

Life Insurance Industry: The Financial Impact of The COVID19 Pandemic

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Abstract: - The economic and commercial changes due to COVID-19 are affecting life insurance businesses financially. Rates and stocks declined, credit spreads widened, and implied volatilities climbed. These oscillations affect fixed income, stocks, life, and annuity investments, generating balance sheet and earnings volatility. Companies face CECL, IFRS 17, PBR, and long-term targeted improvements (LDTI). Insurers are examining next year's hedge strategy and cash flow estimates. Reduced sales and unpredictable policyholder behavior can hamper investing. Treasury must provide more cash flow to affect actuarial and finance calculations. Rising capital pressure will increase actuarial balance volatility.

Key Words: — *Life Insurance Industry, Covid 19.*

I. INTRODUCTION

Insurance is more vital than ever in light of the COVID-19 pandemic and tragic events in the Philippines. Filipinos are more aware of the dangers associated with a lack of protection in the event of death, unforeseen accidents, or hospitalization bills related to sickness. The Philippine insurance industry is diverse with plans ranging from life to non-life, pre-need, and micro and macro insurances. The Insurance Commission regulates the entire industry, overseeing and reporting on the financial activity of the various insurance businesses. According to Statista Research Department (2022), "In 2020, the leading life insurance companies in the country in terms of premium income were Sun Life of Canada, Philippine Axa Life Insurance Corporation, and PRU Life Insurance Corporation of the U.K. Meanwhile, for non-life insurance, which covers auto, health, business, and home insurance, the market leaders were Malayan Insurance and Pioneer Insurance & Surety Corporation."

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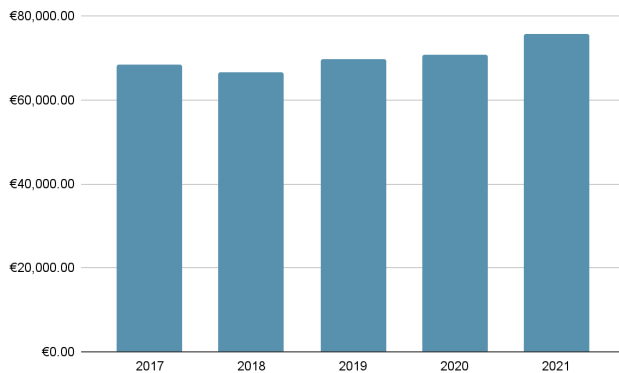
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1.1 The Life Insurance Industry

The insurance industry has provided risk transfer and mitigation services, allowing businesses to have the financial security they require to cover against loss. According to Dr. Weisbart (2018), "these are byproducts of the contributions of an industry that is at the heart of the growth and progress of every modern economy. Those contributions can be grouped under three broad categories: safety/ security; economic/financial stability; and development." In consonance with the report of Nicolas (2022), Funa told the Business Mirror, "This year's numbers continue to show the industry's resilience; and, in fact, the industry was able to bounce back and even able to grow notwithstanding the adverse economic effects of the pandemic last year." The insurance markets cover the main dimensions including insurance premium, investment opportunities, technical requirements, financial effectiveness, and profitability, as well as the market's trends. Based on the report of MAPFRE Economic (2021), "Expectations for economic recovery in 2021 are improving, which will help the insurance industry, particularly the Non-Life and Life Protection business, whose performance is closely linked to the economic cycle. With regard to Life insurance, the Central Bank of the Philippines maintained the monetary policy benchmark rate at 2% (following three cuts in 2020, down from 4%) and the yield on the ten-year sovereign bond stood at 2.97% at the end of December (down from above 4%). The interest rate curve has therefore drastically flattened, which

hinders the marketing of Life Savings and annuities products until the situation begins to normalize.”

Table.1. Gross Written Premium of the Financial Company



One of the largest international companies in the insurance and asset management industry, Financial Group, was founded in 1831 and has a global presence in 50 countries, with a total premium income of € 75.8 billion in 2021. The Financial Group leads in Europe, with over 75,000 employees serving 67 million customers and a growing presence in Asia and Latin America. Financial Group’s strategy is centered on its Lifetime Partner commitment to customers, through innovative and personalized solutions, world-class customer experience, and digitized global distribution capabilities. The Financial Group integrates sustainability into all of its strategic decisions in an effort to create value for all stakeholders while simultaneously fostering a more equitable and resilient society.

II. STATEMENT OF THE PROBLEM

The setting in which the life industry operates presents challenges and opportunities. As nothing is known about how insurance firms would handle underwriting decisions related to COVID-19, specific life insurance policies are already requiring off-site medical exams for approval, posing a significant challenge. The authors of this article would like to seek the financial impact of the Covid 19 Pandemic on Life Insurance Companies.

- How does the life insurance industry deal with macroeconomic and financial uncertainties, particularly in the post-pandemic period, considering that these companies have sustained significant claims losses since the onset of the Pandemic?
- In terms of regulatory reforms, how does COVID 19 affect the global life insurance industry?

- What recovery plans do the Life Insurance Companies are now implementing to sustain their business?

III. CAUSES OF THE PROBLEM

3.1 Covid 19 Pandemic

The COVID-19 pandemic has created a huge threat to the insurance industry's operations all around the world. It has caused worldwide economic and financial disruption. High mortality rates caused directly and indirectly by Covid 19 cost life insurers money. Many people with serious illnesses were unable to seek prompt medical treatment as a result of Covid 19 since many hospitals were overcrowded with Covid 19 patients. Many healthcare personnel were also affected by the virus, which was worsened by the fact that many hospitals were understaffed. Many people lost their employment and money as a result of the pandemic, which had a negative impact on their mental health and resulted in high suicide rates. In consonance with Kirbs (2021), “The insurance industry was able to pay out a total of P3.89 billion in COVID-19-related claims in 2020, most of which were forked out by health maintenance organizations (HMOs), the Insurance Commission said yesterday.”

