Institute
and Faculty
of Actuaries

COVID-19 Report

Supporting protection insurance and savings customers

by R. Purcell*, N. Reilly

This report is produced by a Health and Care workstream of ICAT (IFoA Covid-19 Action Taskforce)

7 May 2020

Abstract

In this paper we consider the potential direct and indirect impacts of COVID-19 on customers and what can be done by government and UK providers of protection insurance and long-term savings products to support them. Whilst the focus of this report is on the UK market it is expected that many of the impacts will be similar for other markets around the world.

Correspondence details

*Correspondence to: Richard Purcell, Hymans Robertson, One London Wall, London, EC2Y 5EA, UK.
E-mail: richard.purcell@hymans.co.uk

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 2019.

On 12th March 2020, the World Health Organization declared the COVID-19 outbreak as a pandemic. As of 7th May 2020, there have been more than 3.9m confirmed cases and over 270,000 deaths.

Whilst the pandemic has no doubt brought about significant emotional and human cost for many families, this report focuses on the impact on customers in general. It considers the potential direct and indirect impacts of COVID-19 on customers, and what can be done by government and UK providers of protection insurance and long-term savings products to support them. The ways in which providers could support customers include:

1. Short term (H1 2020):
   - Accessing insurance
   - Dealing with the direct financial impacts (e.g. making a claim)
   - Dealing with the direct health impacts
2. Medium term (H2 2020):
   - Managing the indirect health fallout
   - Managing the economic fallout
3. Long term (2021+):
   - Demand for insurance
   - Saving for the long term
   - Changes in underlying 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 products focuses on the key individual and group protection and savings products available in the market. It is not intended to provide an exhaustive coverage of all products available in the market.

<u>Short term (H1 2020)</u>

Accessing insurance

In the lead up to social distancing measures being implemented in the UK, we have seen an increased interest from customers in protection products like Term Assurance and Income Protection, in part because of increased mortality salience resulting from coverage of the pandemic. However, access has been limited in some cases due to changes in underwriting, products and distribution. These are considered at a high level here but are also considered further in the New Business Impact paper produced by this working party.

Underwriting changes

There have been changes made to underwriting to better reflect the risk of COVID-19 complications, with the addition of new questions by many providers. Initially, amendments would include whether customers have travelled to certain high-risk areas, or if they are displaying symptoms like fever or high temperature. These additional questions may have prevented some customers from taking out cover at the time, despite not suffering from COVID-19. However, many of these customers will likely be able to take out cover again in the future.

As our understanding of COVID-19 has developed there has also be better recognition of the pre-existing health or genetic factors which are better predictors of COVID-19 complications in younger lives, as well as the impact of COVID-19 materially increasing with age. This may result in some providers amending their underwriting process to load those customers that exhibit these risk factors, or restrict cover to certain ages. This may make the cost of insurance more prohibitive to certain groups of customers. In the extreme, such customers may now be deferred or declined insurance, when otherwise they would have been accepted, although at higher rates.

There have also been mixed reports of delays early in the pandemic in getting medical evidence like GP reports, combined with the protection industry trying to reduce workloads for the NHS during this period. This may have delayed some customers from going on-risk. However, some insurers have been innovating and looking to collect the information they need by other means. For example, we have seen trials of new digital underwriting consultations under way. Whilst these innovations have been welcome as they have sped up the application process for many customers, there may be some customers that have still been excluded due to not owning a smart phone or other technology required to undertake video consultations.

Product changes

As demand increased for certain insurance products we have seen certain product features removed from the market such as short deferred periods on Income Protection policies. Whilst this has allowed insurers to manage the risk of large numbers of claims, it has meant that some customer groups that typically take out short deferred policies such as the self employed may have had to take our policies with longer deferred policies or taken out no cover at all. This will have left some customers with insufficient cover and left them at a disadvantage compared to those customers that have higher savings to fall back on.

Distribution

Anecdotally, we saw an initial increase in protection sales, which may have been parties trying to get business through the pipeline. As the lockdown measures continued we saw a decline in activity as some advisers are unable to see customers face to face, and several firms have furloughed some of their employed advisers. We are now also likely to see a reduction of new mortgage related sales, due to the drop off in house sales. since the lockdown effectively put the housing market on hold.

While other adviser firms have changed their business model, and looked to use telephone or online based services, these new approaches may have been less effective in reaching customers and delivering advice. Many consumers may have had no choice but to use self-selection online channels, and they may have lacked the confidence to select and apply for the products appropriate for them. This may have reduced access to products and particularly prevented more vulnerable customer groups from seeking the advice and accessing the products they require.

