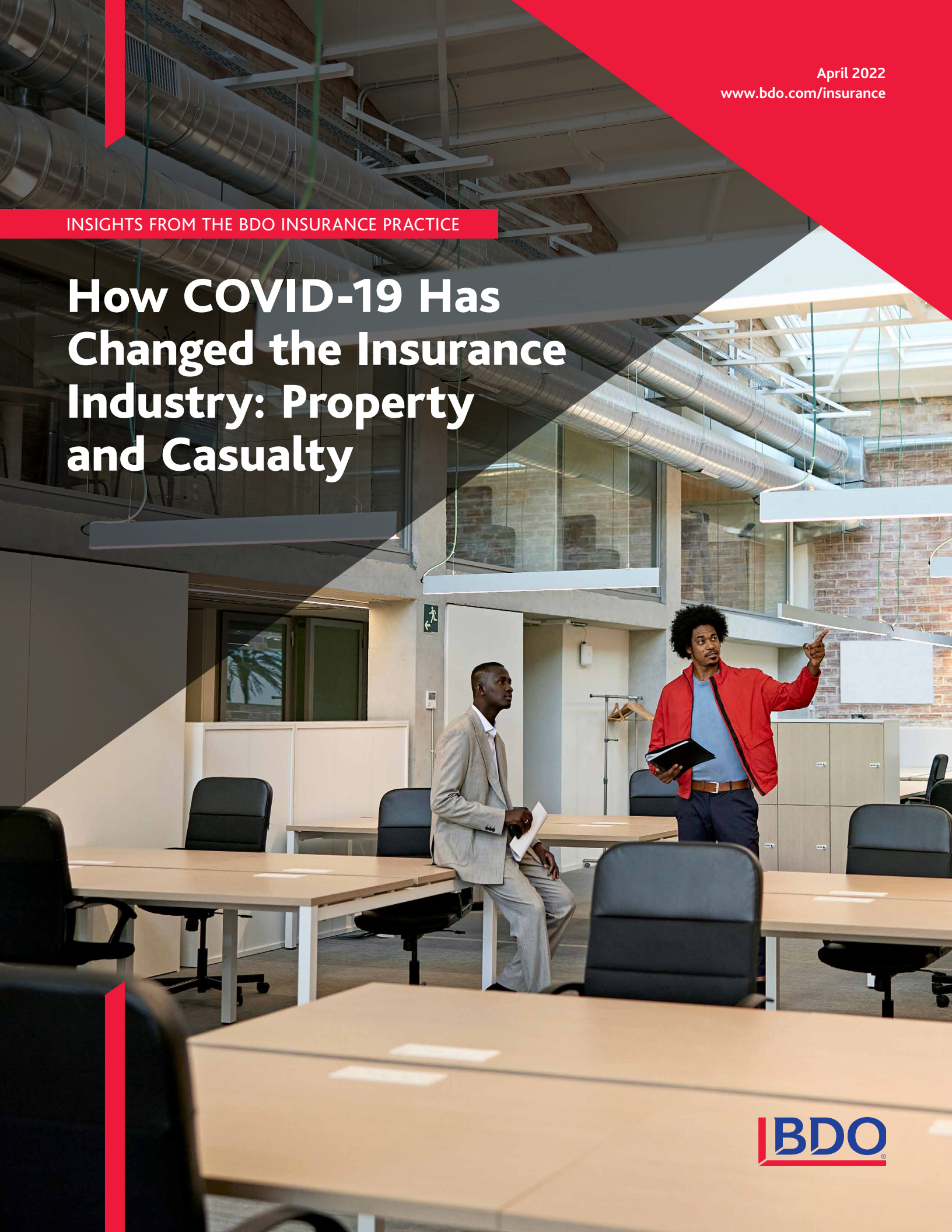


INSIGHTS FROM THE BDO INSURANCE PRACTICE

# How COVID-19 Has Changed the Insurance Industry: Property and Casualty



## HOW COVID-19 HAS CHANGED THE INSURANCE INDUSTRY: PROPERTY AND CASUALTY

Any insurance agent can speak to the difficulties of communicating the importance of financial protection from risks to prospective clients. Moving forward, they shouldn't have to do as much convincing. Recent years have illustrated the full spectrum of risk. Most notably, COVID-19 shined a light on the dangers of onsite interactions during the spread of a communicable disease, the impact of shutdowns on business and the need for workplace and legislative reform.

