VIEW POINT

THE FUTURE OF LIFE INSURANCE AFTER COVID

Abstract

In a world where COVID-19 has changed the behaviour and actions of different business entities, including the operations of life insurance companies, the question remains: what is the future of life insurance after COVID? This paper shares a perspective on how the life insurance markets were shaken vehemently by COVID-19 and the paths it is going to take in the coming years.

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Introduction

In March 2020, the COVID-19 pandemic shook the world to its core. The deadly virus crippled businesses, companies, economies, livelihoods, different markets, and industries, including the life insurance market. High mortality rates were seen across different countries, affecting adults and children alike.

The COVID-19 pandemic has had a mixed impact on the life insurance industry. It has prompted insurance companies to adjust their pricing along with their offerings. Some rumours suggest that the increase in premiums and the reductions in product options are due to the higher mortality rates experienced at the time. This has caused disillusionment among individuals regarding the operation of life insurance companies. Conversely, the pandemic has also highlighted the disadvantages of not having any form of life insurance. Those without coverage felt more vulnerable to significant losses. As a result, there has been an increased demand for life insurance contracts and subsequent rises in premiums. The mixed experiences and attitudes of individuals during COVID-19 raise questions about the future of life insurance.

Life insurance - before and after

Before the pandemic, life insurance companies typically required a medical examination for coverage. However, they also offered no-exam policies with higher premiums. According to a Forbes advisor, nowadays, insurers offer no-exam life insurance at prices similar to policies requiring exams. This provides accessible coverage without medical exams. However, more sophisticated policies may still require examinations. The average age of life insurance applicants has also shifted, with a decrease from 44 to 35 years. The future requirement of medical exams in policies remains uncertain.

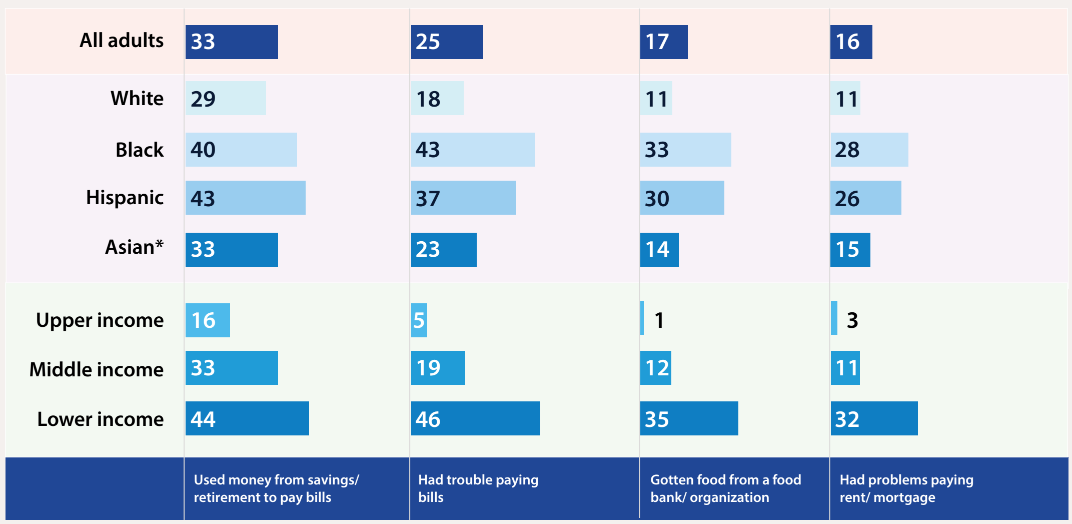
Impact on the future of life insurance

Apart from the economic challenges and effects brought by the pandemic to different sectors of business, including the life insurance market, there are also other significant impacts, such as operational changes, premium payment, package offers, market volatility, and so on.

Pew Research Center survey found that one-quarter of adults have had trouble paying bills, a third have dipped into savings, and one-sixth have borrowed money or gotten food from a food bank. These experiences are more common among lower-income, non-college-educated, and Black and Hispanic Americans.[1]

Financial pain points during coronavirus outbreak differ widely by race, ethnicity and income

% saying they have ____ since the coronavirus outbreak started in February



*Asian adults were interviewed in English only.

