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Impact of Covid in Financial Sector of Life Insurance Policy

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ABSTRACT: The COVID-19 pandemic has had a significant impact on the online life insurance industry in India. Here are some of the key ways in which the life industry has been affected:● Increased demand for life insurance:The pandemic has highlighted the importance of financial planning and protection for families. As a result, there has been a surge in demand for life insurance policies, particularly term insurance plans, which offer a high amount of coverage at an affordable price. According to IRDAI data, the number of life insurance policies sold and the total amount of premiums collected have registered year-on-year (y-o-y) increase in June 2019, compared to the same month in the previous year.● Change of Perception for life insurance as a pure risk insurance cover:This can be attributed to the psychological impact of the COVID-19 pandemic, but people are veering towards pure protection plans like term life insurance rather than insurance-based savings plans like ULIPs. As more and more people look to buy life insurance, the affordability and simplicity of term plans have led to its rising popularity.● Changes in underwriting practices:In order to minimize the risk of infection, many online insurance companies have adopted digital underwriting processes. This includes the use of telemedicine, video calls, and online medical examinations, which enable insurers to assess the health of potential policyholders without requiring in-person visits.● Customers are looking for better customization and targeted products:After the pandemic, consumers are looking for better life insurance products, along with personalized options. The need for flexibility in payments, innovative products, online modes of transactions (contactless purchase and renewal and added benefits of COVID-19 insurance in existing plans are some of the primary expectations from a post-pandemic insurance sector.● Rise in digital modes of transactions by customers:With the increasing focus on social distancing and contactless transactions, more and more consumers are turning to online modes of buying and renewing life insurance. This has prompted insurance companies to offer digitally enabled omnichannel systems and better online functionalities.

● Changes in policy coverage:Some life insurance policies have been modified to provide coverage for COVID-19 related hospitalization and treatment expenses. In addition, some insurers have introduced new policies specifically designed to provide coverage for pandemics and epidemics.As a buyer, you need to avoid 'panic-buying' and focus on buying the right product. Research, compare and find the best life insurance plan that suits your needs.Overall, the COVID-19 pandemic has led to significant changes in the life insurance industry in India, including a shift towards digital processes and an increased focus on financial protection for families. It remains to be seen how these changes will shape the industry in the long term.

KEYWORDS: COVID, financial, life insurance policy, consumers, pandemic, digital, panic-buying, customers

I. INTRODUCTION

Given the uncertainty that exists in these unprecedented times, we expect that life insurance and annuity companies could face both short-term and long-term challenges to maintaining business continuity and profitability. In this piece,[1] we discuss potential impacts to insurers and provide considerations around disruption to operations, economic impacts, setting of actuarial assumptions and forecasting, and responding to regulatory and rating agencies as the COVID-19 pandemic continues. While the social and medical consequences of COVID-19 have been significant, the shock to the economy and markets is having a large impact on life insurance and annuity companies.

Interest rates and equity markets have declined, credit spreads have widened, and implied volatilities have increased. Each of these movements affects fixed income and equity investments, as well as the life and annuity products insurers sell, creating balance sheet and earnings volatility.[2] This comes at a time when companies were already tackling the implications of multiple regulatory changes including current expected credit losses (CECL), international financial reporting standard 17 (IFRS 17), principle-based reserving (PBR), and long duration targeted improvements (LDTI).Insurance companies are assessing the effectiveness of their hedge programs and considering their cash flow expectations over the next year. Reduced sales combined with unpredictable policyholder behavior could challenge the ability to predict and optimize investment opportunities.[3] The treasury function will need to assess and provide increased cash flow that will affect actuarial and finance projections. The volatility in actuarial balances will likely require increased attention and analysis due to increased strain on capital positions. COVID-19 is creating[4] additional volatility in the global markets, which has affected the value of equity investments and fixed income (for example, credit spreads may widen or the creditworthiness of counterparties may be affected). Moreover, as a result of the pandemic, entities may need to assess their investments and loans (such as commercial mortgages) for impairment.This is the first quarter that public insurers are required to adopt CECL, an impairment model for loans and certain other fixed income investments that is based on lifetime expected credit losses rather than incurred losses.[5] CECL requires more extensive modeling of credit risk considering a number of different factors, including various economic and loss scenarios. COVID-19 is causing insurers to refresh macroeconomic scenarios and assumptions for current market conditions and potential prolonged economic recession (such as unemployment or negative GDP growth).[6] Companies are further considering whether the use of extreme economic scenarios would yield reasonable results (in light of interest rate impact masking credit concerns).Finally, insurance companies should assess the impact of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and evaluate troubled debt restructuring or purchased credit impaired implications of new fixed income acquisitions.[7]

II. DISCUSSION

Actuarial assumptions and forecasting impact

- Actuarial assumptions
  Actuaries will need to determine how to set economic and non-economic actuarial assumptions in the face of market volatility, changing consumer behavior, and uncertain mortality and morbidity events related to COVID-19. Consideration should be given to both the short-term impact on setting assumptions as well as the potential long-term impact on policyholder behavior and risk profile.[8]

- Mortality
  Actuaries will need to determine if COVID-19 will have an impact large enough to require revised mortality assumptions. As COVID-19 peaks, mortality events are expected to decline.

