Actuaries Institute Podcast
Title: How deeply is COVID-19 impacting insurers?

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Speaker: Greg Solomon
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Introduction

Iris:

Hello and welcome to the Actuaries Institute podcast. My name is Iris Lun. I'm currently a council member of the Actuaries Institute and a Director and Co-founder of 10Life. Today I'm joined by Greg Solomon who is the Head of Life and Health at Peak Re to discuss the impact which the ongoing COVID-19 pandemic has had on the insurance industry, especially here in Hong Kong where we are both based, which is the insurance hub for Asia. Welcome, Greg!

Greg: Hi Iris, good to chat.

Iris: **So, Greg, back in 2018 which was the hundredth anniversary of the Spanish flu pandemic, you wrote a paper to warn insurers on the coming pandemics, or mini pandemics. Now, two years later, the world is facing COVID-19, did anyone actually take your advice and prepare any mitigation against the pandemics?**

Greg: Well, I'm hoping some people took my advice, but I think it's clear that people have been talking about pandemics for a while now. And even before I was talking about, what I'd called mini pandemics, Bill Gates was giving his TED lecture five years ago. And I think not enough people have been paying attention. For major pandemics, insurance companies are often ignoring that because they think it's too extreme and it won't happen again. And then for minor pandemics, smaller outbreaks, they're ignoring them because they don't think the impact is going to be big enough.

Greg: And so, I was referring to something called mini pandemics where I was trying to warn people that even a small breakout can be incredibly costly because everything happens at the same time. You know, markets are falling, interest rates are

reducing, claims are going up on life and on health and on property and on casualty and business interruption, loans, economic concerns. So, I was trying to warn people that things are going to be a problem even for a smaller outbreak.

Greg: Of course, people have been buying, a number of reinsurance treaties do include pandemic cover. There are a number of specialist reinsurance treaties out there. And even re-insurers have been using retrocession or the capital markets to get rid of some of their own pandemic risks. So, I think the industry is doing something, but I think we all realise right now that we haven't done nearly enough in preparation for something as significant as this COVID-19.

Iris: At the moment, many insurance companies are still in the firefighting mode in terms of managing the short-term business impact of COVID-19. So, in terms of risk modeling, the data is still evolving with a lot of uncertainties. So, what are the re-insurers doing at the moment? Have they started adjusting pricing assumptions? Are there any new products or risk solutions coming up?

Greg: There is a lot being done at the insurance side as well as at the reinsurance side. Let's talk a little bit about modeling. I think you're absolutely right; this is still evolving. We have no idea where this pandemic outbreak is going to go. We realize that there are very big differences between the experience from China, UK, continental Europe, US, Australia. The outbreaks are all very different.

Greg: And so, we're trying to model things. We're trying to make sense of the numbers, but we still don't know how it's going to go. Of course, one of the biggest factors is going to be the effectiveness of lockdown or herd immunity and so on. So, there is a lot of modeling going on. Companies are trying to work out what to do on the pricing side. And for a long-term contract potentially, although there will be a significant hit now, in the long run, the impact is going to be substantially smoothed out, but we don't know what that'll be. So short term contracts may need more attention to pricing.

Greg: I mean, if we take a look at what's going on In the medical side, some countries like China where the government is picking up all the medical costs associated with COVID-19, insurance companies have been saved a lot of money, so that prevents it. But there will be other countries where insurance companies are going to be paying for hospitalisation and the ICU and so on, so that's going to cost them money. And the modeling needs to take that into account.

Greg: What we know also is that a lot of people are not going to the doctor at the moment, if they can absolutely avoid it. They're avoiding surgery in the hospital if it's non-essential. And this may help save money for some insurance companies on the health side.

So again, we're still taking a lot of guesses about what this is going to be. There are a lot of models, they come up with very different numbers. And generally, companies are modeling the obvious stuff like mortality, but the real financial impact is probably going to be coming through on the health side. And here modeling is far away from adequate.

Greg: In terms of other responses, I mean, certainly insurance companies have been coming up with new products. There are some special 'COVID' products that are out there. Companies are trying to clarify their wording about if you have lung failure, and lung failure is one of your critical illnesses, is there going to be a claim?

So, insurance companies are trying to provide more clarity around what they will and will not cover. And just generally there's been some good stuff. There's been a significant move to electronic signatures to video sales rather than face to face sales. So, I would say in general the insurance company has been working hard to try and at least deal in an optimal way for this pandemic breakout.

