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Operational Challenges for Insurers During the Coronavirus Outbreak

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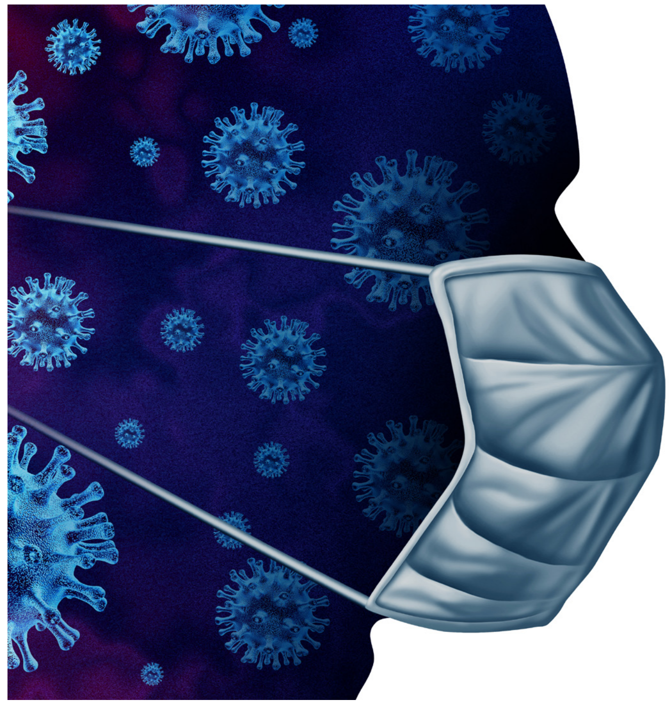

The COVID-19 pandemic is expected to have a large impact on the life insurance business. The most evident impacts will be an increase in claims and the effects of low interest rates. Increased claims are expected to arise from both COVID-19 complications and deaths from critical illnesses for which treatments could not be provided. Declines in U.S. Treasury rates have meant that insurers will be reinvesting at lower interest rates, causing further strain on balance sheets.

These two phenomena are the ones that actuaries are most likely to be familiar with, as they will directly impact the financial modeling that actuaries are accustomed to performing. However, the coronavirus outbreak has also brought significant impacts to operations for life insurance companies. The ability to collect evidence during the underwriting process is the first area where companies have seen meaningful challenges to operations. This is causing companies to make short-term changes to underwriting rules and requirements to address issues such as an inability to collect fluids and perform paramedical exams (paramed) due to quarantining and social distancing. In addition, the economic environment has resulted in a strain on many Americans' budgets, creating the possibility of an increase in lapses. Many companies have responded by giving customers options should they encounter financial hardship.

UNDERWRITING AND EVIDENCE COLLECTION

A mainstay of life insurance over the past few decades has been the collection of evidence during the application process to assess the mortality risks of individual applicants. The two largest pieces of evidence have been paramed exams, with collection of vital signs (build, blood pressure, etc.) and fluids for testing, and attending physician statements (APSs), particularly for cases with large face amounts and/or older ages. Although there has been a shift in recent years to accelerated underwriting programs (AUW), in which underwriting requirements are waived for certain applicants, these programs have been limited to certain issue ages and/or face amounts and enable only a portion of those eligible to qualify without traditional underwriting requirements.

Paramed exams and fluid collection have generally been done at the applicant's home or office, where he or she is visited by a medical professional. COVID-19 has made this approach challenging because of social distancing guidelines. The traditional visit for fluid collection is nearly impossible, as neither applicants nor examiners want to engage in this way. At the same time, there may be delays obtaining APSs, as many physician offices are open for urgent care only and, therefore, are taking longer to respond or do not have the available resources to reply to requests from life insurance companies. To overcome the limited ability to collect labs and APSs, carriers are taking a variety of approaches.

Expansion of Accelerated Underwriting Programs

Some carriers have taken the approach to increase the maximum face amounts that qualify for their AUW program. For example, a carrier may increase the maximum face amount from

$1.0 million to $3.0 million. In these cases, many carriers have tagged the applications and will monitor them on a post-issue basis by ordering APSs and follow-up checks for prescription history as well as MIB follow-ups. Increases in maximum issue age, however, have not generally been considered by carriers. Maximum ages generally range from 60 to 65 years in the industry. Because of concerns with higher COVID-19-related mortality at older attained ages, these age limits for AUW programs have largely stayed in place or been reduced.

