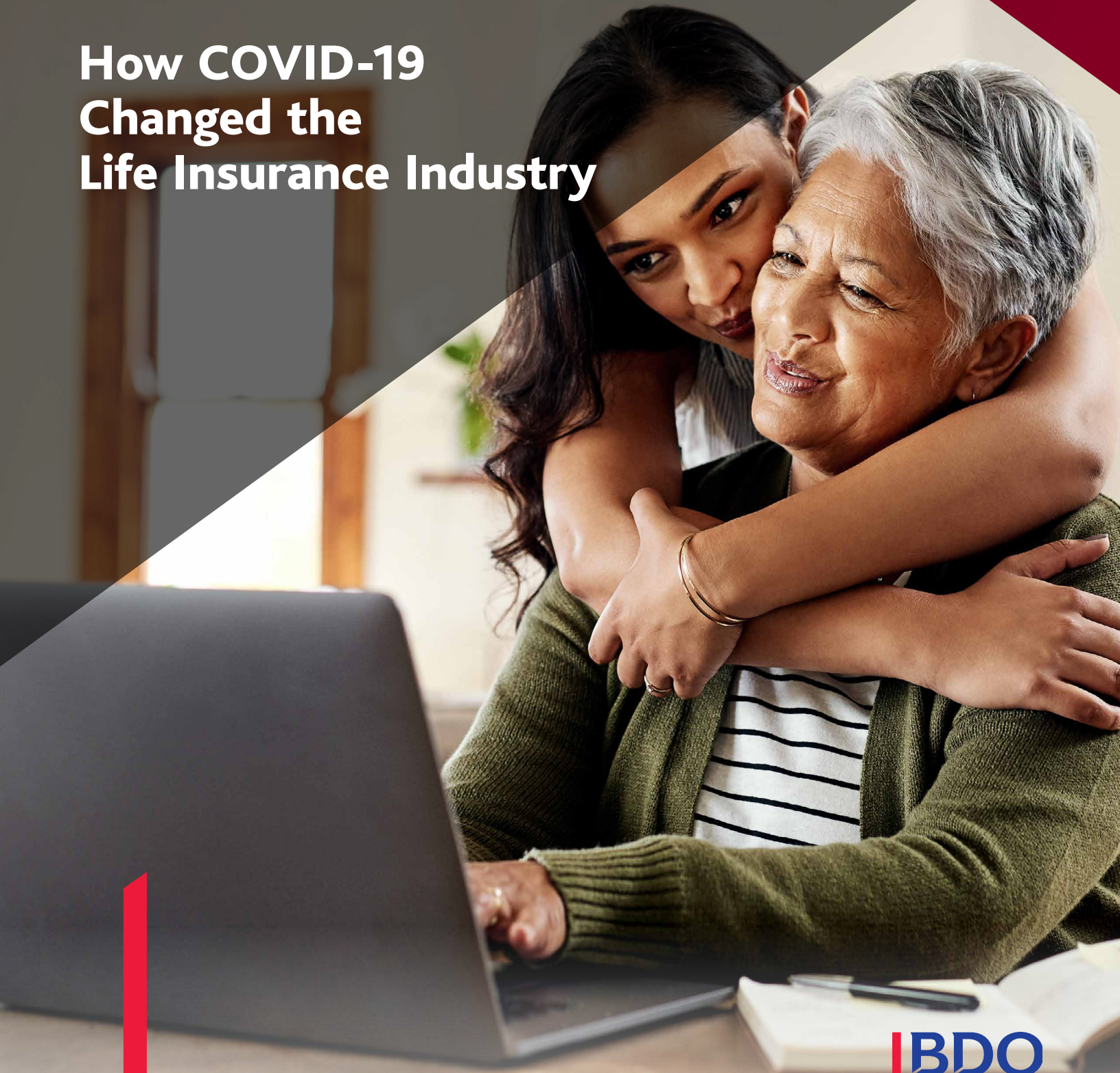


INSIGHTS FROM THE BDO INSURANCE PRACTICE

# How COVID-19 Changed the Life Insurance Industry



## HOW COVID-19 CHANGED THE LIFE INSURANCE INDUSTRY

As the COVID-19 pandemic wears on, trends in the life insurance industry remain unpredictable. Policy sales have changed substantially, payouts have soared to levels not seen in over a century, and clients have grown more accustomed to personalized digital experiences. As COVID-19 vaccination rates rise and the economic recovery continues, life insurers are embracing new digital practices to meet a new set of customer expectations.

