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COVID-19 Report

Impact on New Business

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1 Executive Summary

In this paper we consider the challenges posed by COVID-19 on the distribution and risk management of new business in the UK individual and group protection space. Most themes are consistent across product lines but there are also a few specific considerations by product which we highlight.

Distribution

Face-to-face distribution will be limited because of social distancing measures. Distribution that relies solely on electronic means may be less adversely affected or unaffected. There may be some remote distributors who see an increase in new business as consumers have more time at home to complete applications.

A large portion of individual protection is sold alongside a mortgage. The drop in new mortgages will likely cause a reduction in protection policies. However, re-mortgages may increase and there is an opportunity for protection sales to be made alongside these re-mortgages.

New customers may be unable to transact because of financial pressure but may be more interested in insurance because of heightened awareness of the threat that COVID-19 poses to health.

Distributors in the group benefits space may not get the attention of key decision-makers around employee benefits at employers who are currently facing other direct business challenges.

Individual Underwriting

Insurers traditionally rely on a combination of application form questions, medical evidence, medical examinations and nurse or paramedical screenings in order to select risks and allocate a price that reflects the risk.

Application form questions have already been changed by many insurers to identify applicants who already have possible symptoms of COVID-19 and who therefore present increased risk. Typically, these cases are postponed.

Doctors' reports were expected to be more difficult to obtain as medical professionals divert attention to managing COVID-19 impacts, however, there are reports that some GPs have capacity and are still returning completed forms to insurers.

Face-to-face screenings have had to be paused but insurers are exploring remote alternatives.

Around 5% of cases require medical evidence solely because of high sum assured. In these cases there are potential remedies to allow the sales to continue, including increasing non-medical limits or free cover limits on group business, limiting the sum assured, considering alternative forms of evidence, such as a remote nurse screening, or accepting cases with an estimated rating.

For income protection, insurers need to consider the employment status of applicants, especially in light of the new furlough scheme.

Scheme Underwriting

One of the cornerstones of risk management in group scheme underwriting is the actively-at-work requirement. This definition is more ambiguous when employees are working from home, isolating or furloughed.

Product design

Some elements of existing product designs are associated with additional benefit to consumers or risk to the insurer in light of COVID-19. These include direct and indirect risks. We highlight some of the areas that require special consideration.

- Value added services: well-being support and access to remote medical services could be even more attractive to new and existing customers and therefore encourage sales and demonstrate value. Usage of these services may differ from historic experience and may influence cost.
- Moratoria already exist on Over 50s guaranteed acceptance insurance but uncertainty about the how long COVID-19 will affect population mortality means that it is not clear how effectively the typical 1- or 2-year moratoria manage the risk. Moratoria on other products may be considered to manage claims costs but the proportionality of the impact on the consumer needs to be considered.
- Some insurers have introduced COVID-19 exclusions, particularly on income protection.
- On critical illness covers, the ICU stays claim definition is the trigger at most risk of a COVID-related claim.
- On income protection, there is an increase in the number of claims that involve time off work because of COVID-19 symptoms and medically advised isolation requirements (if covered). Claims would only be paid on the very shortest deferred periods, as even the most serious COVID-19 cases tend to resolve in 3 to 6 weeks, although there may be additional time before an individual can fully return to work. At the time of writing, insurers had withdrawn deferred periods of less than 4 weeks from the UK market. Insurers may become more reluctant to offer 4-week deferred periods, although these products should be less affected by sickness claims directly caused by COVID-19. Income protection policies for longer deferred periods should see a negligible direct increase from COVID-19 cases.
- On group protection products, the rates used to calculate the premiums are typically guaranteed for between 1 – 3 years, after which the scheme would be renewed, potentially with another insurer. Should the scheme have good experience, it could always seek a new insurer possibly offering lower rates, whilst if the scheme has poor experience, it would remain with the insurer at the guaranteed rate. The additional uncertainty in light of COVID-19 claims costs exacerbates the difficulty of pricing the guarantee.

Claims costs

We provide high level comment on the likely impact of claims costs - other IFoA working parties are focussing on modelling of COVID-19 related death and morbidity in more detail.

On mortality business claims are expected to increase in the short term. The increased claims may be directly or indirectly related to COVID-19. Changes in mortality may arise from the following categories:

1. Deaths from COVID-19;
2. Deaths from another cause but where the patient also had COVID-19;
3. Deaths from an indirect impact of the pandemic e.g. delayed access to screening and/or medical treatment;
4. Deaths avoided due to lifestyle changes necessitated by the pandemic e.g. reduction in road traffic accidents.

