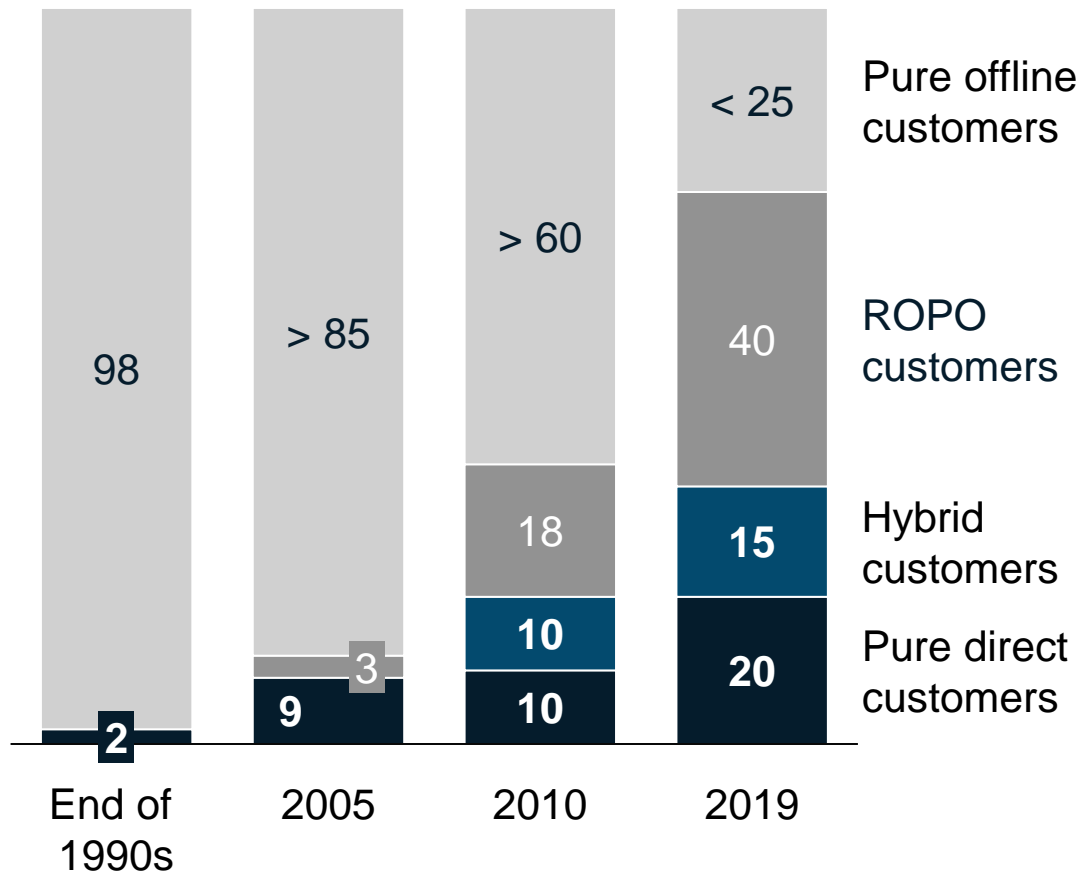
... where they expect sizeable changes post COVID

Expectations of post-COVID distribution landscape, % (n=125)



Use of digital channels has been on the rise...

