

Actuaries Institute Podcast

Title: Insurers brace for further COVID-19 impacts

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Liesje:

I'm Liesje Jansen van Rensburg. I'm a pricing actuary at Gen Re here in the Sydney office. I'm really excited to be here today to hear Yan's views on the impacts of COVID-19 on insurance businesses in Asia, and also keen to share a few perspectives of what's been happening here in Australia. So, if we start on the practical side of things on COVID-19, I'm keen to hear how it's impacted businesses, especially life insurance businesses in Asia, Yan. Of course, the purpose of insurance is to pay claims. So, I'd be really interested to hear about the claims experience you've been seeing during the course of this pandemic.

Yan: Great questions, and I've got to caveat all of this with it's just too early. Most people forget that COVID-19 started in January this year. Most of these products are in their waiting periods, but that being said, the major question mark is around the effects of the economy, unemployment related claims. I know we'll cover that a bit later on in our chat. Something we've got in Asia, it's not there down under, we've got accidents. So personal accident products and benefits, some great news, it's improving. People have been locked down. You can't drive, you can't travel, you can't catch a plane. You can't get hit by a car. So, the experience has been holding well at the moment, but that being said, travel policies, often are pay per use. So, if you're not traveling the volume's down, so that's really a volume issue on PA products rather than claims.

Yan: Early indications are that there's likely less claims, particularly on the inpatient side. I think just a lot of the fear around going to hospitals, getting checkups. And so far, the COVID-19 costs, the treatment costs have been covered by most of the governments around APAC. So, so far again, too early to say, too early to tell.

Liesje: Another interesting thing that I think is worth chatting about and you raised this as well on the medical side is people aren't necessarily going to hospital and what's happening is there's delayed diagnosis of cancers. So, I don't have Australian specific stats for this, but I've seen a number of American and German studies, which showed much lower diagnoses of cancers and fewer heart attacks during the pandemic. I'm not a betting person, but I'd probably put my money on the fact that people aren't getting cancer less or having less heart attacks.

Liesje: I think the reason for this could be a number of things from pausing cancer screening programs, hospitals shifting resources away from screening programs towards the pandemic. And then why'd you say behavioral impacts. I mean I'm cautious to go to the hospital or to go to the doctor. So being cautious to go, because you don't want to contract COVID-19, but also cautious to overburden the healthcare system.

Liesje: You might think, "Oh, the thing I'm feeling isn't such a big deal. It can wait for a few months". I mean, people dying from COVID, let's not overburden the system. So, it's quite interesting. And what this means for insurance is that cancers are potentially going undetected and undiagnosed and therefore progressing. So, at the point at which they're diagnosed will be at a higher severity and it'll be interesting to see how this plays out in the coming months and years and critical illness experience.

Liesje: And then focusing here on Australia and Australian experience, I mean, as I say, we haven't had a massive impact on death claims and I think the market expectation here is really that we'll see the impact coming to you in the coming months on disability income business, and potentially adverse mortality morbidity, but not necessarily from the virus itself, but more from the mental health impacts, of both isolation and economic downturn, concerns around suicide rates and just how the economic downturn is going to impact disability income. So, I think it's more the secondary impacts that will impact our claims experience as opposed to the virus itself.

Liesje: I mean, talking about economic downturns and economic impacts, COVID-19 just seems to be the perfect storm that encompasses both extreme health and economic impact. So, I mean, economies around the world are suffering and I'm quite interested in getting your views on some of the indirect claims impacts that you're seeing in Asia as a result of the economic downturn.

Yan: It's a great question. I think is on everybody's minds. Unfortunately, we probably will see suicide rates going up. Something unfortunately, fairly classic. Again, I hate using that word, but unfortunately, it's something that we will see post and during economic meltdowns. I think the social pressures in Asia, the cultural aspects of it will really amplify this part of the potential experience.

