

The impact of Covid-19 on Life (Mortality) and Disability Insurance

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This report has been informed by a combination of primary and secondary research within the life (mortality) and disability reinsurance markets, and viewpoints from within QBE Re. The viewpoints provided are intended for information purposes only. If you hold a differing view to those presented in this report, we would very much welcome a detailed discussion with you – so please contact us.

Introduction

The global impact of the Covid-19 pandemic is well documented, affecting the health and wellbeing of the global population, impacting work and social lives, and putting healthcare systems under considerable strain. The virus has impacted every aspect of business and government, with lockdown measures and uncertainty contributing to the most challenging environment for organisations in recent memory.

Despite the fact the insurance industry has continued to service and support clients during this period, adapting to a change in working patterns, it is not unreasonable to predict many will see their financial performance affected by losses due to Covid-19. The market for 'non-life' has sustained widespread losses across various lines of business. Event cancellation and travel insurance are two areas in particular that have been significantly affected. Certain territories have witnessed adverse performance in their property insurance markets, with business interruption claims arising from government lockdown measures likely to be significant.

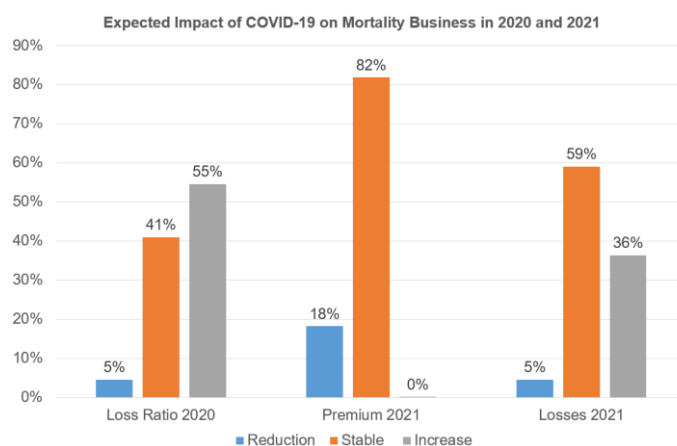
Also worth noting is the expected impact on the market for credit lines, the extent of which is likely to become clearer once the full economic consequences have materialised.

The purpose of this report is to shed a light on the expected impact of the pandemic on Life business. The report considers the direct and indirect consequences the virus may have on Mortality and Disability business respectively, from two primary viewpoints – that of our survey respondents and that of our internal team.

Impact on mortality business

Survey results

When comparing to an equivalent period in which Covid-19 isn't a factor, respondents expected the following impact on mortality losses and premium in 2020 and 2021:



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What did the respondents say?

- > More than half of the respondents expect their loss ratios in 2020 to increase, and between 30 and 40% also expect this trend of losses to continue into 2021.
- > None of the respondents expect their 2021 premiums to increase as a direct result.

Our current view

Indirect impacts

Whilst we can't ignore the direct impact of the virus, it is also worth considering the indirect impact the pandemic can have on mortality. Like with any indirect impact, this can be difficult to quantify based on currently available information, but we expect mortality rates to increase due to the necessary deferral of treatment unrelated to Covid-19 as a result of the pandemic. Examples could include increased mortality due to late detection or treatment for cancer (see example (*Bardet, et al., 2020*) and (*Maringe, et al., 2020*)) or for other diseases and medical conditions (see example (*Worp, Sandset, Dichgans, & Caso, 2020*)).

“It is also worth considering the indirect impact the pandemic can have on mortality. Examples could include increased mortality due to late detection or treatment for cancer or for other diseases and medical conditions. ”

Economics

The economic impact resulting from government lockdown measures has been well documented. Though mortality rates have been highest amongst older demographics, it is worth noting that academics have identified a correlation between increased economic pressure and an increase in suicide rates amongst younger segments of the global population (see example (*Barr, Taylor-Robinson, Scott-Samuel, McKee, & Stuckler, 2012*) and (*Chang, Stuckler, Yip, & Gunnell, 2013*)).

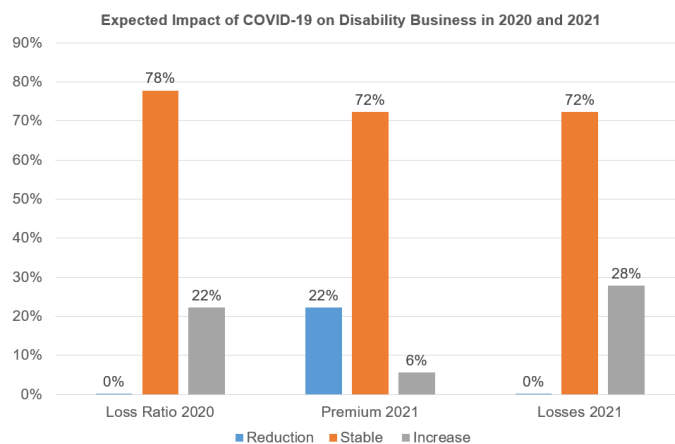
Countervailing some of the trends above are a decrease in road-traffic-accidents (RTAs) resulting from people being more home-based, though data to support this viewpoint is not currently available. Another view is that fewer people are taking public transport to minimise their potential exposure, which may have a negative impact on the mortality rates from RTAs.