Evolution of customer journeys¹

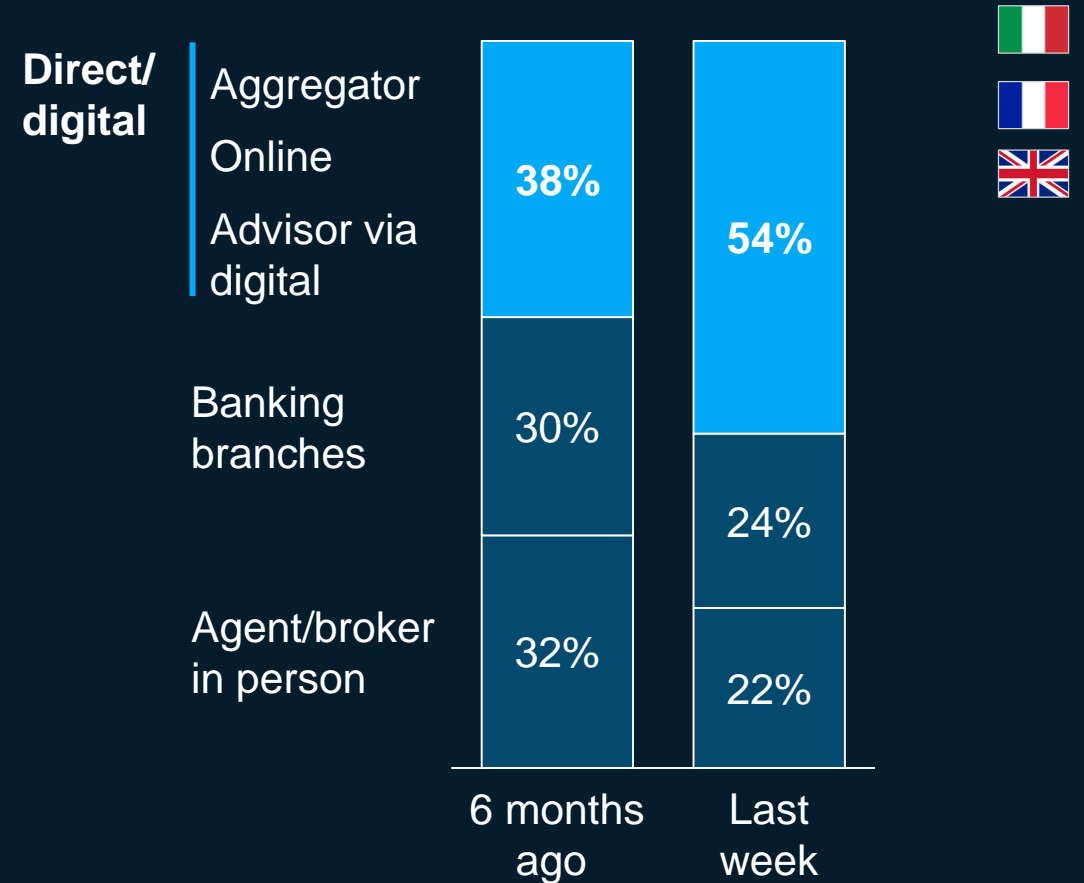


1. Motor Germany (similar trend across Europe)

Source: Multi-Access Survey; McKinsey Global Insurance Pool

...with perceived preferences accelerating through the crisis

Declared preferred sales channel (Life)



Source: on-line surveys conducted over 3,000+ individuals in two time frames: Oct 2019; Apr 2020

We expect multiple impacts on insurance distribution

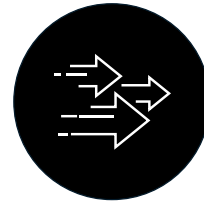
EXAMPLES



Forced adoption of digital/remote channels across all groups and generations of customers –short-term impact on customer experience?



Challenging intermediary P&Ls in 2020 requiring stabilization especially when strongly dependent on new business



Accelerated shifts in channel mix towards digital sales – both pure direct but especially also digitized personal channels (e.g., digital bancassurance)



Emergence of new distribution models with stronger "pull" from the customers and new players distributing insurance products

