

Q & A with Martin Shaw

Spotlight on mutuals and coronavirus

May 2020

How has AFM reacted to the COVID-19 pandemic?

A large part of our work involves providing opportunities for members to network, through an extensive range of meetings and events. Those are of course not happening due to the lockdown, though we continue to run meetings by phone and video, and have introduced a range of webinars for members to support their training needs.

We are also spending a lot of time talking to members to understand how the pandemic is affecting the sector, and discussing with regulators and government how we can continue to deliver an effective service to customers.

How has the Mutual industry been coping with COVID-19?

The sector has had to make significant changes to the way it operates. By organising staff to work from home, mutuals can continue to operate productively. The first priority has been to look after existing customers, and to make sure claims are paid. It's been gratifying to see how well this transformation has been made, and having all staff based in the UK has certainly helped.

The sector is also thinking hard about how it works with other businesses: for example, wherever possible they are avoiding making additional demands on the NHS, and are working to support their local communities.

Do you think the insurance industry is supporting its customers?

I've talked to a lot of senior executives, who have all stressed that they are prioritising the needs of their existing customers over writing new business. Hence, in moving their teams to work from home, they have ensured that above all else, they can continue to provide good customer service, and to handle claims efficiently.

Shareholder-owned insurers have been discouraged from paying out dividends this year, in order to ensure there is cash available to meet the needs of customers. With no external shareholders of course, that has not been an issue for mutuals. It's been good to see a number of mutuals make early commitments to their customers during the pandemic- such as a payment holiday to customers who can't afford to pay their premiums, or a promise to pass on the savings resulting from lower claims during the lockdown.

We take for granted the importance of supporting customers as well as possible, though from conversations with regulators, the capacity of the sector to continuing to welcome customers to phone rather than email, and to proactively contact vulnerable customers by phone, is not something larger banks and insurers have been able to do.

Do you think COVID-19 is disrupting the industry?

Undoubtedly Covid-19 is having a massive immediate effect on the insurance sector. Currently that includes changes in the way we work, as well as changes in the need for insurance cover and the likelihood of claiming. For example, with a big fall in the usage of motor vehicles, some insurers have indicated they are reducing premiums for customers, because they expect to see fewer claims.

More generally, the lockdown process is causing many firms to re-think the way they do business. In its simplest form, discovering that working from home can make staff more productive and more motivated, means that in many cases we won't all just return to the desk for five days a week after the pandemic. But we also have to ask some tough questions in the future about the role of insurance, the risk of future pandemics and the changing nature of society: questions which are not so easy to resolve!

Potentially though, some of that disruption may make it more attractive to set up a mutual in the future, and with the right policy background, easier to see them thrive.

What is the future for the insurance industry and for Mutuals?

The insurance sector plays a vital role in UK society: from managing pensions, to helping people to save, to supporting them in their time of need. The sector invests £ billion every year in the infrastructure that helps to keep the economy running. Insurance therefore has a vital role to play, but it must not just assume that after the lockdown everything returns to the way it was.

Insurers- including mutuals- need to take a careful look at how they are run and to make sure that this is for the good of society. They do need to have a profit motive of course, but this must be a result of doing the right thing, and not be at the expense of their customers.

For example, the price of business interruption or travel insurance might be cheaper if it excludes claims against coronavirus, but insurers must be prepared to say it's better for their customers and their business to not sell a bad product. No-one could have foretold how extensively coronavirus would affect us, but businesses used to model 1 in 200-year events will have known a pandemic would strike at some time, following on from SARS (2002) and MERS (2012).

Will there be any positive changes to insurance and mutuality?

I expect all insurers to take a long hard look at the way they operate, the products they sell and the service they offer to customers. Most do that well already, but after the pandemic the sector will be all the more thoughtful about the relationship they have with their customers and the role they play in society.

Insurers are also pretty good at risk management- it goes with the territory- but have traditionally not thought very broadly about risk. I'd like to see some of the techniques the sector uses to analyse risk in the company or person they're insuring, to become better utilised more generally: whether that's in assessing the risk and impact of a future pandemic, or of climate change, or an ageing society (to name but a few).

For mutuals, who are already one step closer to their customer, the challenge is to go beyond that and to explore how they can support the wider society further. There are some good examples of that already, such as the healthcare provider that offers excess office space to start-up businesses, or the friendly societies that provide support to local communities.

Are we ready to take any learnings out of how insurers and mutuals have dealt with the pandemic?

Minds are now turning to what comes next. For insurers, that's about assessing what has worked well and what more work is needed. For example, some business continuity plans were found a bit wanting, and there was a scramble for hardware at the start of the lockdown, to ensure staff had all the kit they needed to work from home.

But since then, the process of running an insurer on a remote basis has worked well: I know of some mutuals who've concluded that they won't be rushing to re-open the office after the lockdown, and of others who are planning to permanently close the office one or two days a week.

Have you seen any changes in consumer behaviour/ tolerance?

The mentality that 'we're all in this together' has been a marked feature of the pandemic. Stress levels may have risen, as people are forced to stay at home and avoid socialising, but we've become more tolerant of the challenges we all face. For mutuals, ensuring their customers can contact them, and that they are empathetic to the customers' needs is very important.

Do you think the Government could do more to support mutuals and the establishment of Mutuals?

I do expect that in the aftermath of the pandemic, there will be serious consideration of the way firms meet the needs of customers, and the nature of business in the future. The Government ought to think carefully whether the bailouts it has provided, and whether the businesses it has brought into public ownership, should be returned to private hands, where future profits will be lost to the community. Indeed, with over half of all listed company shares now owned abroad, the dividends paid out by British companies exit the UK economy entirely.

To ensure our economy is robust and society is well-served, we need to think about the structure of business in the future. That should mean that more of our strategically important assets are retained in public ownership, but we would also encourage Government to think about way to support mutuals or to create more mutuals from publicly owned assets, to ensure companies of tomorrow better respond to the needs of their customers and of society.

What will be your key learnings from this pandemic?

The mutual sector has done very well in serving its customers, but in most cases, privately owned companies have risen to the challenge as well. The mutual sector of tomorrow should seek to consider how it can better differentiate itself- not by mimicking the PLCs, or playing the game by their rules, but by finding some distinctive aspects of the mutual model that more clearly demonstrate their value and significance to society in the future.

(Based on an Expert Spotlight article first published by Regis Mutual Management.)