For those firms already working in the remote space (online or telephony), they may have seen an increase in sales, which, coupled with protection sales alongside re mortgages, as customers look to lock into historic low fixed mortgage rates, and this may have offset some of the decreases from face to face sales.

While insurers have taken steps to try and limit any reduction in access to insurance, for example through developing innovative new underwriting solutions, it is likely that some of the most vulnerable groups of customers have felt the impact most due to the solutions often involving new technology solutions that such customers do not have access to or simply cannot use. Insurers should consider what more they can do to support these customers in continuing to access insurance.

Servicing customers and advisers

Many financial services providers have had to change their working practices in response to the social distancing measures. For example, many customer services teams have had to move to a remote working practice for the first time while also managing higher than normal absences. This may have made it difficult to monitor and manage customer service quality.

In addition, there may have been an increase in customer service queries from new and existing customers as they seek to understand how they can access services, what they are covered for or make a claim. To manage this change to working patterns and increase in enquires, some providers have signposted customers to online pages with Frequently Ask Questions or other forms of help. This may have made it more difficult for customers to find the help they need and access products and services.

Dealing with the direct financial impacts (e.g. making a claim)

For customers that have suffered from COVID-19, it is thought that many cases are asymptomatic. Of those that show symptoms, the majority will have only mild symptoms. However, some will suffer complications requiring hospital treatment, and some may also lose their life. Those that survive following serious complications could be off work for several weeks, leading to a significant loss of earnings, and in the worst cases, it may take many months until the individual is back to their pre-illness level.

The financial impact resulting from serious complications or death could be partially or completely offset by Protection Insurance (particularly short deferred period Income Protection, and Life Cover). Some customers may also use savings to help cover any costs. In this respect, providers will need to ensure customers can claim or access their funds as quickly as possible considering the operational challenges such as increased staff absence they may also be facing.

Dealing with the direct health impacts

Whilst protection insurance products are often aimed at providing a financial safety net to customers, some of their services may also be used by customers to access health care and treat symptoms of COVID-19.

We have also seen more engagement in virtual GP services as customers want to avoid face to face contact with their own doctors. For example, one insurer, The Exeter, has seen a 527% increase in usage of remote GP services [1]. These additional services have been able to provide significant value to customers, and insurers appear to have managed with the additional operational delivery challenges this spike in demand will have created.

For private health insurers, they may have been unable to provide access to private hospital care in the same way they normally would due to an agreement between government and the UK private healthcare sector to provide more capacity to the NHS. In this sense, customers of some health insurance products many not have had as much value from them that they might have otherwise expected. However, it is likely that many customers requiring treatment for symptoms of COVID-19 would typically use NHS emergency services anyway, rather than private health services which are typically aimed at out-patient treatments.

Medium term (H2 2020)

Managing the indirect health fallout

Besides the direct claims from COVID-19, there will undoubtedly be indirect claims arising from the lockdown measures. These could include:

- The effects of isolation in lockdown or increasing unemployment is expected to lead to a deterioration in existing or development of new mental health conditions.
- Many people have been staying away from GP's and A&E, while others have had elective surgeries or treatments deferred. This has meant many conditions have not been treated appropriately at the right time, leading to some conditions deteriorating making it more difficult to treat and recover in many cases. It is estimated that almost 18,000 more people with cancer in England could die as result of deferred treatments and people put off seeking help [2]. Insurers could play a role in encouraging customers to seek advice regarding new symptoms using virtual GP services. This may encourage some customers to seek the help they need now and limit the impact on health.
- Due to the initial government guidelines restricting physical activity outside the home to one hour a day it is expected that there will be a reduction in the number of accidents, and therefore a reduction in the number of fractures. Indeed, there is anecdotal evidence that fracture cover offered by some providers has seen lower claims during lockdown measures. Accidental deaths are the largest cause of death for young adults, and the restrictions imposed due to the lockdown will have greatly reduced young peoples' mortality in the short term.
- There may also be indirect health impacts due to a combination of lifestyle changes, such as alcohol consumption (changing amounts being drunk at home, coupled with the closure of pubs and restaurants) and changes to exercise habits, alongside environmental impacts if the reduction of travel continues, leading to improvements in air quality.

Managing the economic fallout

Due to the effect of lockdown, it is expected that there will be a significant reduction in economic activity, with estimates of unemployment rising from around 4% [3] prior to the pandemic to around 7.3% in 2020 according to the Office for Budget Responsibilities Coronavirus Reference Scenario published on the 14th April 2020 [4]. Whilst government measures have sought to protect jobs, it is expected that certain sectors, such as retail and hospitality, will be severely affected as if some social distancing measures continue for a long period of time, making many business models uneconomic, or if consumer caution limits demand for certain sectors even when social distancing measures are fully lifted.