Agenda

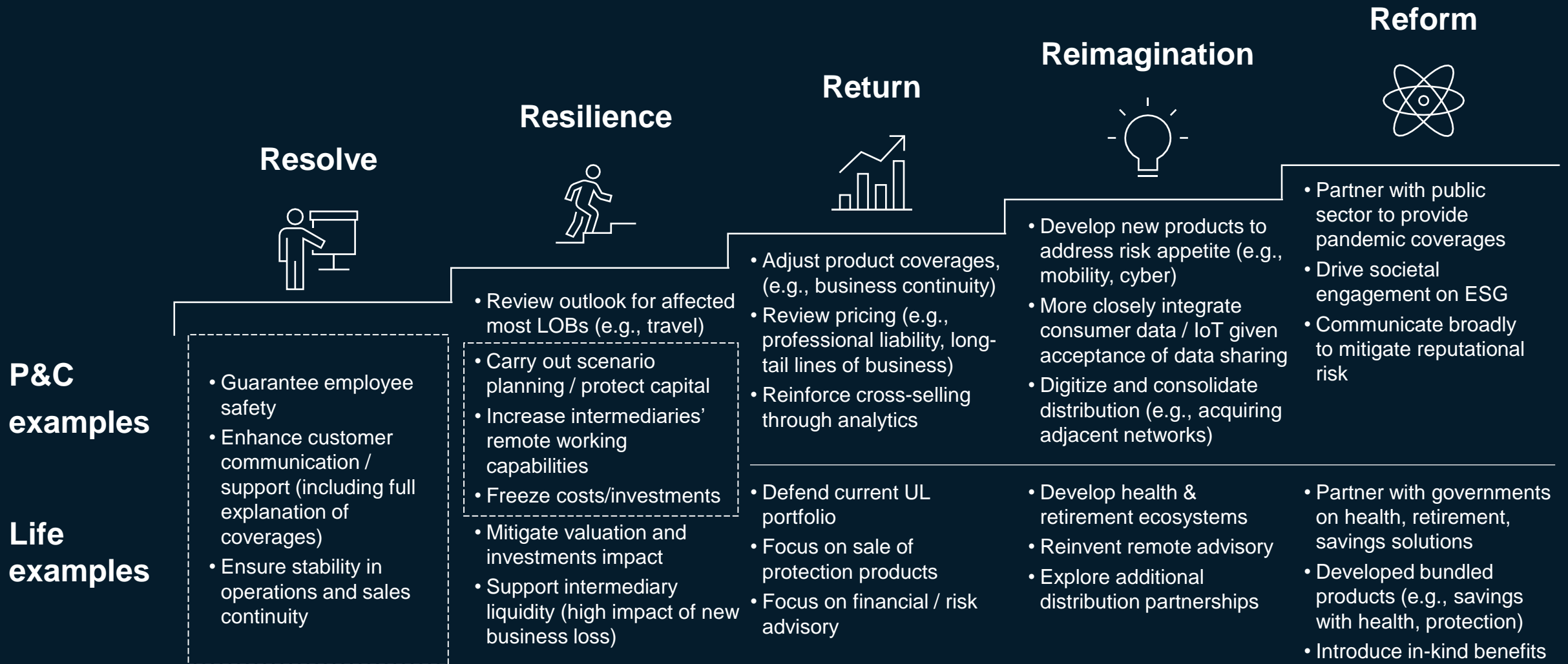
COVID-19: the Imperative of our Time

Impact on the Insurance industry

How Insurers / Insurance Europe can respond

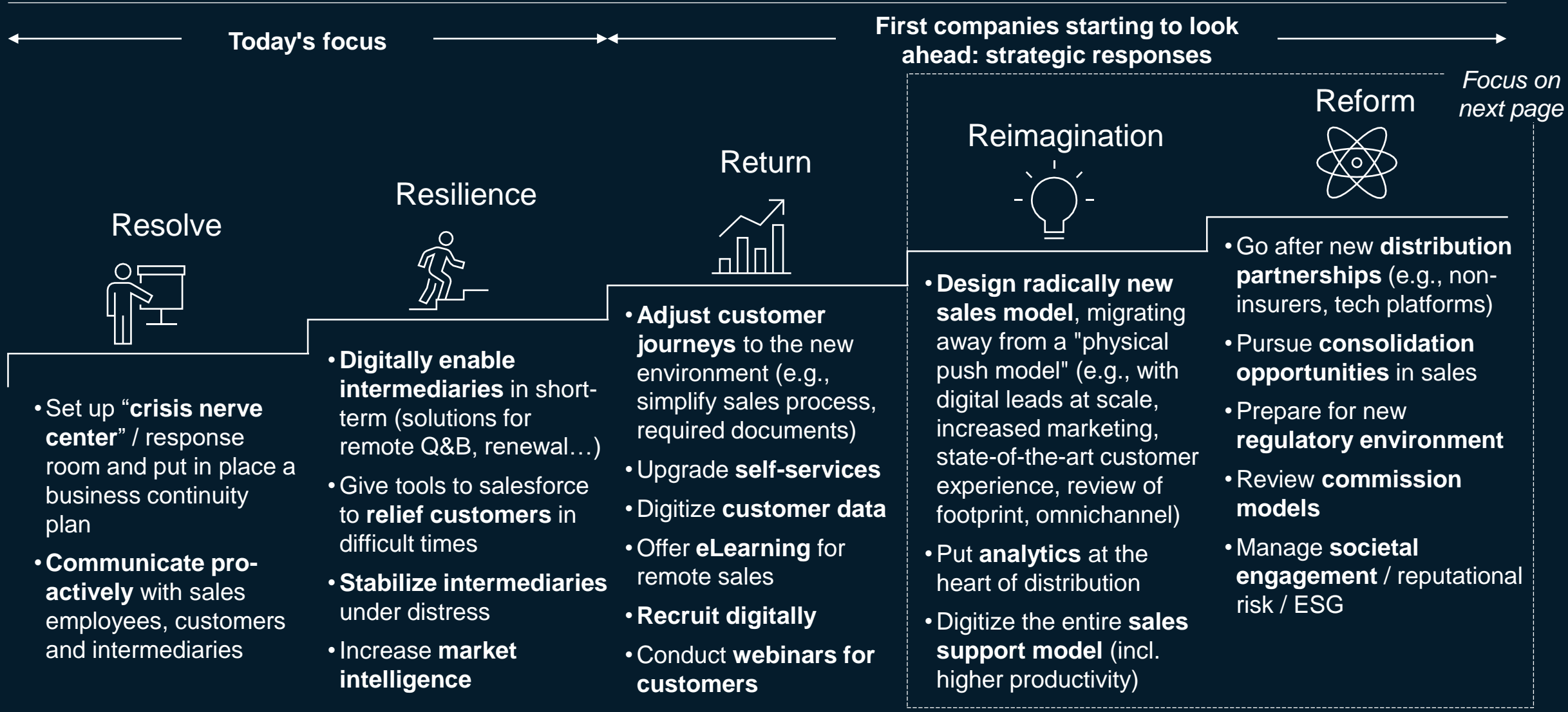


Insurance leaders need to think and act across 5 horizons

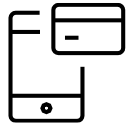
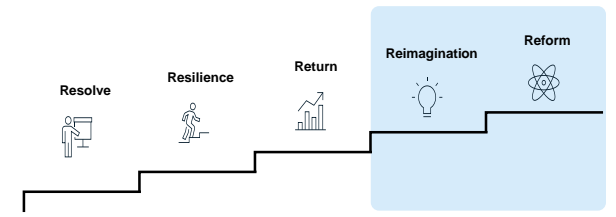


Development of action plan along value chain necessary – example of distribution on next page

Deep-dive: perspective for Chief Sales Officers



Reimagination and reform: Over-arching topics for strategic reflection



Sales support and channel migration

Promote digital channels for all steps of the value chain
Shift to online-ready platforms and growth in B2B2C shopping contextual sales



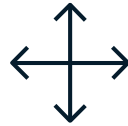
Efficiency and cost focus

Institutionalize of new operating model (e.g., remote customer service, next wave of digital/analytics)
Focus on cost optimization (e.g., with zero-based budgeting mindset)



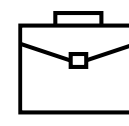
New talent and ways of working

Hire new talent from outside the industry (in particular, digital/analytics talent from struggling industries)
Change culture to agile/digital way of working (e.g., convert HR process for selection, interview and contracting to E-2-E online)



Consolidation and new partnerships

Carry out heat-mapping, re-planning, strategic portfolio review
Realize acquisition opportunities including M&A



Product and service innovation

Develop new (crisis) coverages with relevance for customers in the "new normal"
Accelerate the move towards fee-based earnings where appropriate