There are many uncertainties including:

- whether the underwritten insured population is affected proportionately to the general population;
- whether underwriting loadings are appropriate for specific medical risks that are disproportionately impacted by COVID-19;
- how long the excess mortality will persist.

Critical illness benefits are not expected to be impacted by direct COVID-19 claims costs, except for ICU claims triggers. However, the long-term impacts on health of COVID-19 survivors is still unknown and it is possible that some cases may have increased risk of future health events covered by Critical Illness insurance. Furthermore, there may be indirect costs if disease prevention measures are impacted by reduced access to timely healthcare.

Income protection benefits with short deferred periods are expected to have direct claims costs impacts from COVID-19, as noted in the product design section.

COVID-19 is expected to give rise to lower IP claim termination rates across all deferred periods as medical rehabilitation services may not be readily available and claimants may be at increased risk of COVID-19 complications and therefore be medically advised not to work.

COVID-19 is expected to have a significant adverse effect on the economy. Strained economic conditions are associated with heavier income protection claims costs, especially for the more subjective claims causes. Additionally, employers under financial pressure are less likely to accommodate return to work for those with limitations. There may be some offset where employers become more open to flexible working arrangements (e.g. work from home) which may support return to work. Adverse economic conditions can affect all deferred periods to some extent.

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2 Introduction

Coronaviruses are a large family of viruses which may cause illness in animals or humans. In humans, several coronaviruses are known to cause respiratory infections ranging from the common cold to more severe diseases. The most recently discovered coronavirus causes coronavirus disease COVID-19. This new virus and disease were unknown before the outbreak began in Wuhan, China, in December 2019.

On 12th March 2020, the World Health Organization declared the COVID-19 outbreak as a pandemic. As of 10th May 2020, there have been more than 4.0m confirmed cases worldwide and over 280,000 deaths.

This report considers the potential impact of COVID-19 on the distribution and writing of new Life and Health protection business. The issues arising that may impact new business include:

- Distribution availability;
- Change in consumer demand;
- Availability of underwriting resource;
- Availability of timely medical evidence;
- Anti-selection;
- Increased claims risk.

The focus of this report is on the UK market, however, many of the factors raised will also be applicable in an international context.

The coverage of protection products focuses on the key individual and group products available in the market. It is not intended to provide an exhaustive coverage of all products available in the market.

3 Distribution

Social distancing will significantly reduce face-to-face intermediary contact so volumes may be expected to fall. However, with the use of technology, it is not clear how much the lack of face-to-face contact will impact sales. It is possible that Direct-To-Consumer products (DTC) and products sold via remote distribution, for example advisers who sell over telephone and aggregators, may not be quite so impacted. Some distributors may even see sales increase.

A large portion of individual protection is sold alongside a mortgage. During the COVID-19 lockdown, house sales and therefore new mortgages have almost entirely disappeared. This will be having a negative impact on volumes for mortgage brokers. Once the lockdown is eased, we should expect to see the number of new mortgages increase again, although possibly not to the level of before the pandemic if people are concerned about their finances and/or the possibility of ongoing intermittent lockdown measures. However, re-mortgages may increase. The reduction in interest rates, consumers' increased focus on their finances and consumers' extra free time may result in more mortgage deals being switched. There is an opportunity for protection sales to be made alongside these re-mortgages, although some protection policies will be re-brokered from existing policies so will not be true new business.

Volumes are also likely to be impacted because many people will have with their own financial constraints and uncertainty in the current situation. This may reduce volumes as people are concerned about not being able to afford premiums and have other priorities. However, COVID-19 may also act to increase people's awareness of their own mortality/morbidity risk and they may be more proactive in seeking out insurance solutions.

A challenge for insurers may be adapting in the way they support their distributors. Onsite visits will no longer be possible and so quick adoption of virtual technologies will be essential to ensure distributors can access the underwriting, administration and other technical support they require in writing new policies.

Furthermore, distributors in the group benefits space may not get the attention of key decisions makers around employee benefits at employers currently facing other direct business challenges.

4 Individual Products - Background

4.1 Life / Critical Illness

Individual term assurance is a contract to pay a benefit on the death or terminal illness diagnosis of the life insured within the term of the contract (chosen at outset). Where the contract is taken out by an individual, it provides protection against financial loss for dependants. The cost of the product is influenced by the probability that the insured will die or be diagnosed with a terminal illness during the term of the contract.

Critical illness cover is a life insurance policy that offers protection in the event of a specified serious illness or injury. The benefit is typically a lump sum and is paid to the beneficiary on a confirmed diagnosis from a specified illness or injury. The cost of the product is influenced by the probability that the insured will be diagnosed with a specified illness or injury during the term of the contract.