Substitution of Evidence

Another approach companies have used is to accept alternative forms of evidence, particularly for parameds. The typical approach is to accept the applicant's lab work from recent doctor's visits (within the past 12 to 24 months), so long as this lab work or APS can be sent to the life insurer. However, companies have been cautious in implementing this approach. Since lab testing done for wellness visits does not always measure the same components that are used for insurance purposes, there are potential gaps in information. In addition, there is further concern with substituting evidence at higher attained ages, where labs provide more protective value than at younger issue ages. To combat these concerns, a few carriers have limited the risk classes that are available for applicants for whom all evidence is not available, such as limiting all offers to the standard or residual risk class. At the same time, carriers may offer the opportunity to qualify for a better class later, once full evidence can be obtained.

Incorporation of New Evidence

The last area where life insurance companies have been making some changes is the incorporation of new evidence sources into their underwriting programs. This approach takes advantage of the emerging vendors and tools that have hit the market recently. One promising area has been electronic health records (EHR), whereby insurers can obtain access to digital medical records for an applicant, giving them the ability to waive the APS requirement. In addition, medical billing and lab history data can provide a history of procedure, treatment and diagnostic tests and be additional sources of information. Carriers that have already incorporated this new evidence are seeing the benefits, and there has been an increased number and sense of urgency of companies now exploring and signing on with these vendors.

Other Underwriting Considerations

The current pandemic introduces two additional underwriting considerations. First, COVID-19 has necessitated changes to the application. Many carriers have added questions, where permissible, particularly around recent or upcoming travel, recent or current symptoms, exposure to the coronavirus and so forth. This has required carriers to quickly change their processes for information intake.

Second, worries about antiselection have risen, as some customers will seek to purchase short-term coverage or will stack coverage (i.e., obtain insurance policies at more than one carrier in a short period of time). To avoid this, companies have taken a few approaches. One measure has been the suspension of temporary insurance (i.e., insurance covering the applicant between application and issue), as there may be customers who are only looking for short-term coverage and never plan to complete the underwriting process. Companies are also watching insurance activity, particularly right before issue, to ensure customers are not stacking. Further, carriers are requiring a signed statement of good health at time of issue, adding to the amount of information the carrier must gather.

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IN-FORCE CONSIDERATIONS

The environment brought on by COVID-19 is also beginning to impact in-force policies. As unemployment rises, there are likely to be customers who struggle to pay their premiums. Companies have been proactive in addressing these concerns by extending grace periods. Companies are also looking at changes to their reinstatement process to address concerns with antiselection of clients who recently lapsed.

Grace Period Extension

The grace period is defined as the period between the due date of the last required premium payment and the time at which the contract is officially terminated. The purpose of the grace period is to give customers the opportunity to catch up on their payments before the contract lapses. Individual states have different regulations regarding the minimum length of the grace period allowed, but general practice at insurance companies has been a 15- to 30-day grace period (except where individual states require longer periods). During COVID-19, however, companies are extending their grace periods to 90–120 days, provided customers can show they have been negatively impacted by the recent economic environment. Many companies have taken a proactive approach, but some states have issued mandates that grace periods be extended. For example, New York has stipulated that grace periods be 90 days when customers can demonstrate that they face financial hardship.

On top of extending the grace period, some carriers are considering, at the prompting of state regulators, offering customers options as to how they can maintain their coverage. For example, New York has asked its carriers to allow for premiums due but not paid during the 90-day grace period to be paid over the course of the following year in 12 equal monthly installments.

Building these new business requirements into administration systems and operational manuals has required insurers to be nimble and quickly shift resources to these projects.

Reinstatement Processes

The changes made in the new business process have been extended to the reinstatement process, and carriers have increased the level of scrutiny on reinstatement applications to protect against antiselection risk. Reinstatements occur when customers seek to reestablish insurance after they have terminated their contract. Many carriers allow for reinstatements to occur if a customer (a) makes up the premiums due had the contract not terminated and (b) is still eligible for insurance. Eligibility requirements vary depending on carrier and time since reinstatement; however, they are similar to underwriting requirements and seek to protect carriers against unhealthy lives selecting against them.

During the COVID-19 pandemic, the reinstatement processes will need to be closely monitored. COVID-19 appears to have a higher impact on older age mortality, requiring that carriers watch for an increase in reinstatement requests at these ages. In addition, carriers will need to ensure that necessary underwriting evidence collection can be done in this environment. Some options considered include running prescription checks and tele-interviews to ask customers COVID-19-related questions.

CONCLUSION

The impacts of COVID-19 will surely be felt by insurance companies for years to come. From increased claims to the impact of historically low interest rates, the industry will see signs of financial strain. But the operational challenges discussed in this article, collecting underwriting evidence and extension of the grace periods, will hopefully be temporary. There is optimism, however, that some of the obstacles in evidence collection seen today will increase innovative activities as the industry continues to rely less on fluids during the underwriting process. COVID-19 might then be an inflection point in that there will be an acceleration in the industry for the digitization of processes and acceptance of new sources of underwriting information. ■

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