COVID-19
and the Life Insurance Industry

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COVID 19, otherwise known as the Coronavirus disease, is undoubtedly a major health concern. It is also turning into a major economic downforce. It's easy to see some of the connections for the life insurance industry (risk of higher death claims), but less obvious in many other ways (fewer annuity payments if death occurs). While claims experience will have an impact, it's unknown to what degree death will occur. The impact of the economic downturn is already being felt in both new and inforce business. Let's examine the impact on products, carriers, policyholders, and the people in the industry.

The Environment

To understand the impact requires a quick explanation of the environment. Obviously, there is an impact to the extent insureds or annuitants die. Underwriting for new business is being impacted. The volatility and decline of the stock market is another concern. Recent actions by the federal government to lower interest rates significantly is a major challenge for insurers already trying to cope with decades of low interest rates. The need to limit mass gatherings (whether mandated or suggested) disrupts operations. Social distancing impacts examiners and agents. The economic slowdown and potential for a recession is yet another challenge. That's a lot to deal with for any industry.

The Products

The impact on products is an evolving situation. Major changes are expected in the coming months. On the new business side, the decline in interest rates is making carriers rethink products with death benefit guarantees. Carriers are looking at increasing pricing on guaranteed products and some will likely exit the product line either temporarily or permanently. Carriers are taking actions to limit large premiums...an action that was common after the Great Recession. Cap and participation rate declines are happening in both indexed life and annuity contracts. Interest rate declines are bound to follow on universal life products.

Underwriting for new business is being impacted as well. Carriers are creating cooling off periods for applicants who have traveled to hot zones of COVID 19. Special underwriting concessions like table shave programs are being scaled back. Offers are likely to become less generous because carriers don't have a good way of knowing if an applicant is at risk or already infected. Medical facilities are focused on more important matters than sending carriers the medical records of an applicant. Shelter at home orders prevent examiners from getting labs from applicants. Exam companies are also scaling back activities for the safety of their staff.

Carriers

Carriers could get hit by death claims hurting mortality experience of life insurance products. On the annuity front, early deaths could be a positive for carriers due to fewer payments on annuities in a payout phase. However, death claims on deferred annuities can cause the annuity death benefit to be paid out resulting in an immediate cash hit on carriers. The impact to any given carrier will vary based upon the claim experience and the product offerings.

The market decline and volatility will impact carrier asset management fee income, hedging costs, and options pricing for indexed products. Hedging programs will be put to the test. If credit ratings for bond investments of carriers fall, it could require carriers to post additional collateral. There's always a default risk with bonds. Carriers also have shifted more assets to higher risk or less liquid assets to get additional yields. Offsetting this is that carrier surplus has been rising for many years which will help absorb some of the economic fallout.

Carrier disaster plans are being put to the test as they seek to protect employees and comply with various directives regarding COVID 19. Many will struggle to pivot to remote workforces. Some aspects simply require a physical presence like receiving premium checks or cutting physical checks for benefits. Carriers will lose marketing opportunities with distribution partners at all the cancelled events as well.

Policy Holders

Existing policyholders are at risk of being caught unaware of changes to their policies unless the policies are actively being monitored. Interest rate declines will lower cash values, shorten coverage duration, or require more premiums. Cap and participation rate declines will harm performance of indexed products. It's also likely that many IUL segments will get the floor rates. This could be devastating for policyholders employing 2-, 3- or 5-year index strategies. It won't be fun for 1-year strategies either. Variable life products will see immediate declines in cash value which will project lower cash values, shorter coverage time periods, and have the potential to need more premiums. Products with death benefit guarantees will be unfazed assuming the guarantee is on-track and the carrier remains solvent. Whole life policies may see a delayed impact until the 2021 dividend scales are determined. If dividends decline, it could cause premium increases on blended policies, make premiums reappear due to insufficient dividends, or lower cash value and death benefit growth.

Premium financed policies may experience collateral calls when cash values don't grow. IUL products with participating (a.k.a. indexed) loans may see the true impact of a year of a 0% floor coupled with the policy loan interest accrual at rates that are in the range of 4-6% on many policies. This could trigger a lapse risk although the timing will vary from policy to policy. Policies most at risk will be heavily loaned policies, term blends on whole life, single premium structures that weren't guaranteed, and policies in late durations where cost of insurance expenses will be increased due to cash value declines boosting net amount at risk.

An under-appreciated aspect is the potential for clients to look to surrender life or annuity policies if they need the cash in trying economic times. They may want policy loans or partial surrenders. They may need to skip premiums for a while or want to reduce coverage amounts to lower the premium. They may reallocate cash values to options with more perceived safety. There are ramifications to policies, carriers, and policyholders from all of these actions.

People

Let's not forget the impact on the people who work in the life insurance industry. Investments, I.T., customer service reps, underwriters, actuaries, compliance, marketing, events planning, and even mailroom staff are being impacted. Staff of IMOs, BGAs, Broker/Dealers, exam companies, and independent agents are likely to be impacted. The agents themselves will undoubtedly find significant challenges in 2020. There will be layoffs. Sales will decline due to social distancing, fear, and clients focused on dwindling savings and risk of lost income. Some really good people will be put in very difficult financial positions.

In the midst of the financial strain and uncertainty, clients will need more help than ever from agents. Many carriers are limiting services due to call volume and challenges with work restrictions. It may be more difficult for agents and their staff to get service. All of this will be occurring at a time when policies will need more care and management. Carriers who shirked on I.T. infrastructure will have more headaches than more forward-thinking carriers. Robust online platforms also help enable remote work for the countless independent agencies who could otherwise struggle in social distancing times. Agents who are stuck in the paper world will find it very difficult to cope with the current environment. Carriers, IMOs, BGAs, and agents who have embraced robust policy monitoring platforms like Proformex will find it easier and more efficient to service policyholders in times of need. This will free up more time to work on finding the new sales that will be more elusive in today's environment.

Though I certainly wasn't anticipating any global pandemics the likes of which we are facing right now, I knew when I developed the idea for Proformex that it would be incredibly valuable to be able to rely on a powerful technology through turbulent times. Proformex was designed to protect policy owners and beneficiaries above all else. Our platform gives agents and advisors peace of mind in knowing that their book of business is being monitored continuously and that we will alert them if something seems off-track. That way, even in times of great chaos and stress, nothing slips through the cracks.

About the Author - Michael Pepe

Michael Pepe capitalized on his nearly 20 years of life insurance policy expertise by launching Proformex, an inforce policy management platform that helps fiduciaries, financial planners, insurance brokerages and agents monitor, manage and govern their life insurance policies. Its SaaS (Software as a Service) solutions are designed to proactively alert customers of potential problems with their life insurance policies and protect against degradation and asset erosion.

Prior to founding Proformex and serving as its President, Michael started in the life insurance business with Mass Mutual and quickly became a leading agent. Soon after, he co-founded River Financial Group, a full service financial advisory firm. His focus was on building a highly successful financial planning practice which took into account the various parts of a holistic financial plan. As he focused on estate planning, he started The TOLI Group, a life insurance firm which was designed to fill the gap in the market for insurance consulting and the need for ongoing policy monitoring and management support, especially as it relates to trust owned life insurance.

About Proformex

Proformex provides life insurance inforce policy management solutions to independent agents, financial advisors and trustees. The multi-carrier and distribution agnostic platform enables users to securely store, manage and analyze their entire inforce book of business in one place. Designed to proactively monitor policy health, Proformex expedites the policy review process and proactively identifies potential problems with a client's life insurance policy, protecting policies against lapsing, degradation and asset erosion.

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