4.2 Income Protection

Income protection provides an income stream when the insured is unable to work because of illness or injury. There are a number of variations of the product, depending on:

- Definition of disability - the most commonly sold definition is "own occupation" but some products offer cover only in the event of specific outcomes such as inability to perform specific tasks;
- Deferred period - the length of time between date of first absence from work and the first income payment.

The cost of the product is influenced by the probability that the insured will meet the definition of disability and for how long the insured will continue to meet the definition of disability, as this dictates how long the income stream will be paid.

Factors that affect the probability of meeting the definition of disability include:

- The insured's state of physical or mental health;
- The type of work the insured does and whether that work can be accomplished in the presence of impairment of health;
- The insured's resilience and levels of motivation to continue to work in the presence of impairment of health.

Factors that affect the length of claim include:

- How long the underlying health condition persists, which can be influenced by medical interventions;
- The type of work the insured does and whether the work environment can be adapted over the course of disability to allow return to work;
- The insured's resilience and motivation to engage in rehabilitation activity or develop coping mechanisms to be able to function at work in the presence of health impairment.

Environmental factors can affect resilience. These factors include the state of the economy, inherent enjoyment of a job, financial reward of a job and support structures at a personal and an employer level.

Providing an appropriate level of cover is one of the key factors to managing Income Protection risk; under-insurance leaves the insureds with inadequate income while over-insurance can act as a disincentive to return to work.

5 Individual Protection - Underwriting

Many insurers have already applied adaptations to their underwriting processes. Here we set out the possible adaptations that have or could have been made.

5.1 Pre-COVID Approach

Where the insurer is on risk for sickness (or death) under a contract, it will need to assess the health of the applicant. This is typically via questions on the application form about past and current health. Where necessary, additional medical evidence can be obtained from some or all of the following sources:

- reports from medical doctors that the applicant has consulted;
- a medical examination carried out on the applicant at the request of the insurer.
- a paramedical examination or nurse screening where bloods may be taken and other vitals may be checked.

An alternative to seeking evidence is to exclude causes of claim where the risk could not be assessed but this leaves gaps in cover which may not be suitable for the insured.

Besides the state of health of the applicant, other factors that can affect the risk need to be investigated. These may include the applicant's occupation and the leisure pursuits of the applicant.

Income protection underwriting, in particular, needs to take into account a wide range of factors including:

- Any history of a wide range of health conditions or injuries that could prevent the insured from being able to work in future. The most common causes of claim in the UK are psychiatric and musculoskeletal problems which would typically not give rise to claims on other protection products (e.g. critical illness). This means that more questions are asked and more medical evidence, such as GP reports, may be requested for income protection than for other protection products.
- Type of work and nature of duties, especially for own occupation cover.
- Level of remuneration to ensure appropriate level of cover. Most insurers advise policyholders to ensure that the cover is selected at an appropriate level otherwise claims may be proportioned down at claim stage.

5.2 Potential Amendments

There are several actions that could be taken within the underwriting process to help providers and consumers during the COVID-19 pandemic. Some of these are discussed below.

5.2.1 Increase Non-Medical Limits

There is currently concern from insurers around requesting medical evidence during the underwriting process, as placing additional burden on the NHS may be harmful for society. Many insurers have signed up to the ABI pledge to support the NHS by seeking alternative forms of medical evidence where such a request would put a burden on the NHS.

It should, however, be noted that at the time of writing there is anecdotal evidence that GPs have sufficient capacity. Furthermore, data published has shown a fall in A&E attendances and Emergency Admissions (NHS England, 2020) suggesting that parts of the NHS not directly impacted by COVID-19 may have less activity than usual.

Notwithstanding the above there may also be some difficulty within the insurer around lower capacity within their administration and underwriting teams currently, making processing the medical evidence in a timely way more challenging.

Insurers could increase the sum assured limits at which they request further medical or financial evidence from applicants with no material health disclosures. This would reduce NHS burden, lighten expenses and reduce internal resource requirements.

However, only around 5% of applications are above the non-medical limits so increasing this will only enable a small proportion of extra applicants to be offered insurance coverage anyway. This will disproportionately affect the risk though, given they are larger policies.

An alternative may be to encourage applicants to consider whether to take out cover up to the sum assured limit, to gain some of the cover they need. A process could be established to automatically increase the sum assured up to the original requested sum assured (and the associated premium) once medical evidence is able to be requested. Alternatively, providers may offer the option to save applications until physical distancing restrictions are lifted.

