COVID-19 and P&C Insurance
Impacts and Outlook

NAMIC Webinar Series
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P/C Insurance & COVID-19: Outline

- **P/C Insurers: Overcoming Uncertainty With Strength**
  - Financial Overview: The Industry's Financial Position Entering the COVID-19 Pandemic
- **Investment Market Issues: Volatility Rules**
- **The Economy, P/C Insurance and COVID-19: Overview & Outlook**
- **Impacts of Federal Emergency Relief/Stimulus Package**
- **COVID-19: Coronavirus Impacts on Key Lines**
- **Q&A**

P/C Insurance Industry: Financial Overview Amid the COVID-19 Pandemic

The P/C Insurance Industry Entered the COVID-19 Pandemic from a Position of Financial Strength

Asset Value Volatility is High but Manageable—Greatest Threat Comes from State Legislatures

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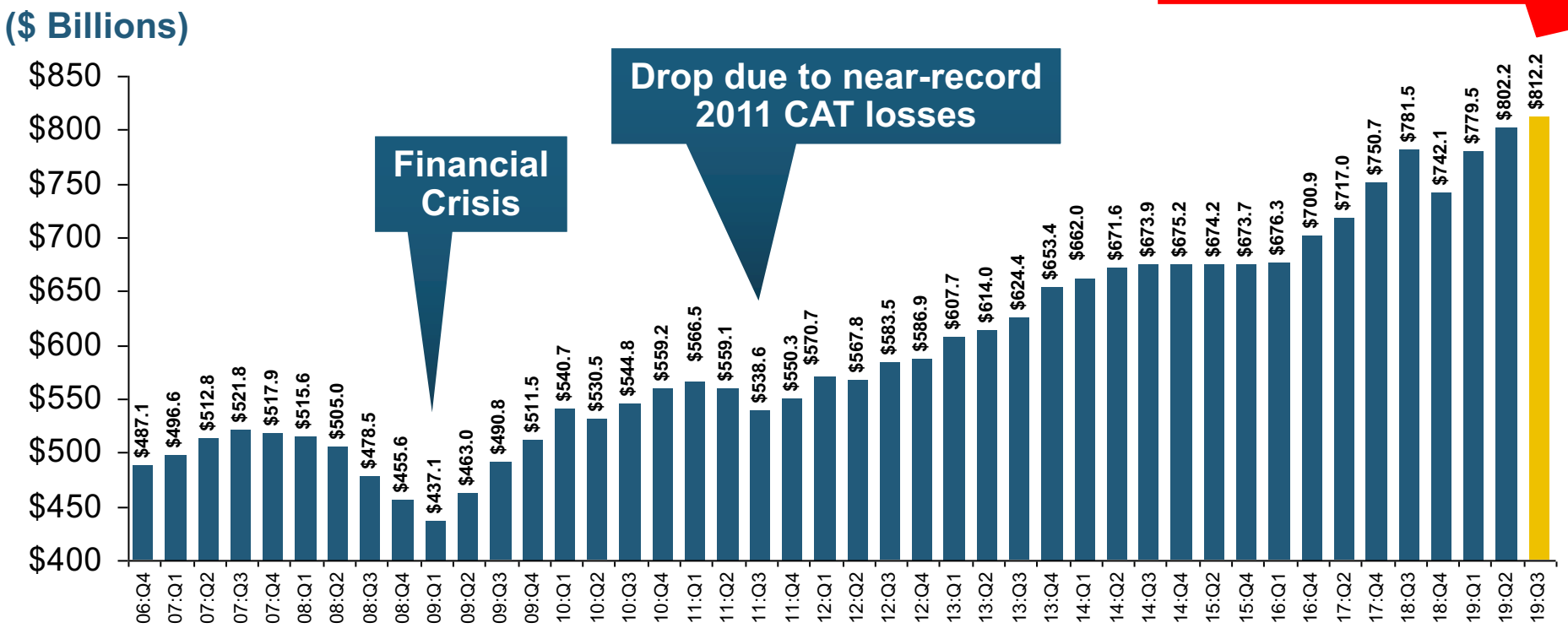
Policyholder Surplus (Capacity), 2006:Q4–2019:Q3

The P/C insurance industry entered the COVID-19 pandemic from a position strength

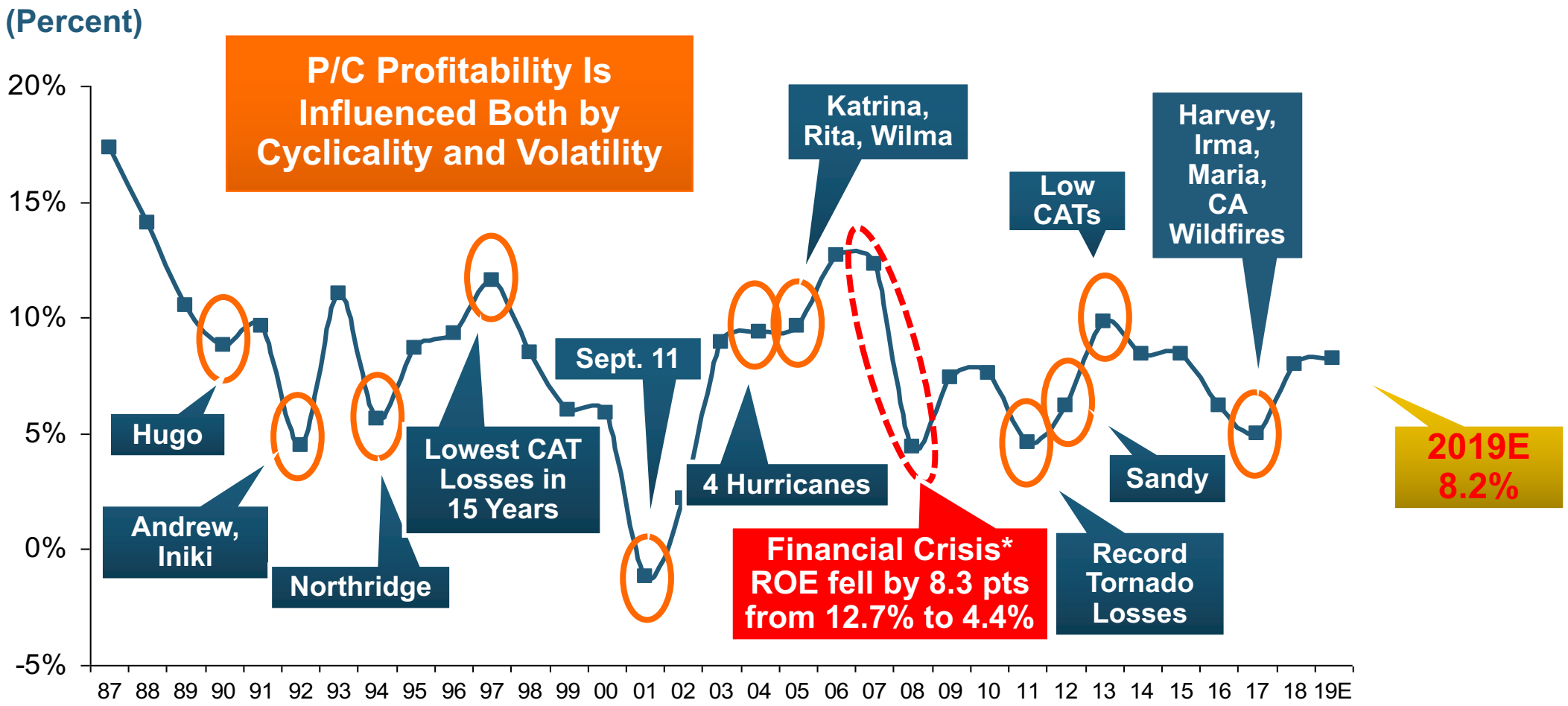


2010:Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

Sources: ISO, A.M .Best; 2019E from Center for Risk and Uncertainty Management, University of South Carolina, based on actual $812.2B through 9/30/2019.

ROE: Property/Casualty Insurance by Major Event, 1987–2019E



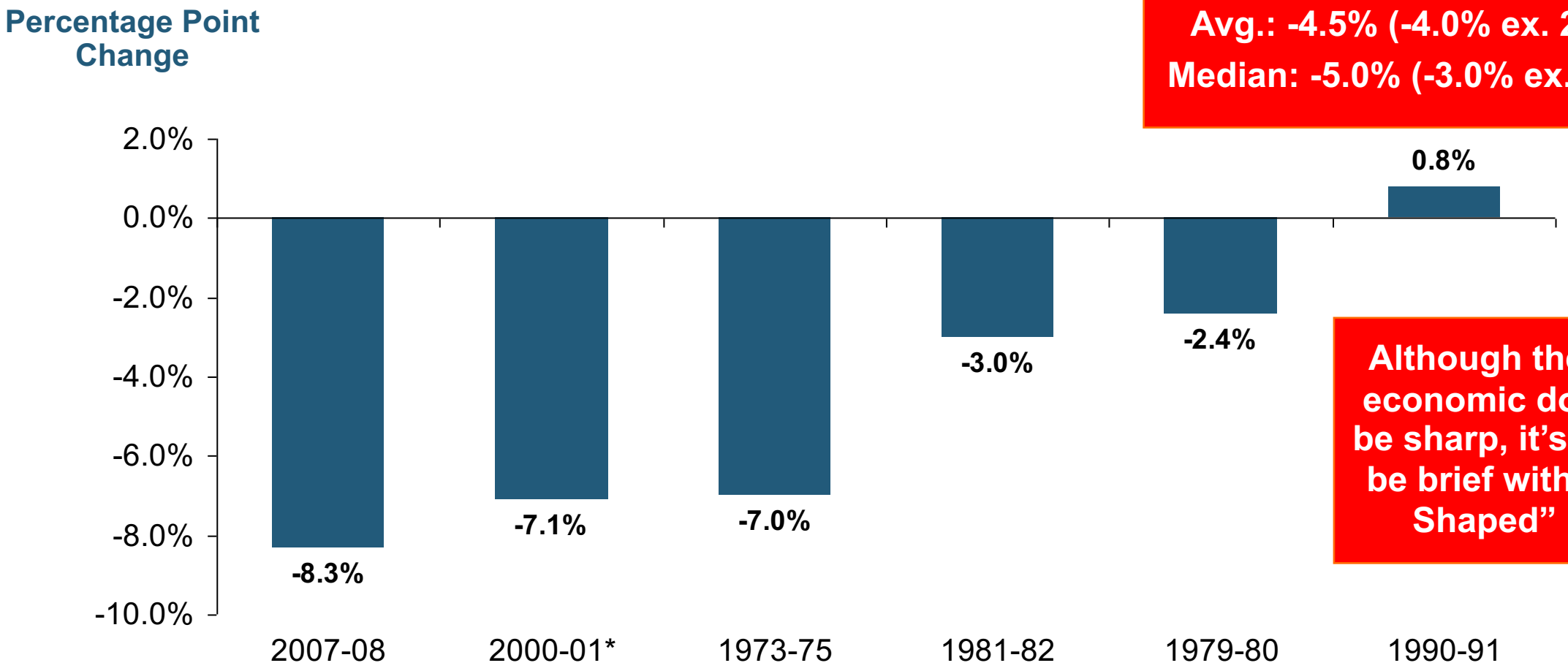
*Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: ISO, *Fortune*; A.M. Best (2018E-2019F); USC RUM Center.

Percentage Point Change in P/C ROEs During Past Economic Downturns: 1971 - Present

Change in P/C ROE During Past Economic Downturns

Avg.: -4.5% (-4.0% ex. 2000-01)

Median: -5.0% (-3.0% ex. 2000-01)

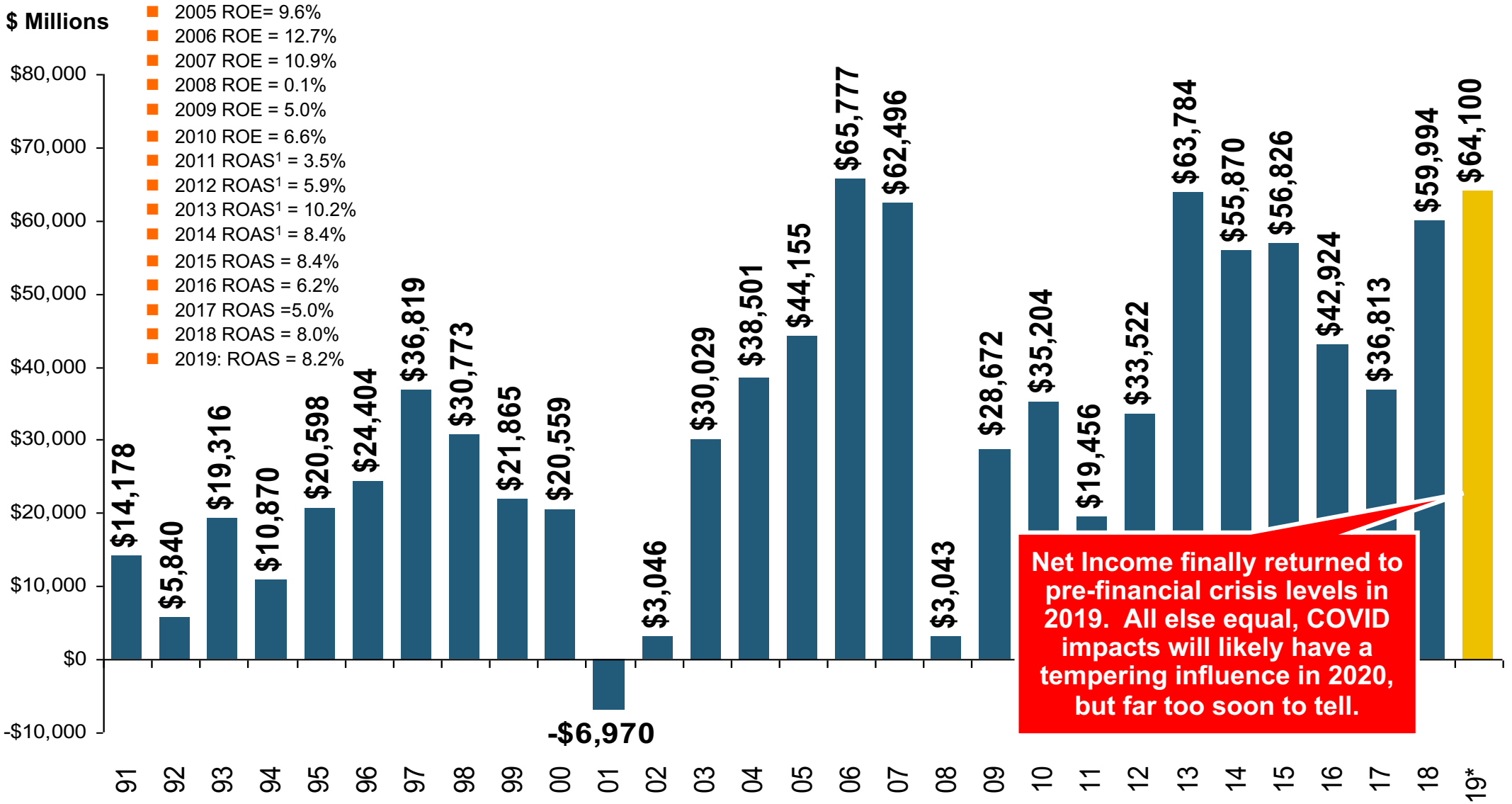


Although the COVID-19 economic downturn will be sharp, it's expected to be brief with a rapid "V-Shaped" recovery

*2000-2001 decline impacted by 9/11 losses.

Source: USC Center for Risk and Uncertainty Management.

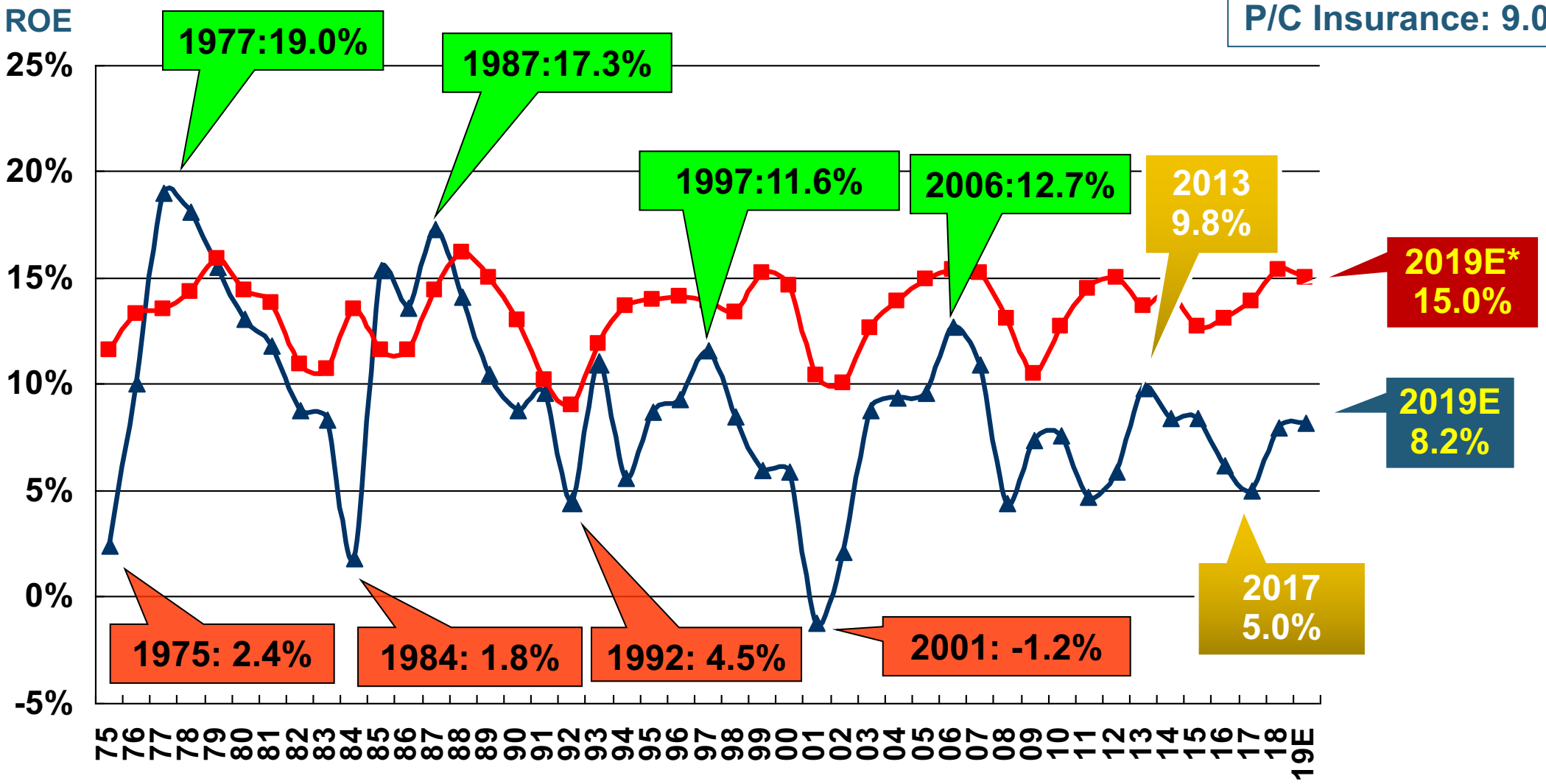
P/C Industry Net Income After Taxes, 1991–2019F*



*2019 estimate based on annualized actual Q3:19 figure of $48.075B. ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
Sources: A.M. Best, ISO.