For the property and casualty sector, disruption has also created opportunity. The pandemic accelerated digitalization and forced industries to look beyond longstanding processes, allowing insurers to improve service offerings and the customer experience as they pivot towards the future. Below, learn how the evolving landscape and six key trends are reshaping property and casualty insurance.

### Automation

COVID-19 raised consumers' standards for convenience, shown in the increase of mobile app capabilities, 24/7 customer service and personalized risk profiles. While these offerings can be a challenge for companies who have yet to embrace new technologies, insurance companies can adapt to retain and attract clients in a rapidly accelerating digital landscape. Automation has the power to transform everyday property and casualty insurance activities, such as claims processing, policy management and underwriting.

An automated claims processing workflow can greatly improve accuracy, reduce the possibility of human error and significantly cut processing times. Technologies like machine learning can be leveraged to extract inbound changes from voice transcripts, emails and other materials submitted by existing policyholders and update documents and internal systems accordingly. Automation can also make it easier for property and casualty insurance firms to comply with evolving regulation. Today's technology can centralize legislative information onto one platform and alert insurers to steps they must take to ensure regulatory compliance as requirements evolve.

### Consolidation

In 2021, consolidation continued to sweep the insurance industry. There were [418 completed mergers and acquisitions \(M&A\)](#), which marked a 2.7% increase from 2020 overall, and 180 deals in the U.S. was the highest total since 2015. The flurry of M&A activity in the property and casualty insurance sector has been attributed to the pent-up demand caused by a pandemic-induced lull of deals during Q2 2020. Property and casualty firms found added motivation with anticipated increases to federal capital gains tax. Access to market share played a role, as did the industry's commitment to digital transformation. Firms that embraced automated processes became attractive acquisitions. Obtaining the capital to fund digital transformation initiatives was also a key driver of heightened consolidation in the insurance industry.

### Supply chain disruption

As a result of COVID-19, insurers are faced with a domino effect of disruption stemming from clients' tangled supply chains. Insurance carriers, accustomed to clients having a static list of priorities, have increasingly had to pivot and perform underwriting to reflect a swift change of suppliers, logistics providers and distribution partners. Supply chain disruption is projected to continue as outbreaks of COVID-19 variants continue to emerge, creating a host of new concerns for underwriters.

Underwriters must now consider factors like staffing in the event of a shutdown and whether existing storage facilities can hold excess inventory. They must also weigh the pros and cons of contingency plans for the business as well as engage in quality control of key suppliers, factories, locations and vendors. Claims processing is also feeling the effects as supply chain disruption can delay auto and homeowners insurance claims.

### Rising cost of claims

In addition to creating a new host of concerns for underwriters and delaying auto and homeowners claims, supply chain disruption has contributed to the rising cost of claims. Consumer demand for goods and services has largely improved. However, due to ongoing supply chain dysfunction and staffing shortages, companies in many parts of the U.S. cannot keep up. As a result, the consumer price index (CPI) rose 8.5% in March from the previous year, marking the largest increase since 1981, according to the Bureau of Labor Statistics (BLS).

The costs of construction materials, auto parts, rental cars, and medical and legal services are increasing at an even higher rate than overall consumer prices. For the insurance industry, this has translated to higher claims costs and increased upward pressure on premiums. At the same time, home repairs have combined with the costliest year of natural disasters to create high claims that are expected to severely impact rates and underwriting standards for years to come.



## Workforce shifts

COVID-19 caused employers and workers alike to reevaluate and revise their workplace expectations. The insurance industry itself has been able to weather pandemic-era labor shifts better than most. The nature of insurance lends itself to the increasingly common remote or hybrid work environment. However, this new approach has shaken workers' compensation clients.

Though all industries are experiencing high turnover, industries that primarily provide in-person services, such as hospitality and healthcare, have been disproportionately impacted. These industries are increasing wages to retain and attract talent and align with rising inflation. The cost of workers' compensation insurance is rising accordingly. According to the [BLS' employment cost index \(ECI\)](#), compensation costs for private industry workers increased 4.4% during 2021, and wages and salaries increased 5%.

