COVID-19: Economic Impacts on the P&C Insurance Industry

Overview and Outlook

Inland Marine Underwriters Association (IMUA)
American Institute of Marine Underwriters (AIMU)
Executive Briefing
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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**
- **Federal & State COVID-19 Initiatives Impacting Insurers**
- **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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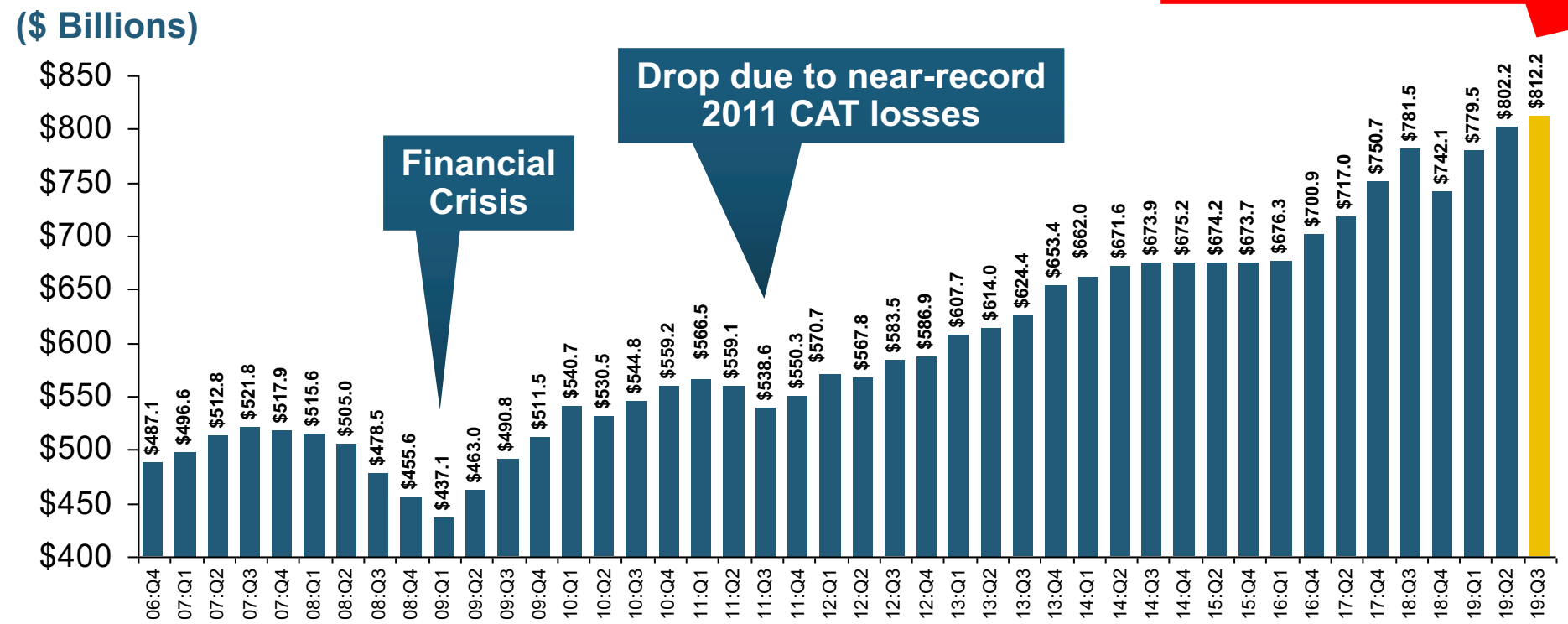
Policyholder Surplus (Capacity), 2006:Q4–2019:Q3

