COVID-19 and Life Settlements – What's an Appropriate Underwriting Response?

We have all experienced profound and, at times, unexpected lifestyle changes like those the COVID-19 pandemic has brought about. As we focus our efforts to reduce infection rates and flatten curves, analysts in dozens of industries speculate that lasting or permanent changes will ensue, even after the pandemic has waned. We're experiencing fundamental changes in how we travel (*if* we travel!), how and where we eat, how we educate our children; shouldn't we consider adapting how we as underwriters view mortality, too?

Although our understanding of this virus and how it works is changing almost daily, there are some key points to consider:

- The virus is most deadly to the elderly and/or immunocompromised – i.e. the life settlement population.
- Without extensive testing, it is impossible to know the proportion of the population that has contracted the virus.
- The true mortality rate from the virus is still unknown but trending downward from early estimates. We feel it will settle somewhere between 0.5% and 0.75%.
- Although its victims can be asymptomatic for two weeks, symptoms range from virtually nothing to severe illness.
- Data on the duration of the virus is also preliminary but suggests a median time from onset to recovery of 2-4 weeks, although extreme cases could last longer.
- The spread of the virus is from human to human, and it is easily spread from exposure to infected vapor in the air or on substances.
- The extent or duration of immunity for those who have contracted the virus and survived it is unclear.

With current data and considerations in hand, the COVID-19 virus is exhibiting the characteristics of an **acute** condition, not a chronic disease. As life expectancy underwriters, we do not generally reflect acute conditions in our underwriting.

To better understand this concept, let's use a relatively simple example – assume we have a case with medical records that show a positive COVID-19 test. For the moment, let's also assume the case is severe, and the person is being aggressively treated for multiple symptoms. Should that fact itself change our underwriting approach? We say no, reasoning that by the time the case actually closes, we will know the outcome of this acute episode. The insured will live (with high probability) or they will die. Should the insured pass, there will be no sale. Should they live, the risk no longer exists.

Now, let's assume the same positive test results, but no symptoms to date. Should we change our underwriting approach? Again, the answer is no. The outcome is still acute, and the matter will be resolved within weeks, likely before a deal can be closed. The insured will develop severe medical issues, or they won't; under these circumstances, the final outcome is a gamble. The latter outcome is inconsequential, and the former takes us to the same place we discussed above. We believe that the odds favor the insured.

We conclude that COVID-19 should not affect life settlement underwriting on an individual basis, but what about in the aggregate? Let's take a step back and discuss the big picture. Should we change our mortality tables as a result of this pandemic? Given the data, we don't think so. If COVID-19 proves to be so tenacious and adaptable that it remains a serious public issue for years to come, we would expect population mortality to eventually reflect that reality. However, such a hypothetical scenario is still years into the future, and we will not speculate on its probability at this time.

Given the paucity of COVID-19 cases to date, it would be foolish to incorporate the pandemic in our sophisticated regression models at this early stage. Adding this variable to our models now actually increases the likelihood that the models will be less effective at predicting mortality.

As for a real-life example, the records submitted for our first case with a positive COVID-19 test show the test result was dated April 21. So as of today, May 1, the subject is at least 10 days out from exposure, probably more. Given the 14-day period where victims can remain asymptomatic, we will know for sure whether the subject has symptoms within at most 5 days. Both the insured and the investor would be ill-advised to enter into a transaction at this point.

Speaking of investors, what should they do? We typically suggest that investors diversify their portfolios by primary condition or recognize that in not doing so they are assuming additional risk. With respect to COVID-19, there is not enough time to diversify one's portfolio as the impairments will play themselves out well in advance of any diversification efforts. Again, the best response is to do nothing.

While the COVID-19 virus will likely lead to premature deaths in some policies that already have been purchased, attempts to formally include it in the pricing of current transactions is unwise. Those who own policies may wish to examine comorbidity data, once reliable statistics are available, to calculate the potential increase in the value of their portfolio. At that point in time, their experience will have likely already borne that out. As always, we welcome questions and comments on this and any other underwriting issues. We are here for you.