5.2.2 Replace medical evidence with tele-interviews

For applicants with material disclosures on their application form, medical evidence would previously have been obtained. From 19th March 2020, the British Medical Association (BMA) has been advising that all non-urgent work is postponed until further notice (BMA, 2020), although insurance requirements are not explicitly listed as non-urgent. For claims, there is a much clearer need, but it may be harder to justify for underwriting. Many appointments are being moved to virtual appointments too, so taking new health measurements during this time may be difficult.

One solution is to move to tele-interviews, instead of medical evidence. However, this is unlikely to be as effective in identifying risk, particularly for younger lives where nurse screenings may be identifying issues that were previously unknown to the applicant and therefore unable to be disclosed on the application form or where past medical history rather than current state of health is a key underwriting consideration.

5.2.3 Post-issue underwrite

Policies could be issued based on application disclosures only and a 'best guess' of the underwriting outcome for cases where those disclosures would have normally led to further medical evidence being requested. This approach has been used before when trying to complete sales before the gender-neutral ruling came into force in December 2012.

This would result in extra risk being temporarily taken on but is mitigated by being able to change terms once medical evidence is able to be obtained. There are numerous legal and contractual issues that would need to be considered here though.

5.2.4 Add extra ratings

For any applicant who has made a medical disclosure where further medical evidence would usually be obtained, a prudent rating could be applied. This would represent a reasonable 'harshesht' view of the underwriting outcome that would be obtained if the evidence were obtained.

Extra ratings could be reviewed and possibly removed once medical evidence has been obtained. However, this would add additional cost, uncertainty for the customer and admin overheads. It should also be noted that those consumers with underlying health conditions are at a much greater risk of dying from COVID-19 than those consumers without underlying health conditions, so the extra rating applied may not be sufficient to cover the extra risk presented during the pandemic.

5.2.5 Increase all rates

An increase could be considered to all rates to allow for the extra uncertainty/risk from adopting one or more of these more lenient approaches. Clearly, this may have an impact on volumes and would have to be taken in the context of whether this would be a fair and reasonable thing to do, and perceived as such by the public in order to avoid accusations of profiteering.

For the avoidance of doubt the authors of this paper are making no recommendation as to whether, or how, insurers should alter their rates.

5.2.6 Ask extra underwriting questions

There is an increased mortality and morbidity risk from the COVID-19 pandemic. To avoid potential anti-selection from those already experiencing symptoms, many insurers have already introduced COVID-19 related questions like:

- have you had a positive test for COVID-19 within the last x days;
- have you had symptoms of COVID-19 within the last x days;
- are you currently self-isolating.

The need for these extra questions is probably well understood by consumers and so the reputational risk may be small here and will help reduce anti-selection. However, it may be difficult to prove in practice whether someone had symptoms prior to them taking cover, given the lack of widespread testing in the UK (as of April 2020) and the general advice to not see a GP in these circumstances.

In addition, providers will need to consider whether their underwriting approach should be revised for those with underlying conditions that increase the risk from COVID-19. For example, it is known (NHS Scotland, 2020) that people with the following underlying medical conditions are at increased risk of severe illness from COVID-19:

- People with high BMI;
- People with diabetes;
- People with chronic lung disease or moderate to severe asthma;
- People who have serious heart conditions;
- People who are immunocompromised;
- People with chronic kidney disease undergoing dialysis;
- People with liver disease

5.2.7 Use remote screening services

Face-to-face nurse screenings have stopped because of social distancing but some insurers are exploring whether some remote screening services can work, however this has been confined to life and critical illness to date.

5.2.8 Additional considerations for Income Protection

Given the economic risks, further questions about employment status have also been added for income protection. Those who have been furloughed or who have become unemployed are not eligible to take up new policies because they are not actively engaged in their occupation at underwriting. Some existing policies may have provisions allowing those on temporary career breaks to continue to have some or full cover for a limited period, but these provisions are not typically applied for those already known to be off work at underwriting.

6 Individual Protection - Product Design and Features

Features of the product can be changed to limit the extra risks posed by COVID-19 or enhanced to help further support consumers.

6.1 Change Benefits

6.1.1 Critical Illness: Remove ICU benefit

Some critical illness products have an Intensive Care Unit (ICU) benefit, where the products pay out for a prolonged stay in an ICU. There may be an increase in people being admitted to ICU, although many of these will not meet the minimum stay requirement.

The ICU benefit could be removed to reduce risk. However, this may be perceived negatively by consumers and/or distributors.

6.1.2 Mortality / Critical Illness: Add moratoria

A moratorium period could be added to products to prevent claims in the early duration of the policy. One to two-year moratorium periods are standard practice for guaranteed over-50s whole of life plans and may be proving very effective currently in limiting the risk from these older age individuals. However, introducing moratoria on underwritten products may not be acceptable to distributors and not fulfilling consumer needs.