Note: White, Black and Asians adults include those who report being only one race and are not Hispanic. Hispanics are of any race. Family income tiers are based on adjusted 2019 earnings.

Source: Survey of U.S. adults conducted Aug. 3-16, 2020.
"Economic Fallout From COVID-10 Continues To Hit Lower-Income Americans The Hardest"

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» Operational impact

COVID-19 has caused changes in the application process for insurance, such as remote alternatives to in-person interactions and a shift towards a virtual workforce. However, these adaptations have led to setbacks, such as processing delays and complexities in handling remote data. The future return to normalcy remains uncertain. For instance, handling large sets of data remotely can lead to complexities and possible delays in processing times. This can cause an application that is supposed to be processed in 2 days to now take 4 to 5 days to process.

» Mortality assumptions

The price of a life insurance product is determined by the carrier's estimation of the life expectancies of its insureds, as well as the investment returns it generates from its portfolio of assets. Extremely low interest rates resulting from the economic slowdown accompanying the COVID-19 pandemic, along with the deaths resulting from the pandemic, have negatively impacted these pricing factors. Although a few carriers have already announced an increase in their mortality charges on

[1]https://www.pewresearch.org/social-trends/2020/09/24/economic-fallout-from-covid-19-continues-to-hit-lower-income-americans-the-hardest/

certain products, lower interest rates are likely to have an adverse long-term impact on contract pricing, absent a prolonged outbreak. (Life insurance carriers only recently replaced the 2001 Commissioners Standard Ordinary (CSO) mortality table with the more favourable 2017 CSO Table, which would normally be expected to contribute to a reduction in mortality charges.) Lower interest rates have been a concern for insurance carriers for many years.

Mortality rates across all adult ages have been significantly higher since the beginning of the COVID-19 pandemic.[2]

However, there may be a mixture of push-pull effects on mortality rates from the near to long term:

- People with chronic COVID-19 infection (LONG COVID) may 'age' faster than if they had not been infected with the virus. Long COVID may become a substantive phenomenon resulting in higher mortality rates in the future.
- It is likely that many people delayed elective healthcare, resulting in a reduced diagnosis of conditions (either delayed or missed entirely). This dynamic may increase mortality rates in the future.

» Impact on premiums

Due to the increasing demand for insurance contracts and the prevailing economic conditions, most insurance firms raised the premium for most of their life insurance policies during the present post-pandemic era.

Global life insurers paid out $5.5 billion in COVID-19 claims in the first nine months of 2021, up from $3.5 billion in all of 2020. This was despite expectations that the rollout of vaccines would lead to lower payouts.

"We definitely paid out more than anticipated at the beginning of last year," said Hannover Re (HNRGn.DE) board member Klaus Miller.[3]

COVID-19 claims surged in 2021 due to the Delta variant, which led to more hospitalizations and deaths. The US, India, and South Africa saw the biggest increases in claims, as these countries were hit hard by more severe variants and higher mortality among younger and unvaccinated people.

Life insurance premiums are not fully reflecting the long-term impact of COVID-19 on fatalities and illnesses. This is because premiums are constrained by industry competition and the inherent nature of life insurance contracts, which are often written for 20 years or more.

» Economic impact/lapse ratio

The pandemic has caused financial struggles for many, leading to difficulties in renewing insurance packages and a reluctance to commit to premium payments. Policy cancellations and requests for premium holidays have also occurred (Deloitte 2020). Global market volatility has affected equity investments and capital, requiring businesses, including insurers, to rely on loans and grants. In 2020, U.S. life insurers paid over $90 billion to beneficiaries, a significant increase from 2019.[4] Considering the current circumstances, policy owners should assess the financial strength of insurers and their ability to honour coverage in the future.

[2]https://www.cdc.gov/nchs/products/databriefs/db446.htm

[3]https://www.reuters.com/business/life-insurers-adapt-pandemic-risk-models-after-claims-jump-2022-01-13/

[4]https://fortune.com/2021/12/09/life-insurance-payouts-2020-record-high-covid/

Emergence of opportunities

Considering the COVID-19 pandemic and the subsequent vaccine rollout, questions have been raised about the future of life insurance policies and offerings. The virus has had both positive and negative impacts on the life insurance industry, leading to anticipated shifts that are likely to shape the industry for the foreseeable future. Here are some compiled projections regarding the expected changes in the life insurance sector.