Yan: Mental health claims, that's often correlated to unemployment rates, and it's often a classic secondary claims clause. So, people already recovering from say a critical illness event. They're in the recovery mode, they're facing lack of job security. They're facing higher unemployment rate. It's just harder and harder for them to think about getting better and coming back to work. And during that time, what happens? Mental health.

Yan: It's interesting in Asia mental health isn't splashed around everywhere. Again, I think comes back down to culture in Asia, but again, it's sad. It's just because the awareness isn't as high as say Australia, it's still there.

What else? I mean, clearly, I've been living in Asia for so long, yields are so low. Everyone's going, "Ah, we're starting to forget about it," but it's a still real risk. Yields are so low. It can go to zero, it can go to negative and it can go more negative. So, it is still a real risk. As we know, many life insurers rely on market returns, not just from bond, but on equity markets as well as a profit generator in conjunction with their underwriting profits and this just won't be there. So that'll impact their P&L. At the same time, our reserves are going up, the assets backing those reserves falling. Together, it's just a terrible outcome where we will have to top up the capital side as well.

Liesje: **Yeah, I think practically the financial hardships support to try and as you say, reduce that lapse impact. And then if we think about the disability income impacts and the economic downturn, there's quite a cool blog, it's called *Actuaries Digital* and they have this blog about, I think it was called something like "What's the relationship between unemployment rates and disability claims experience?" And what I find particularly interesting about this blog is that they had gone and pulled together six, either six or seven different research papers that have been done about this and just consolidated it all into one blog, summarising the likely impact on disability income experience from increased unemployment.**

Liesje: **So, I mean, across these various papers, it showed the things like a 1% increase in unemployment could potentially have a 2-9% increase in claims incidents, depending which paper you believe. So, I mean, particularly in Australia, that could be quite a profound impact because frankly, our disability income business hasn't been doing really well over this past couple of years. So, I mean, so it's already in a tight position and now facing these further headwinds. So again, interesting to see how it plays out and it definitely from an economic side, the disability income book will be interesting to watch.**

Yan: What we haven't chatted about here is really the operational impact from COVID-19, right? Sometimes actuaries we get bogged down in dollars and census and numbers and models and things like that. So operationally COVID-19, it's going to change, I think. It will change the way we assess claims. Are you seeing that evolution there, particularly with, for example, utilising technology as a way forward?

Liesje: **As I said earlier, the financial hardship, that was the thing, just implementing those processes. How do we assess the financial hardship? Who do we give it to? How do we avoid anti selection risk when they join back up? So that was a bit of an operational process at the outset of the pandemic. Then also, I mean, underwriting. So, I**

think the awareness and motivation to buy insurance definitely increases in the time of crisis. I mean, this doesn't mean every new applicant is anti-selective, but I mean, it should be considered when you're an applicant. So particularly around March when the pandemic really started hitting Australia, is when people were looking at the underwriting practices and started to do something as mundane as adjusting the questionnaire, trying to make sure that we're not being selected against by people with COVID-19.

Liesje: So, have you got COVID-19 symptoms? Have you had the test done? When did you have it done? What was the result et cetera? Depending on the answers to these questions, either writing the cover or potentially differing the cover, people are waiting for a test result and they've got very heavy symptoms, maybe rechecking in a months' time, and then start your cover. And particularly for applicants that over age 60 with lots of comorbidities like diabetes or cardiovascular disease. Considering who's potentially got COVID at the time, which they're trying to apply for cover. So just looking at underwriting side of things.

Liesje: And then even on underwriting impacts from trying to get medicals, the people have to go for medical tests. So that was also in Australia, we do a lot of medical underwriting at higher sums assured disability income business. So, I mean, even that was interesting to try and say, okay, can we maybe do some of those via TC people can't necessarily go to the doctor in person, but some of those tests still need to be done if it's bloods, et cetera. So, I think that initially was also affecting sales volumes is trying to get the underwriting progressed, even though people couldn't necessarily access a lot of those services.