Iris: **And on the data side as COVID-19 originated late last year, China now seem to have the most data in terms of incidents, infection, recovery and mortality rates among the different demographic cohorts. Do you have a sense of how accurate this data is? And can they be used in other countries for modeling the short term and longer-term impact?**

Greg: Or there are asymptomatic people who are infected, who are spreading the disease. But they're not being included in the statistics. In the UK just this morning I saw some numbers to suggest that they've looked at the total deaths happening in the UK at the moment and they're suggesting that the real COVID-19 deaths count is about double what the official count is. So yeah, I wouldn't say we have a lot of credibility with any of the numbers, but we're looking for patterns. We're looking for overlap. We're trying to make sense of what conclusions can be drawn.

Greg: Certainly, there's some obvious stuff. I mean, it's very clear to us that the older a person gets, the more likely they are to die when they get infected. It's very clear to us that people with

certain co-morbidities, things like obesity, diabetes, hypertension, smokers are more likely to be dying or more likely to be infected as well. So, there are a lot of consistencies. There are some threads that are starting to pull through.

Greg: So, I've written down some numbers here, which I think are important to give us a sense of what we're dealing with. On a global basis, we're looking at probably at the moment about 400 people per million have been infected with this virus. And that's a very small number. And so, it cannot possibly be representative of what the numbers would look like if it were a lot bigger than that.

Greg: You know, it's more than 10 times bigger in Spain, the number is 4,500 per million people. So, that's already starting to show quite different characteristics. In Italy, 3,000 per million. In the US 2,500 per million and increasing rapidly. And of course, in China the number is only about 60 per million. So, if we compare China's 60 per million to Spain's 4,500 per million, it's clear that even that smaller number is not likely to be representative. There is a lot of information coming out. We are watching this very closely. And again, we're just trying to find common threads, trying to find out what the real numbers are saying.

Iris: **So, as you mentioned, there's a huge range of differences across different countries. So, where do you see this ending ultimately? Is it even realistic to think that we'll ever arrive at a consistent set of mortality or morbidity rates for COVID-19?**

Greg: I don't think we will. And I think that's okay. I don't think we need to chase any consistent numbers. Every country has a very different experience in terms of what is the extent of the lockdown that they're imposing, in terms of the number of ICU beds that they have per person in the population, in terms of the availability of equipment, the personal protection equipment for doctors and nurses, in terms of how quickly the hospitals are overwhelmed, average age, smoker proportions, extent of obesity in the population. So, I don't think we're ever going to find any kind of consistent numbers.

Greg: But we are slowly starting to get numbers that are relevant for the different markets and the different products. But again, we're still looking at a really small subset of the numbers. We're looking at people who are infected and probably symptomatic. We're looking at people who are dying of coronavirus.

Greg: But there's so much other information about how sick people have been getting, how long they're in hospital, how they've been treated, what proportion of people require ventilator care.

And these have an impact on us in the insurance industry as well.

Greg: And then that of course has this knock-on impact and again it's easy to talk about the deaths, but we need to look at what that knock on impact is. There is the impact of reduced demand for investment products. The economy is taking a hit globally and so people are just not buying as much insurance. This is going to have an impact on insurance companies.

Greg: I've seen a number of insurance companies have stopped selling term assurance for example, at 30 duration and above. And that's not because they are worried about what the mortality impact is going to be. But as interest rates are going down now, writing a 30-year term product leaves an insurance company very vulnerable to the kind of interest rates that they are able to get at the moment.

Greg: So, we need to be watching all of these things. We need to look at the economic impact. We need to look at the global economy and the health and the mortality and the infection rates. And again, globally, the proportion of people who have been infected is incredibly small, and it's having this impact. If we start to have second waves and third waves and the virus continues to spread through the population, it could be a lot worse. And any model that we had that looked like it had a great fit is likely to become increasingly irrelevant.

Iris: So now let's take a look closer to home here in Hong Kong. So, we were the first ones outside mainland China to get affected earlier this year. But with the lessons learned from SARS, everyone took precautions early. So, the insurance companies here seemed more worried about the short-term slowdown in sales rather than any potential claims issue due to COVID-19.

And you see the life and health insurers have been very active in promoting extra benefits for COVID-19, as all the confirmed cases have been treated in public hospitals which are free, so there's no need to use private health insurance. So many insurers have announced extra COVID-19 cover such as one-off diagnosis benefits or daily hospital cash benefits. And these are free to existing and new customers for a limited period of time.

Iris: But most recently we have seen two of the largest life insurers, AIA and Prudential, and I think this week also China Life joined in to offer free diagnosis benefits and death cover to even non-customers and the public. And

these free benefits are quite generous. So, if there's a sudden outbreak in the short term like other parts of the world, the potential claim costs can be up to millions. Now do you think this is a good marketing strategy or potential risk mismanagement from the insurers in your point of view?