Impact on insurance

Customers who are furloughed or lose their job, may be forced to re-evaluate their spending, and may be unable to continue paying premiums on their insurance products. This could lead to some customers lapsing their policy. However, protection insurance is thought to be one of the last direct debits customers will cancel, and this is particularly likely in the current situation. Some providers have also offered premium holidays so that customers can keep their cover in place and pay their premiums when their income recovers. Premium holidays include risk for the insurers, and so traditionally have been offered for only short periods of time, with certain restrictions.

What we have seen is an industry wide approach to trying to add flexibility to premium holidays, not only in extending the period of the holiday, but also in ways to repay the premiums 'missed' during the holiday. Instead of requiring all the premiums to be paid in one go, alternatives could be to spread the cost over the remaining term, or to reduce the level of cover for the remaining term.

This may not help customers with more extreme drops in income for a more sustained period, and for those that choose a proportionate reduction in cover, it means that customers may be under insured and be impacted even more financially should they need to make a claim during the period.

Impact on savings

Another consequence of the economic fallout is that many customers are expected to need to draw down on their savings, including accessing tax efficient vehicles like ISA's, LISA's and pensions.

When withdrawing or switching funds, some older products may have exit charges or penalties which may compound the financial impact on those customers. Whilst there has been much focus on exit charges on historical products, providers should consider if there are any other charges that could be removed for customers wanting to access their funds.

For example, government rules behind qualifying life policies, such as endowments, make it hard for customers to change a range of parameters, including premiums, because they are concerned that they could lose their 'qualifying status'. This would lead to a considerable amount of information being provided to customers by providers, and customers then trying to determine if they would lose the tax benefit (and what, if anything, the resulting tax charge would be) and then how to mitigate this. This will cause considerable confusion and concern for policyholders about making poor decisions. It may also prevent customers from making changes to their life policies because they are concerned about potentially losing benefits, when there may not have been any loss in benefits from keeping their policy's 'qualifying status'.

Due to the restrictions placed on such policies in the 2012 budget and implemented from the 6th April 2013, premiums are now capped at £3,600 per annum. We expect that the vast majority of in-force policies were taken before this time, were used initially to repay a mortgage and that most were not taken out by High Net Worth customers. Therefore, the IFoA has called for a removal of these requirements for policies below a certain limit of benefit, such as £250k on the 16th April. We believe this would simplify the system for all individuals, including those in financial hardship. It would also remove a legacy issue that causes complexity and confusion, which is a heightened concern post-RDR as it is our view that customers of these policies are now less likely to be able to take regulated financial advice. The IFoA will be discussing this with the UK Treasury.

We also suggested that the rules under Lifetime ISAs should be relaxed for a period of time, so that consumers can access money from these vehicles without ending up worse off. This could be achieved by changing the exit penalty from 25% to 20%, so that only the government bonus is taken back, and not an additional 5% as is currently the case. The IFoA were pleased to see that the rules have now been amended, as the government announcing a temporary removal of these penalty fees in May 2020, and even included an ability to backdate to the start of the crisis.

In general, some customers may choose to liquidate investments at a time when asset values are depressed, crystallising losses. For those that wait, asset values may recover somewhat in the short term or medium term. However, income from savings and investments are likely to be suppressed for some time as interest rates are reduced and dividends are cut by companies, compounding the financial impact for some customers.

<u>Long term (2021+)</u>

Demand for insurance

Need for insurance

We are seeing significant shifts in how society operates because of the social distancing measures that have been put in place. Even when these measures are removed, it's likely that consumers will be left with a heightened awareness of their own health and wellbeing for a sustained period. As a result, more consumers may see the need for certain protection products, which may lead to an increase in demand.

The pandemic has also highlighted the critical role that key workers like doctors, nurses, carers and food producers play in our functioning economy, with a change in the way they are perceived. The UK government has introduced a new Life Insurance scheme for those front-line workers who lose their life in response to the pandemic, and there are already calls for pay rises for many of those on the front line. We may see greater reward and recognition for this group more generally. While many of these key workers are not currently customers of the insurance industry, we may see this change, either through greater government provision or increased demand for individual products from these key workers. Providers should consider what new products could be created for these customers, if it is clear that there is an unmet need, or what changes to underwriting may be required to better serve this market.