Different engagement with public stakeholders

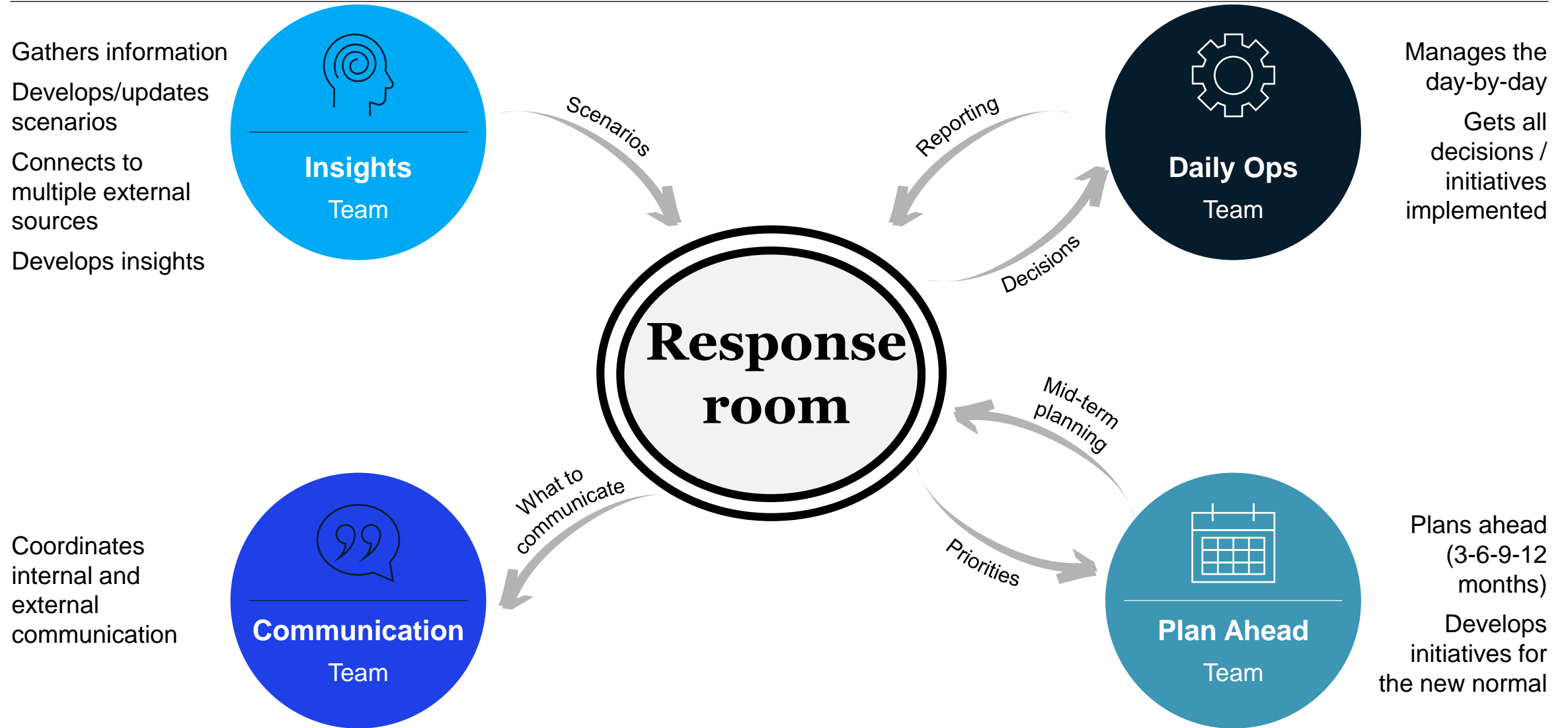
Evaluate potential for private-public partnerships
Revisit new opportunities e.g., for data sharing