P/C Insurance ROE vs. Fortune 500, 1975–2019E*

Average: 1975-2018
Fortune 500: 13.3%
P/C Insurance: 9.0%



*2018 Fortune 500 figure is an estimate.
Profitability = P/C insurer ROEs. 2011-18 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.
Source: NAIC, ISO, *Fortune*.

Net Premium Growth (All P/C Lines): Annual Change, 1971—2019F

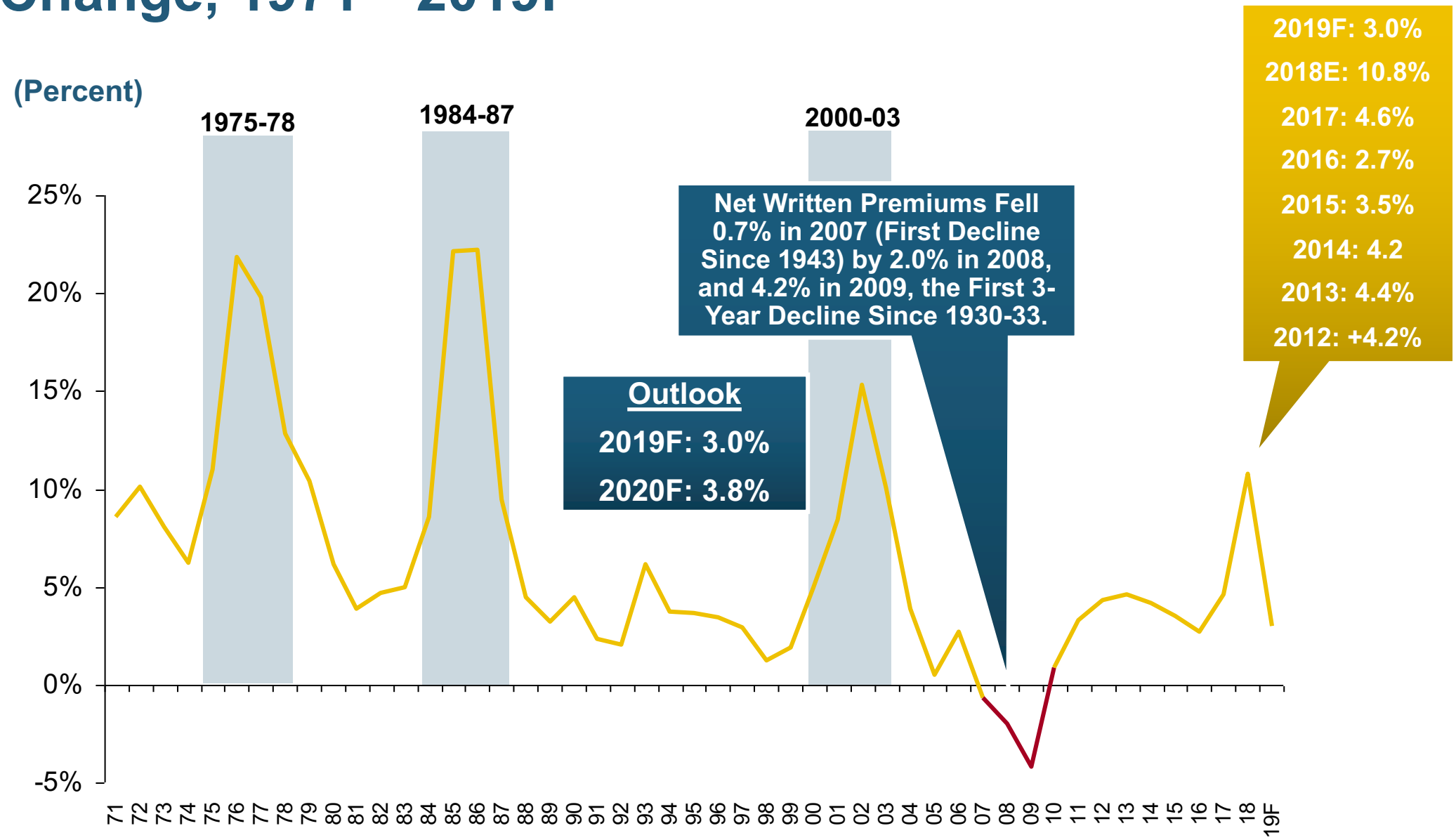
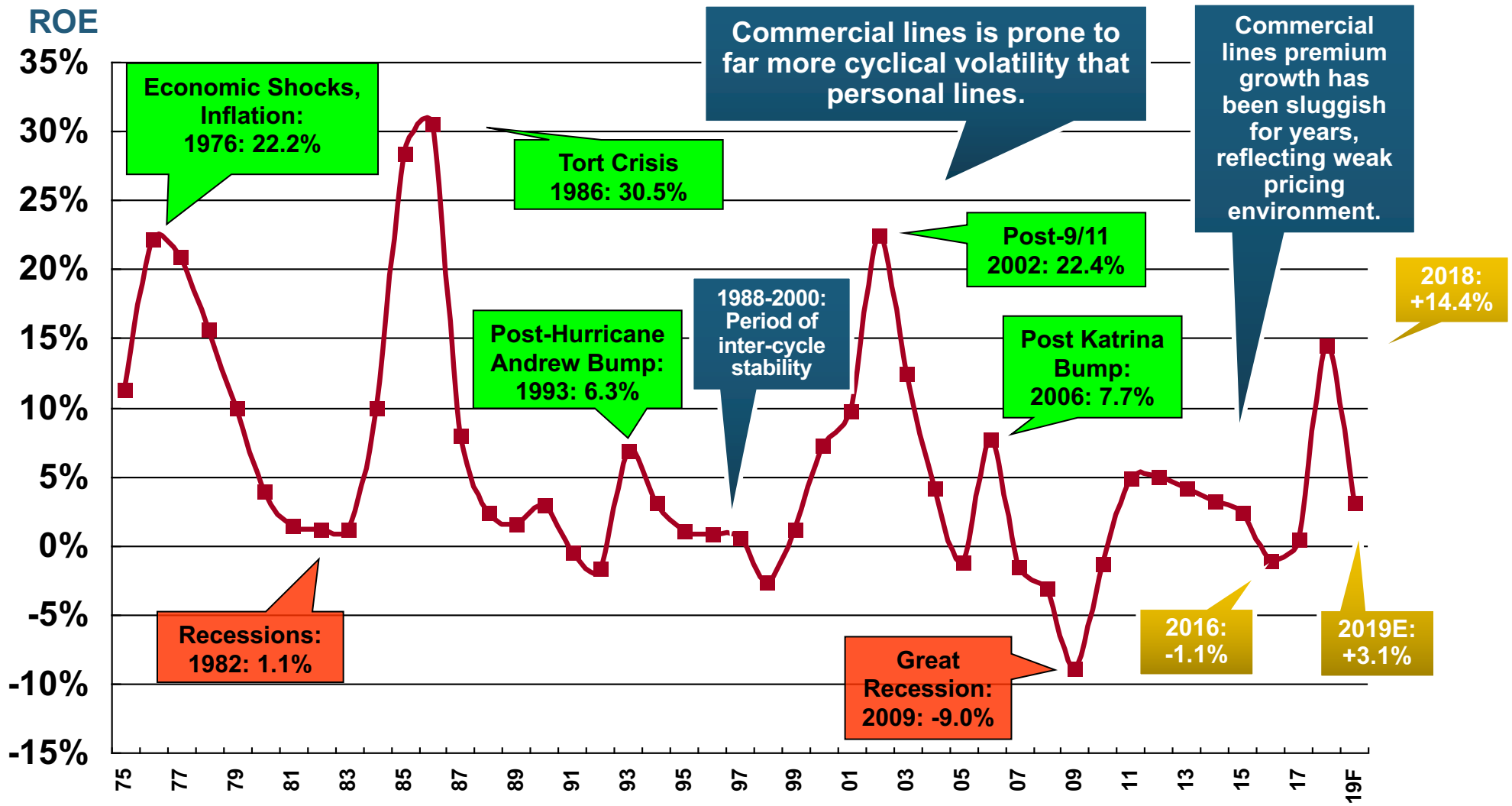


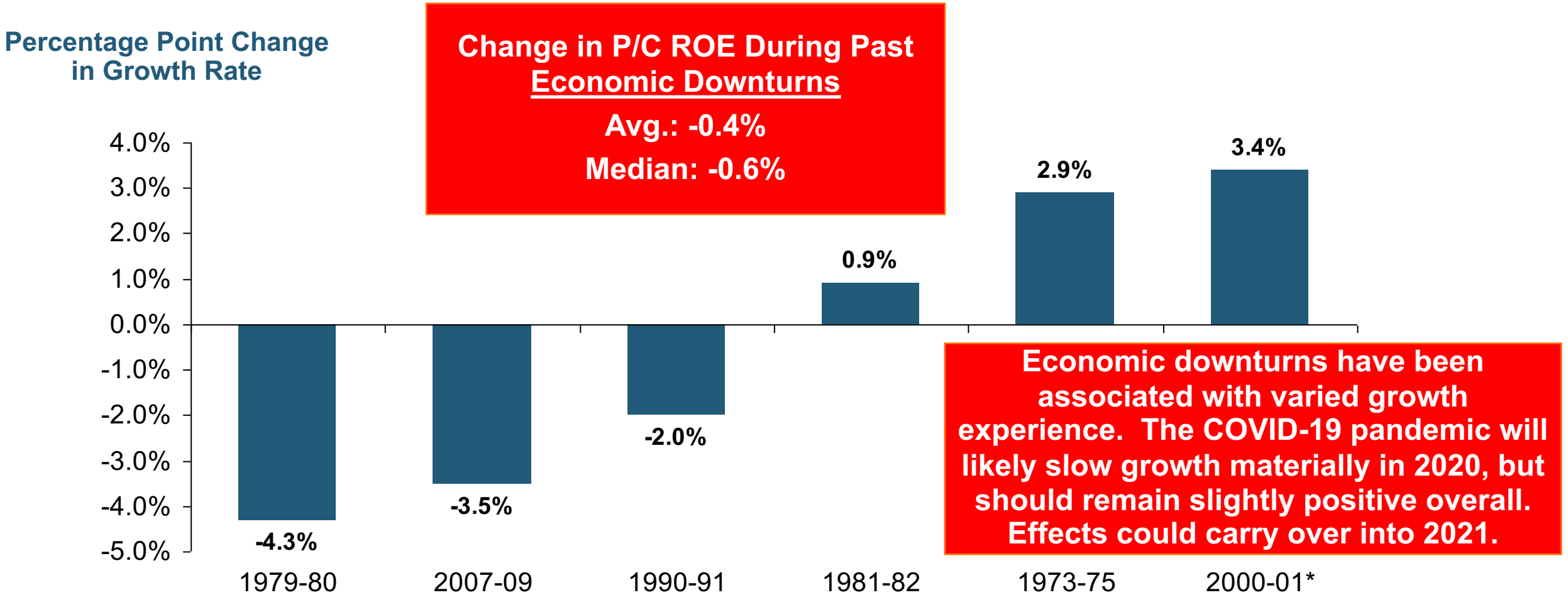
*Figure is actual 2018:9M vs. 2017:9M change adjusted for affects of the TCJA of 2017. Shaded areas denote “hard market” periods
Sources: A.M. Best (1971-2013, 2020F), ISO (2014-19); Risk & Uncertainty Management Center, Univ. of South Carolina estimate for 2019.

Commercial Lines NPW Premium Growth: 1975 – 2019F



Note: Data include state funds beginning in 1998.
Source: A.M. Best; Insurance Information Institute; Univ. of South Carolina Center for Risk and Uncertainty Management, ISO.

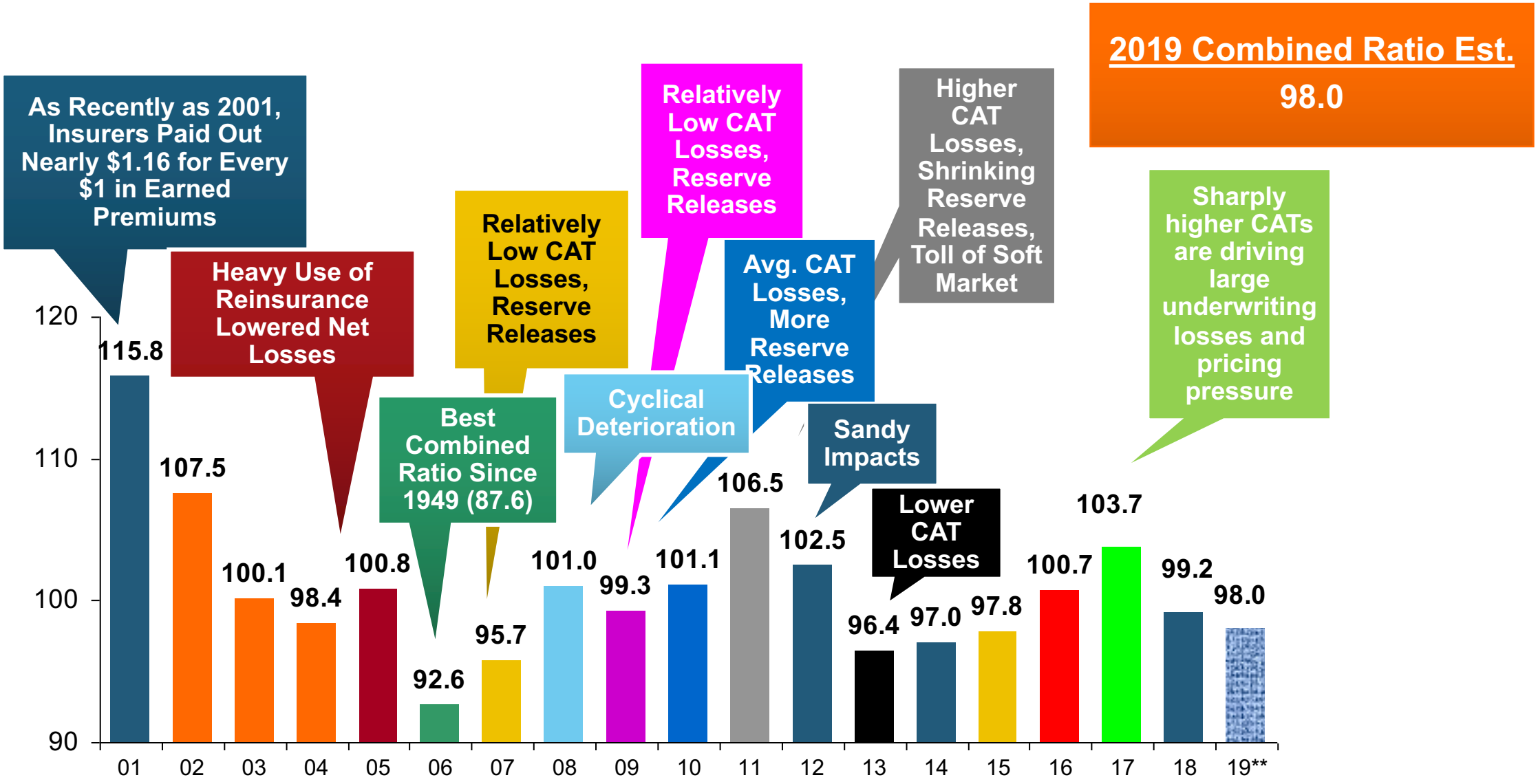
Change in P/C Net Written Premium Growth During Past Economic Downturns: 1971 - Present



*2000-2001 decline impacted by 9/11 losses.

Source: USC Center for Risk and Uncertainty Management.

P/C Insurance Industry Combined Ratio, 2001–2019E*



* Excludes Mortgage & Financial Guaranty insurers 2008--2014.
**Actual through Q3 2019 was 97.8
Sources: A.M. Best, ISO (2014-2019).

