

Market Update | April 2020

Will The Cost of Life Insurance Rise Due to COVID-19?

Professional Advisers Only

Introduction

The COVID-19 pandemic is causing life insurance companies to re-consider a number of things right now.

Firstly, how do they price the cost of life insurance in the face of a growing worldwide pandemic which has led to thousands of deaths so far, and currently shows few signs of slowing down?

Secondly, ultra low interest rates and bond yields are effecting billions of US dollars that life insurance companies have invested, which puts a strain on insurers long term guarantees.

Additionally, plunging stock markets don't help make up the returns needed, at least in the short term as part of their long term portfolios.

So what does this mean for clients looking to buy life insurance? And what should advisers be doing for clients who want to buy life insurance?

Why You Should Start the Life Insurance Application Now

For advisers with clients either in the process of buying, or thinking about buying life insurance, the simple advice is, move quickly. Completing the insurers application forms thoroughly and gathering all the supporting documentation is essential to a smooth process. The more you do now, the quicker the chances of your application proceeding to getting an offer of life insurance for your clients. Don't delay.

How Travel Plans Could Effect a Life Insurance Application

Telling a life insurance company where you have travelled to and your future travel plans has been standard practice on applications for years.

If you are planning to travel, assuming you still can, you can expect a life insurer to put your application on hold until you return. The insurer will also almost certainly make you wait at least 30 days and show no signs of illness before they will consider your application.

Don't be surprised if you are asked to take a COVID-19 test before you are made an offer of insurance.



More Questions When You Apply

New questions are already being asked about COVID-19 during the application process. Life insurers are re-assessing their own guidelines and life expectancy assumptions as the global situation evolves.

Are your clients aged 60+?

Clients over 60 are most likely to be effected by any re-pricing of life insurance, if the estimated fatality rates in China, and now Europe and North America are anything to go by. For example, in China, those over 60 make-up over 25% of the estimated current fatality rate. Expect insurers to be looking very closely at the price of life insurance for this age group already.

"The ultimate rate of mortality from COVID-19 will evolve over time."

Society of Actuaries Research Brief Impact of COVID-19
[March 16, 2020]



Impact of Low Interest Rates and Volatile Stock Markets

International financial markets have reacted to COVID-19 with investors selling out of equities and buying bonds. These typically offer safety and security when equities are falling.

Whilst low interest rates have become normal in recent years, the impact of COVID-19 has further driven down interest rate levels. This means that the fixed income portfolio yields that support the crediting rates, or returns offered by life insurance companies to clients will be a continuing challenge as the prolonged low interest rate environment continues.

The only conclusion from this is that buyers of life insurance should move quickly to try and secure the current guarantees and returns still being offered by the world's strongest life insurance companies.

How Strong is Your Insurance Company?

Choosing a life insurance company should involve an **assessment of its financial strength** because your clients are entering into a long term obligation with the insurer to pay out a sum of money upon death, hopefully, many years in the future. Policies can also provide lifetime benefits like withdrawals and loans which clients may also be relying upon.

A financial strength rating is a forward looking opinion from a credit rating agency about the creditworthiness of a life insurer with respect to its current and future financial obligations. Credit rating agencies like Standard & Poor's, Fitch Ratings and Moody's are often used to assess and rate an insurer's financial strength. The ratings are used by professional wealth managers and insurance brokers when assessing which policy to recommend to their clients.

A specialist offshore life insurance intermediary like Capital for Life can provide professional advisers with background material on each insurer, including its financial strength rating, its claims paying track record and its current guarantees and policy features.

Conclusion

Once the COVID-19 virus is under control, we can expect life insurers to take more precautions about future viral pandemics. At the very least, that means more questions in the application process and more of a focus on lifestyle and travel patterns for clients.

It could also lead to higher pricing for some clients looking to buy life insurance in the future. Clients most at risk of a rise in premiums are likely to be those who are 60 or older.

Furthermore, a country risk re-rating by some life insurers countries could happen, based on how it has dealt with the virus outbreak, and what medical facilities are in place to treat people if there is a resurgence of COVID-19 or a new virus.

Next up is the fixed income and stock market returns that underpin life insurers long term investment portfolios that pay for the crediting rates and guarantees on offer to clients holding life insurance policies. These may have to be lowered if the prolonged low interest rate environment continues, which will almost certainly be the case, as the world economy recovers from another financial downturn.

Once the spread of COVID-19 has come under control, or a vaccine has been produced to control infections, many experts are predicting a surge in life insurance applications.

In summary, professional advisers with clients who are either considering, or in the process of taking out life insurance should proceed quickly to lock into a life insurance rate and policy, as well as the current crediting rates and guarantees that are still available. And don't forget to make sure the life insurer has a high credit rating.

In the near future, life insurance may be harder to get, and more expensive. Acting now and quickly means clients have a chance to get their cover in place.

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