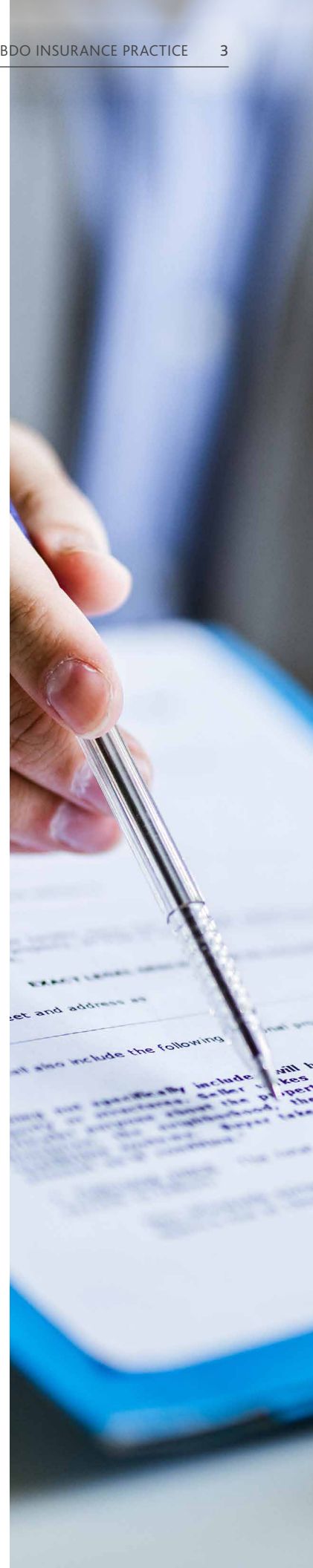
## Emerging legislation and legal considerations

Business interruption, workers' compensation and commercial property insurance must prepare to adapt not only to market trends but also to new legal considerations and the prospect of legislative reform as well.

- ▶ **Business interruption insurance:** After two years of the pandemic, considerable uncertainty remains regarding business interruption insurance (BII). One of the biggest questions plaguing the property and casualty insurance sector is whether BII applies to lost income for businesses affected by the pandemic. There has been state-level litigation, but federal lawmakers have not yet addressed existing and future BII claims by defining eligibility and protecting insurer solvency.
- ▶ **Workers' compensation insurance:** The parameters of workers' compensation coverage have grown murkier for companies that have recently shifted to a remote work model. Obtaining workers' compensation insurance for each employee, regardless of whether they work from home or not, is recommended and, in many cases, required by state law. Though one might think the onus of safety in a work-from-home environment is on the employee, lack of worksite supervision may actually put business owners at an additional risk of liability for these employees. Insurers should encourage clients embracing a remote work model to take precautions to ensure employee safety. Precautions can include clarifying "course of employment" by setting fixed work hours complete with designated meal and break times, requiring employees to have a dedicated work area and requiring them to undergo training in work safety.
- ▶ **Commercial property insurance:** As COVID-19 and new variants continue to spread, commercial property insurance carriers may see an increase in claims. Contrary to popular belief, the presence of a contaminant, including a contagion like COVID-19, may constitute insured physical loss or damage to property, and associated economic losses qualify for coverage under most commercial property insurance plans. Furthermore, standard exclusions often do not apply to viruses.

## PROPERTY AND CASUALTY INSURERS FIND OPPORTUNITY IN CHALLENGE

Early in the pandemic, every facet of property and casualty insurance was expected to feel its impact, from frontline sales to underwriting to back-end policy administration to claims management. While the sector continues to emerge from the disruption of the pandemic, it's finding opportunities to embrace automation, consolidate for mutually beneficial partnerships and reimagine longstanding processes. Each opportunity seized is a step towards a property and casualty insurance sector that is better equipped to adapt processes and policies to shifting needs and expectations.





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[www.bdo.com/insurance](http://www.bdo.com/insurance)

**PETER POPO**

National Insurance Practice Leader  
404-979-7258  
ppopo@bdo.com

**IMRAN MAKDA**

National Insurance Practice Leader  
212-885-8461  
imakda@bdo.com

**ERIC BASE**

Audit Partner  
214-665-0627  
ebase@bdo.com

**UGO OKPEWHO, FSA, MAAA**

Director, Insurance Advisory  
212-885-8293  
uokpewho@bdo.com

**SCOTT CEDERBURG**

Director, Insurance Advisory  
404-979-7210  
scederburg@bdo.com