INVESTMENTS: THE NEW REALITY

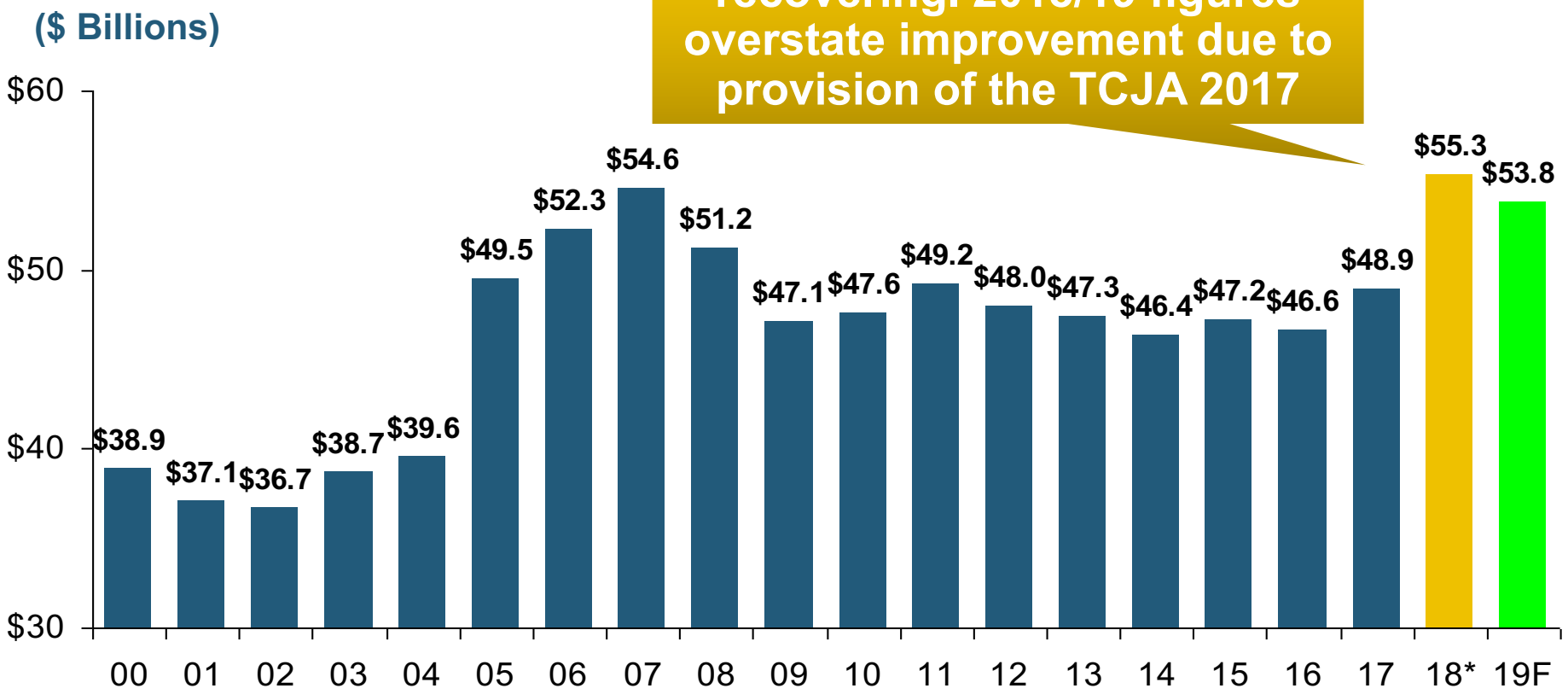
Investment Performance Is a Key Driver of Insurer Profitability

Aggressive Rate Cuts Will Adversely Impact Invest Earnings

Financial Crisis *Déjà Vu*?

Property/Casualty Insurance Industry Investment Income: 2000–2019E

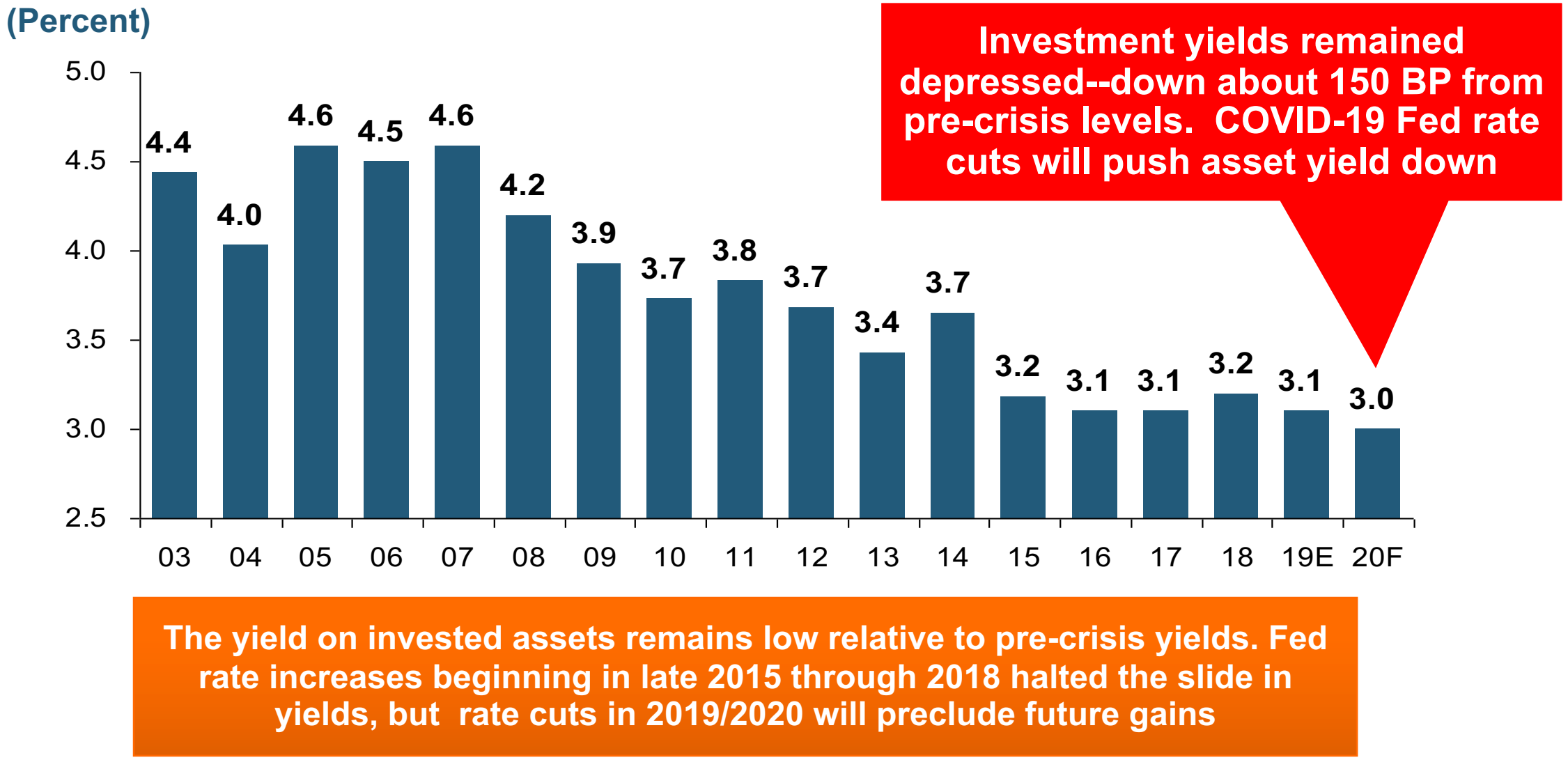
Investment income is slowly recovering. 2018/19 figures overstate improvement due to provision of the TCJA 2017



Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014 but showed a small (1.7%) increase in 2015—though 2016 experienced another decline. Gains in 2018-19 are overstated due to the TCJA 2017.

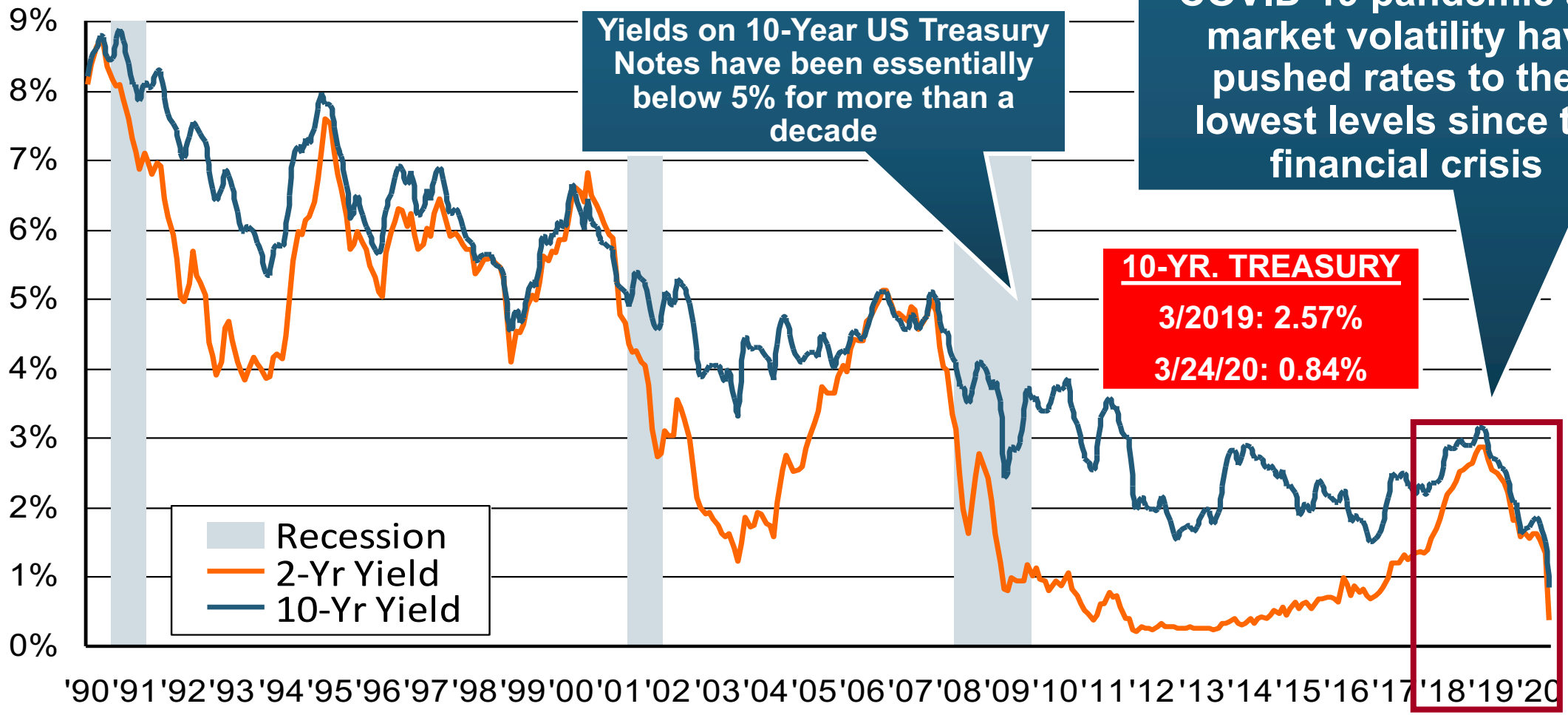
*2018-19 figures are distorted by provisions of the TCJA of 2017. Increase reflects such items as dividends from foreign subsidiaries.
**Estimate based on annualized H1 actual figure of $13.158B. Figure is likely also distorted by the TCJA of 2017.
[1] Investment gains consist primarily of interest and stock dividends. Sources: ISO; University of South Carolina, Center for Risk and Uncertainty Management.

Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2020F*



Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017-19 figures are from ISO. 2020F is from the Risk and Uncertainty Management Center, Univ. of South Carolina.

US Treasury Security Yields: A Long Downward Trend, 1990–2020*

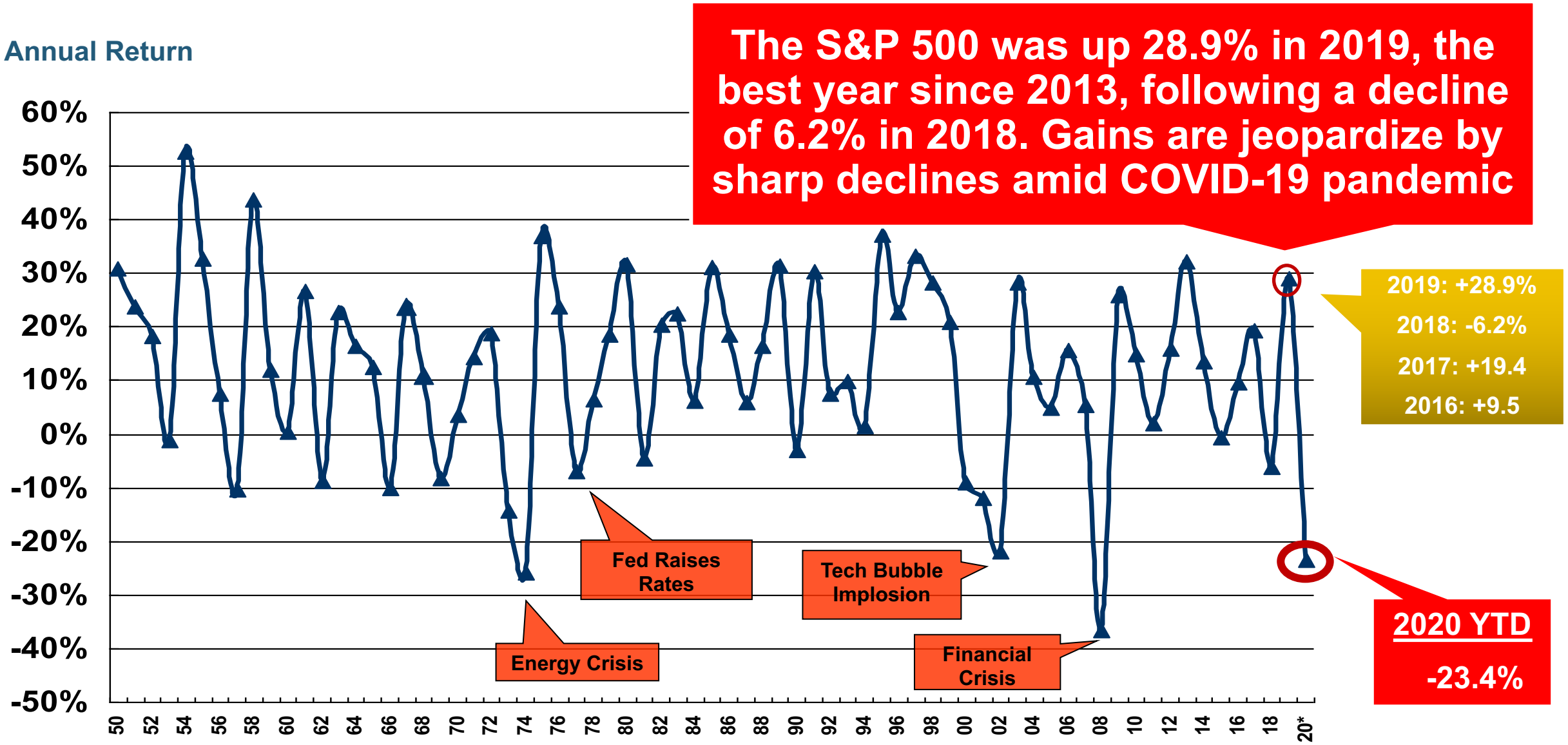


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through March 2020.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm. National Bureau of Economic Research (recession dates); Insurance Information Institute.