» Flexible and innovative product offerings

Interest rates have been declining for a decade, and the COVID-19 pandemic has further intensified the pressure on interest rates, with no signs of recovery. Meanwhile, changing regulations have limited traditional business practices.

Life insurers have increasingly shifted their portfolios towards diversified capital market products, such as mixed and market-linked offerings. These products are more efficient in a low-interest rate environment and offer improved capital utilization.

The pandemic has also accelerated innovation and product development in the life and health insurance industry worldwide. While some innovations may be temporary, others are expected to endure. The industry faced disruptions during lockdown measures, limiting face-to-face interactions and access to underwriting processes. However, various changes have emerged, including revised risk selection criteria, adaptations in distribution channels, and the introduction of new distribution models. There is also a growing interest in maximizing the value of existing products through cross-selling and up-selling, as well as recognizing the value of the current customer base.[5]

» The shift in focus from mortality to protection and wellness

COVID-19 has highlighted the shift in life insurance focus from providing pure mortality protection to enhancing life expectancy through health management. By 2030, a 50% increase in people over 60 is expected, with lifestyle-related diseases causing 71% of deaths. Technology, such as smart devices and bands, can generate customer data, enabling life insurers to effectively manage their clients' health by sending notifications, scheduling doctor's appointments, and sharing health and fitness tips to keep customers informed.[6]

» Accelerated underwriting

The disruption of labs and paramedical exams has forced life insurers to change their underwriting models and expand accelerated underwriting programs. These programs utilize alternative evidence alongside traditional evidence to maintain the necessary level of protection. Insurers have implemented agile approaches to hire more candidates, ensuring the smooth flow of new business.

Accelerated underwriting uses alternative data sources to assess risk, such as application disclosures, prescription scoring databases, credit scoring mechanisms, motor vehicle registration data, technical health records, and prescription drug history.

The availability of these data sets is abundant in the US market, making accelerated underwriting a viable option for many applicants. In cases where unconventional data sources are limited, statistical models based on applied data, drug use history, demographics, driving habits, and body mass index can be utilized.

[5] https://www.mckinsey.com/industries/financial-services/our-insights/global-insurance-report-2023-expanding-commercial-p-and-cs-market-relevance

[6] https://pubmed.ncbi.nlm.nih.gov/30420032/

Carriers are expected to continue investing in accelerated underwriting programs in the future. This is because accelerated underwriting can help insurers to underwrite new applicants more quickly and efficiently, while still providing a high level of risk assessment.

» **Better technology utilizations**

Apart from the pandemic, businesses including life insurance companies have continued to utilize the modern-day technology to effectively function in the present digital world. Moving forward, insurance companies are likely to employ algorithms or AI to proffer the best coverage and pricing for their prospective clients. This way, everyone's needs will fully be met.

Also, in the world of virtual space and remote staffing, life insurance will use technologies when communicating with each other and their clients. This also includes effective data analytics and management for making better-informed decisions.

» **Non-monetary benefits and value-added coverage**

Insurance companies are not only in competition with themselves but also with wealth and asset managers. As a result, they are looking for ways to convince prospective clients to choose them over their competitors. One way they are doing this is by providing better value-added services, not just monetary benefits.

For instance, in Europe and some parts of Asia, life insurers are already providing support for health management, telemedicine, and doctor's appointments. In addition, some of these insurance companies also seek to address the direct needs of policy owners, rather than just providing monetary benefits.

Conclusion

The COVID-19 pandemic will significantly shape the future of life insurance, regardless of other factors. While the introduction of vaccinations has reduced restrictions imposed by COVID-19 safety protocols, economic markets are gradually recovering as people stabilize financially. This is expected to have a positive impact on the life insurance market, enabling insurers to adopt innovative technologies for a more personalized customer approach. However, whether premium pricing will return to pre-pandemic levels remains uncertain.

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