6.1.3 Income Protection: Increase Deferred Period

Products with very short deferred periods (e.g. 4 weeks or less) are particularly exposed to the impact of COVID-19. The deferred periods could be increased, or such products could be withdrawn from the market. Currently no insurers in the UK are issuing new policies with deferred periods of less than 4 weeks. The impacts of COVID-19 may start to be felt on 4-week deferred periods next but the impacts of COVID-related sickness or isolation claims should be less pronounced than on the withdrawn deferred periods. On these longer deferred periods, the negative economic impacts of COVID-19 are of greater concern and can impact all deferred periods to some degree.

6.1.4 Income Protection: Self Isolation

The treatment of self-isolation on income protection products will depend upon the contract wording and is a potentially unclear area. Providers may wish to consider changing benefits so that self-isolation claims are explicitly included or excluded.

6.2 Value-add benefits

Value-add benefits such as access to remote GPs or second opinion services are widespread on underwritten protection products in the UK. However, they are under-used benefits that many consumers are not aware their product offers. These benefits could be enhanced (e.g. by increasing the services available for free) or better promoted during the pandemic.

6.3 Restrict entry ages

The largest risk of claim arises from older consumers. Products could be changed to temporarily restrict access to older consumers or increase prices here to deter new business. Pure protection products typically sell relatively little to older ages though and new consumers are largely under the age of 60. Underwritten whole of life products may benefit more from these restrictions.

6.4 Introduce exclusions

Exclusions could be added to the products to prevent claims arising from COVID-19 infections. For example, income protection products with short deferred periods could be offered, but with explicit COVID-19 exclusions. However, this may limit usefulness and perceived fairness of products to consumers and distributors.

7 Individual Protection - Cost of Claims

7.1 Life

Determining the impact of COVID-19 on mortality even at the population level presents challenges:

- There are difficulties in calculating the infection fatality rate, from both potential under-reporting of COVID-19 as cause of death and underestimating the infection level in the population.
- Recent data from the Office of National Statistics (ONS, 2020) shows that there are significant excess deaths over and above those that are recorded as involving COVID-19. At the time of writing the reason for this is still subject to debate but likely includes underreporting and/or people dying **because of** COVID-19 (i.e. a death resulting from actions taken or behaviour changes because of the pandemic) rather than **of** COVID-19 (i.e. a death resulting directly from COVID-19) (Kendrick, 2020).

How this should be translated to term assurance mortality raises further questions. Whilst underwritten business should exhibit better experience than the population, it is not clear what this may mean for any COVID-19 loading that should be applied. Some areas for consideration include:

- Whether mortality levels will revert to “normal” and, if so, when? This may include consideration of a 2nd or further waves.
- The impact of the pandemic on mortality improvements. Will they be depressed as a result of post COVID-19 health and societal issues, or higher since it is the healthier individuals who survive the pandemic? It may be that some consumers with underlying medical conditions who die during the pandemic would have died in the following months even if the pandemic had not existed i.e. the pandemic accelerated their death.

On mortality business, claims are expected to increase in the short term. The increased claims may be directly or indirectly related to COVID-19. Changes in mortality rates may arise from the following categories:

1. Deaths from COVID-19
2. Deaths from another cause but where the patient also had COVID-19
3. Deaths from an indirect impact of the pandemic e.g. delayed access to screening
4. Deaths avoided due to the pandemic e.g. reduction in road traffic accidents and reduction in pollution-related conditions

The impact of the pandemic will mostly be to increase mortality rates in the short-term but there may be some offsetting factors. For example:

- We have yet to see much data, but it may be that accidental deaths fall during lockdown, given the reduction in road traffic. However, accidental deaths for the oldest ages may increase due to reduced contact with friends, family and other home support causing a delay in finding older people who have had accidents in the home. This potential increase in older age deaths will have most impact on whole of life policies, rather than term assurance.
- Deaths related to alcohol may fall. Alcohol sales in supermarkets have increased but this may be due to consumers stockpiling and not being able to obtain alcohol in bars and restaurants anymore. A survey commissioned by Alcohol Change UK (Alcohol Change, 2020) found 21% of adults were drinking more often in lockdown but 35% had reduced how often they drink.
- Death related to drugs may fall in some demographics while increase in others. Recreational drug use may fall whilst use of more addictive, harder drugs rise as people struggle with the lockdown and changed financial circumstances.
- Deaths and aggravation of lung and heart conditions may be reduced due to less pollution
- For some people, mental health may improve with a better work/life balance during lockdown (though clearly there will be many where mental health will worsen)
- For some people, overall health may improve with increased levels of exercise and more time to spend preparing healthier meals. Again, there will also be those where the opposite will be true.