### Shifts in life insurance since the initial months of COVID-19



In the early months of the pandemic, rising infection rates, emergency field hospitals and pervasive uncertainty caused panic. Industry analysts expected a sudden uptick in the purchase of life insurance policies, but that trend took longer than expected. Applications only rose 1% in Q2 2020 compared to the previous year, according to the [MIB Life Index](#). Many households experienced financial hardship during those months, as the U.S. unemployment rate jumped from [3.6% in Q4 2019 to 13% in Q2 2020](#). A [record 20.5 million jobs were lost](#) in April 2020 alone. Shutdowns and stay-at-home orders primarily impacted companies in the hospitality and retail sectors, hitting lower-wage workers much harder.

Momentum for life insurance applications in the U.S. picked up significantly during the second half of 2020, with a [year-over-year increase of 9.2% during Q3](#) and record growth of 14.1% in July alone. Applications rose 4% for the year overall, marking the highest annual year-over-year growth rate on record. People under the age of 45 had the highest application activity with a 7.9% year-over-year increase, compared to a 3.8% rise among ages 45-59 and a decline of 1.7% for those 60 and up. Overall application momentum continued during 2021 with annual year-over-year growth of 3.4% — the [second-highest growth rate on record](#) behind only 2020.

Online applications and purchases played a major role in driving life insurance policy growth. For example, the online insurance marketplace AccuQuote [reported a 30% rise in sales](#). That shift in consumer behavior reflected a larger trend of digital adoption, which was catalyzed by lockdowns and health concerns about in-person interactions. Insurers quickly saw that providing robust digital offerings and removing friction in the customer experience could help drive substantial revenue growth.

Carriers also saw an uptick in payouts. The staggering loss of life due to COVID-19 — especially among vulnerable older adults who are more likely to hold life insurance policies — led life insurance companies to [pay out over \\$90 billion in 2020](#), a 15.4% increase over 2019, the largest year-over-year rise since the 1918 influenza pandemic.

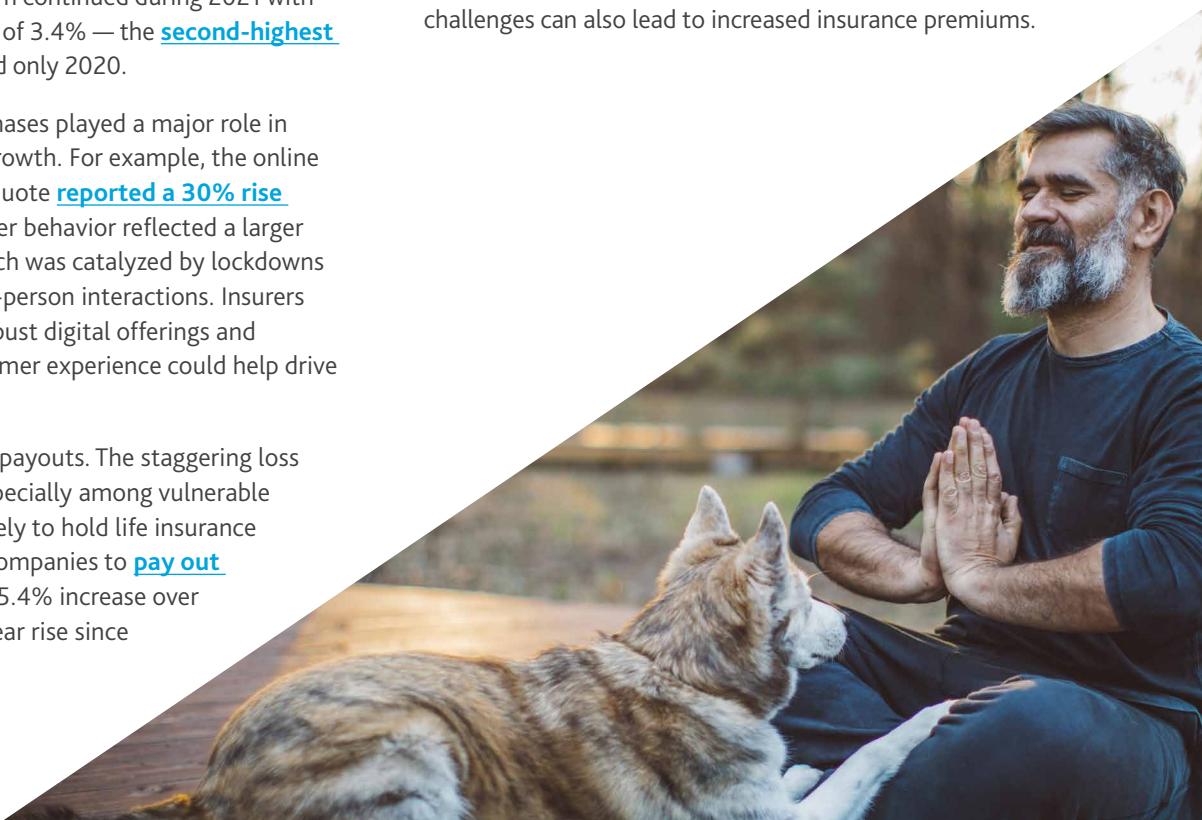
### The lasting impact of vaccines, variants and isolation