S&P 500 Index Returns, 1950–2020*



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*Through March 25, 2020.
Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html; Center for Risk and Uncertainty Management, University of South Carolina

Financial Markets Have Been *Extremely* Volatile

- **March 24/25: First back-to-back gains since Feb. 4**
- **March 24: Largest DJIA % gain since *1933*: +11%**
- **March 23: S&P at its lowest level since late 2016**
- **March 9: Largest DJIA point drop ever: -2,014 pts. *(-7.79% drop largest % terms since 10/15/08)***

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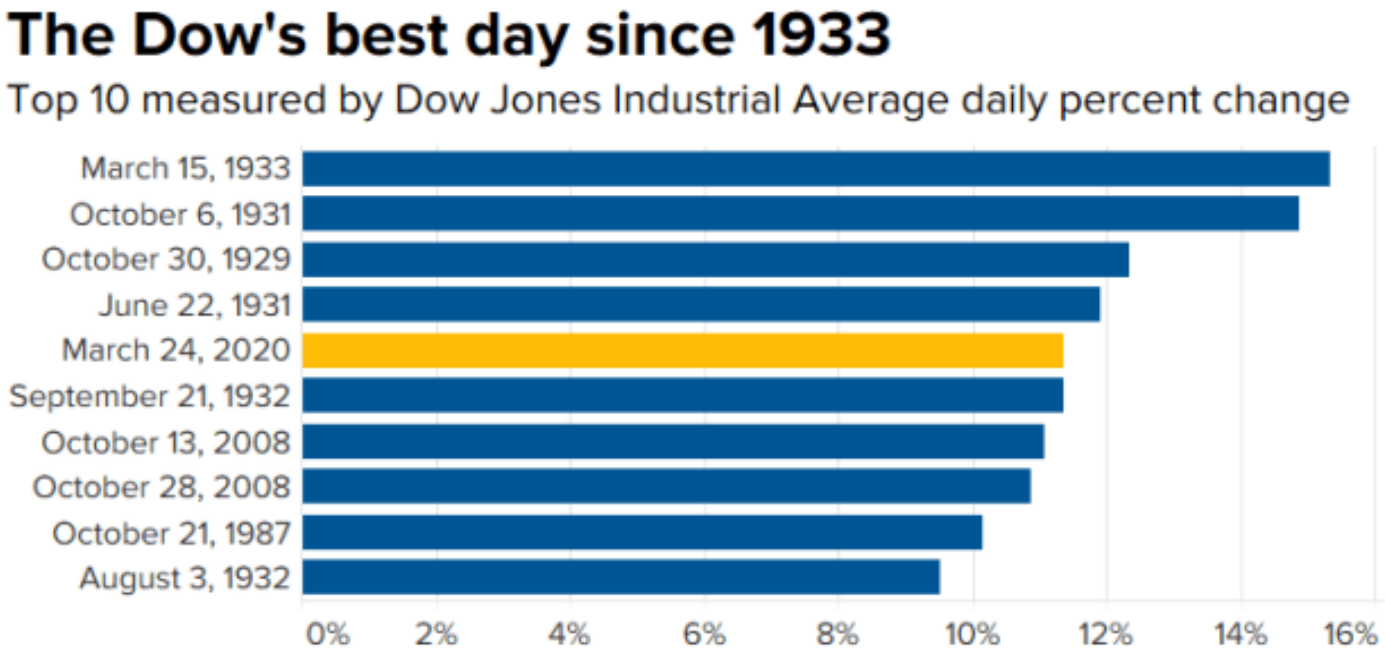
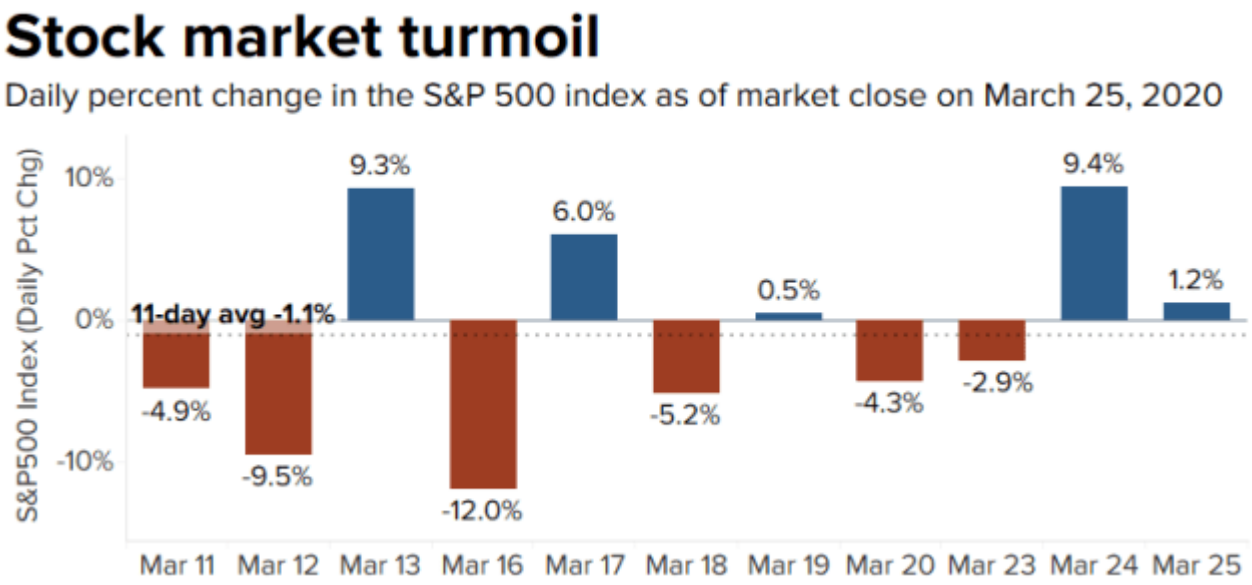




Source: CNBC.com; Center for Risk and Uncertainty Management, University of South Carolina

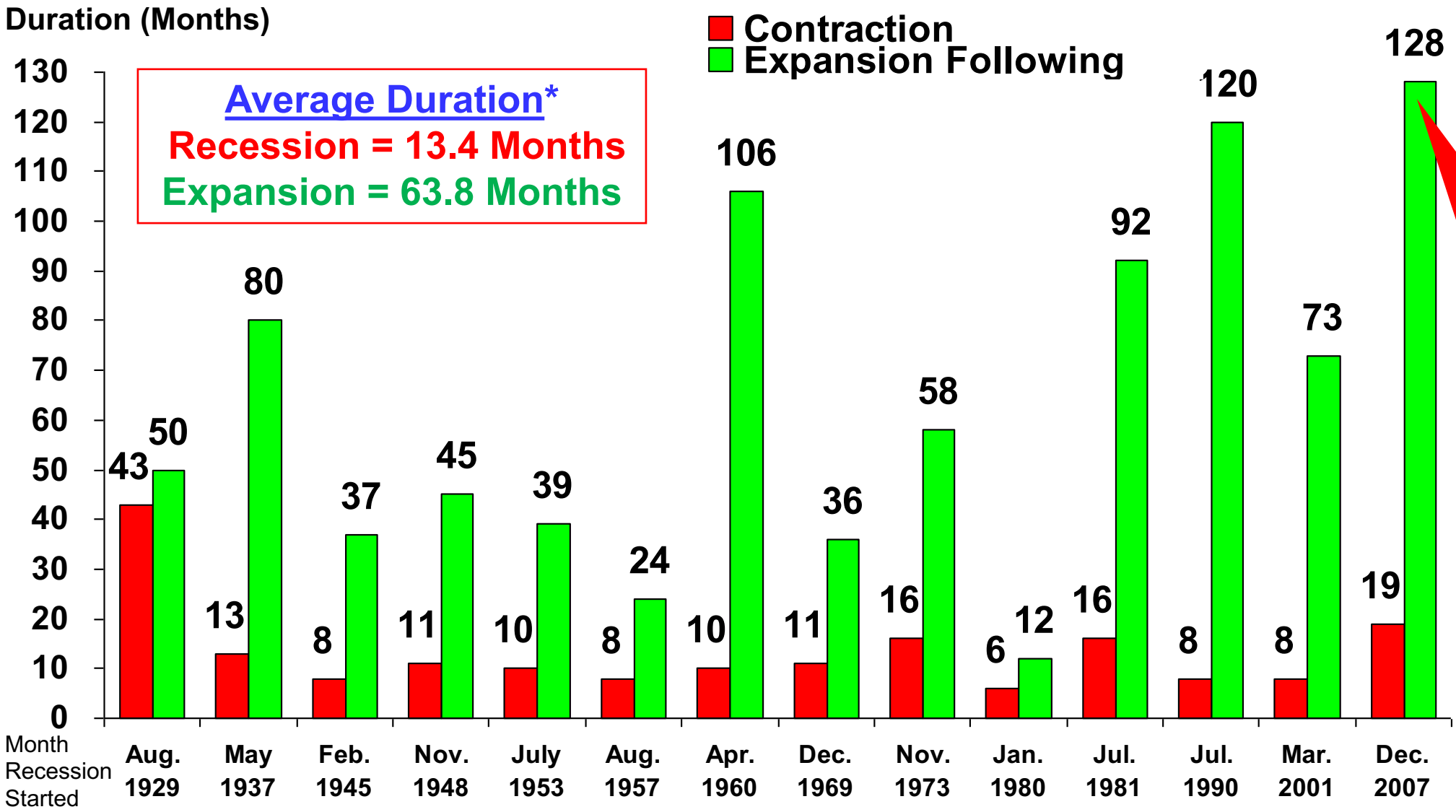
THE ECONOMY

The Strength of the Economy Has Always Influenced Growth in Insurers' Exposure Base Across Most Lines

The Links Between the Economy and the P/C Insurance Industry Are Strengthening

COVID-19 Pandemic Will Directly Impact Growth As Exposures Shrink—A "V-Shaped Recovery"?

Length of US Business Cycles, 1929-Present*



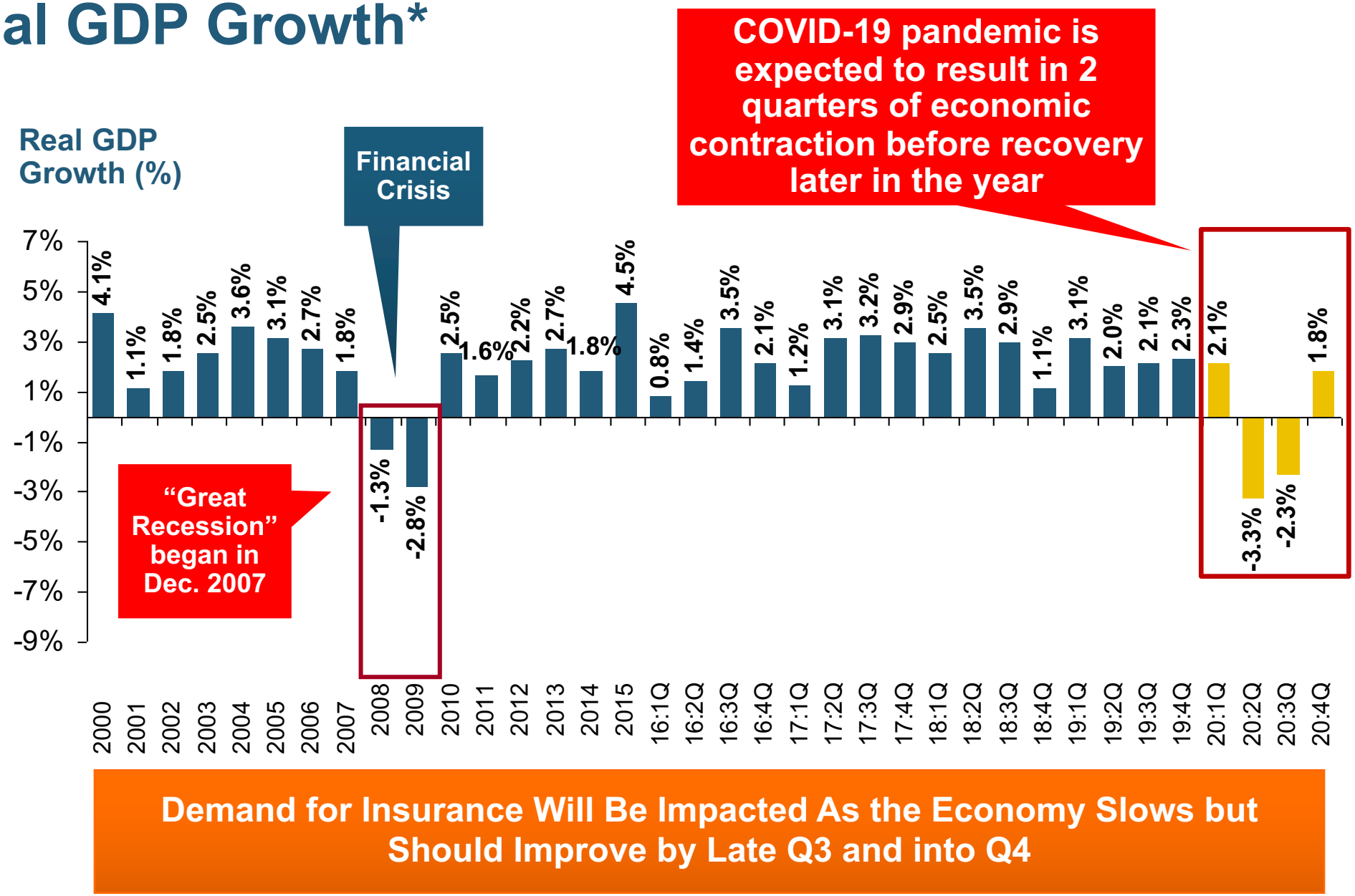
The current economic expansion (as of Feb. 2020) was the longest in US history (began July 2009)

It has likely ended—*but perhaps only interrupted*

* As of Feb. 2020, inclusive

Sources: National Bureau of Economic Research; Risk and Uncertainty Management Center, University of South Carolina.

US Real GDP Growth*

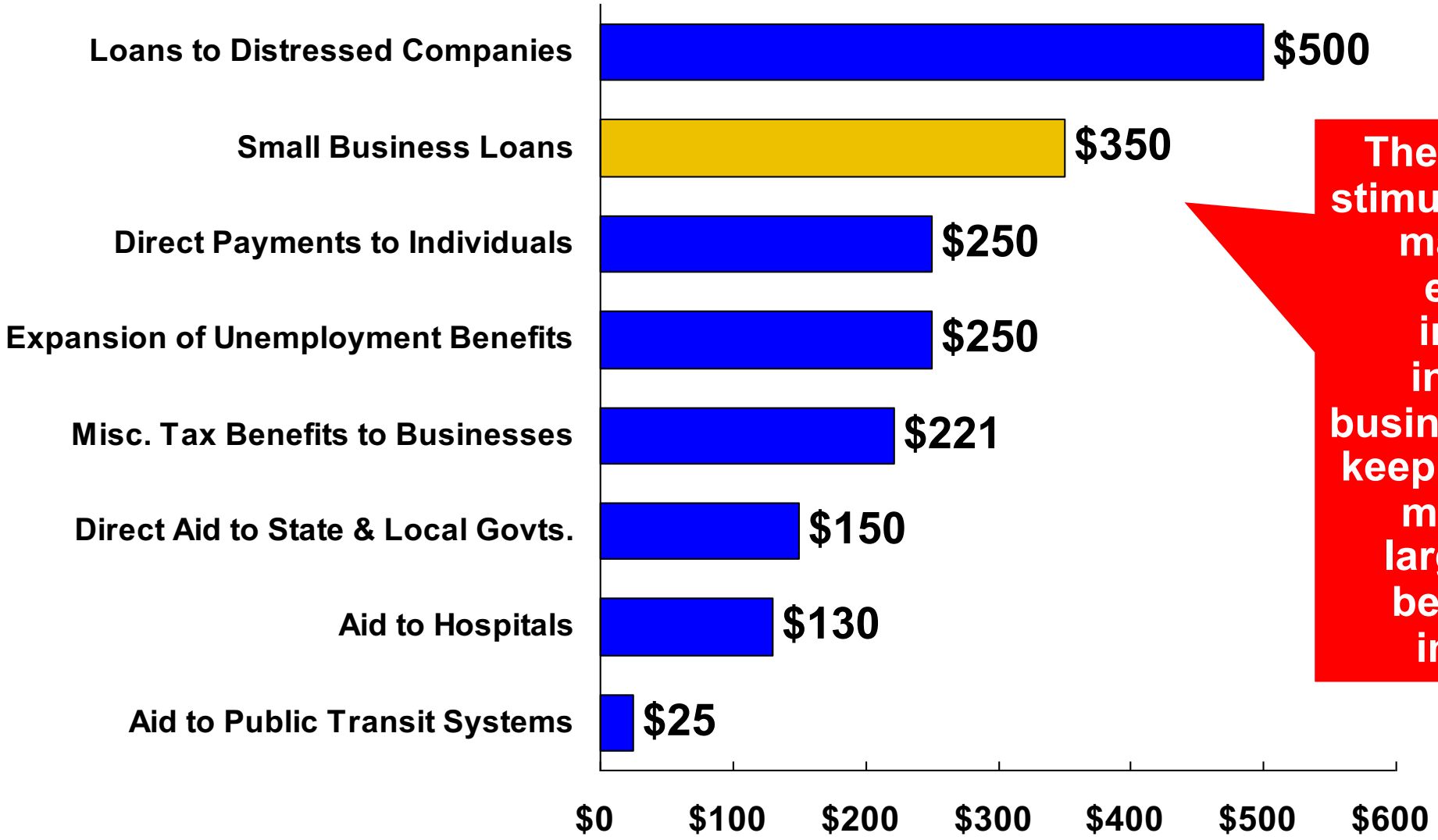


Demand for Insurance Will Be Impacted As the Economy Slows but Should Improve by Late Q3 and into Q4

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities 3/20/20; Center for Risk and Uncertainty Management, University of South Carolina.

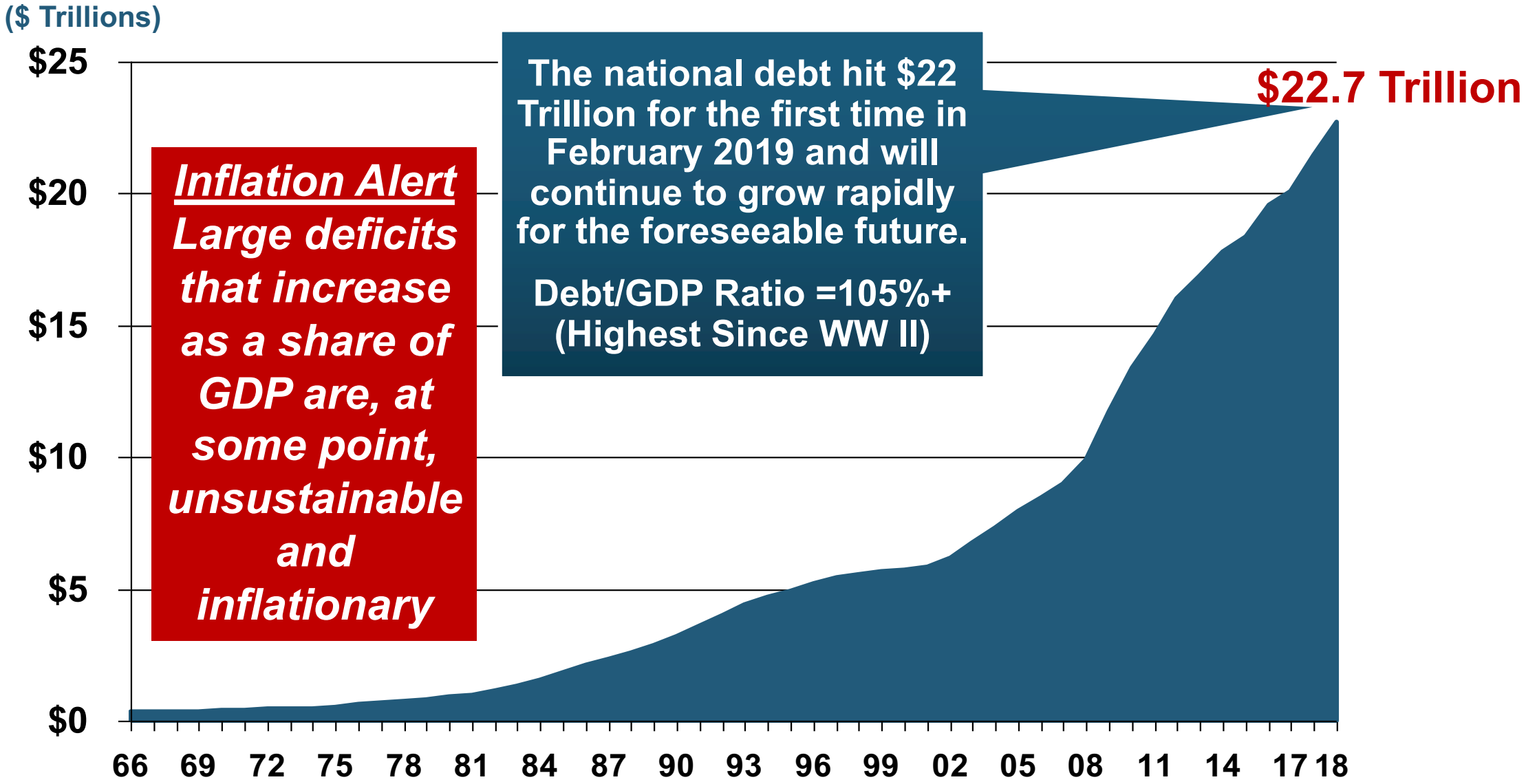
Breakdown of $2 Trillion Emergency Aid/Stimulus Bill



The COVID-19 emergency stimulus package will benefit many segments of the economy as well as individuals. For P/C insurers, aid to small businesses and incentives to keep employees on payrolls may have some of the largest indirect benefits because both preserve insurable exposures

Source: Wall Street Journal, 3/26/20; University of South Carolina, Risk and Uncertainty Management Center.