In addition to the claims impact, consideration will also need to be given as to whether the lapse assumptions used in new business pricing should be changed, given the economic uncertainty that may be present for some consumers for years following the pandemic. This applies for all product types.

7.2 CI

The direct impact of COVID-19 on critical illness policies (excluding any mortality cover) is expected to be minimal. There may be an increase in critical illness claims caused by consumers having delays in accessing treatment during the pandemic and therefore their condition worsening to the point of claim (or moving from a partial payout to a full payout). However, this is likely to be more of an issue for existing business, rather than something that should be considered when pricing new business.

However, it should be noted that the long-term impacts on health of COVID-19 survivors is still unknown and it is possible that some cases may have increased risk of future health events covered by Critical Illness insurance. At the time of writing there is some reporting from the United States of an increase in incidence of large vessel strokes in COVID-19 patients younger than 50 years (New England Journal of Medicine, 2020). Should more evidence emerge in this area, then this may require a reassessment of the impact of COVID-19 on critical illness claims.

There has been a drop in patients admitted to hospital with stroke and heart attack in many countries, including the UK. Data published has shown a 26% fall in major A&E attendances and emergency admissions for March 2020 compared with March 2019 (NHS England, 2020) This may be due to patients' fear of attending the hospital and not seeking the help they need. However, it may also be partly due to a removal of some of the key triggers for these events (such as excessive drinking, eating, work-related stress).

7.3 IP

There are no pandemic exclusions on income protection plans, so policies (taken before insurers started adding exclusions) would pay out if somebody is diagnosed with COVID-19 that results in them satisfying the definition of incapacity and being unable to work for the whole deferred period. The definition of incapacity will be specified in the contract terms.

7.3.1 Claims Incidence

The direct impacts of COVID-19 on claims costs should only apply to policies with short deferred periods i.e. less than 8 weeks. Whilst there is still some uncertainty about how long COVID-19 symptoms last recovery statistics (WHO, 2020) suggest that the median time from onset to clinical recovery for patients with severe symptoms is 3-6 weeks, although there may be additional time before an individual can fully return to work. Hence most people in the working age group would, even if they had the worst symptoms of COVID19, be back before the end of the deferred period.

A medically advised period of self-isolation may be covered for income protection. However, this is not universally clear as it will depend upon the contract wording and providers' approaches may differ. Notwithstanding this lack of clarity, the self-isolation period is typically 14 days, so is shorter than most deferred periods.

Salary replacement schemes sponsored by government mean that furloughed employees or self-employed policyholders receiving replacement of taxable income will not need to claim on their income protection policies because their income has already been replaced. The majority of individual income protection benefits are below the £2,500 cap offered by the Government and with an income protection replacement ratio typically capped at 60% there is limited incentive to make an income protection claim.

7.3.2 Open Claims

There are a number of factors related to COVID-19 that may cause the length of open claims to increase, so that claims remain in payment for longer. These include:

- Challenges in obtaining medical evidence to review open income protection claims;
- Restrictions on interventions and rehabilitation services that can be performed at early claim durations in order to reduce the probability of them becoming long term claims. This may be a result of the scaling back of non-emergency medical care in order to focus the health sector resources on the COVID-19 crisis and to minimise risk of exposure to COVID-19 for patients with other health impairments;
- Claimants who have conditions that increase their risk of severe COVID-19 impacts may be required to stay off work longer than would normally be the case;
- A greater proportion of mental illness claims may lead to an overall deterioration in termination experience due to the longer recovery time;
- If the work environment is particularly stressful (e.g. healthcare workers) this may further slowdown the return of claimants on mental illness claims;
- Where a claimant has an open claim and the employer begins to furlough employees this may have an impact on the probability of returning to "work".

There may be some beneficial offset where employers become more open to working from home arrangements in general. This may make return to work easier for claimants in occupations that can be performed from home.

7.3.3 Economic Impact

COVID-19 is already having an adverse impact on the economy and the impacts are expected to be felt for some time. These impacts will be especially pronounced in industries most affected by the lockdown, for example hospitality, entertainment and other businesses that cannot operate remotely. People whose jobs and livelihoods are paused or restricted in the short and medium term will experience financial difficulty and this is the kind of environment that adversely affects resilience and motivation and leads to increases in claims numbers and / or longer periods on claim. Additionally, employers who are experiencing financial difficulty may also find it more difficult to accommodate return to work for the impaired.

8 Group Products - Background

Group insurance is insurance that is purchased under a single contract covering a group of people. Typically, the policyowner is an employer and the policy covers the employees or members of the group. The insurance may be part of an employee benefit package.