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

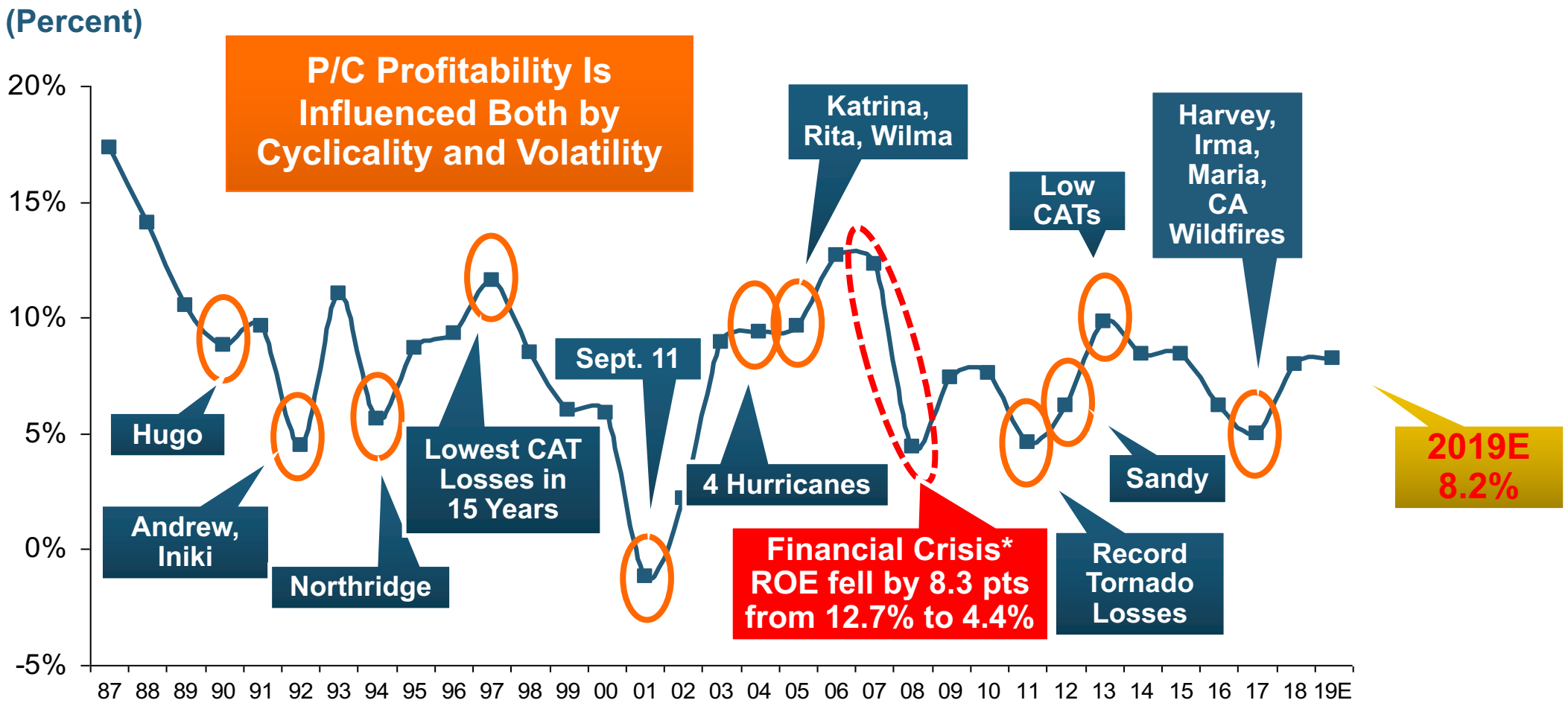


2010:Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

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



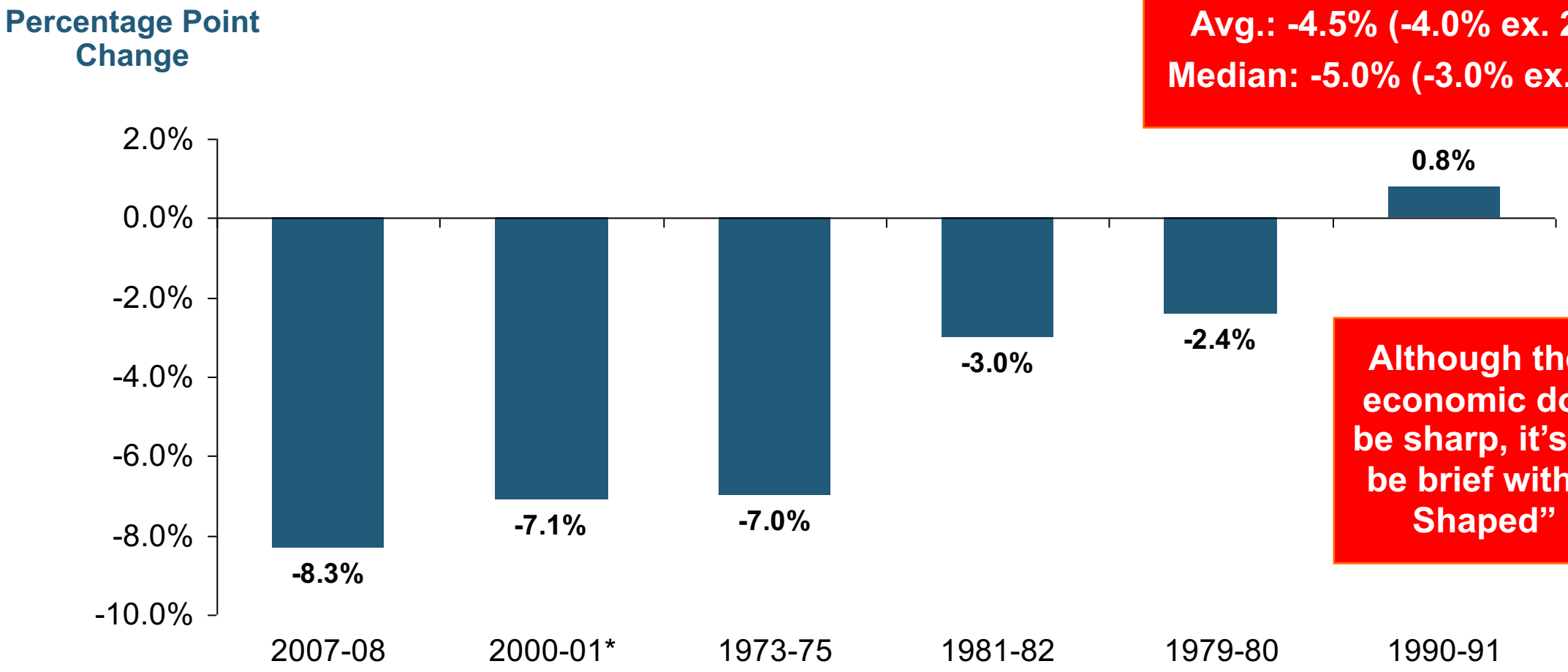
*Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: ISO, *Fortune*; A.M. Best (2018E-2019F); USC RUM Center.

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)

