FINANCIAL REVIEW

Life insurers brace for $1.5b hit from lockdown side effects



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Life insurers have set aside more than $1.5 billion to prepare for extra claims from the expected wave of increased morbidity tied to COVID-19 lockdowns, as fewer Australians visit doctors for screening and fears grow about mental health deterioration.



Clearview's Simon Swanson.

One of Australia's top insurers, the Japan-headquartered TAL, booked a $130 million hit to its future profit margins because of a change in its assumptions for increased rates of morbidity, according to its financial accounts for the year ended March, which were lodged with the regulator last week.

That was on top of a $200 million hit to future profit margins that TAL booked in 2020 for increased rates of morbidity.

Life insurers must make actuarial assumptions about expectations of increased or reduced claims and account for the future financial impact on an upfront basis.

The country's largest life insurer, the Hong Kong-led AIA Australia, revealed that it had set aside an extra $170 million at the end of 2020 because of the expected profit impact from higher mortality and morbidity.

MLC Life, a former division of National Australia Bank that is now majority-owned by Japan's Nippon Life, booked a $550 million assumption for worsening mortality and morbidity in its 2021 accounts. That was on top of 2020's expected impact of a negative $630 million on future profit margins.

Independent insurer ClearView Wealth told the Australian Securities Exchange in June last year it expected income protection claims to increase by 35 per cent and the costs of death insurance to rise between 20 and 25 per cent.

Worst fears

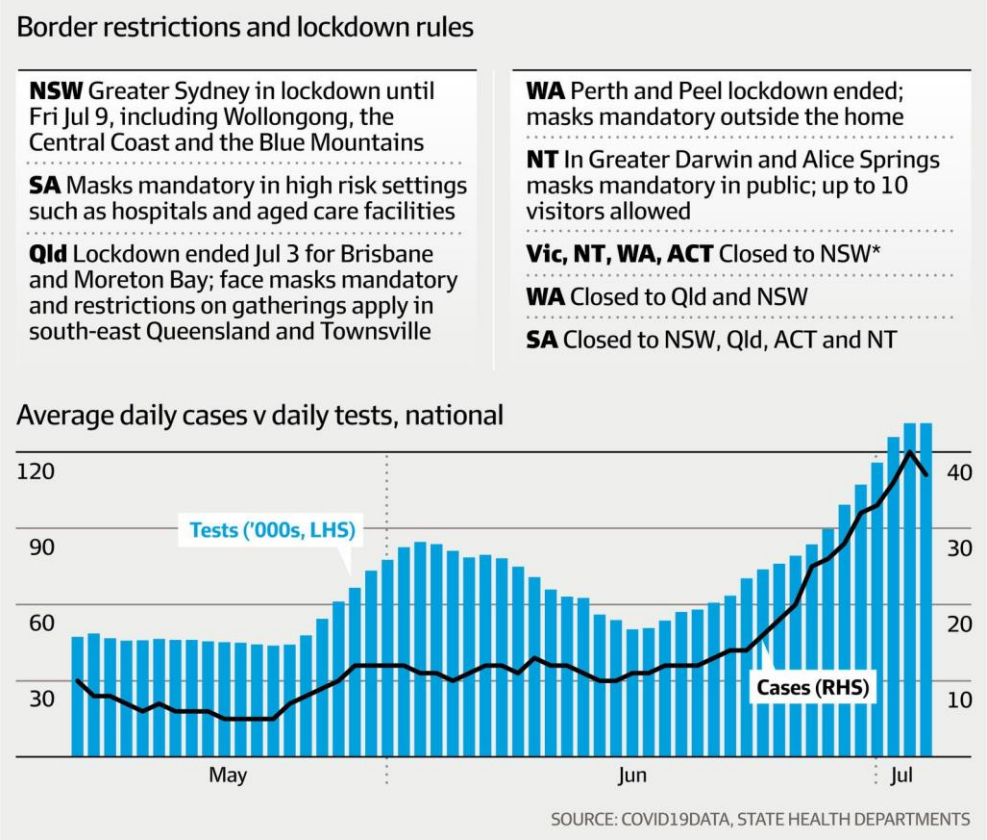
But compared with the worst fears of the industry at the peak of the COVID-19 crisis, death claims, including from suicides, had actually reduced, according to Simon Swanson, a ClearView executive.

"Everyone is in this crisis together, even if you are alone. It's a global pandemic, and the whole world is going through this," Mr Swanson said.

"You've had an extension of telehealth, GPs calling vulnerable patients. Even financial advisers have been more engaged with their customers, and that is almost therapy in its own right. Mental illness, on the whole, has gone better than expected."

On this point, TAL initially expected 100,000 Australians to contract the coronavirus, leading to a 20 per cent increase in morbidity-related claims over two years.

However, Australia had a much more benign pandemic. A research paper issued last week by the Actuaries Institute found there were 140,750 doctor-certified deaths in Australia during 2020, about 3900 (or 2.7 per cent) less than predicted.



The big unknown

"The big unknown is around things like trauma," Mr Swanson told *The Australian Financial Review*.

"People did not go to the doctor to check up on the things they should. We suspect that there will be a build-up of those sorts of medical issues over the next couple of years."

Individual disability insurance pays customers an income if they are unable to return to work. However, the policy type has worried the prudential regulator in recent years, after a rush among companies to gold-plate policies resulted in gallons of red ink.

The Australian Prudential Regulation Authority had to intervene in the market after a collective $5 billion was blown up over the past five years by insurers in the race for market share.

Last October, APRA introduced tough new capital measures – originally scheduled for the start of April – that sought to punish companies that refused to shore up loss-making insurance lines by ramming through premium increases and reining in benefits. In October this year, life insurers will be forced to launch new policies with tougher pricing, closing off old ones as legacy portfolios.

An AIA Australia spokeswoman said that although the insurer was yet to see a significant jump in claims, it was prepared for a range of increased illnesses stemming from the COVID-19 crisis.

“We know that many people have de-prioritised medical check-ups, screenings and visits to their GP over the past 16 months. This is likely to lead to delays in diagnoses of illnesses, which we have assumed may lead to an increase in claims in the future,” she said.

“We also know there is a possibility of an increase in mental health claims, given the impacts of continued lockdowns, financial insecurity, and a decrease in the provision of mental health plans during lockdown. Unfortunately, without early diagnosis and medical intervention, a person’s condition can become more severe if left untreated. This also has an impact on future claims experience.”

An MLC Life Insurance spokesman said the increased profit impact from the changes in assumptions could not be tied to any one factor.

“However, in terms of relative impacts, it is generally accepted that increases in unemployment rates will typically have a greater impact on short-term changes in morbidity claims rates than the direct impacts from, say, COVID-19-related infections or lifestyles changes arising from lockdowns,” he said.

The actuaries paper released last week found there “could be a genuine increase in deaths” caused by stroke during Australia’s first and second infection waves last year “due to a reluctance to seek medical treatment during times of high COVID-19 outbreaks”.

“Information from Monash University indicates that the number of brain scans for stroke reduced quite dramatically in the week ending 31 March 2020 [down by about one-third]. This may indicate people were not presenting to hospital with stroke as early as they normally would, possibly due to fears of visiting healthcare settings.”

The actuaries paper also warned that the 2 per cent to 5 per cent reduction in suicide deaths last year may not last.

“We are also cognisant of the potential for increases in rates of suicide in the next few years as the longer-term consequences of financial distress can take some time to emerge.”

If you or anyone you know needs support, call Lifeline on 131 114, or Beyond Blue’s coronavirus mental wellbeing support service on 1800 512 348.