U.S. National Debt, 1966 – 2019*

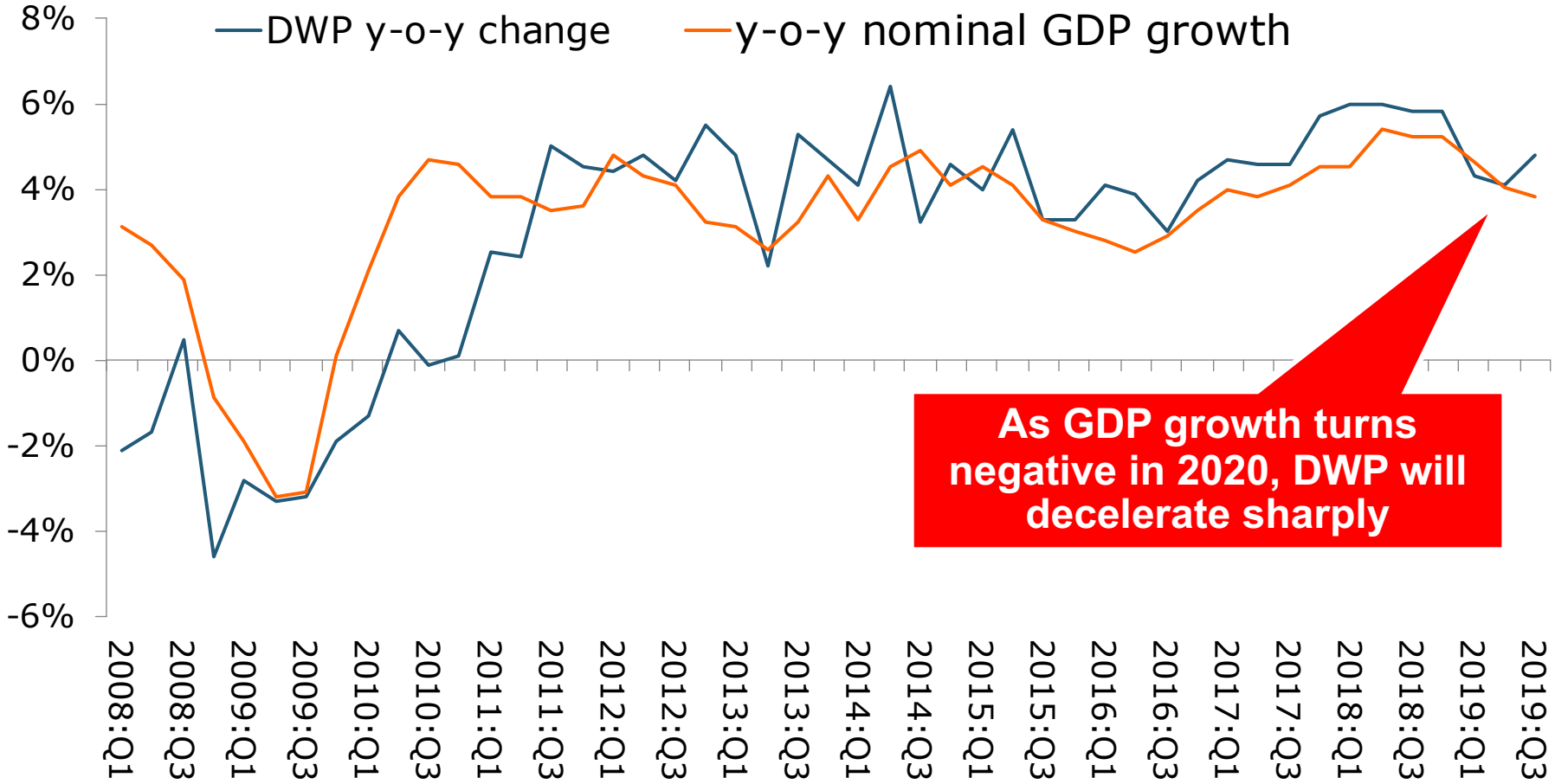


*As of Feb. 2019.

Source: Congressional Budget Office; Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/GFDEGDQ188S

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2019:Q3

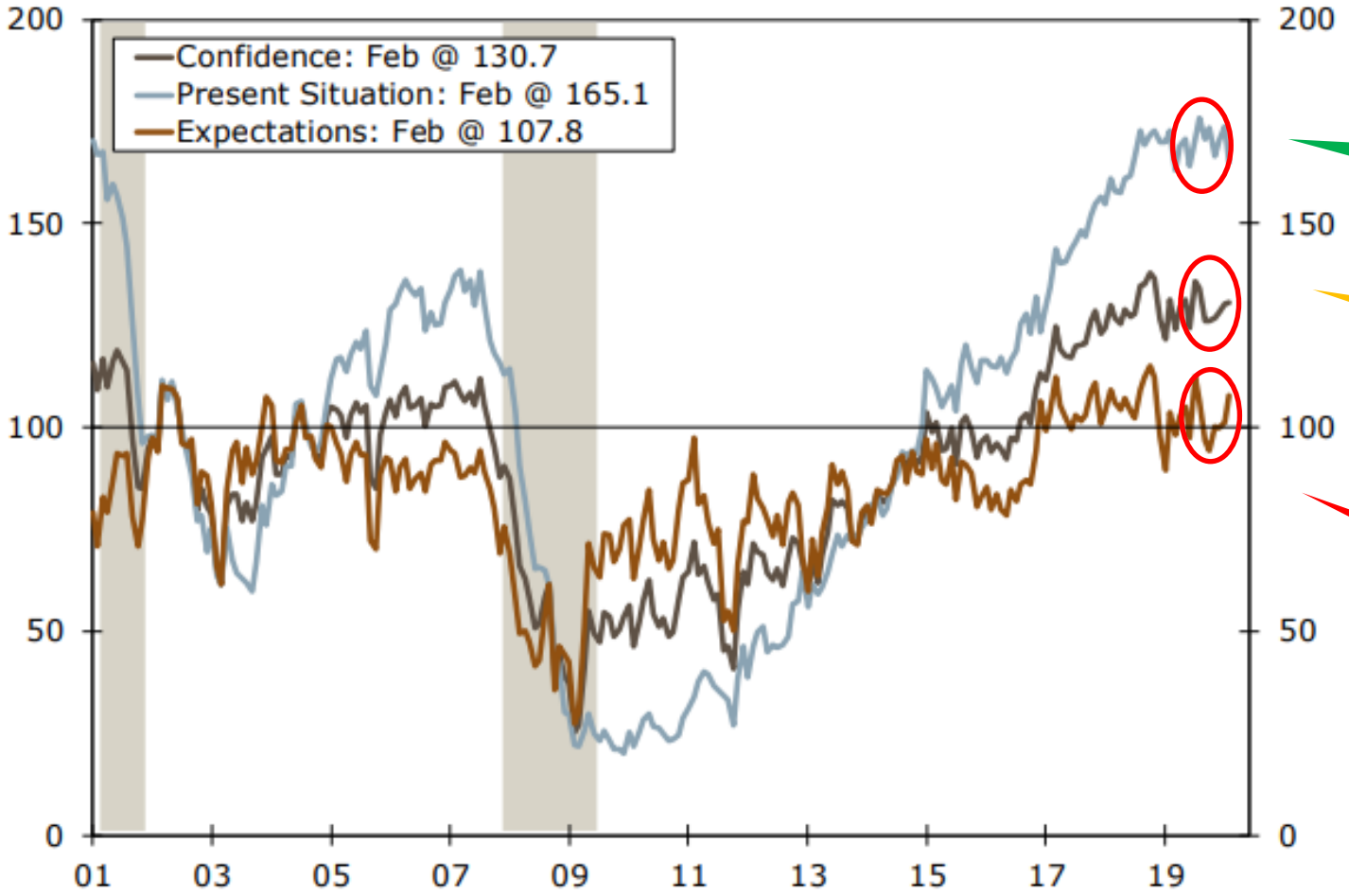
Direct Premium Growth (All P/C Lines) vs. Nominal GDP: Quarterly Y-o-Y Pct. Change



Direct written premiums track nominal GDP fairly tightly over time, suggesting the P/C insurance industry's growth prospects inextricably linked to economic performance.

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO; I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

Consumer Confidence Index: Jan. 1987– Feb. 2020



Extremely strong labor market conditions are vaporizing and will cause consumer confidence related to their Present Situation to plummet

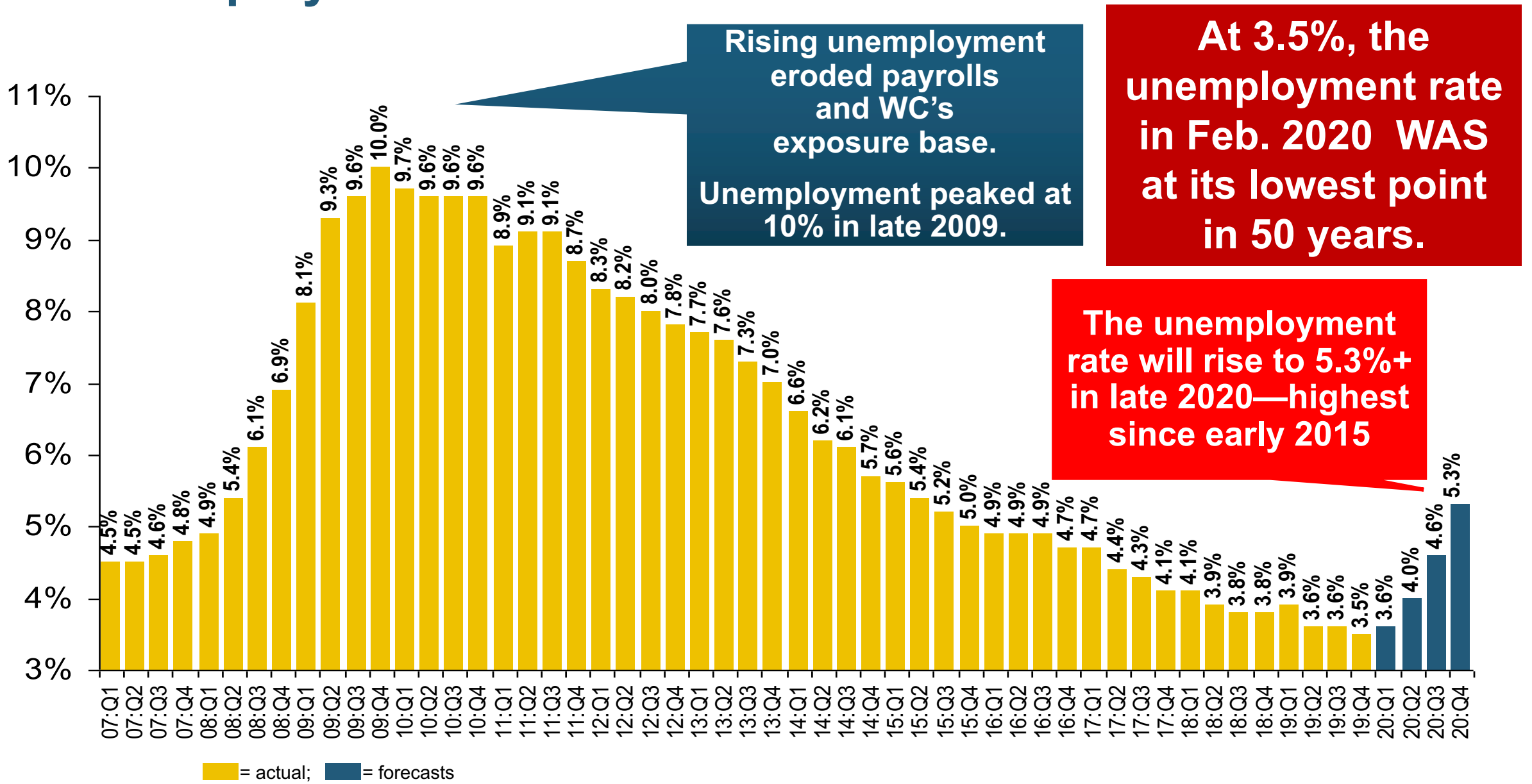
Consumer Confidence Index remained resilient in Feb. but will tumble in the months ahead

Consumer Expectations will be severely adversely impacted by the rapid disappearance of jobs

Outlook: Consumer confidence will be severely tested in the months ahead as the COVID-19 pandemics economic effects intensify

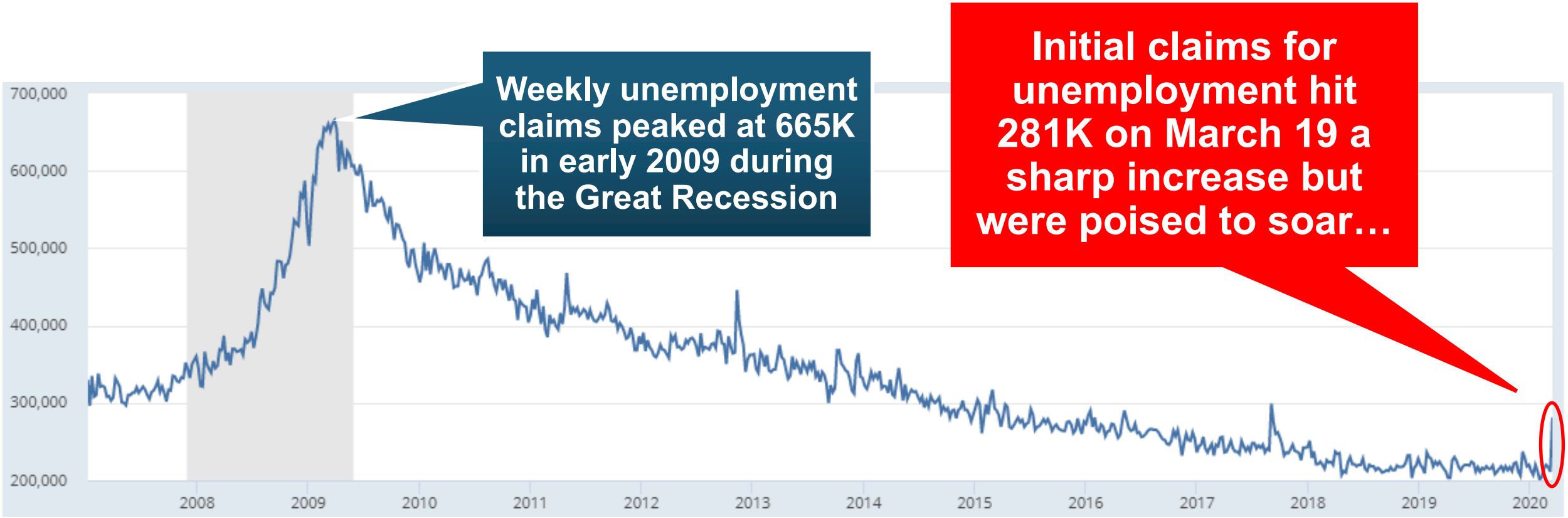
Source: The Conference Board; Wells Fargo Research.

US Unemployment Rate Forecast: 2007:Q1–2020:Q4



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (3/20 edition); Risk and Uncertainty Management Center, University of South Carolina.