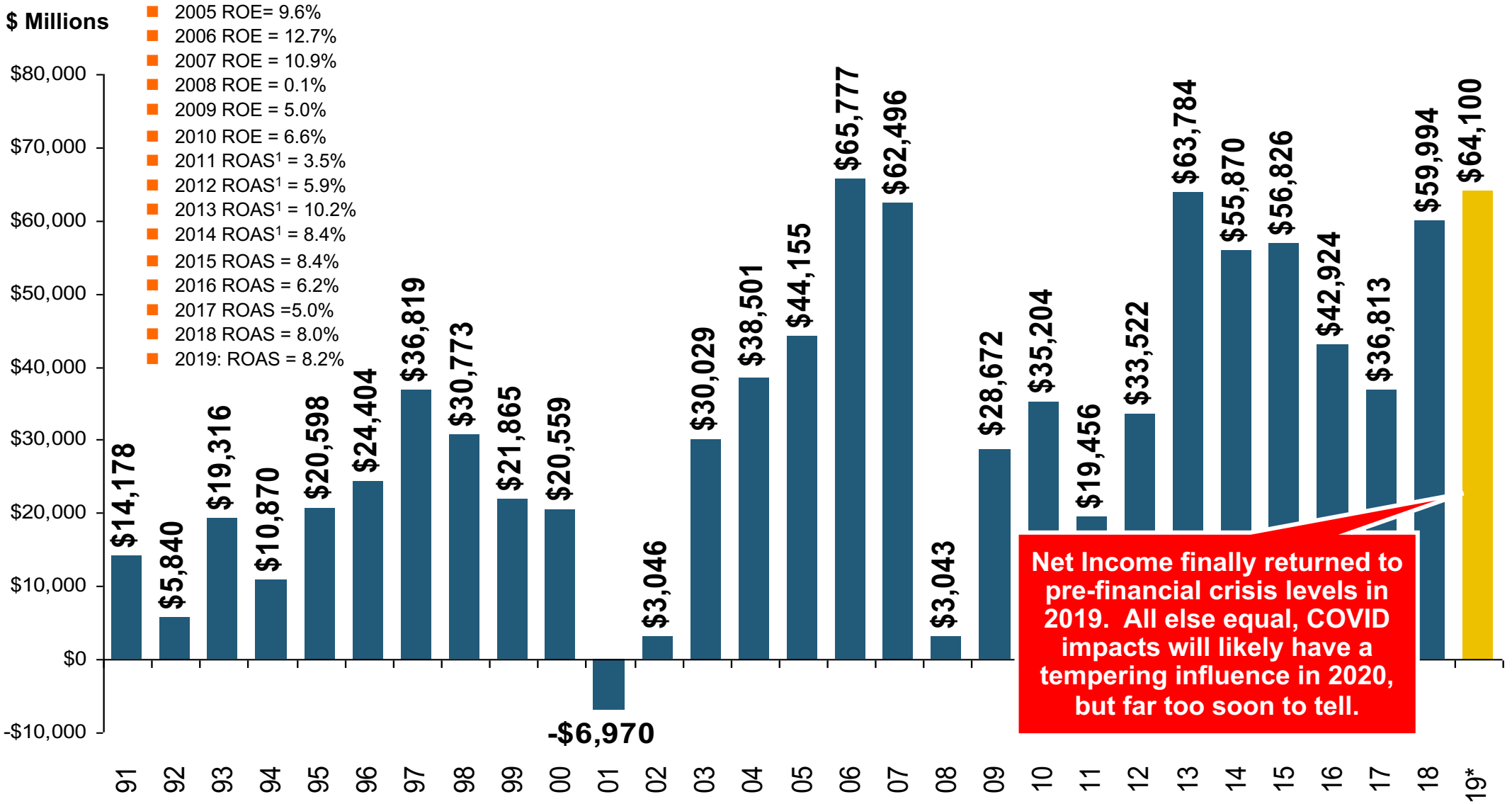


Although the COVID-19 economic downturn will be sharp, it's expected to be brief with a rapid "V-Shaped" recovery