Many of the COVID-19 impacts detailed for individual products also apply for group products but should be given careful consideration. Group policies are short term contracts that are re-brokered every few years. Consequently, the experience is particularly sensitive to short term deviations in mortality or morbidity from the "normal" levels.

8.1 Life

Group life policies will cover death by any cause, so that any eligible employees will be covered if they die from the coronavirus disease (COVID-19). An exception would be an accidental death cover that doesn't pay out on death from illness or disease.

It should be noted that the coronavirus may satisfy the definition of a catastrophic event as it can be considered one originating cause. If it does satisfy the catastrophe definition then this means any catastrophic event limits applicable on the group life cover would apply.

8.2 Income Protection

Group income protection is insurance designed to pay a benefit to replace a loss of earnings if an employee is unable to work due to illness or injury. The deferred period (time from when a person is unable to work, to when the payment is made) is often 26 weeks on group policies.

The cover won't pay for an absence of trade because the government has implemented social distancing measures requiring everyone to stay indoors.

9 Group Protection - Underwriting

9.1 Current Approach and Potential Amendments

Underwriting for group insurance is not the same as underwriting for individual insurance. Whilst individual insurance may involve completing an application, answering health-related questions, and undergoing a medical examination, under group insurance there may be no requirement that individual members of the group show any evidence of insurability when they are eligible for the group insurance coverage.

When underwriting group business, the primary focus for the underwriter is evaluating the prior experience and current demographics of the group. The underwriters are interested in the characteristics of the group as a whole rather than the medical information of the individual members.

To avoid adverse selection, insurance companies have established the following criteria for issuing many group insurance plans:

- The group must be large;
- Most or all members of the group must participate;
- Members must be actively at work;
- Insurance must be incidental to the group's operation.

Most companies experience a constant cycle wherein older employees leave the group through retirement and are replaced by younger employees, thereby creating a stable group that is easier to underwrite.

9.2 Potential Amendments

9.2.1 Free Cover Limits

Free cover limits (FCLs) define the maximum amount of insurance cover that does not require any evidence of insurability from participating employees. Where there is difficulty in obtaining medical evidence there may need to be consideration of increasing free cover limits. However, one needs to be mindful that a very high FCL increases the risk of anti-selection.

9.2.2 Actively at Work

A common requirement for Group Income Protection is that members must be actively at work at the commencement of the coverage. There are at least 3 categories that should be considered in the underwriting process under COVID-19:

- Where a member receives individual medical advice and is required to quarantine, they are unlikely to be classed as “Actively at Work”;
- Where a member is absent from work due to self-isolation following guidance from their employer, they are likely to be classed as “Actively at Work”;
- Where the member is absent as they have been furloughed, but is otherwise capable of performing their regular duties, they are likely classed as “Actively at Work”

9.2.3 Excess Mortality

Typically, when underwriting a group life scheme consideration will need to be given to the impact that open disability claims and long term absentees may have on the mortality experience of the scheme. Given the association between underlying health conditions and increased mortality risk from COVID-19, there may be need to reconsider the mortality loadings applied during scheme underwriting.

10 Group Protection - Product Design and Features

10.1 Premium Guarantees

In Group business the rates used to calculate the premiums for a group scheme are usually guaranteed for between 1 – 3 years. The scheme would then be renewed, potentially with another insurer. It should be noted that the insurer has effectively sold the group a put option on its claims experience.

Should the scheme have good experience, it could always seek a new insurer possibly offering lower rates, whilst if the scheme has poor experience, it would remain with the insurer at the guaranteed rate.

Typically rate guarantees are less of a concern for schemes with stable experience where the risk of mortality misestimation is small. In the current environment careful consideration should be given to the pricing of premium guarantees due to the uncertainty of determining the mortality level and how long the effects of the pandemic will prevail. This uncertainty also applies to the impact that any economic downturn will have on income protection incidence and terminations.

Furthermore, as mentioned above it is not possible to rely upon future favourable experience as the scheme may be re-brokered.

10.2 Flexible Benefit Schemes

During this time of increased uncertainty, the additional risks presented by schemes that offer flexible benefits and optionality should be considered. There may be aspects of optionality that present a greater risk of anti-selection during the COVID-19 pandemic, which providers may wish to restrict or review.

10.3 Other

The topics raised in Section 5 for mortality and individual income protection are also applicable for group income protection.