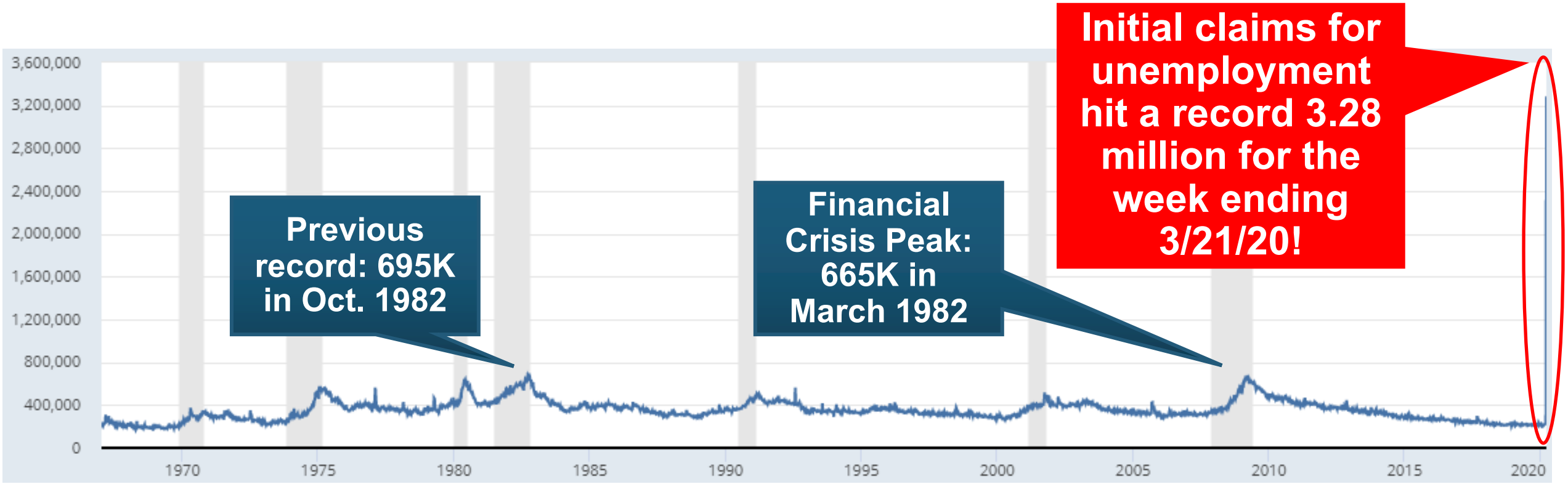
Initial Unemployment Claims: Set to Soar



Initial claims for unemployment will soar to record levels, resulting in a major reversal in Workers Comp payroll exposure growth

Source: Federal Reserve Bank of St. Louis (FRED) from US Employment and Training Commission.

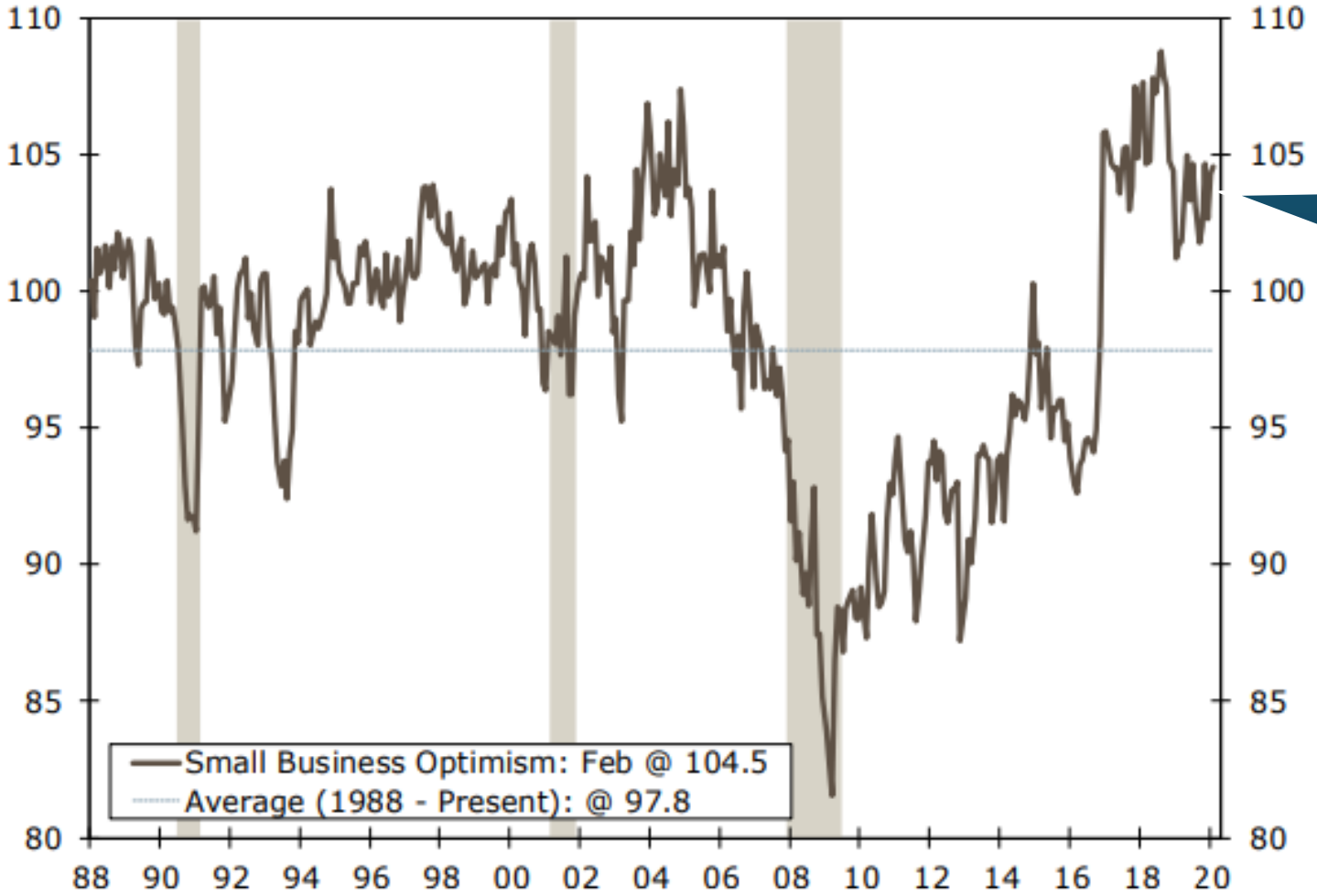
Initial Unemployment Claims: New Record High→*3.28 Million Claims* (Jan. 1967 – March 2020)



Initial claims for unemployment will continue to soar, resulting in a major and immediate loss in Workers Comp payroll exposure growth

Source: Federal Reserve Bank of St. Louis (FRED) from US Employment and Training Commission.

NFIB Small Business Optimism Index: Jan. 1988–Feb. 2020



Small Business Optimism weakened in 2019 and early 2020 on fears of greater economic uncertainty (esp. trade war fears) and labor quality issues

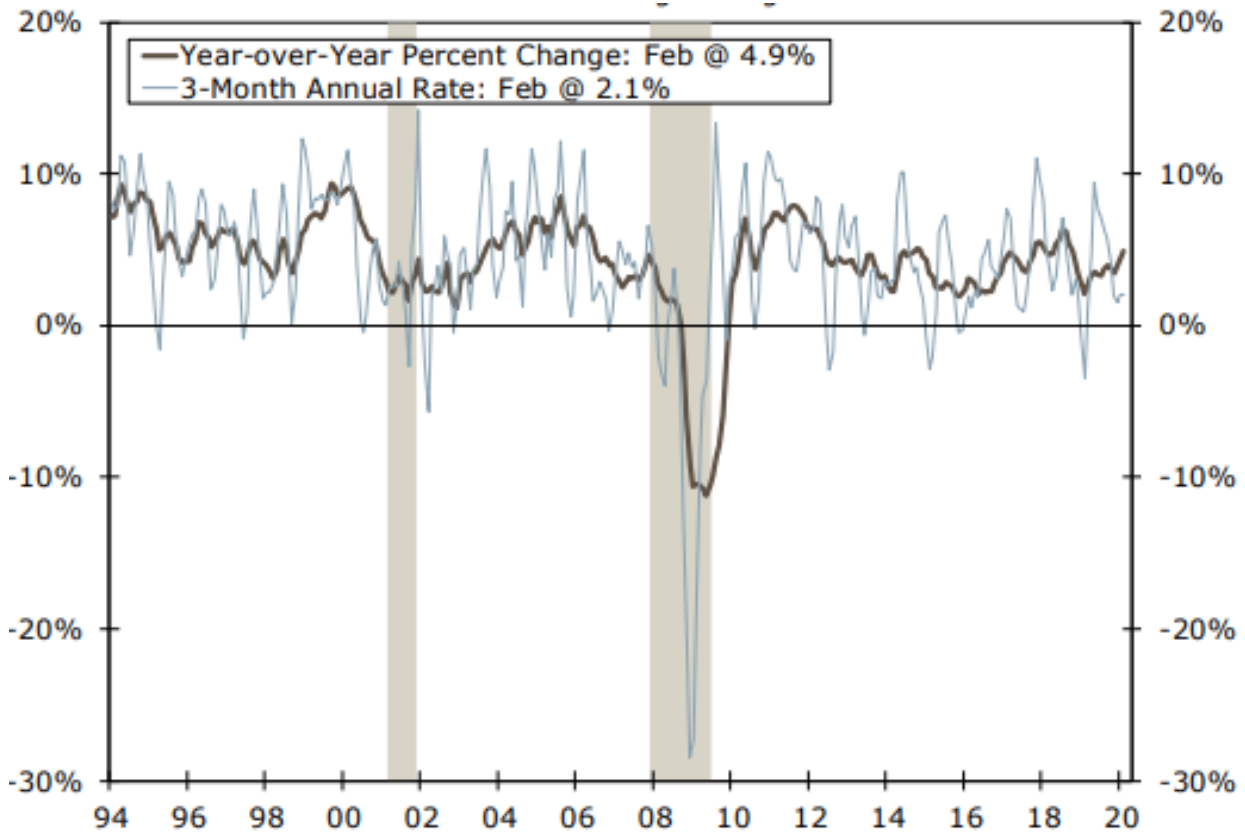
The economic fallout from COVID-19 will cause small business sentiment to plunge causing hiring and investment to move sharply negative

Outlook: Small businesses sentiments will fall sharply with significant negative repercussions for p/c insurers

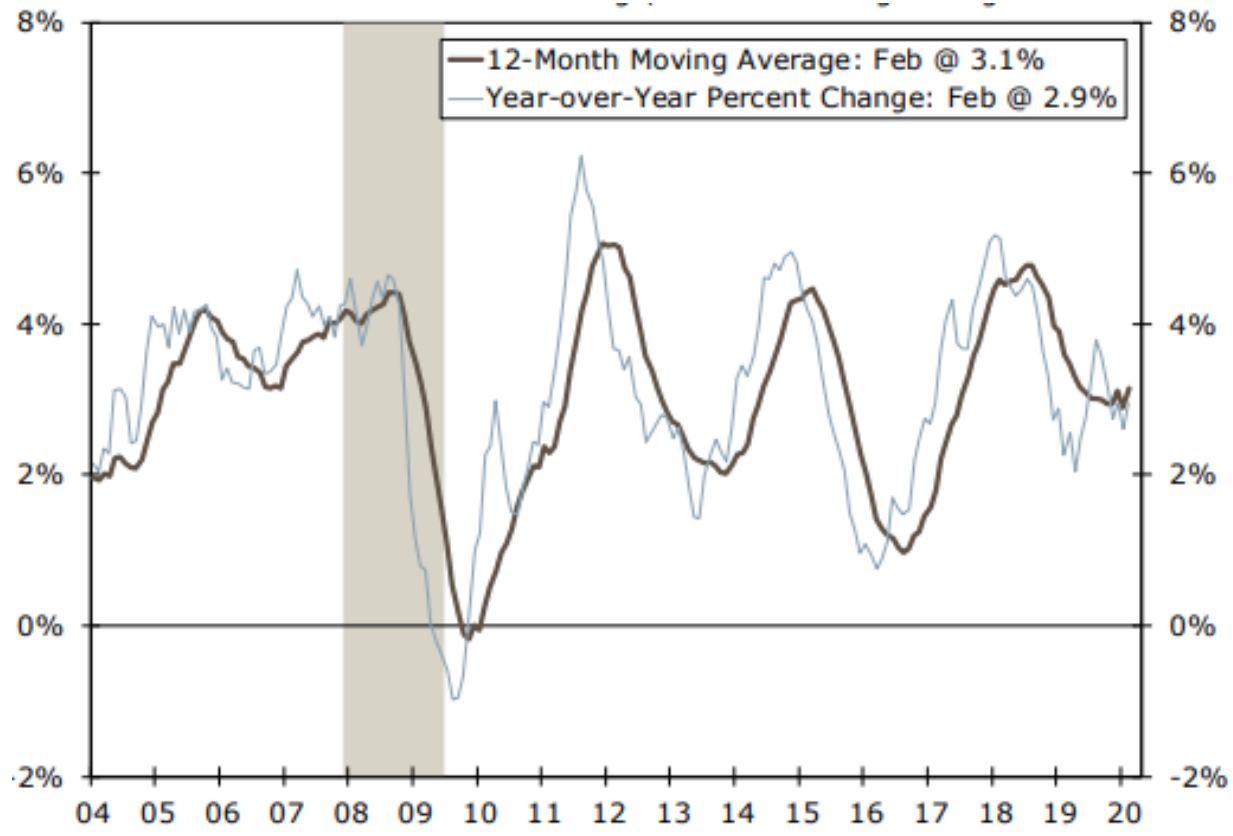
Source: National Federal of Independent Business; Wells Fargo Research.

Retail, Food & Beverage Sales: Set to Plunge

US Retail Sales



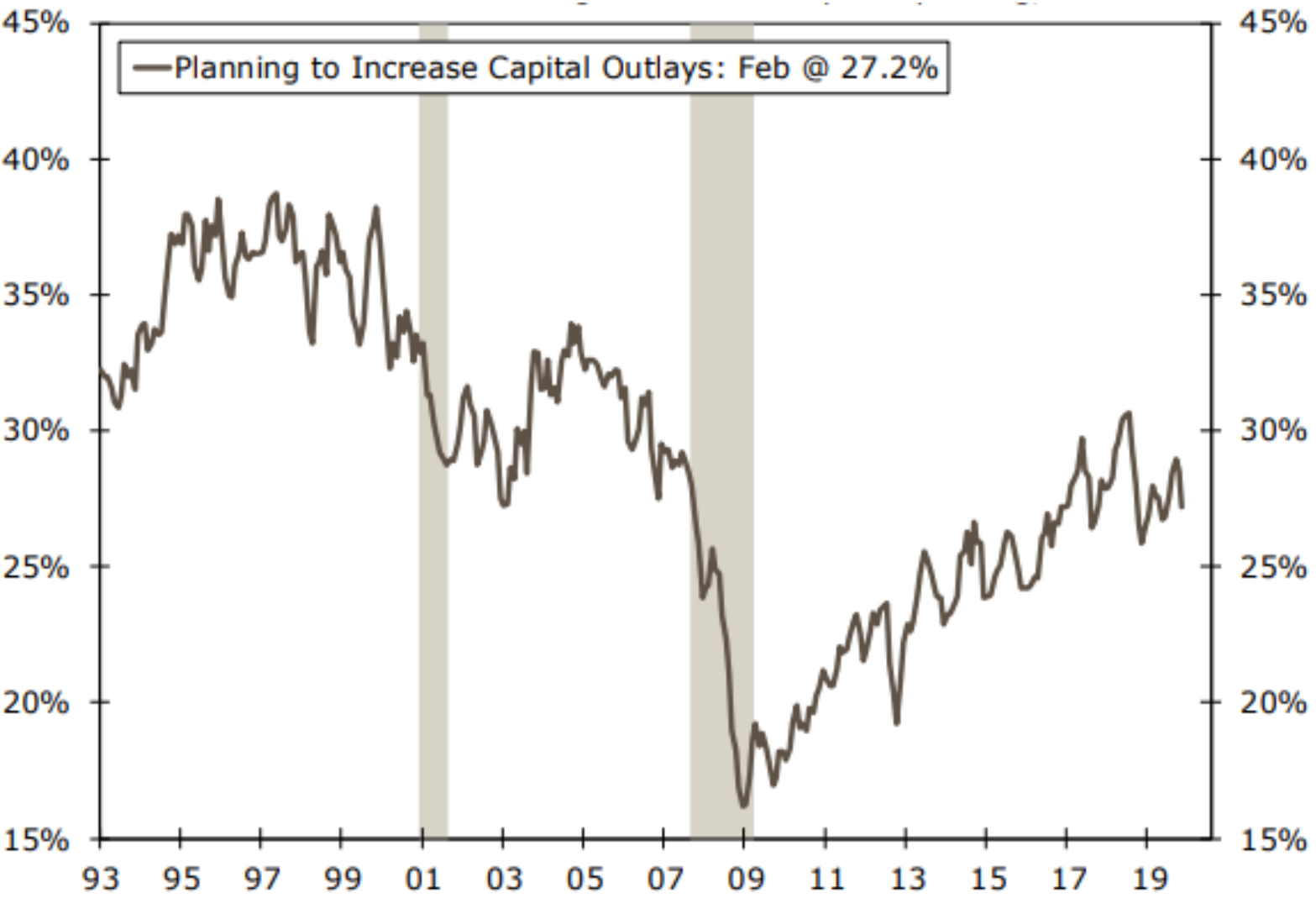
Food & Beverage Store Sales



Retail sales (after hoarding runs its course) will plunge due to COVID-19 shutdowns. Large numbers of bankruptcies are likely. Negative impact on P/C exposure growth in this segment into 2021.

Source: National Federal of Independent Business; Wells Fargo Research.