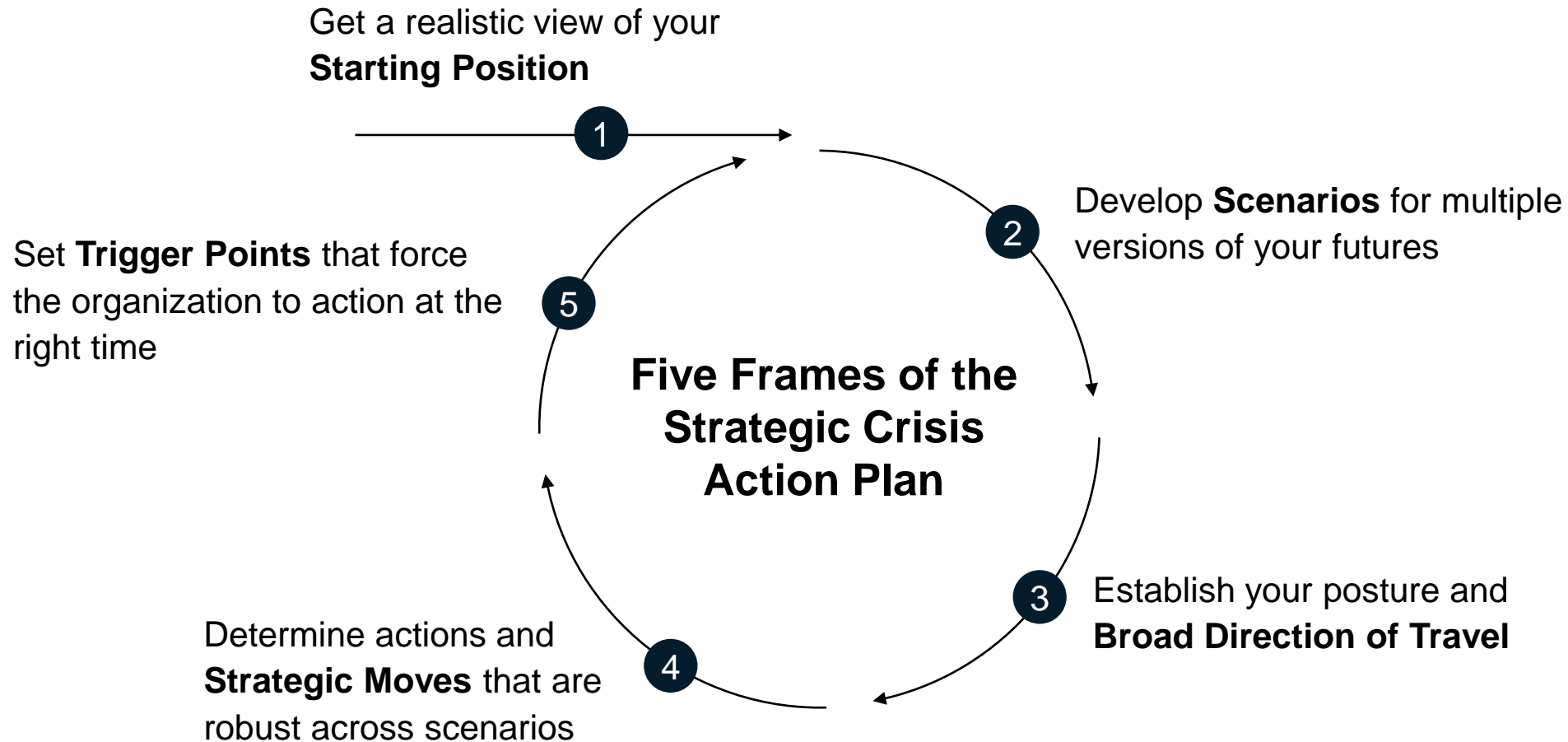
Clarify sense of Purpose

Establish and communicate values
Accelerate ESG and CSR plans
Enhance presence and reputation of industry in the broader community

Client example: setting up a “response room” to safeguard business and help navigate the crisis



Five Frames of Strategic Crisis Action Planning



The role that Insurance Europe and other associations can play

For discussion

Within the association(s)

Increased **transparency / data sharing** among insurance members

Consolidation of **best practices** (e.g., safety procedures, remote working guidelines)

Development of **industry tools / platforms** (e.g., fraud database, unique digital FNOL template)