11 Group Protection - Cost of Claims

11.1 Mortality

In aggregate, group mortality should be better than population mortality since the population contains lives too disabled or ill to work. However, there are some groups that by nature of their occupation or industry may expect to experience higher than population mortality

Hence it is not immediately obvious how any COVID-19 loading for group business should compare with the excess mortality seen in the population. Factors influencing this will include:

- The age profile of the scheme. Schemes with older membership may require a higher COVID-19 load than those with younger membership;
- Is the scheme for an industry that is particularly exposed to COVID-19 (e.g. healthcare workers or public-facing)?;
- Do members of the scheme have the opportunity for remote working and/or social distancing?

There is some evidence that lower paid jobs present more exposure to COVID-19 (Autonomy, 2020). The factors above are likely to contribute to this relationship.

There are potentially 2 indirect impacts that could impact the mortality experience of a group life scheme:

11.1.1 Extra Mortality “because of” COVID-19

As already mentioned for individual term assurance there may be extra mortality because of COVID-19 rather than from COVID-19. There may be patients who may not have the virus but may be at risk of significant harm or death because they are missing vital appointments or not attending emergency departments, with both the service and public so focused on COVID-19 (Health Service Journal, 2020).

11.1.2 Economic Impact

The threat of COVID-19 to lives and livelihoods will fully resolve only when enough people are immune to the disease to suppress transmission. The economic impact will be significant. The Office for Budget Responsibility projections (OBR, 2020) forecast that real GDP will fall 35% in the UK in Q2 2020 and unemployment rise by more than 2 million to 10%.

These economic pressures and falls in living standards may further increase the mortality levels. Since group protection will cover a wider socio-economic range than individual protection, it is likely that group mortality (and some schemes in particular) will be more exposed to this increase in mortality levels.

11.2 Income Protection

11.2.1 Claims Incidence

When writing a new scheme, consideration will need to be given to whether there will be a direct impact on incidence rates from COVID-19. The factors described in Section 6.3 for individual income protection will also apply here. Typically, the deferred period on group policies is 26 weeks so the direct impact may be smaller than individual policies with a shorter deferred period.

The indirect impact of COVID-19 on incidence rates potentially has a greater impact and may persist longer term. As mentioned in Section 6.3.3 and above the economic impact from COVID-19 will likely be significant with increases in unemployment.

However, this will not be uniform across all sectors, so consideration of how exposed the sector is to current coronavirus restrictions and the likely economic impact will be required. For example, schemes in the hospitality industry may be particularly impacted in the short term due to the closure of leisure activities, whereas schemes in areas related to defence manufacturing are unlikely to experience such an impact.

Consideration is required, at a scheme level, of both:

- the likely strength of the relationship between unemployment levels and disability claims incidence;
- potential levels of unemployment.

Mental illness claims will be a key component of this increase due to a possibly extended period of uncertainty and stress in the work environment. This will be further exacerbated by the extended period of isolation, resulting in an increase in mental illness claims, that typically last longer than other claim types.

As with individual income protection consideration is needed of the potential challenges in performing medical assessment and/or obtaining medical evidence to be used in both underwriting new members and validating new income protection claims. This may lead to an increase in incidence as these requirements are temporarily suspended.

11.2.2 Termination Experience

Open claims have been discussed for Individual Income Protection in Section 6.3.2, in particular the impact of access to medical evidence and rehabilitation services. These same factors will impact on the termination experience of a particular scheme.

When determining the termination experience of a particular scheme, consideration will need to be given as to the extent the scheme may become exposed to:

- A greater proportion of mental illness claims that lead to an overall deterioration in termination experience due to the longer recovery time;
- A work environment that is particularly stressful (e.g. healthcare workers) which may further slowdown the return of members on mental illness claims;
- The impact of furlough schemes on the probability of returning to “work”.

11.2.3 Support Services

The efficacy of any support services provided to a scheme during the coronavirus outbreak should be investigated. In particular, consideration will need to be given as to whether these services can continue to be provided (e.g. rehabilitation services). Services that support health and wellbeing via remote GPs, counselling and specialist support for mental health concerns, may be particularly impactful at this time of social isolation. Effective use of such services may help to reduce incidence rates and improve termination experience.

12 Conclusions

Actuaries participating in this area have a valuable contribution to make by identifying and quantifying the sources of risk, while seeking to ensure that insurance remains accessible and meaningful for the customers who need it and ensuring the sustainability of the insurers and reinsurers who underwrite these risks. The degree of the direct and indirect impacts of COVID-19 continue to be highly uncertain and the landscape is changing rapidly. This paper is a representation of measures considered at the time of writing, but the situation will continue to evolve rapidly.

Insurers and reinsurers need to manage risks sensibly, but it is in all stakeholders' interests that cover can continue to be available to customers who need it. This may call for process innovation and temporary product redesign, such as limiting scope of cover but still providing some cover, until the environment returns to a more settled state.

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