Percent of Small Businesses Planning to Increase Capital Spending: Jan. 1993–Feb. 2020

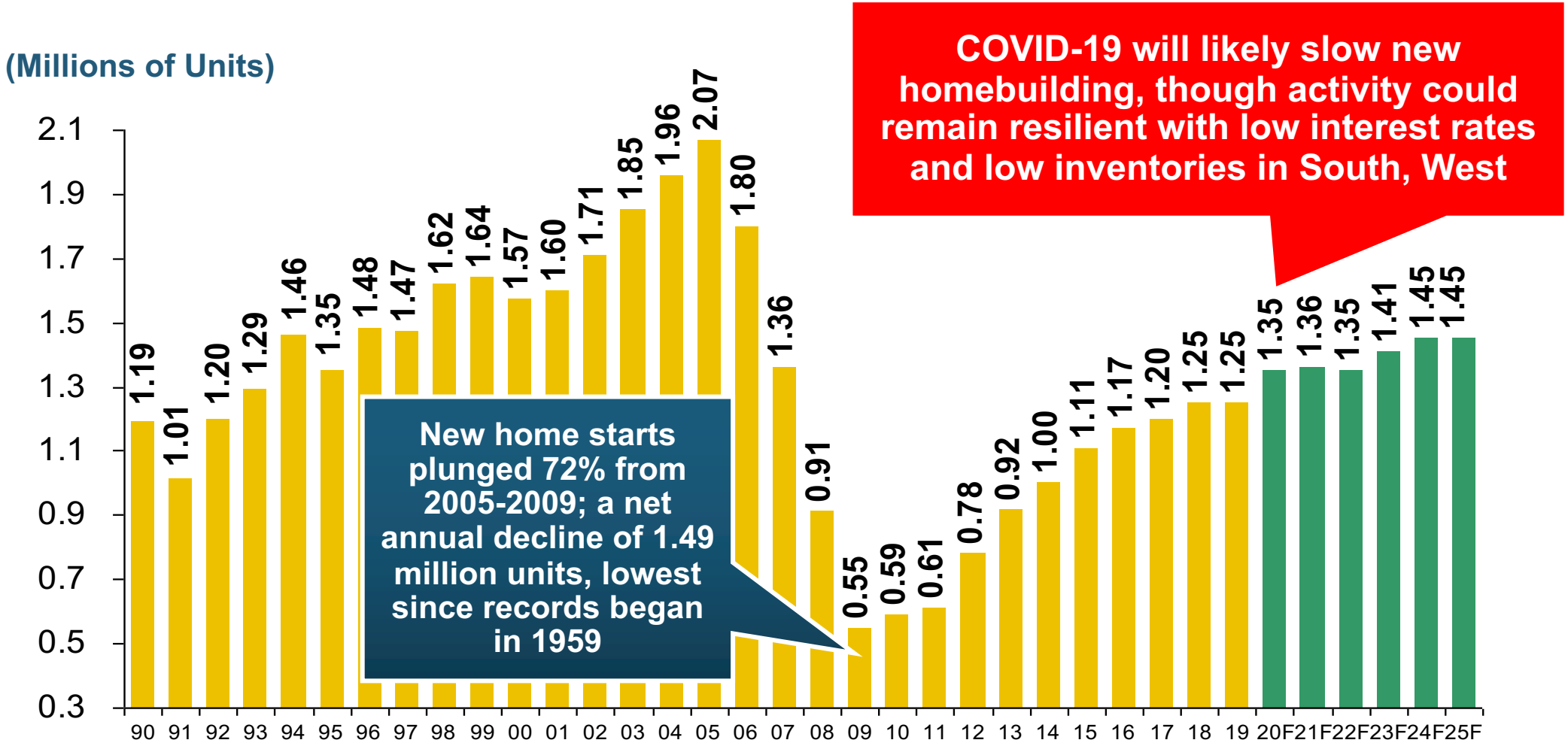


Capital spending by small businesses will be slashed due to the devastating effects COVID-19 on this highly vulnerable economic segment, despite $350B in federal aid

Outlook: The outlook for small businesses investment is gloomy with few growth prospects for p/c insurers in this segment for some time

Source: National Federal of Independent Business; Wells Fargo Research.

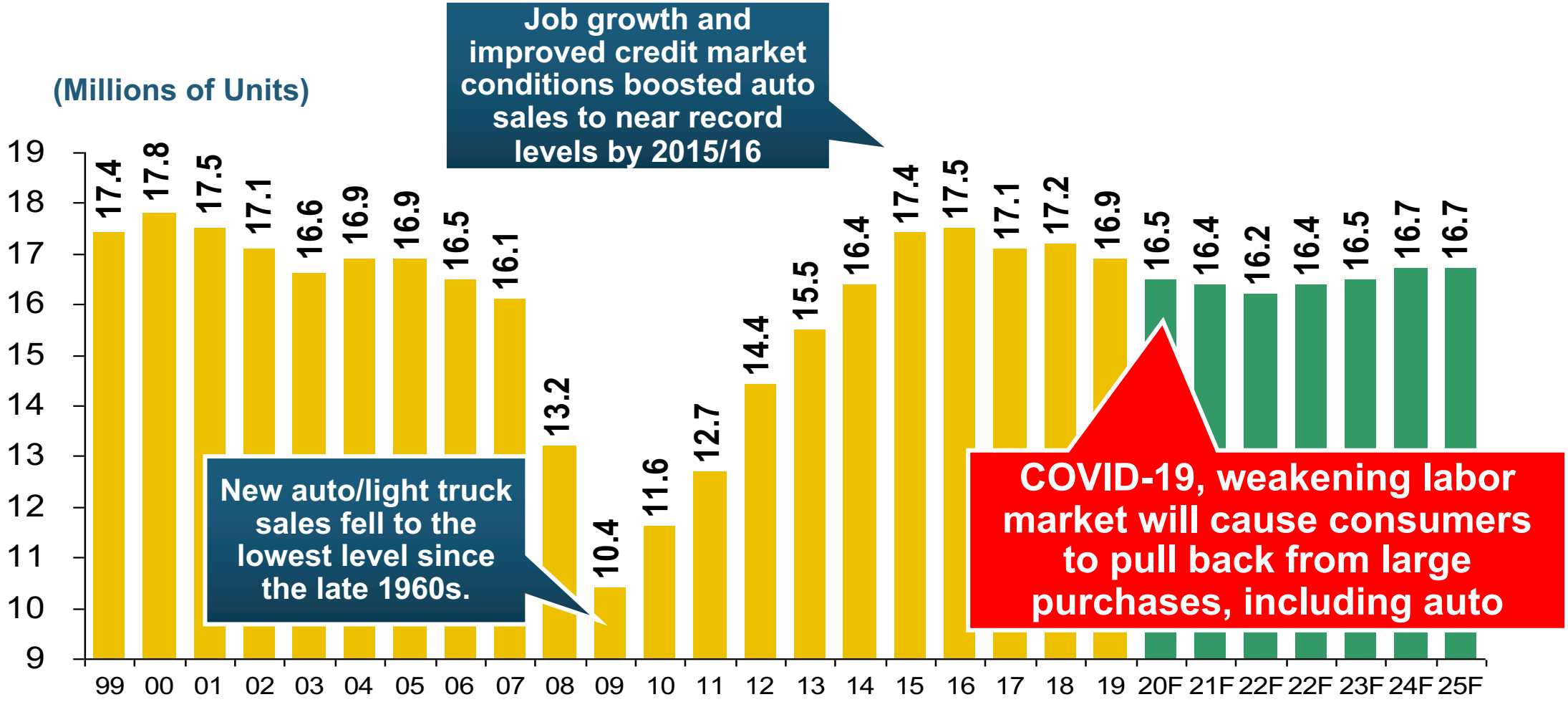
New Private Housing Starts, 1990-2025F



Pre-COVID 1-9, Insurers Had Been Seeing Meaningful Exposure Growth in the Wake of the "Great Recession" Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Wells Fargo Securities (3/20 for 2020-21F), Blue Chip Economic Indicators (3/19 for 2022-25F); University. of South Carolina, Center for Risk and Uncertainty Management..

Auto/Light Truck Sales, 1999-2023F



Yearly car/light truck sales are slowing slightly as demand tapers—and COVID-19 will accelerate that decline

Source: U.S. Department of Commerce; Well Fargo Securities (3/20 for 2020-21F); Blue Chip Economic Indicators (3/19 for 2022-25F); Univ. of South Carolina, Center for Risk and Uncertainty Management.

P/C Insurance Issues in the Era of COVID-19

Business Interruption

Personal Auto

Workers Compensation

Cyber

P/C Insurance Coverage & COVID-19

- **Insurers have received thousands of claims related to COVID-19 losses**
  - **Business interruption**
  - **Workers comp**
  - **Cyber**
  - **Event Cancellation**
  - **Travel Insurance**
  - **D&O**
- **Crises tend to precipitate efforts to stretch contract language in an effort to:**
  - **Find coverage where none exists**
  - **Find coverage where none was intended**
  - **Find coverage for which no premium was paid**
- **Politicians frequently pile on: Zero political risk**

Business Interruption

Efforts to Create Coverage Where None Exists

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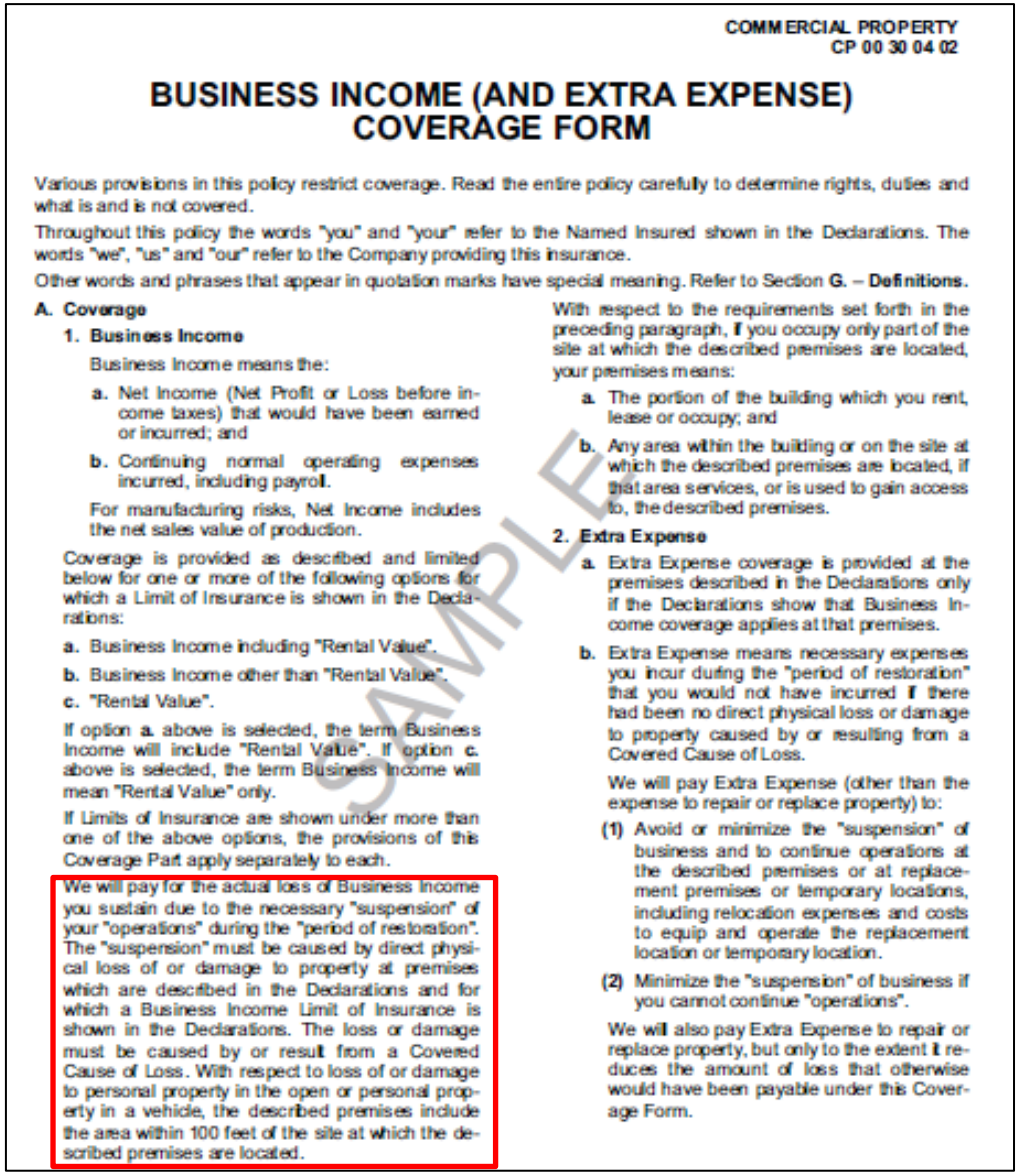
Business Interruption Coverage (BIC) & COVID-19

- **Business interruption policies clearly exclude COVID-19 claims**

- **The ISO Business Income form contains the following language:**

  - ***"We will pay for the actual loss of Business Income you sustain due to the necessary "suspension" of your "operations" during the "period of restoration". The "suspension" must be caused by direct physical loss of or damage to property…The loss or damage must be caused by or the result of a covered cause of loss." [from ISO form: CP 00 30 04 02]***



COMMERCIAL PROPERTY
CP 00 30 04 02

BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM

Various provisions in this policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this policy the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we", "us" and "our" refer to the Company providing this insurance.

Other words and phrases that appear in quotation marks have special meaning. Refer to Section **G. – Definitions.**

A. Coverage

1. Business Income

Business Income means the:

a. Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and

b. Continuing normal operating expenses incurred, including payroll.

For manufacturing risks, Net Income includes the net sales value of production.

Coverage is provided as described and limited below for one or more of the following options for which a Limit of Insurance is shown in the Declarations:

a. Business Income including "Rental Value".

b. Business Income other than "Rental Value".

c. "Rental Value".

If option **a.** above is selected, the term Business Income will include "Rental Value". If option **c.** above is selected, the term Business Income will mean "Rental Value" only.

If Limits of Insurance are shown under more than one of the above options, the provisions of this Coverage Part apply separately to each.

We will pay for the actual loss of Business Income you sustain due to the necessary "suspension" of your "operations" during the "period of restoration". The "suspension" must be caused by direct physical loss of or damage to property at premises which are described in the Declarations and for which a Business Income Limit of Insurance is shown in the Declarations. The loss or damage must be caused by or result from a Covered Cause of Loss. With respect to loss of or damage to personal property in the open or personal property in a vehicle, the described premises include the area within 100 feet of the site at which the described premises are located.

With respect to the requirements set forth in the preceding paragraph, if you occupy only part of the site at which the described premises are located, your premises means:

a. The portion of the building which you rent, lease or occupy; and

b. Any area within the building or on the site at which the described premises are located, if that area services, or is used to gain access to, the described premises.

2. Extra Expense

a. Extra Expense coverage is provided at the premises described in the Declarations only if the Declarations show that Business Income coverage applies at that premises.

b. Extra Expense means necessary expenses you incur during the "period of restoration" that you would not have incurred if there had been no direct physical loss or damage to property caused by or resulting from a Covered Cause of Loss.

We will pay Extra Expense (other than the expense to repair or replace property) to:

(1) Avoid or minimize the "suspension" of business and to continue operations at the described premises or at replacement premises or temporary locations, including relocation expenses and costs to equip and operate the replacement location or temporary location.

(2) Minimize the "suspension" of business if you cannot continue "operations".

We will also pay Extra Expense to repair or replace property, but only to the extent it reduces the amount of loss that otherwise would have been payable under this Coverage Form.

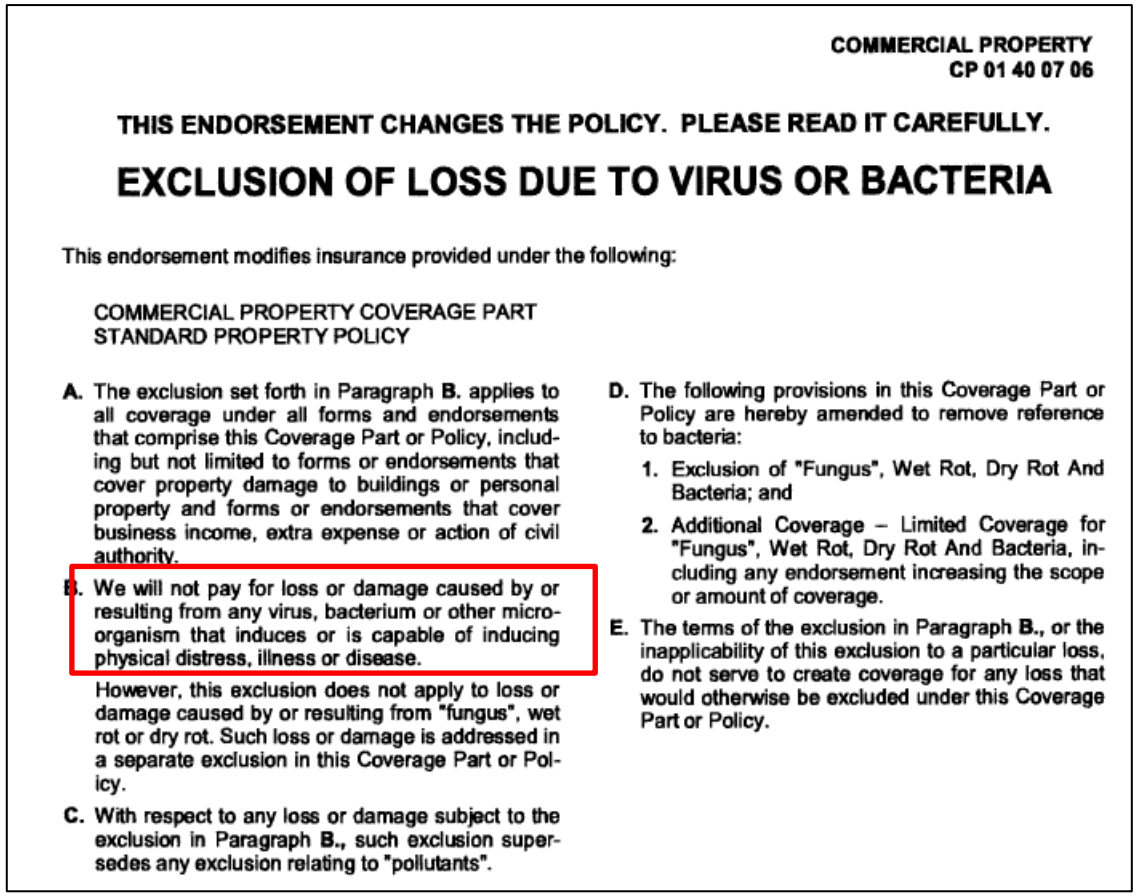
SAMPLE

Exclusion of Loss Due to Virus or Bacteria

- **Business property and hence business interruption coverage also clearly excludes loss or damage due to viruses via exclusion**

- **The ISO "Exclusion of Loss Due to Virus or Bacteria" contains the following language:**

  - ***"We will not pay for loss or damage caused by or resulting from any virus, bacterium or other microorganism that induces or is capable of inducing physical distress, illness or disease."*** *[from ISO form: CP 01 40 07 06]*



COMMERCIAL PROPERTY
CP 01 40 07 06

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

EXCLUSION OF LOSS DUE TO VIRUS OR BACTERIA

This endorsement modifies insurance provided under the following:

COMMERCIAL PROPERTY COVERAGE PART
STANDARD PROPERTY POLICY

A. The exclusion set forth in Paragraph **B.** applies to all coverage under all forms and endorsements that comprise this Coverage Part or Policy, including but not limited to forms or endorsements that cover property damage to buildings or personal property and forms or endorsements that cover business income, extra expense or action of civil authority.