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Impact on disability business

Survey Results

When comparing to an equivalent period in which Covid-19 isn't a factor, respondents expected the following impact on disability losses and premium in 2020 and 2021:



What did the respondents say?

- > Between 20% and 30% of respondents expect disability losses to increase, with slightly more responses indicating an increase in 2021 compared with 2020.
- > The majority of respondents expect 2020 loss ratios as well as the losses and premiums in 2021 to remain stable when considering a potential impact of Covid-19.
- > About 20% of respondents expect premiums in 2021 to reduce and a small portion expect them to increase.

Our current view

For Disability business, it is important to consider potential differences between covers and market practices. When disability business relates to workers' compensation, it may be impacted by premium reductions resulting from increased unemployment.

There may also be differences in the impact for different insurers due to variations in the level of short- and long-term disability coverage they provide, due to different practices with respect to the waiting period in their policies and differences in the level of government intervention. The latter may relate both to the role of the social security system in general and potential specific measures taken in the context of the pandemic in particular (such as support measures that some countries have taken to facilitate the status of economic unemployment with some form of salary compensation when businesses need to close due to a government-imposed lockdown).

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Finally, the sensitivity of disability business to consequences of the pandemic could also be different between individual covers (taken by an individual insured) and group covers (taken by an employer for their staff).

Similarly, as with mortality business, we should not only think of direct consequences of Covid-19. There are of course several reports stating that some people experience long-term damage post infection, not only in their lungs but also in their heart, immune system, brain and elsewhere (see example (Marshall, 2020)). But we should also consider potential secondary consequences. These can be classified as either **physical** or **psychological**.

Examples of **physical** consequences could be:

- > Delayed diagnosis and medical treatment of certain diseases
(see example (Maringe, et al., 2020) and (Worp, Sandset, Dichgans, & Caso, 2020))
- > Increased risks associated with housing when working from home
(see example (Bouziri, Smith, Descatha, Dab, & Jean, 2020))
- > Musculoskeletal issues associated with a person's home workstation not being optimal
(see example (Bouziri, Smith, Descatha, Dab, & Jean, 2020))

“Although the observation window to be able to quantitatively assess the impact of such secondary consequences for disability insurers is short, we believe that the exceptional Covid-19 context makes the concern for this potential impact justified.”

Examples of **psychological** consequences could be:

- > Increased workload due to combination of homeworking and home schooling
- > Increased stress and anxiety (see example (Jia, et al., 2020))
- > Increased risk of burn-out (see example (Burki, 2020)), which may affect certain professions more acutely (example medical staff and healthcare workers, teachers, etc.) than others

Although the observation window to be able to quantitatively assess the impact of such secondary consequences for disability insurers is short, we believe that the exceptional Covid-19 context makes the concern for this potential impact justified.

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Outlook for 2021

Approximately 55% of the survey respondents mentioned that they did not expect Covid-19 to have a long-term effect on the disability insurance market. Others indicated that they expected terms and conditions could be changed, that the extent of the disability cover could be challenged or that tariff increases could be expected.

Of course, when considering the evolution into 2021, we are still facing material uncertainty. We have seen in 2020 that the extent to which government measures were introduced has had a substantial influence on the presence of the virus in that population. It remains uncertain how this will evolve further next year, both within any given country and in a context in which re-appearing infections in one region can influence what happens in other regions.

**“... when considering the evolution into
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uncertainty...”**

We have also learned that as long as there is no effective vaccine or cure against the virus, there is a substantial risk of quick resurgence of the infection rates when government measures are loosened. Recent good news about several vaccines (see example (see example *(Pfizer, 2020)*) and *(Moderna, 2020)*) has increased the hope that we will be able to go back to a situation that resembles the pre-Covid-19 era on a relatively short term. However, there remain substantial logistical challenges before these vaccines can be distributed effectively within the population and large proportions of the populations may require convincing before taking them.

Conclusion

In this report, we have considered the impact the Covid-19 pandemic may have on mortality and disability business. As mentioned, our findings have been compiled based on feedback from our cedents, informed views from research papers, and our own viewpoint. We have attempted to provide a view on how these lines of business can expect to be directly and indirectly affected.

It remains difficult at this stage to make quantitative statements about the exact extent to which businesses will be impacted in any given territory. Depending on the specificities of the underlying portfolios and differences between countries and market practices, we do see a clear potential to expect a non-negligible impact both on the short term and the longer term on both mortality and disability lines, in terms of performance of the business as well as terms and conditions.

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