Greg: I can't remember where I read it, but I read something along the lines of these covid-19 products, and it wasn't a reference to Hong Kong specifically, it was referenced more broadly to that. Someone had said these COVID-19 products are either a great marketing strategy or they are the start of the downfall for the company.

Greg: And the reality is we don't know. Certainly, in Hong Kong and in Australia it looks like it's been well contained. And so, providing these benefits for free seems like a pretty good idea. It seems like a pretty safe idea. But there is the risk of a second outbreak and a third outbreak. And it was only a few weeks ago where everyone was citing Singapore as having been such a fantastic success. And then they started having outbreaks in the dormitories for migrant workers. And now we're seeing a very significant increase in the numbers coming through.

Greg: Now in Singapore, of course, these are migrant workers and perhaps not the local target market for companies. But nevertheless, the indication that additional outbreaks may happen just mean companies need to watch this. And it's always possible for companies to pull the plug on any of these marketing campaigns.

Greg: So, I don't want to say whether I think it's a great idea or a terrible idea, but certainly companies are going to be watching the experience very closely. And they're going to be watching the progression of the outbreak. And as long as the outbreak remains under control, then that's not a bad idea.

Iris: **In terms of the distribution side, one huge impact of COVID-19 in Hong Kong is on the insurance agents and brokers, as the traditional face to face channels make up the majority of life and health insurance sales. So, the social distancing has been very tough on the new business acquisitions. So, to help the agents cope, the regulator has actually relaxed some rules to allow agents to contact non face to face sales on selected traditional products. And the response has been pretty good.**

Iris: **At the same time, the few digital insurers in Hong Kong have recorded huge jump in sales. So, do you think this will become a longer-term trend, is COVID-19 the catalyst**

for the digital transformation on insurance sales that has been going on? Has been discussed for a long time but not actually taken place?

Greg: I mean, I think COVID-19 has completely changed the world. There is absolutely no doubt about it. And some of the things are going to get back to whatever we think as being normal, after all of this settles down, whether it takes six months or two or three years, we don't know. But some of the stuff will kind of get back to the old normal, and some of it will not change again.

Greg: And I watch my two daughters playing together in the evening, and they're three and eight years old, and they're playing with their Anna and Elsa dolls. And Elsa says, "Oh, let's go out. Let's go to the ball." And Anna says, "Oh no, we can't go out because there's a virus out there, we have to put our masks on." So even young children have changed the way they're absorbing what's going on around them.

Greg: And so, without a doubt, it's going to impact on us as adults who have a lot more fear and nervousness associated with the outbreak. We've always known in the insurance business that awareness increases the demand for insurance. Whenever there is a major life changing event, like a marriage or a birth of a child or a death in the family, people are more likely to buy insurance. And so, something like COVID-19 which is potentially one of the biggest events for us in at least the last 100 years. There has to be a change in the way we're thinking.

Greg: And so firstly there is likely to be an increase in demand for insurance as people realize how vulnerable they have been. Certainly, a lot of companies in a lot of countries have shown a significant increase in the amount of protection type of insurance that has been sold.

Greg: But our thinking about what is acceptable has changed as well. So, policy holders may have never done an online purchase of insurance policy and having now done it once during the COVID-19 period, it will be a lot easier for them to do it again. And the insurance companies have now established the kind of technical infrastructure which allows them to do that. The kind of compliance rules which allows them to deal with electronic and not wet signatures.

Greg: Perhaps there have been some relaxation of medical underwriting criteria where they're increasing non-medical limits or they're trying to do more underwriting, which doesn't require the need for going into clinics and getting blood tests and so on. So, the fact that that is changing means it is likely to be a step change. I don't think we'll ever eliminate agents and

independent intermediaries, but without a doubt I think the access to online distribution is going to change by the buyer, the seller and the regulator.

Greg: One of the things that I think is going to be super important is a lot of people with this coronavirus outbreak are buying cover to protect themselves should this happen in future again. And in the same way that these online product comparison websites help people understand what the differences between the terms and the conditions are. We know that there are going to be products which are actually comprehensively covering costs, including infectious outbreaks. And some of them will be launched excluding outbreaks. And I certainly hope these comparison websites are very, very explicit about what the product is that is being sold.