B. We will not pay for loss or damage caused by or resulting from any virus, bacterium or other microorganism that induces or is capable of inducing physical distress, illness or disease.

However, this exclusion does not apply to loss or damage caused by or resulting from "fungus", wet rot or dry rot. Such loss or damage is addressed in a separate exclusion in this Coverage Part or Policy.

C. With respect to any loss or damage subject to the exclusion in Paragraph **B.**, such exclusion supersedes any exclusion relating to "pollutants".

D. The following provisions in this Coverage Part or Policy are hereby amended to remove reference to bacteria:

1. Exclusion of "Fungus", Wet Rot, Dry Rot And Bacteria; and
2. Additional Coverage – Limited Coverage for "Fungus", Wet Rot, Dry Rot And Bacteria, including any endorsement increasing the scope or amount of coverage.

E. The terms of the exclusion in Paragraph **B.**, or the inapplicability of this exclusion to a particular loss, do not serve to create coverage for any loss that would otherwise be excluded under this Coverage Part or Policy.

Business Interruption Coverage & COVID-19

- **Several states are attempting to override/invalidate/abrogate the longstanding, unambiguous language in commercial property and BIC contracts that makes it clear no coverage exists**

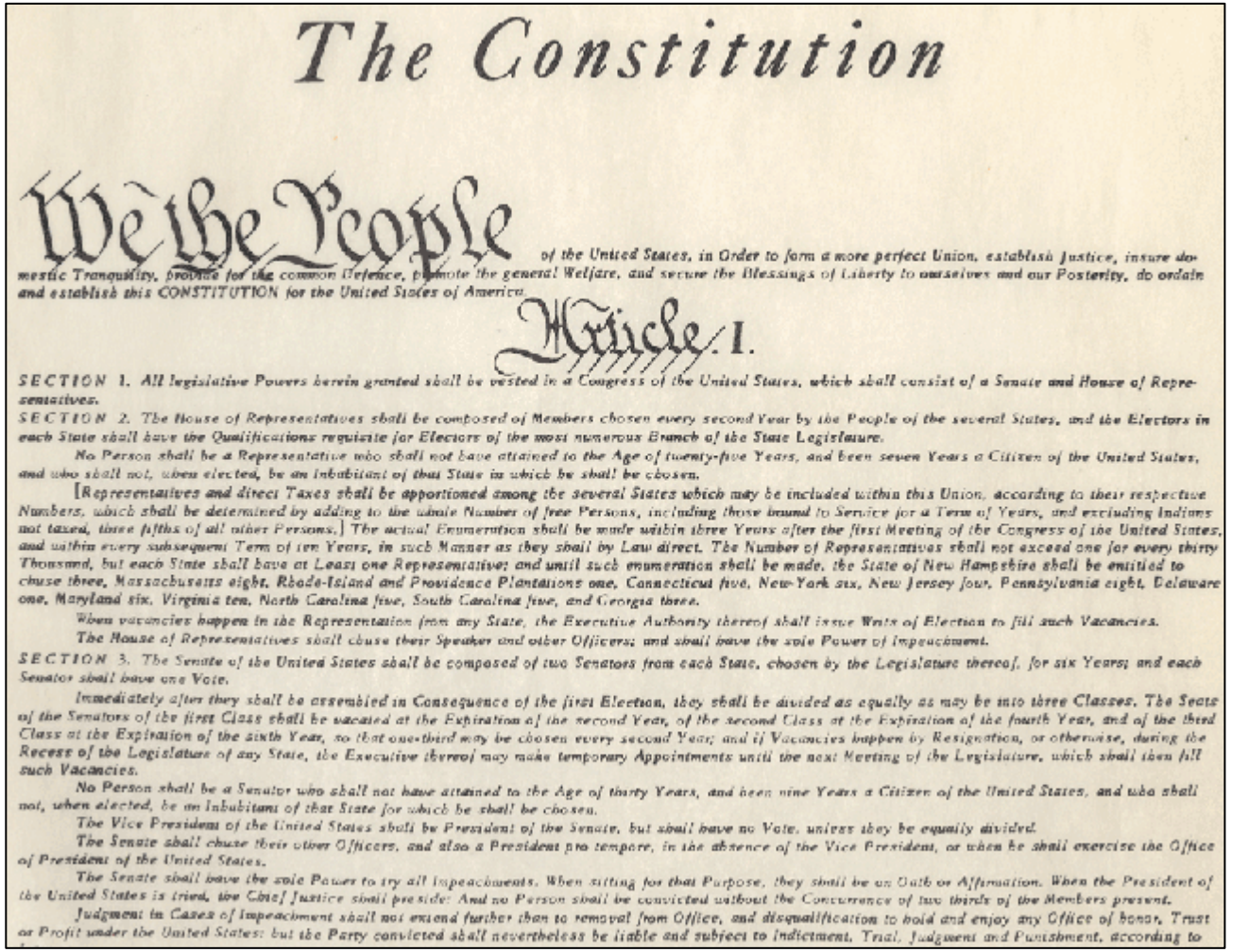
- **As of March 25: NJ, OH, PA and MA have introduced legislation that would oblige insurers to provide BIC to policyholders who purchased such coverage, irrespective of the "direct physical loss or damage" requirement and virus exclusion.**

- **From Massachusetts S.D. 2888 (as of 3/25/20)**

  - *"…**no insurer in [Massachusetts] may deny a claim** for the loss of use and occupancy and business interruption on **account of (i) COVID-19 being a virus** (even if the relevant insurance policy excludes losses resulting from viruses); **or (ii) there being no physical damage to the property** of the insured or to any other relevant property*

States to Insurers: We're Fine with the Obliteration of the Obligations of Contracts Clause

- State actions to override and ignore legal, longstanding and regulator approved contract language is a clear violation of the Constitution
- The **Obligation of Contracts Clause** (aka "Contracts Clause") is found in **Article I** of the **United States Constitution**
- Generally speaking, this clause was added to the Constitution in order to *prohibit states from interfering with private contracts.*



The Constitution

We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common Defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this CONSTITUTION for the United States of America.

Article. I.

SECTION 1. All legislative Powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and House of Representatives.

SECTION 2. The House of Representatives shall be composed of Members chosen every second Year by the People of the several States, and the Electors in each State shall have the Qualifications requisite for Electors of the most numerous Branch of the State Legislature.

No Person shall be a Representative who shall not have attained to the Age of twenty-five Years, and been seven Years a Citizen of the United States, and who shall not, when elected, be an Inhabitant of that State in which he shall be chosen.

[Representatives and direct Taxes shall be apportioned among the several States which may be included within this Union, according to their respective Numbers, which shall be determined by adding to the whole Number of free Persons, including those bound to Service for a Term of Years, and excluding Indians not taxed, three fifths of all other Persons.] The actual Enumeration shall be made within three Years after the first Meeting of the Congress of the United States, and within every subsequent Term of ten Years, in such Manner as they shall by Law direct. The Number of Representatives shall not exceed one for every thirty Thousand, but each State shall have at Least one Representative; and until such enumeration shall be made, the State of New Hampshire shall be entitled to chuse three, Massachusetts eight, Rhode-Island and Providence Plantations one, Connecticut five, New-York six, New Jersey four, Pennsylvania eight, Delaware one, Maryland six, Virginia ten, North Carolina five, South Carolina five, and Georgia three.

When vacancies happen in the Representation from any State, the Executive Authority thereof shall issue Writs of Election to fill such Vacancies.

The House of Representatives shall chuse their Speaker and other Officers; and shall have the sole Power of Impeachment.

SECTION 3. The Senate of the United States shall be composed of two Senators from each State, chosen by the Legislature thereof, for six Years; and each Senator shall have one Vote.

Immediately after they shall be assembled in Consequence of the first Election, they shall be divided as equally as may be into three Classes. The Seats of the Senators of the first Class shall be vacated at the Expiration of the second Year, of the second Class at the Expiration of the fourth Year, and of the third Class at the Expiration of the sixth Year, so that one-third may be chosen every second Year; and if Vacancies happen by Resignation, or otherwise, during the Recess of the Legislature of any State, the Executive thereof may make temporary Appointments until the next Meeting of the Legislature, which shall then fill such Vacancies.

No Person shall be a Senator who shall not have attained to the Age of thirty Years, and been nine Years a Citizen of the United States, and who shall not, when elected, be an Inhabitant of that State for which he shall be chosen.

The Vice President of the United States shall be President of the Senate, but shall have no Vote, unless they be equally divided.

The Senate shall chuse their other Officers, and also a President pro tempore, in the absence of the Vice President, or when he shall exercise the Office of President of the United States.

The Senate shall have the sole Power to try all Impeachments. When sitting for that Purpose, they shall be on Oath or Affirmation. When the President of the United States is tried, the Chief Justice shall preside: And no Person shall be convicted without the Concurrence of two thirds of the Members present.

Judgment in Cases of Impeachment shall not extend further than to removal from Office, and disqualification to hold and enjoy any Office of honor, Trust or Profit under the United States: but the Party convicted shall nevertheless be liable and subject to Indictment, Trial, Judgment and Punishment, according to

The **Contracts Clause** states:

"No State shall...pass any...Law impairing the Obligation of Contracts..."

Is a Pandemic Risk Insurance Act Really Needed?

- 9/11 produced widespread disruption through global (re)insurance markets and threatened the ability of the nation to recover from an unprecedented disaster
- The COVID-19 pandemic creates few meaningful disruptions in p/c (re)insurance markets
- TRIA was a very targeted, efficient solution that has brought nearly two decades of stability to the market
- Commercial insurers are not an appropriate or efficient means for the delivery of aid for viral outbreaks
- The $2 trillion federal emergency relief package will use existing, efficient channels (e.g.,SBA, Fed) for the delivery of targeted assistance to millions of businesses, individuals (direct payments, unemployment insurance) and other entities

BUSINESS INSURANCE.

Momentum builds for government pandemic backstop

Posted On: Mar. 24, 2020 2:47 PM CST

Claire Wilkinson



Legislation is in the works that would provide a go-forward mechanism for a federal backstop for pandemic risk insurance and could be introduced as soon as in the next 30 days, sources say.

The legislation would establish a pandemic risk insurance program, akin to the federal terrorism insurance backstop known as TRIA, they said.

A draft bill outlining the proposal has been circulated, led by House Financial Services Committee Chairwoman Maxine Waters, D-Calif., they said. The office of Chairwoman Waters did not return a call for comment.

The proposed backstop insurance mechanism could be added to later tranches of a financial aid package that Congress is negotiating, sources said.

Source: Risk and Uncertainty Management Center.

Personal Auto

Consumer Groups Want Rates Lowered Immediately…

…But Regulator Approved Rating Methodologies Are Already Sensitive to Changes in Claim Activity

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Personal Auto Coverage & COVID-19

- **The Consumer Federal of America (CFA) and Center for Economic Justice on March 18 wrote a letter to state insurance commissioners urging them to:**

  "…direct auto insurers in your state to provide premium offset payments to policyholders whose driving has been affected by COVID-19…"

- **Is such an action necessary? No—and here's why:**

1. Rates are already sensitive to changes in claim frequency and severity
2. The reduction in miles driven is transient (and unquantified)
3. The CFA analysis misleadingly ignores rising claim severities, and
4. The CFA has never in the past and is likely never to advocate in the future for immediate increases in rates at times of economic expansion

Personal Auto Coverage & COVID-19

1. Rates Already Responsive to Changes in Claiming Behavior

- Auto insurance rates are already responsive to changes in claim activity (i.e., claim frequency) and are continuously adjusted at each policyholder's renewal to reflect the most recent individual and class (i.e., group) claim experience.

2. Rates Are Designed to Adjust Gradually

- Rates are established using multiple years' worth of data and as such adjust gradually, in both a downward and upward direction, per the preference of regulators and policyholders
- To the extent that there is a sustained decline in auto claim frequency, rates will be adjusted accordingly

Personal Auto Coverage & COVID-19

3. Efficacy of Methodologies Proved During Financial Crisis

- During the financial crisis and subsequent sluggish economic recovery afterward, rates fell or were flat in most states over a span of years. Personal auto insurers premiums written across the 50 states actually declined from $160.5 billion in 2006 to $157.2 billion in 2009 and did not exceed pre-crisis levels until 2011.
- During the financial crisis, the average annual decrease in personal auto collision claim frequency was a modest 1.3% (average from 2008 -2010, inclusive).

4. Transient Impact

- The current downturn is expected to be swift, but short (i.e., “V-shaped”) which would suggest a rapid return to pre-event claim frequencies very rapidly after the “all clear” is given by government officials. Indeed, claim frequencies could easily exceed pre-event levels as pent-up economic demand for discretionary travel is satisfied (FYI--as the economy pulled out of the financial crisis, claim frequencies rose to as high as +4.4%, compared to +2.5% just before the crisis in 2007).

Personal Auto Coverage & COVID-19

5. Claim Severities Continue to Rise

- The CFA's analysis fails to mention claim severity (i.e., average cost per claim).
- It is incorrect and misleading to focus on claim frequency in isolation as every claim has a cost associated with it.
- The most recent data available (for the 12-month period ending 9/30/19) indicate that average collision claim severity was up by 5.0%, with average cost per claim rising to $3,938 from $3,751 a year earlier
- Collision claim severity, which is largely a function of the cost to repair or replace damaged vehicles, is unlikely to be materially affected by current events. Hence, even if claim frequency falls by, say, 2% to 3%, this decline is more than offset by the continued escalation in the cost to repair/replace damaged vehicles

Workers Compensation

Some Pressure Points

Payroll Exposure Likely to Fall Materially

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Workers Compensation & COVID-19

- **Workers compensation written for COVID-19 exposed risks (e.g., hospitals, first responders, etc.) will likely see a spike in both severity and frequency**
- **Some states will require costs associated with precautionary quarantines of COVID-19 exposed workers**
- **Impact arising from "Essential Industries" unclear (e.g., grocery stores)**
- **Outside COVID-19 exposed segments—Large, Swift Drop in Payroll Exposure**
  - ***Drop in WC payroll exposure base could be the fastest and largest in history*** given the record 3.28 million initial unemployment claims data (week ending March 21) with much more to come
  - Wage growth, which had been making gains, will also slow
  - Overall likely net reduction in claim frequency

Impacts for Other Key Lines

A Wide Variety of Manageable Pressures

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Other Key Lines & COVID-19

Event Cancellation Coverage

- **Losses will easily exceed $1 billion**
  - **Tokyo Olympics postponement is the tip of the iceberg**
  - **Many/most policies are manuscripted, so exact terms and conditions will vary but exposure is global in nature**
  - **Lloyd's market reinsurers have material exposure**
  - **Overall, impacts are manageable as this coverage is a very narrow slice of the overall P/C (re)insurance market**

Travel Insurance

- **Material losses, but a small line relative to the size of the p/c insurance industry**

Other Key Lines & COVID-19

Cyber Insurance

- **Millions of Americans Suddenly Working at Home Increases Cyber Risk by Orders of Magnitude**
  - **Security risks have increased exponentially**
  - **Examples:**
    - **Tens of millions of employees working over unsecured home WiFi networks**
    - **Millions of businesses seeking to add an online sales capability immediately**

Other Key Lines & COVID-19

Economically Sensitive Lines

- **Commercial Auto, Inland Marine and Related Lines**
  - **Exposure bases will, if only transiently, shrink →Adverse impact on premium growth**
  - **Temporary reductions in claim frequency**

D&O

- **Extreme Financial Market Volatility, Corporate Bankruptcies Generally Breed D&O Claims**
  - **Should corporate bankruptcies rise, D&O suits are inevitable**

Miscellaneous Property/Casualty Concerns & COVID-19

Casualty Lines Concerns

- **Tails on Some Casualty Lines Extended**
  - **Non-essential medical treatments deferred—Could add to severities in lines with long-tailed bodily injury claims**
  - **Slowdown in court systems (torts don't get better with age; pre-judgment interest)**

Property Lines Concerns

- **Business interruption litigation**
- **With business closures, unmonitored insured premises are more vulnerable to water damage, theft, vandalism, etc.**

SUMMARY

- The P/C Insurance Industry Remains Strong, Stable, Sound and Secure
- The Rapid Economic Slowdown Will Temper P/C Growth, Especially in Economically Sensitive Lines
- Decline in Asset Prices, Interest Rates Will Pressure Investment Earnings for the Foreseeable Future
- COVID-19 Exposures Are Manageable but Industry Has Some Headline Risk on Business Interruption Issue

Questions?



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