

CLARIFYING THE IMPACT OF COVID-19 ON POLICIES, UNDERWRITING, EQUITY MARKETS & INTEREST RATES

We have been receiving calls from many clients regarding the Coronavirus and its impact on the insurance industry. Here are some answers to the frequently asked questions.

Contractual Clauses & Underwriting

Does a life insurance policy have an exclusion clause for pandemics?

No. There is no pandemic exclusion in life insurance contracts.

These policies cover pandemics assuming that the client was truthful about their travel plans and exposure to illness during the application process. Assuming no fraud was committed during the application process, contestability of the death benefit is limited to a two year period. The only explicit exclusion in a life insurance contract is for suicide. Insurance companies will not pay a claim if the insured commits suicide in the first two years of the contract.

I want to add to my life insurance coverage but I am nervous about having someone come to my house for a paramedic exam. Is underwriting possible without getting an exam?

Yes, this has been a rapidly evolving and improving process. And during this time, many insurance companies will try to be flexible and creative in obtaining the necessary medical information without the need for a paramed exam.

Are there any insurance companies which offer an expedited underwriting process?

Expedited underwriting has evolved significantly in the last few years and the Coronavirus experience has only accelerated these efforts. Several highly rated insurance companies offer expedited underwriting to various degrees. There is at least one current A+ rated company which employs a complete online underwriting experience. Approximately 60% of potential clients are able to move through the process without the need for a paramedic exam or medical records. In fact, the entire process from the first input to policy implementation can be completed in as little as 48 hours.

What about travel?

Recent and future travel to certain countries will receive additional scrutiny by underwriters. Approval may be delayed in response to changing conditions.

Equity Markets

How has the decline in the stock market impacted life insurance companies?

Stock investments do not comprise a significant portion of a life insurer's general account (less than 5%). The primary impact is related to products which are linked to the market and also provide guarantees to the client. Having said that, markets are cyclical and carrier risk management is subject to thorough stress testing. In addition, the state insurance regulators provide rigorous oversight.

What about the market volatility?

The higher volatility may lead to higher hedging costs for both variable and indexed providers. We certainly expect to see future cap reductions in indexed universal life contracts.

Interest Rates

How has the decline in interest rate yields impacted life insurance companies?

Approximately 65-75% of an insurance company's general account is invested in bonds. Interest rates and, by extension, investment returns have placed carriers under pressure for some time. The continued decline in 2020 presents more of the same challenge for life insurers.

From a product perspective, contracts with guarantees will likely be repriced in the near future as well as those contracts which require the general account yield to drive the internal crediting rate or dividend.

Mortality Impact of the Coronavirus

Will the mortality experience from the Coronavirus hurt the life insurers?

Any potential adverse mortality experience as a result of the Coronavirus is not anticipated to be financially material to the life insurance industry.

And to the extent that an insurer also offers annuities, this provides a hedge to any unanticipated negative mortality impact on the life insurance side of the business.

Questions? Talk to a trusted advisor.

Sean Kelly | 410.583.5449 | skelly@rcmd.com

Page 2 of 2

RCM&D is ranked among the top independent insurance advisory firms in the United States. Our specialized teams provide strategic solutions and consulting for risk management, insurance and employee benefits. Leveraging more than 130 years of experience and strong local, national and global reach, we partner with you to meet all of your business objectives.



rcmd.com | 800.346.4075

Baltimore, MD | Washington, DC | Richmond, VA | Philadelphia, PA | Harrisburg, PA