Joint communication to help shape **industry narrative and reputation**

Concerted external effort

Public-private partnerships for systemic risks (e.g., pandemics, cyber)

Stimulus for increased savings in the general population (e.g., renewed tax advantages)

Relaxation of regulatory requirements to facilitate remote sales process (e.g., documentation, signatures)

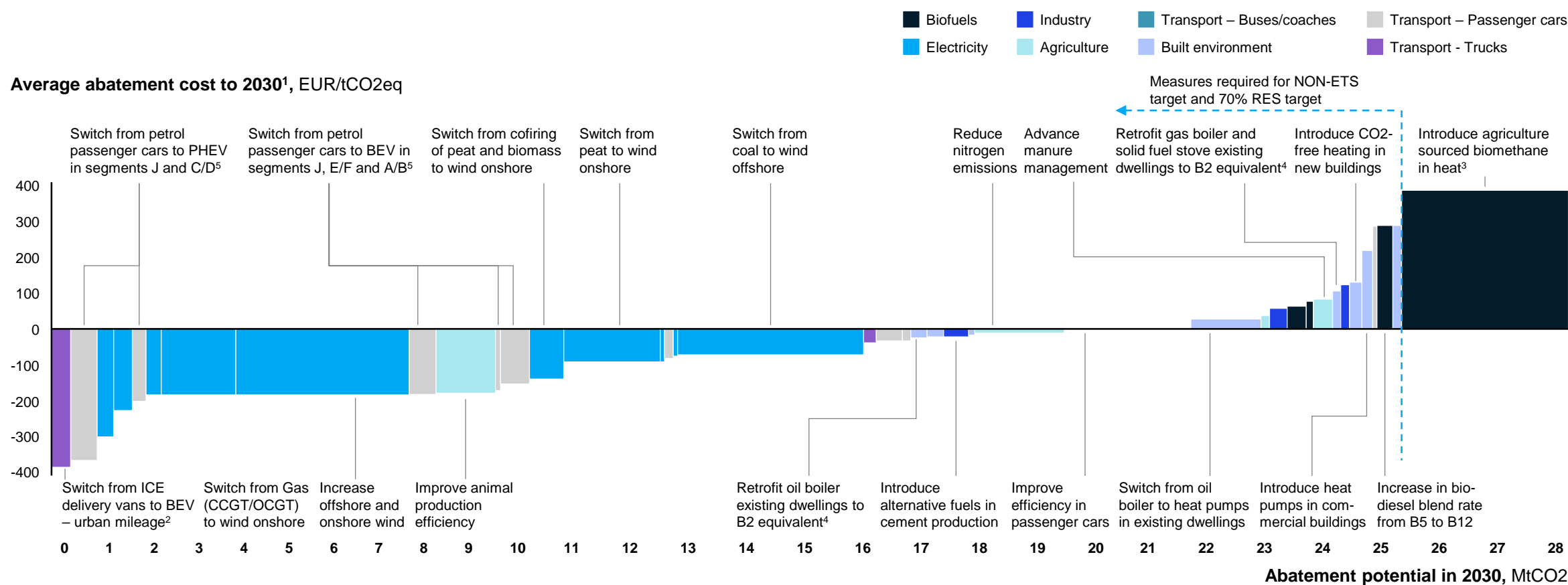
Flexibility / support with labor management to facilitate necessary rightsizing

Q & A



McKinsey has been calculating a marginal Abatement cost curve for Ireland ...