  The ultimate mortality impact of COVID-19 may depend on the timing and effectiveness of vaccine and therapy solutions. However, the experience to date has shown an increased risk of mortality to the elderly and individuals with preexisting health conditions. Companies can begin to analyze their in-force blocks of business and assess the potential mortality risk profile of COVID-19.

  Proactive mortality risk management and monitoring may be an effective strategy, given that the long-term mortality impact of COVID-19 is expected to be much more difficult to quantify and analyze.

- Mortality improvement
  Mortality improvement over the past several years has been muted, which may likely continue. The impact on mortality trends will reflect a balance between increased short-term mortality combined with heightened attention to social and health care improvement in the longer-term. Actuaries will need to consider reducing or eliminating improvement considerations when forecasting the next year or two as well as understanding the impact of future improvement scenarios.[9]

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- Morbidity

  Companies are monitoring the immediate and long-term impacts to morbidity as a result of COVID-19. The impact of COVID-19 will be driven by the impact on those who recover from the virus as well as monitoring the limited access to healthcare during the government and social restrictions.

- Lapse

  The economic pressure of losing a job, or a reduction in income, may force policyholders to voluntarily lapse their policy. Reflecting on the 2008 market crash would provide actuaries with more insight and data to consider when setting lapse assumptions. Annuity carriers with dynamic lapse assumptions may need to monitor experience closely, as policyholders may respond differently to an equity decline induced by a pandemic, as opposed to prior economic downturns.[10]

- Premiums

  Predictions for near term premium behavior should consider policyholder behavior as well as company sponsored premium deferral programs. Actuarial models will need to be updated to reflect changes in expectations as well as timing of premium payments. This may prove to be complex, as administration systems and actuarial platforms were not designed for anticipating premium deferrals. The financial reporting process and controls may need to be adjusted to reflect the changes in premiums.

- IBNR/ICOS

  The impact on claims processing will depend on the facts and circumstances facing each company with regards to effectiveness of their virtual work environment and shift in claims frequency. Monitoring and partnering across functions can provide timely insight to allow the actuarial and finance departments to adjust balances and projections.[11]

- Reserving and forecasting

  Given the operational and economic items discussed above, actuaries may need to adjust how to accurately model these impacts in reserving and forecasting models, such as leveraging static and dynamic validation techniques. In the early stages of this pandemic, companies may want to explore one-time adjustments. Regardless of the assumption being assessed, the unpredictability in the medical, social, and economic conditions will require flexibility in actuarial and finance assessments. Providing multiple scenarios and anticipating internal and external requests can provide management with the insights needed to make timely decisions.[12]

Communicating financial results

Investors and analysts will likely expect insurers to provide additional insight into the impact of COVID-19. Specifically, there will be a need to understand interest rate sensitivity, outlooks for capital position, and clarity around significant estimates and assumptions.

Internal and external audiences will likely expect insight into current and future results. Understanding and performing sensitivity analysis on key assumptions could arm management with the insight needed to communicate and address these inquiries.

The actuarial and finance perspective in a changing landscape

Companies should be prepared to continue to fulfill their fiduciary responsibilities, adapt operations to run successfully in a virtual world, and continue to deliver high quality customer service in a time when customers need it the most. As regulatory and management actions transpire, finance and actuarial functions should demonstrate agility to meet the changing landscape and expectations.[13]

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III. RESULTS

The impact of Covid-19 drastically changed the economical, social, behavioral, and psychological aspects of human life. Just after the official announcement of this pandemic by the World Health Organization, the entire world has locked for several months. As people come across these unpredictable situations, insurance has emerged as one of the ways to financially protect themselves and their families. Consumers were confused in terms of financial gain and risk associated with this disease.[14] In this critical situation, the study on the consumer decision-making process is an integral part to evaluate consumer behavior. An evolutionary improved FLANN is developed to analyze the growth of insurance during the pandemic and observed the insignificance of this pandemic effect on consumer behavior toward life insurance. The proposed study has undertaken an asymmetrical data analysis on 24 life insurance companies of India from January 2015 to December 2019 and predicted the premium collection for the future. The COVID-19 pandemic and lockdown have impacted almost all the industries and sectors across the world including the insurance sector which has a significant contribution in the country's GDP and economic development.[15] This paper is an attempt to study the effect of COVID-19 pandemic and its overall effect on the business of Indian life insurance sector. The study is exploratory in nature and thus give new insight to related future researches. In order to conduct the study, the secondary data has been collected from various newspaper articles, online blogs, website and annual reports of life insurance companies. The paper covers various dimensions like First year premium, Sum assured, No. of lives covered under group schemes, No. of policies issued and also make an effort to analyse the overall performance of life insurance company in FY 2019 as against the previous FY 2019. The period of study covered six months i.e., from March 2019 to August 2019 (pre-COVID) and March 2019 to August 2019 (during COVID). The findings of the study reveals that COVID-19 has adversely affects the life insurance business mainly in term of drop down in sales of new policy, premium income and crises of claim settlement. The experts view that the demand of pure and health insurance has been shown a positive growth due to life uncertainties in times of COVID-19 pandemic. Insurance is like an umbrella that protects your family from uncertainties in life. People usually expect the insurance providers to assure your financial security in case of adversity such as death or disease. However, these days the insurance providers are themselves facing uncertainties due to the pandemic situation.[16]With the outbreak of the COVID-19 pandemic, insurance entities have found themselves stuck in an alarming situation. During the previous year's lockdown, many insurers had to suddenly make their operations entirely remote. Apart from that, they were trying to address the worries of the awestruck customers who were wary about their life security amid the pandemic.Many insurers have tried to customize life insurance plans in 2019 by adding COVID-19 cover. Still, there were many other queries such as the continuation of premium payment claims for life, and disability insurance. The situation worsened for the life insurers when the insurance regulators announced their decision to defer the payment of life insurance premiums.[17]