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

Source: USC Center for Risk and Uncertainty Management.

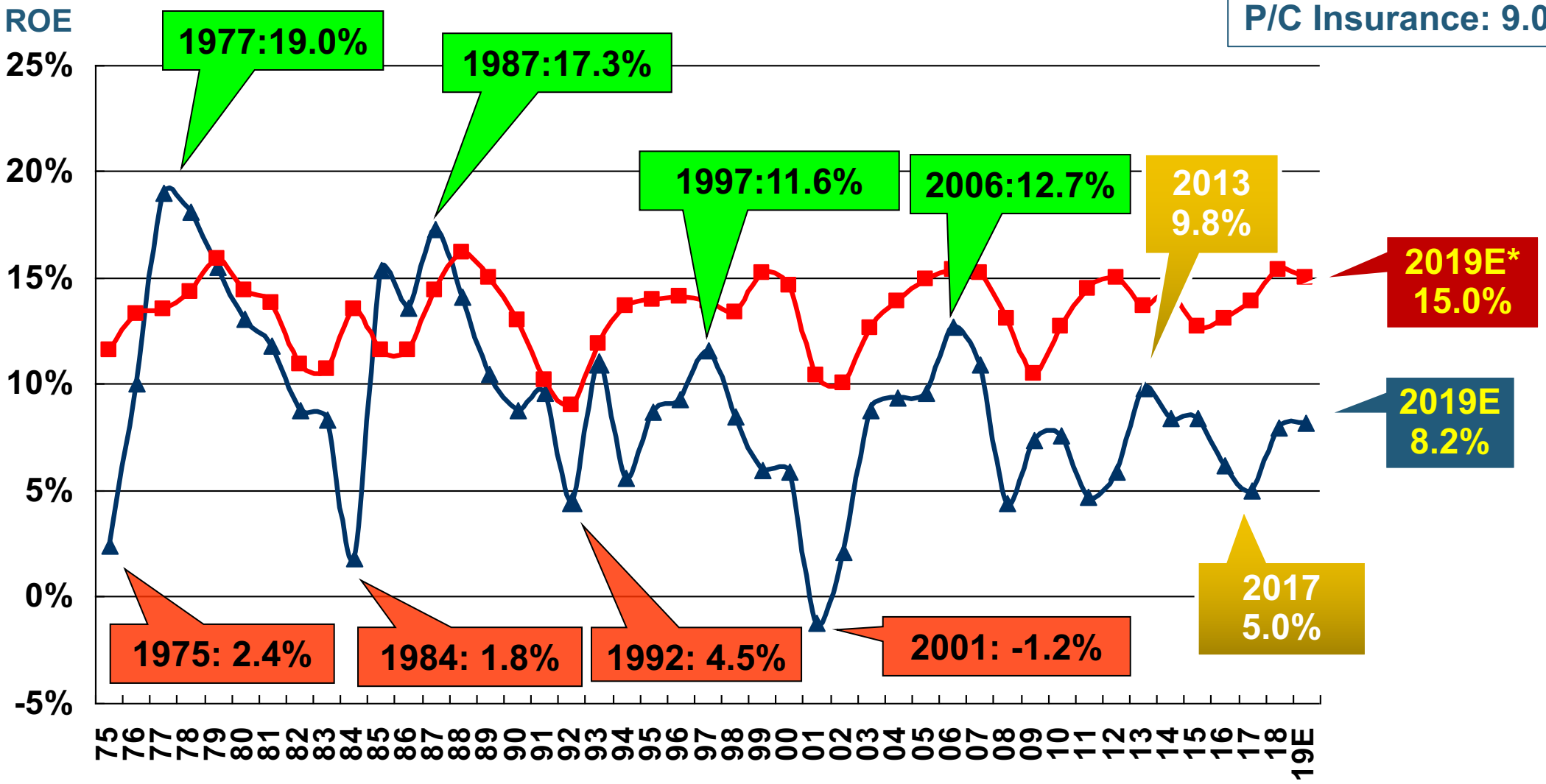
P/C Industry Net Income After Taxes, 1991–2019F*