Marginal Abatement cost curve for Ireland to 2030



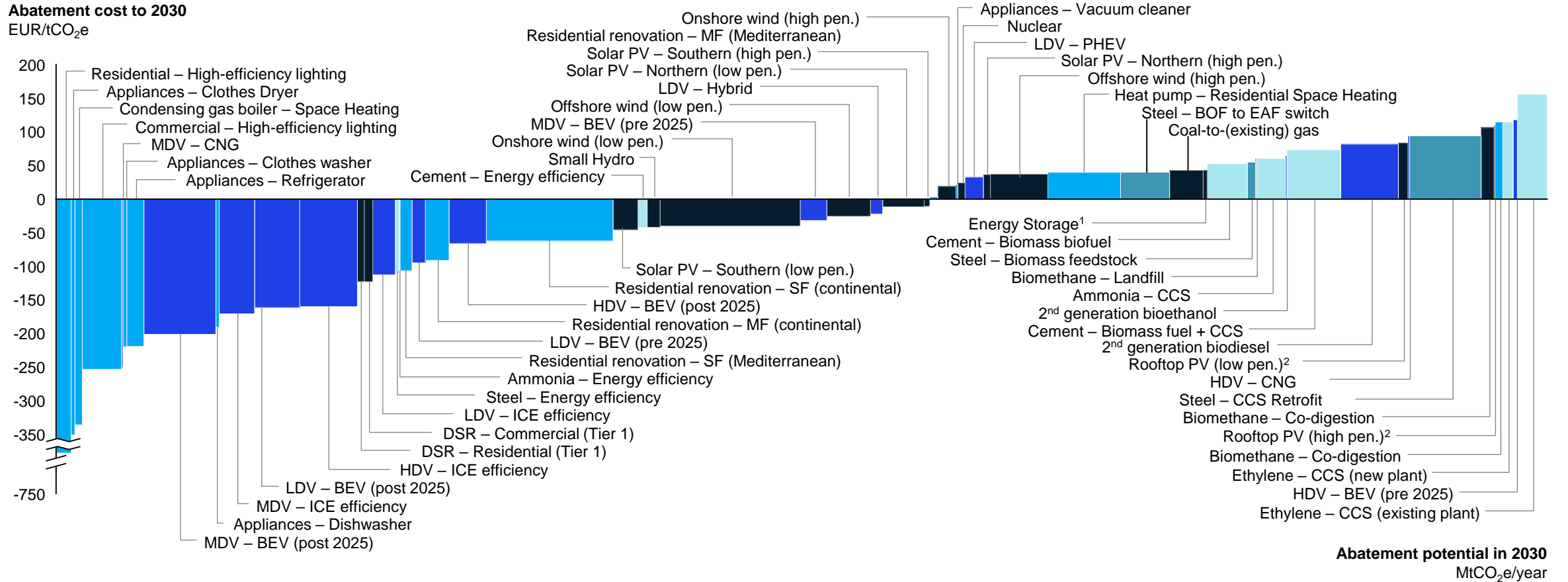
Note: The horizontal axis shows the abatement potential of the technology switches. The Vertical axis displays the average abatement cost as EUR/tCO₂ for each switch. The CO₂ price of the EU ETS is included in the costs of measures for industry and power and heat

- Measures considered exclude LULUCF and biofuels use in energy/heat production. MAACC does not include cost of enabling infrastructure (e.g., EV charging network, transmission & distribution upgrade). Agriculture measures are based on Teagasc Greenhouse Gas Working Group report "An Analysis of Abatement Potential of Greenhouse Gas Emissions in Irish Agriculture 2021-2030": Total abatement includes abatement for growth in the analyzed sectors:
- The switch to electric light commercial vehicles bring early TCO parity due to low weight vehicles doing long journeys:
- Biogas/biomethane abatement lever could displace emissions in both industry, buildings and power.
- B2 BER insulation equivalent: includes wall, roof & window insulation, excludes boiler upgrade
- Vehicle classes include: A/B - mini, small cars; C/D - medium, large cars; E/F - executive, luxury cars; J — sport utility cars (including on'- road vehicles)

...and we are currently working on an abatement curve for Europe

Work in progress

Abatement cost to 2030
EUR/tCO₂e



Note: LDV: Light Duty Vehicle; MDV: Medium Duty Vehicle; HDV: Heavy Duty Vehicle; ICE: Internal Combustion Engine; BEV: Battery Electric Vehicle; HEV: Hybrid Electric Vehicle; PHEV: Plug-in Hybrid Electric Vehicle; CNG: Compressed Natural Gas; BOF: Blast Furnace; EAF: Electric Arc Furnace; SF: Single Family House; MF: Multi Family House

1. Assuming Storage used only for Congestion Management application 2 Including Solar PV Rooftop + Battery energy storage