Liesje: And then if you're talking about claims, getting medicals claims can be difficult in this time. As you say, people constantly access the same care. They might be scared to go into the hospital contracting COVID-19. Particularly for income protection plans. I mean, if your rehabilitation or your in-person doctor visits or physio visits are affected because of the virus, you could potentially see people stay on claim longer. So, I think practically insurers have to really think about this is to think, how can we support claimants? How can we change what we're doing to be pragmatic, manage risk, but still help people?

Liesje: Another thing was in terms of incorporating technology into the claims processes. Things like tele assessments of claims, tele consultation with doctors, video conference-based independent medical examinations, accepting digital health certificates, digital signatures. I think we often rely so much on paper-based signing of things. I know people have started moving more towards digital. So, I think that's ready to step into the future. Something that needed to

be done now. Yeah. I think it's great if you're doing things more digitally.

Liesje: Then if you think, yeah. So basically, the operational aspect, I think it's been trying to be pragmatic, trying to support people, but also still be sensible around managing risk. And that's also something, sometimes it's a tough discussion to have with customers to try to explain it, but you're thinking of doing this, but the risks associated with that, et cetera. So yeah, I think it's been a bit of a balancing act, but I think it's been going well.

Liesje: So, talking about the future and moving claims operations, hopefully moving more into the future and being more digital and more technological. Let's get real, actuaries are all about looking back using that experience to predict what's happening in the future. So, in terms of the impact of COVID-19 on your business, have you been able to use past data or experience to predict the impact?

Yan: It's unprecedented events where we don't just have one, but two tail events colliding. You've got a pandemic/health one and you've got an economic/capital one, right? Possibly going to be on a scale that we've never seen before. It's two tail event frequency that we've never seen before coming together on a severity that we've seen before on top of that. So, actuaries, we love a challenge and we love reading papers and data. And so, there's a lot of great GLM models and all of them are highly predictive, but a lot of the data points that we're going to be using to feeding and calibrating these models are going to be fairly sparse. It's going to be fairly scarce as well.

Yan: We've never seen double or even triple digits in terms of unemployment rate increases. That's not in the data points and how do we calibrate a GLM model in order to predict anything that's going to be relevant. So, it's a real challenge. Some of the approaches I've taken sometimes just go what, look put that aside for a moment, right? Let's stop trying to quantify things out of our control.

Yan: What is in our control? What's in our control is proactive product changes and adding risk mitigants where we can, that's proactive. Try to proactively top up your reserves and capital where possible. Try to proactively have that difficult conversation with your stakeholders about these difficult topics ahead, and don't forget your customer. That's the most important stakeholder.

Yan: Coming back to what Liesje was saying, customer communications proactively introducing a tele consultations to manage the customer experience for this. That's all the right things to do. Proactively adjust premium rates, no matter how many enemies you're going to make with your brokers and your visors, but just adjust them as much as possible. I think it's only through proactively taking action on things we can control

that we probably going to fair better throughout this event. So Liesje you're a proactive actuary. What are you doing in the Aussie space?

Liesje: I've been quite intrigued by what a few insurers have put out in Australia on their websites, like an FAQ, frequently asked questions, just explaining how the claim process works or clarifying what their products cover and do not cover in this time of COVID-19, because I mean, speaking from say my friends and my siblings, they might have income protection, but they have no idea what it's for, meant to cover when they've lost their job. So, I think that's quite useful is setting it out in a nice clear layman's terms with people, what have they actually gotten? How did things change because of COVID-19?

Liesje: And then we talk about being proactive here. One thing here, I mean, keep returning to it in an Australian context, it's a disability income business. So, I mean in terms of setting up reserves just to get a bit technical. I think, especially in Australia, everyone's quite concerned about what reserves do they need to set up for disability income? Because it's not extremely profitable. So, it's quite aware of reserving appropriately for it. In terms of looking at your books exposure and setting up appropriate reserves, I think there are four factors that you can particularly look at.