3.2 Uncertain Macroeconomic and Financial Landscape

The global GDP is anticipated to increase by 3.6% in 2018. The global macroeconomic and political landscape was impacted by issues that caused significant concern in the markets, such as the Italian budget law, the escalation of trade tensions, especially between the United States and China, the deterioration of the crisis in the more fragile emerging markets, and the Yellow Vest protests in France. The Eurozone's real GDP is projected to increase by 1.9% in 2018, a decrease compared to 2017. (2.5 percent). The unemployment rate fell to its lowest level of the previous decade, and wages increased despite the low inflation rate. During the course of the year, the European Central Bank (ECB) ended quantitative easing, but will continue to reinvest maturing bonds; the ECB's first-rate increase will be subordinate to changes in inflation. Brexit and political developments in Italy were the most significant issues for the Eurozone's financial markets during 2018. Concerning the latter, Fitch and Moody's lowered their creditworthiness opinion, while alarm over Italy's public finances pushed the 10-year BTP-Bund spread up to 253 basis points by the end of 2018. In the United States, the tax reform-maintained confidence; real GDP growth in 2018 is expected to settle at

2.9%, up 2.2% from 2017, while the unemployment rate fell to its lowest level in the last 50 years. The Federal Reserve raised benchmark interest rates four times in 2018, and further increases are anticipated for 2019. In reference to the insurance industry, the Life business in Italy, France, and Germany rebounded after a difficult period due not only to the sale of unit-linked products but also to the recovery of traditional policies, whose premiums rose to a higher level than those of the unit-linked policies. The earnings of the P&C market in the major Eurozone nations increased, with the health business exhibiting particularly strong performance.

3.3 Regulatory Requirements Worldwide

The insurance industry is still being impacted by changes in the national and international regulatory systems due to COVID 19. In the interest of growth and the creation of a real single European market, discussions continue about the rules governing the European voluntary pension products (PEPPs), which will be added to the national pension instruments already in place. When it comes to the new international accounting standards, the International Accounting Standards Board (IASB) has decided to delay the new accounting standard IFRS 17 (insurance contracts) by one year, from 2021 to 2022. They have also decided to delay until 2022 the exemption of insurance companies from the standard IFRS 9 (financial instruments).

3.4 The Growing Customer Needs

In the current uncertain economic climate, people are changing how they feel about insurance products and services. This is because of two global trends: digitalization, which has opened up new ways to sell and manage insurance products, and economic uncertainty, which has changed how much people spend on savings and other insurance products. Customers now care more about the quality of service than they used to. They make decisions on their own, such as by visiting insurance company websites, reading customer reviews on social media, and checking comparison websites.

IV. RESULTS AND DISCUSSION

Insurance companies posed a significant growth in terms of insurance policies. It also suffered in its profitability where increased numbers of death rates were reported. Many Insurance Companies increased their premium rates on their products up to 8% up to 10%. For companies, premium rates

were computed based on the number of claims they reported in the year. The premium rate increase was calculated based on their claims report and the potential risks that may occur as the world is still in the pandemic. Apart from raising premium rates, Life Insurance Companies should develop more comprehensive products, and new business strategies, prioritize investments, reconsider which industry verticals and customer segments to target, and develop products, services, and pricing strategies for prioritized segments. This can help generate revenue. Some Life Insurance implemented new guidelines for people who contracted the Covid 19 virus or certain ailments and diseases to gauge the risk before buying a policy. People usually have to wait for a specific period of time before they get their approval for a Life Insurance Policy. This is also to manage the high mortality rate brought upon by the Covi 19 Pandemic.

V. CONCLUSION

COVID-19 pandemic brought a lot of realizations to Filipinos and one of these is the importance of insurance plans to protect themselves. The Life Insurance companies achieved big annual revenues in sales in 2020 as different companies and individuals started to realize and appreciate the importance of Life Insurance Coverage. However, due to Covid 19 pandemic, Life insurance companies suffered great losses in claims as a lot of people died due to Covid 19 and other illnesses. Insurance Companies proposed high prices of premiums and offered a more enhanced benefits coverage for retail and corporate businesses as their way to recover from the losses they incurred over the past two years. The insurance industry should be prepared to continue fulfilling its financial commitments, adapting operations to run successfully in a virtual environment, and continuing to provide superior customer service at a time when customers require it most. As regulatory and management actions occur, the finance and actuarial operations must be adaptable to the shifting environment and expectations.

VI. RECOMMENDATIONS

- As a method to recover from the losses they sustained over the past two years, insurance companies should advocate charging hefty fees to retail and corporate companies. The profitability of life insurance products is based on accurate mortality risk estimations and pricing. The COVID-19 pandemic caused a considerable deal of unpredictability, with severe

mortality predictions from early forecasts culminating in massive government action and increased individual prudence, which decreased the anticipated death toll.

- Life Insurance Companies should also take into consideration the nature of the business and demographic profile of the sum insured when acquiring new businesses. With this, Life Insurance also has to consider the annual claims ratio and claims utilization of potential clients during the process of acquisition. With this, life insurance companies can properly provide and offer competitive rates in the market.
- Life Insurance companies launched new products for their medical policies, which include coverage for the adverse effects induced by vaccination against COVID-19, which is one of the pandemic-related services offered this year. Some Life Insurance companies have begun to provide flexible insurance policies, some of which have built-in investments, to encourage Filipinos to get protected. Insurance Companies proposed high price premiums for retail and corporate businesses as their way to recover from the losses they incurred over the past two years.

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