Iris: **Okay. Thanks for the tip. We'll definitely be putting in the comparison on our website in the near future. So, you mentioned about the demand on protection products. We've definitely seen the interests going up recently. In terms of the impact on customers, do you think, although the confirmed cases in Hong Kong is still relatively low at the moment, do you foresee insurers putting COVID-19 as a pre-existing condition in the future? Like adding loadings or exclusions on those who got tested positive in the past? Should people be actually getting cover now, increasing their cover now?**

Greg: I mean, I think if people don't have enough cover, they should buy some cover. And they should try and buy now. As I mentioned, if I were to buy a large policy now and I had to go for underwriting, I could do that. I could go into the clinic and get all of my tests done. But in other countries, for example, India where there is a significant lockdown, then people are not able to leave their houses and go for underwriting. So, people, if they don't have enough cover, they should get the cover now. And they should get as much as they can subject to the constraints that are possible. And if that means buying online covers at the highest non-medical limit, then, yes absolutely they should be doing that.

Greg: It is a little bit worrying what's going to happen in future for people who were infected. And that may even include people who were asymptomatic, didn't even realise they had an infection. We know that this virus is nasty to the body. And for people who've had really bad infections, there's a lot of evidence coming out that there is a significant likely permanent impact on their body. There is damage to the lungs which may not heal.

Greg: Now for SARS, a lot of insurance companies had said, "Well, if you'd got SARS back in 2003 then you're an immediate exclude." But given the number of people who are likely to be infected with coronavirus, I don't think insurance companies can automatically exclude people.

Greg: Certainly, over the next year I think there's a good chance insurance companies are going to maybe just defer the decision while we're trying to study the numbers and see what's happening. I certainly hope that people simply because they got coronavirus are not excluded from the insurance population. But insurance companies are going to have to look at the numbers. We don't know what the long-term impact is going to be on the bodies of people who have been infected.

Greg: And I guess maybe to make one extra comment. And that is, for people who are buying a product right now, I think a lot of people still don't know what the right type of insurance is to buy. And maybe the obvious kind of cover that people should be buying is medical reimbursement cover. But of course, we also know that there is this fear associated with the big diseases such as heart attacks and cancers and strokes. So, in many countries, critical illness has been a very substantial volume of business that has sold.

Greg: The question is, if people are worried about coronavirus and so on, is a critical illness product the right cover for them, is a death benefit correct? Well, it depends on their circumstances. And so, I think of course agents and the independent advisors can help individuals determine what is the right type of cover for them to be buying.

Greg: It's going to be interesting to see with online sales of insurance policies what kind of guidance or support or steer is provided to people without formally giving advice to help them understand. Because it is really tough for a non-insurance person to know what cover they should be buying.

Iris: **I think they're saying in the market that because of COVID-19 people now have more time at home to do more comparison, more study. They're becoming more like smarter consumers now than before.**

Greg: Correct, that is going to happen. And we talk about the thinking of people and you're absolutely right. A lot of people are going to become more aware of insurance. And one of the things that I haven't seen a lot being written about, specifically in the insurance context, is the state of people's minds, not just the state of their bodies. There are a lot of people at home who are already, even before this coronavirus outbreak, who are

suffering from depression. And now with coronavirus, they're at home, they don't have the financial support, they can't see advisors, they're under a lot more negativity. And so that's a really bad outcome, from people who previously had depression or just people who are struggling to cope.

Greg: It seems very automatic for people to compare the world as we see it right now with the world that they thought should have been taking place in 2020. And of course, that's not a useful comparison. Things have changed. But people are struggling. There are a lot of people who are under a lot of stress and they're not sleeping well, and they're worried about dying and they're worried about their families.

Greg: And these are policy holders as well as just members of the general public. And I'd really love to see the insurance industry stepping forward, whether it's significantly ramping up the amount of online support that is available for people who are just feeling stressed about this, you know, helplines or online support or chatbots. I would love to see the insurance companies do that. Because if they can support people, if they can help them through this emotionally turbulent time, I think that's going to make a friend for life. And I'd really like to see a lot more being written about this and a lot more being done about this.

Iris: Let's hope this is a positive catalyst for the industry as well as our customers in the future. So that's all we have time for today. Thanks for joining us, Greg. It was a very insightful discussion.

Greg: Thanks very much for your time.

Iris: That's all we have time for today. Thank you so much for joining us Greg. It was a very insightful discussion. And thank you to our listeners. We hope you enjoyed the discussion. In response to the ongoing COVID-19 pandemic, the Institute has set up a Pandemic Resource Centre to provide Institute members and the public with information on COVID-19 including relevant articles, papers from Australia and globally.

Iris: The Institute has also set up a COVID-19 blog to keep everyone updated with the status of the virus, impact on our industries and other relevant information. To listen to more Actuaries Institute podcasts, visit our podcast channel on Spreaker. As always write in with your questions and comments on the show. We love to hear from you. I'm Iris Lun, bye for now.