IV. CONCLUSIONS

Many people were facing the loss of income due to unemployment or employment lapse. As a result, they were unable to pay their insurance premiums.

1. In order to address the problem of the policyholders, the Insurance Regulatory and Development Authority of India (IRDAI) on 23rd March 2019 had directed the insurance companies to provide a grace period of 30 days to the policyholders for the payment of the renewal premiums.

2. Additionally, the insurers were directed by IRDAI to maintain the continuity of their operations and services to their clients through alternate modes. This includes telephonic conversations and digital contact via online chat.

All these decisions have put a lot of stress on the insurance companies. Currently, the insurers are required to be active and available all the time so that the policyholders do not face any difficulties. The premium payment lapse had already put a significant impact on the businesses of the life insurers, due to which they are facing hindrance in their operations.[18]

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Hence, we can see that the insurance industry has suffered a major impact from COVID-19. Nevertheless, the insurers have responded promptly to this crisis. As soon as the Indian economy recovers, these insurers will come across various challenges, which they will turn into opportunities in the long run.

Let's see how the premium payment gap has put an impact on various aspects of insurance policies.

Impact on the Premium Collections

COVID-19 has deeply impacted the regular operations of many insurance companies in India. As per the reports by IRDAI on life insurance 2019, the number of newly issued policies has declined sharply. This is because the purchasing power of the individual customers has vanished. The insurance premium is the basic income of an insurance company.

1. Over the past 2 years, the premium collection of many prominent insurance companies have fallen drastically.

2. This is because of the Regulator's decision to provide the grace period for premium payment. In fact, many leading insurance companies in the nation are running in losses.[15]

3. In addition to that, many insurance companies are facing higher withdrawals from the policies by the customers to meet their short-term needs. This has resulted in a slump in the stock market, and a fall in the assets under the management of these companies. Moreover, this has somehow also negatively affected the prospects in certain insurance products like the ULIP.

Impact on Insurable Activity

Life insurance companies are deeply affected due to lack of insurable activity due to the following reasons:

1. Rising unemployment across the nation, leading to the reduced workforce and the financial strain

2. Inability to hire new employees, restricting new business.

3. The negative impact of market volatility on consumer buying behaviour

4. Limited activity in various sectors.[16]

However, Insurers need to carefully monitor and review their portfolio. Accordingly, they can readjust their resources to the lines of business. This also requires customer support and cooperation.

Impact on Claim Settlement

For life insurance companies, modelling the mortality rates is now a challenge. The most problematic thing is that and fear relating to the coronavirus may accelerate the rate of mortality of the policyholders that do not have the disease.

Moreover, the claims on the income protection plan have gradually increased after the lockdown and will further rise, as per the Deloitte report.

1. However, with proper training, the life insurers can successfully re-organize the claims settlement operations. In fact, the Insurers are currently examining their claims classes to track where they are most exposed in both short and medium-to-long terms.[17]

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2. Proper review and trend analysis is also required to trace the key scopes for claim fraud.

3. Besides, the Insurers should carefully go through the terms and conditions in policy documents of their most relevant insurance policies in forecasts of increased case volumes and potential legal challenges.

4. Moreover, claims processes will need to wisely utilize the impact of the government support and relaxations to the policyholders for rationalizing the overall claims settlement.
Impact on Future Premiums

Profitability and cash flows of the Life insurers have been deeply impacted due to the statutory relaxation provided by them. Now, they are re-focusing on their expenses with a wider cost agenda. There are possibilities that premiums may be slightly higher for future customers. This will be necessary for the insurers to maintain their profitability and credibility in the market.Noticing the abovementioned challenges, it is evident that the insurance market needs constant cooperation from the end of the customers in order to cope with the ongoing pandemic crisis.[18]

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