A product that would have been of most benefit to many of the UK population would have been an Unemployment insurance policy. While these have been available in the UK historically, they are now no longer a mainstream offering. PPI (Payment Protection Insurance) and ASU (Accident, Sickness and Unemployment) covers would, subject to criteria, have reduced the debt repayment burden for those now unable to make their payments. It may therefore be an area for insurers to revisit this area of need. They will need to ensure that the products meet the specific needs, and do not enable widespread mis selling, although this may increase the cost, or reduce the availability, of such a product. They will also need to consider whether such products can be sold on a sustainable financial basis, given the likely high claim cost in future periods of high unemployment.

Access to insurance

There has already been a shift by providers to do more digitally in response to the lockdown measures, for example introducing new medical consultations for underwriting. While we can expect a lot of this digitisation to remain or expand further when the measures are lifted, it may exclude more customers, particularly more vulnerable customers or those in lower socioeconomic groups who are left behind in the digital revolution. Providers will need to consider how they can continue to serve these customers.

Early medical studies of COVID-19 have also pointed to patients with underlying conditions, at older ages or in certain ethnic backgrounds being at higher risk of developing complications or fatality. If COVID-19 becomes a virus that we cannot eradicate in the near term, and that we must live with, those customers in higher risk groups are likely to seek more protection and insurers will need to develop a better understanding of the disease and the risk it poses to customers. Whilst insurers are not able to discriminate on several factors, such as ethnicity, there may be a change in underwriting or pricing terms for those with certain underlying conditions like Diabetes. Insurers will need to consider how any changes could further reduce access to insurance for certain groups of customers, especially if more customers are deemed to be too high risk to insure.

The various support mechanisms introduced by HM Treasury such as the state funded furlough scheme, small business grants and other support for the economy are expected to lead to a significant increase in national debt. The expectation is that some of this will have to be funded by tax increases. Whilst the measures have been introduced to try and protect as many jobs as possible, there will no doubt be some jobs that cannot be protected, and there may be a long-term impact on unemployment. Both an increase in taxes and rise in unemployment will mean many consumers will have less money left over each month to pay for financial services products like protection, leading to a reduction in demand for such products.

Saving for the long term

Following the pandemic, it is expected that many customers will become more cautious in their outlook. They may seek to reduce debt and build up more savings, and when it comes to investing they may prefer to hold more in cash, invest in more cautious portfolios, buy guaranteed products like annuities or purchase inflation protection. Some customers may also wish to make more money accessible quickly, in case of future financial emergencies, and prefer products that allow more flexibility like ISAs, rather than longer term savings vehicles like pensions. We may also see a higher opt out rate of pensions auto-enrolment.

Providers should consider developing new tools or products to help more customers save and that is aligned with a more cautious, flexible approach to investment.

A consequence of higher savings in the long term is that customers could build up a larger financial buffer, and they may see less need for protection products that provide short term protection from financial shocks.

Changes in underlying risk

If, as expected, many of the social distancing measures stay in place for a long time, it's likely that many of them will create a permanent change in behaviour that will affect the underlying risk providers insure. This could create both improvements or reductions in health and mortality. We consider some of them here, but they will be considered further in the Mortality Impacts Paper.

- **Travel & work:** We may see sustained reductions in travel and commuting, as more office-based workers utilise the technology to increase home working post lockdown. For those that do commute we may see modification in the ways we do it, with more people avoiding public transport and either driving, walking or cycling instead. This could lead to improvements in health if more take to walking and cycling, but we could also see an increase in the number of cycling accidents if there are not also changes in traffic volumes or enough safety measures put in place. We could also see an improvement on mental health and general stress levels because of more people working from home, or more people changing jobs to ones that allow them more flexibility to work from home. It is also expected that there will also be a reduction in international air travel for a few years, perhaps leading to fewer people needing access to healthcare while abroad and less need for international healthcare or travel insurance. This may lead to an increase in the life expectancy inequality, as those who benefit may, on average, be those who already have the highest life expectancy.
- **Environment:** The significant reduction in economic activity has also led to a large reduction in pollution, and an improvement in air quality in the short term. As economic activity recovers, we may not see a rise in pollution to the same levels we saw before, if we do see a reduction in travel and other changes to the economy. This could reduce the incidence of respiratory and other related conditions.
- **Health awareness:** The pandemic has no doubt brought hygiene front of mind for many customers. We may see customers persist in higher hygiene levels, and also use more measures to prevent the spread or risk of disease such as; greater uptake of the annual flu jabs, more widespread use of masks, increased physical activity, and declines in habits thought to increase risk e.g. smoking. This could lead to improvements in health which may impact underlying risk. Consumers may also seek out products that provide more support for preventative measures such as stop smoking programmes, regular health checks, etc.
- **Development of the virus:** It is unclear at this stage the extent to which people build immunity and therefore the likelihood of suffering from this virus, or mutations of it, again. Of those that do catch the virus, it is unclear if it has any longer-term side effects on people's health, or if it increases the risk of other conditions. If a vaccine is eventually developed, that too may have some side effects. These health impacts will all need to be better understood, particularly if they affect certain groups of customers more than others.
- **Government response:** With all the above, the government response will be key. This will determine how the social distancing measures are removed and when. Not only will this change customer behaviours, and therefore underlying risks, it will also determine the cost to the economy, jobs, and government. It will impact tax and spending policy for many years to come. Increases in taxes will impact customers financially, and reductions in public spending