As vaccines became widely available during 2021 and more groups became eligible, that has helped reduce the risk of hospitalization or death for more than [200 million people in the U.S.](#) However, the 2021 death toll from COVID-19 in the U.S. still ended the year [higher than in 2020](#).

Skepticism about the vaccines — including concerns over side effects and the potential impact on insurance premiums — deterred some people from getting vaccinated. Additionally, more infectious variants and relaxed restrictions have contributed to multiple spikes in case numbers. And infections continue to cause harm for some even after recovery, in terms of residual lung scarring and heart damage, as well as shorter life expectancy and other medical conditions.

Social isolation and psychological trauma stemming from the pandemic, as well as inequities in the healthcare system, have also had widespread negative effects. One impact has been an increase in suicide rates among young adult males and among some racial and ethnic minority groups, [according to CDC data](#). The number of adults reporting [symptoms of anxiety and depression](#) also increased substantially during the pandemic. These factors and the underlying systemic challenges can also lead to increased insurance premiums.



## EMERGING DIGITAL TRENDS IN LIFE INSURANCE FOR 2022 AND BEYOND

The acceleration of digital transformation to meet rising customer expectations has had a major impact on how life insurers offer coverage. Wider digitalization allows carriers to expand service offerings and provide customers with more options. As the economic recovery continues, industry analysts anticipate an uptick in policy sales, and online purchases will play a significant role in the months and years ahead. Insurance companies can cater to the customer with a range of new tactics:

### Offer a more personalized experience

A recent study found that 44% of people born between 1981 and 1988 have been diagnosed with [at least one chronic health condition](#), which puts life expectancy for older millennials behind previous generations. Noncommunicable diseases linked to lifestyle, like diabetes, are driving this trend.



Companies may seek to engage customers by encouraging them to embrace a more active lifestyle. The rise of home health assessment tools, particularly wearables, will make it easier for customers to share health data with their carriers in exchange for lower premiums. John Hancock Life Insurance has already taken this concept a step further by partnering with leading health tech companies to gamify wearable usage. It is likely that more competitors will follow suit.

Greater access to data and connectivity also promises to transform underwriting into a more personalized process. Instead of being restricted to family history, past morbidity and behavioral data at time of sale, underwriting can be a continuous process that accounts for lifestyle changes.

As customers seek more flexibility and customization, digital features can support offerings that address those needs. For example, insurers can provide customers with the option to adjust coverage levels more easily through an app or online dashboard and have pricing updated accordingly. By expanding digital tools that enhance the customer experience, insurers can potentially improve customer acquisition and retention in a competitive marketplace.

### Offer value-added services and non-monetary benefits

Life insurance companies are currently competing with both industry peers and industry alternatives, such as wealth and asset managers. Insurers may seek to differentiate themselves by offering value-added services and non-monetary benefits. For example, life insurance companies in Asia and Europe provide administrative support for medical visits, health management and telemedicine.



In the future, insurers could potentially partner with rideshare companies and hotels to provide transportation to doctor visits or lodging for loved ones during times of need. Some life insurers in Asia and the United Kingdom are also replacing financial payouts with guaranteed placement in senior living communities for customers concerned with the cost of living in retirement. These trends could very well be replicated by U.S. providers to increase sales momentum for life insurance policies.

## THE PATH FORWARD

The pandemic has prompted broader availability and wider adoption of digital services across many different consumer-facing industries. Insurers can play a pivotal role in digital acceleration by developing new capabilities and expanding their offerings. Partnerships with insurtech companies can also help meet changing consumer needs.

Looking forward, life insurers can build on pandemic-driven innovation and shift to more convenient, user-friendly policies, platforms and processes. London International Insurance and Reinsurance Market Association (LIRMA) has identified an [estimated life insurance gap totaling \\$12 trillion](#) in the U.S. Insurers can help close this gap through improved engagement with underserved segments, which can help drive profitable growth. COVID-19 has posed significant challenges for life insurance companies, but the advent of new preventative measures and digital advances point to opportunities that can benefit providers and customers alike.



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