

COVID-19 report: Impact on new business in health & care

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In support of the [IFoA's COVID-19 Action Taskforce](#) (ICAT), the IFoA Health & Care practice area has assembled a COVID-19 working party that will produce a series of short bulletins that are of relevance to members of the Profession and wider insurance industry. The first report "[Impact on New Business](#)" considers the challenges posed by COVID-19 on the distribution and risk management of new business in the UK individual and group protection space. Report authors Adele Groyer, Christopher Reynolds and Vicky Gardner.

Distribution impacts

Interest in insurance may increase because of heightened awareness of the threat that COVID-19 poses to health. However, many customers may be unable to transact because of strained finances and the large portion of protection sold alongside a mortgage will be impacted by the drop in new mortgages.

Traditional broker models – especially those providing face-to-face advice - may struggle in the socially-distant environment. Distribution that is digitally-enabled may be less impacted. In group benefits distributors may not get the attention of key decision-makers as attention is diverted to other business challenges.

Underwriting impacts

Insurers are changing components of the medical underwriting process to ensure risk selection reflects COVID-19 and to allow for any challenges in obtaining medical evidence.

Application form questions have been added to identify applicants who may have symptoms of COVID-19 and typically, these cases are postponed.

Doctors' reports were initially expected to be more difficult to obtain as medical professionals diverted attention to managing COVID-19 impacts. To reduce the need insurers may consider a number of alternatives including increasing non-medical limits and limiting sums assured. However, in practice insurers are finding that some GPs still have capacity and are returning completed forms to insurers. Whilst face-to-face screenings have had to be paused, insurers are trialling remote alternatives.

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

Product design impacts

Some elements of existing product designs are associated with additional benefit to consumers or risk to the insurer in light of COVID-19.

Utilisation of value-add benefits, such as well-being support and access to remote medical services, may increase and encourage sales to new customers. However, increased utilisation may increase the cost of providing such services.

More restrictive product designs, or exclusions, may make products less attractive to customers but limit exposure to COVID-19 risk. These restrictions may include the introduction of moratoria and exclusions, reductions in scope of cover and removal of premium guarantees.

On income protection, insurers have withdrawn deferred periods of less than 4 weeks from the UK market. Insurers may become more reluctant to offer 4-week deferred periods, although longer deferred periods should be less affected by sickness claims directly caused by COVID-19 as cases typically resolve within 3 to 6 weeks.

Rates on group protection products are typically guaranteed for between 1 – 3 years. Should a 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. COVID-19 introduces further challenges in determining premium guarantees.

Claims costs

On mortality business claims are expected to increase in the short term, but the extent of the increase is subject to many uncertainties including the relative impact on the insured population versus the general population and 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, claims may arise in future because of potential adverse long-term health impacts following COVID-19 infection or, more generally, reduced access to timely healthcare.

Income protection benefits with short deferred periods are expected to see increased Covid-related claims incidence. Lower claim termination rates may be seen across all deferred periods as medical rehabilitation services may not be readily available and claimants suffering from other illness may be medically advised to avoid workplaces if at risk of COVID-19 complications.

Furthermore COVID-19 is expected to have a significant adverse effect on the economy and strained economic conditions are generally associated with heavier income protection claims costs across all deferred periods, especially for the more subjective claims causes.

Conclusions

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 will need to manage risks sensibly, but it is in all stakeholders' interests that cover can continue to be available to customers who need it. Actuaries have a valuable contribution to make by identifying and quantifying the sources of risk, while seeking to ensure that insurance remains accessible and meaningful.