Liesje: First, it's unemployment rates. In Australia, there's different states of very different economies. And so, it's looking at unemployment, not just nationally in the whole country, but looking by state and seeing how your book is exposed to different unemployment rates in the different states and then looking at industry. So, I mean, is a lot of your book exposed to people that work in the arts and hospitality, travel and restaurants? So are there people like you and me actuaries that could just take their laptops home and sit at the dining room table and keep working. How are they impacted by the virus based on what industry they work in?

Liesje: Next thing, waiting period. You mentioned this, I mean, you've got a seven day wait. Chances are even if you're isolating or got COVID symptoms and you can't go and work, that product will abate, and you'll have to start paying claims versus a 90-day waiting period. Someone could have contracted COVID and recovered by then.

Liesje: And then another big thing on the disability income book is whether someone's self-employed or not. So, if I mean the self-employed, they're trying to run a business, there's an economic downturn. And then you've got heaps of pressure on you. I mean, especially an Australian product that covers things like health, it'll have a very different impact if you're self-employed versus someone working for an employer, getting a salary. I mean, unemployment industry, waiting period self-employed or not, if you've got the data, right? So, consider your book in this perspective and trying to assess what reserves you need for that.

Liesje: The disability income itself is steeped in uncertainty. It's got so much interaction between economic conditions, community attitudes, and consumer behavior. So, I mean needless to say, I think there remains a lot of uncertainties, as you said, no matter what you do, you try and use past experience trying to... You won't be able to. We're actually living in a Black Swan event, which I thought was quite exciting in a way, but the point is you don't know what's going to happen. And we're sitting basically on the edge of our seats.

Yan: We've had a Black Swan event. Let's see the data. We're going through... I mean, what other color swans? I mean, we're going through blue swans and magenta swan events, but black swans we already heard about it.

Liesje: Good lessons for future. See how what's the new normal after this? What is a Black Swan and how do we apply for it in our models? Talking about economic and behavioral impacts and black swans, you think governments across the world have introduced a number of stimulus and intervention packages. So, I mean, to me, I wonder, yeah, they're introducing them and they're supporting people and they're making a real difference to everyone on the ground. But I mean, are they just delaying the inevitable tsunami?

Liesje: I mean, here in Australia, I definitely expect economic impacts to become worse as governments pull back on stimulus packages. There's two big packages in Australia, one's JobKeeper, which subsidizes a paid to employers, they pass that payment on to their workers and industries that have been affected, say restaurants, et cetera, that can't function at the same level that they used to before. And then the second support from Australian governments is JobSeeker, which is increased support benefits for unemployed people looking for jobs. More than 5 million Australians have actually benefited from these JobKeeper and JobSeeker programs. So, the impact of them have been massive. And the official unemployment rate in June was 7.4%, which is well below the estimated 11% unemployment rates once you exclude these government support.

Liesje: So, at first they were going to end in September and there was talk of this economic cliff in Australia where all of these stimulus packages end at the same time, et cetera, and lucky, it was announced that these packages will extend beyond September. At least until the end of December. The payments have reduced slightly, and the eligibility rules have become slightly stricter. I mean, I definitely think the real economic impacts of the virus will only start becoming apparent once these packages start winding down and it will definitely have very different impact on claims on life insurance practices going forward, once the economies really start suffering. I'm keen to hear in Asia, what sort of stimulus

packages have you seen and what are your perspectives, do you think that helped?

Yan: Well you mentioned early on Australia. I mean, we continue to be that lucky country. We've got JobKeeper, JobSeeker. We continue to be very, very lucky and let's not forget we're very lucky on top of a well-structured social security system. Asians don't have that foundation. They've got some elements of it, but they're starting on a very different lower foundation of government support than Australia. So, knowing that, yes, I think the government will try to inject some stimulus and support where possible. I mentioned earlier they're covering COVID-19 costs. That's certainly the case in Singapore up until recently for offshore workers returning, but that's only us, so that's fine. But then, you do have credit relief schemes with banks in certain countries. You've got rental assistance. That's announced in Singapore. So, you've got a few things, but it's never going to be to the extent of Australia.