may reduce key services available to people such as education and health. This could lead to a deterioration in overall population health. These policies may also affect the population unevenly, leading to widening social inequality in the UK.

In the long-term providers will need to understand changes in customer behaviour and the impact on underlying risk and may need to amend existing products or develop new ones to better serve customers in the new normal.

Conclusions

This paper summarises some of the key considerations for the UK government and providers of protection insurance and long-term savings products, and what they can do to support customers. It summarises the issues identified during the initial lockdown measures, and so it is expected that some of these ideas can be developed further or reviewed once the measures have begun to lift and there is more data available on the impact they have had.

In the short term, access to insurance for those most at risk may be curtailed as the default response by much of the industry has been to restrict access to manage risk and maintain service. This could take a while to unwind.

In the medium term we expect there to be significant economic consequences from the lockdown measures, leading to high unemployment and lower affordability for insurance products amongst customers. Government and providers can take several steps, for example offering greater flexibility to customers, to help reduce the financial impact on customers.

The indirect health impacts of the pandemic, caused by delays in treatment or social isolation, are also expected to emerge and impact customers. Here the government will have a large role to play in minimising these effects.

Longer term, insurance products may be considered more essential, particularly for key workers, and we may see higher saving rates amongst customers. The removal of social distancing measures and sustained changes in customer behaviours will also impact overall population health and the demand for insurance. There are likely to be benefits resulting from new working patterns, reduced pollution and improved hygiene standards, but there may also be negative health effects brought about by any reductions made in government services or the evolution of the virus itself. It is likely that these factors will impact customers unevenly, the extent of which will be driven in a large part by government policy.

It is therefore possible that, post COVID-19, we see a widening of the inequalities within society, and an increase in the morbidity and mortality differentials between different groups.

Actuaries working for Providers will need to closely monitor government policy and changes in customer behaviour. They will need to review their existing products, and in the longer-term they may need to amend existing products or develop new ones to better serve customers in the new normal ultimately ensuring that access to insurance is improved not reduced.

Should we see a widening of the divide between areas of society, and a reduction in available and affordable insurance for a minority, due to changes to eligibility criteria, post COVID-19, this will require discussion and debate on if we believe that this is acceptable to society, and if not, how could this be remedied, such as by approaches to widen risk pooling, rather than reducing it.

Acknowledgements

The authors would like to thank Adele Groyer for reviewing this paper.

References

[1] https://www.covermagazine.co.uk/news/4014658/exeter-covid-19-drives-digital-health-services-spike

[2] https://www.researchgate.net/publication/340984562_Estimating_excess_mortality_in_people_with_cancer_and_multimorbidity_in_the_COVID-19_emergency

[3] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/april2020

[4] https://obr.uk/coronavirus-analysis/

Institute
and Faculty
of Actuaries

London

7th Floor · Holborn Gate · 326-330 High Holborn · London · WC1V 7PP
Tel: +44 (0) 20 7632 2100 · Fax: +44 (0) 20 7632 2111

Edinburgh

Level 2 ·Exchange Crescent · 7 Conference Square · Edinburgh ·EH3 8RA
Tel: +44 (0) 131 240 1300 · Fax +44 (0) 131 240 1311

Oxford

1st Floor · Park Central · 40/41 Park End Street · Oxford · OX1 1JD
Tel: +44 (0) 1865 268 200 · Fax: +44 (0) 1865 268 211

Beijing

6/F · Tower 2 · Prosper Centre ·5 Guanghua Road · Chaoyang District · Beijing · China 1000020
Tel: +86 (10) 8573 1000

Hong Kong

2202 Tower Two · Lippo Centre · 89 Queensway · Hong Kong
Tel: +11 (0) 852 2147 9418 · Fax: +11 (0) 852 2147 2497

Singapore

163 Tras Street · #07-05 Lian Huat Building · Singapore · 079024
Tel: +65 6717 2955

www.actuaries.org.uk