Liesje: **Same in South Africa. They just don't have that sort of support and the sort of healthcare system that Australia has. So yeah, it definitely impacts countries very differently based on what places they're working from.**

Yan: I think what I agree with your point is I think we are just delaying the inevitable of the claim tsunami, whether it be direct or indirect impacts on our industry. It's just delaying the inevitable. What's going to reduce the severity of it is I think if the governments all manage to come together and solve the vaccine problem, solve the cure problem, reduce local transmissions, put in the efforts there. I think that will dampen, reduce the severity of whatever it may come, and it will come.

Yan: I do see opportunities coming out of COVID-19, whether it be product innovation. That's something that we're always very good at in our industry. So, I'm already seeing COVID-19 related or styled products in Asia. So, travel writers for example, is something that's starting to be a little bit more prevalent as travel's become a bit more restricted. But if you do get sick abroad, the local governments aren't going to pay for your medical needs. So, we are seeing some COVID-19 related travel products. The coverage is often fairly small, limited with heaps of exclusions and premiums are very high and constantly reviewable.

Yan: But at least on the positive side we're thinking, we're developing and we're innovating, evolving as an industry, right? So, at the same time, I think we are repositioning, or we're taking the opportunity to reposition the business and perhaps focus on more housekeeping things like the bottom line. Asia is such a growth driven culture, especially in the insurance industry that I think we can all take some time off to think about the bottom line and really reconnect with our customers around new technology. Coming back to some of the things you were saying around customers and connecting through tele consultation processes. That's

great. We should do more of that. We should see more of that. Making that customer experience better during these difficult times.

Liesje: I think the renewed focus on technology is definitely a silver lining on the storm part of a pandemic. I mean, if we could try and do business more seamlessly, make it easier for customers, that's fabulous. I think also for me, there's been an increased focus on data and statistical analysis that everyone's been engaging with. I have friends that are totally artsy people and usually wouldn't look at data or stats at all and couldn't even separate graphs et cetera. And they've really gotten into the COVID stats. Looking at the daily dashboards, tracking how things are changing, acting with Tableau. Yeah, I just loved how much data and stats have really come forward.

Liesje: And then also just people relying on science and healthcare experts. I think in, especially in Australia, we've seen a lot of relying on the science and relying on healthcare, which I think is great as opposed to just forging ahead in doing whatever you want, actually using some expertise. I think that'll be beneficial to impact climate change in future if we can start relying more experts and learn how to deal with that.

Liesje: I mean, in taking it back to the topic at hand, talking about insurance, I think positives from the pandemic in terms of insurance are that people actually understand their vulnerabilities and they realize things just sometimes aren't in their control. No matter how well you plan, how healthily you eat, how much you run, you just can't always control what happens to you. I think that's what insurance is for, right? Supporting people so that they can safely navigate life's curve balls. And maybe I think people have a new appreciation for the value of insurance and understand the purpose of the needs that it meets. So, I think from an insurance industry perspective, that's very positive.

Liesje: Yeah. That sort of brings us to the end. I think we've had a really good discussion. I've learned a lot about Asia and it's interesting to hear your perspectives and thinking how businesses are been impacted and what might happen and how we can take this going forward. So really enjoyed this. Thanks, Yan.

Yan: Thank you. Stay safe and healthy.

Liesje: I hope you enjoyed this discussion on COVID-19 as much as we did and learned a few new things. If you want some more similar riveting actuarial podcasts, please go to *Actuaries Digital* for more, and there's a lot of interesting content that I'm sure you can sink your teeth into. So anyway, that's us for today. Bye for now.