*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

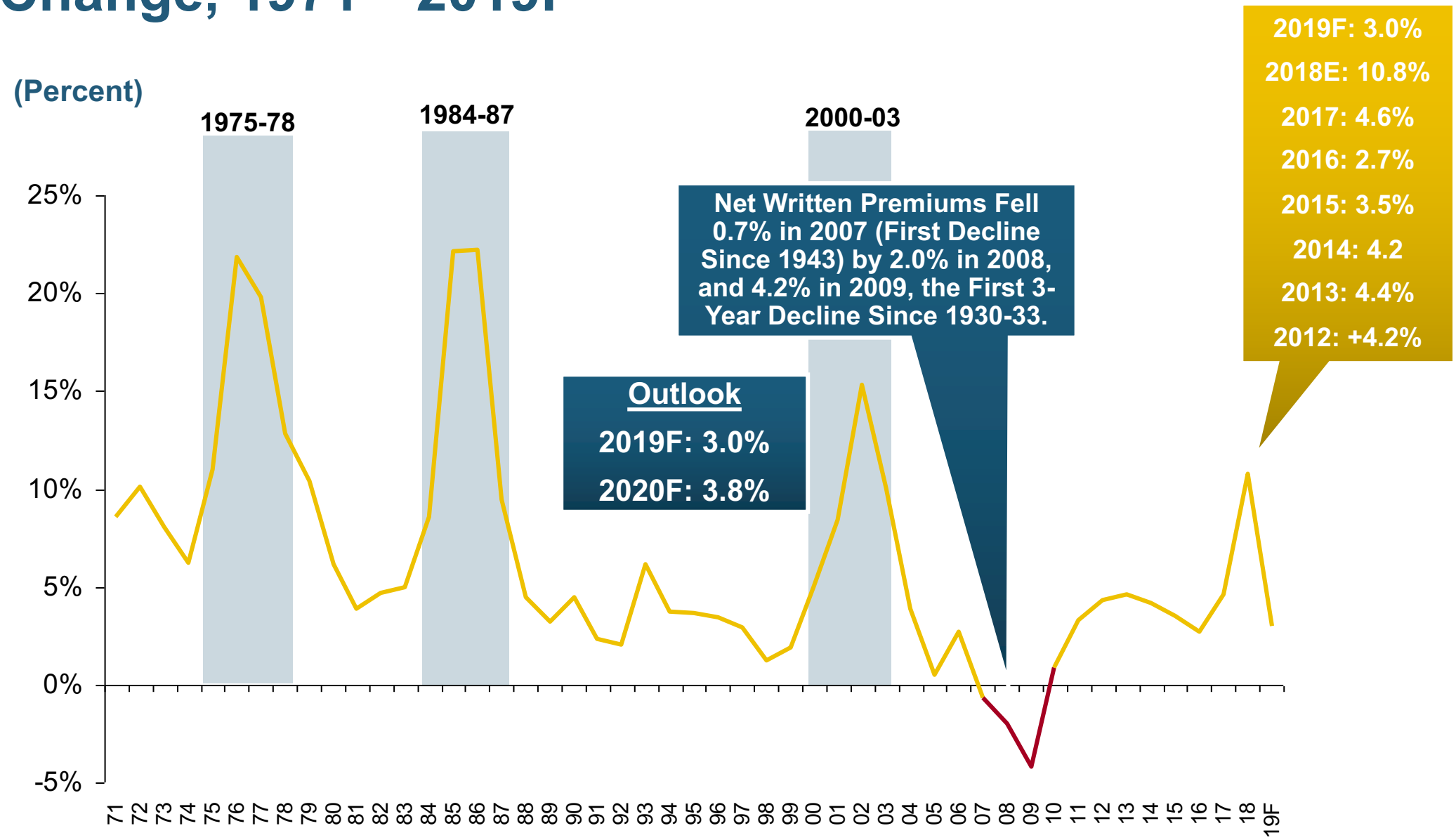
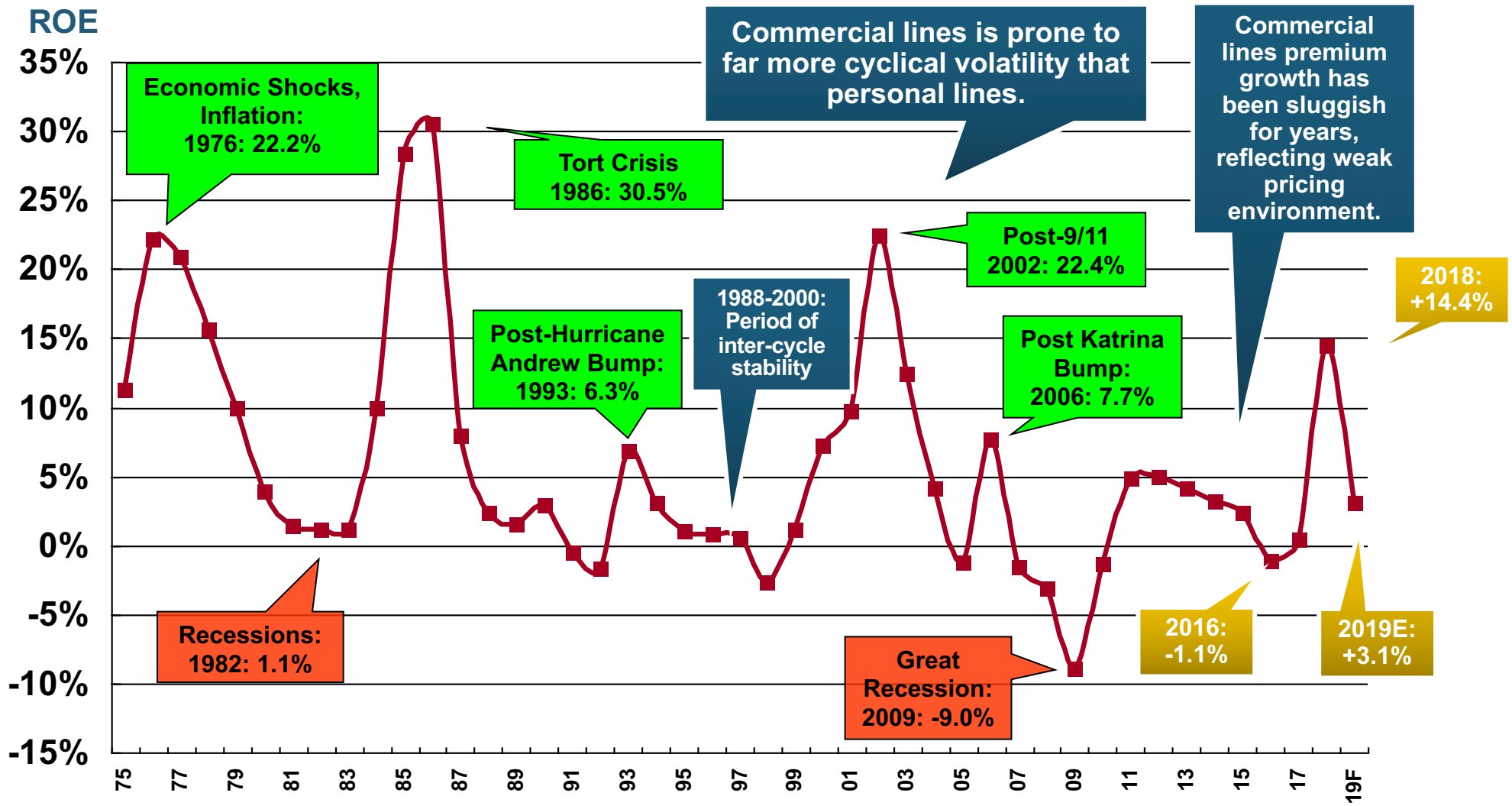


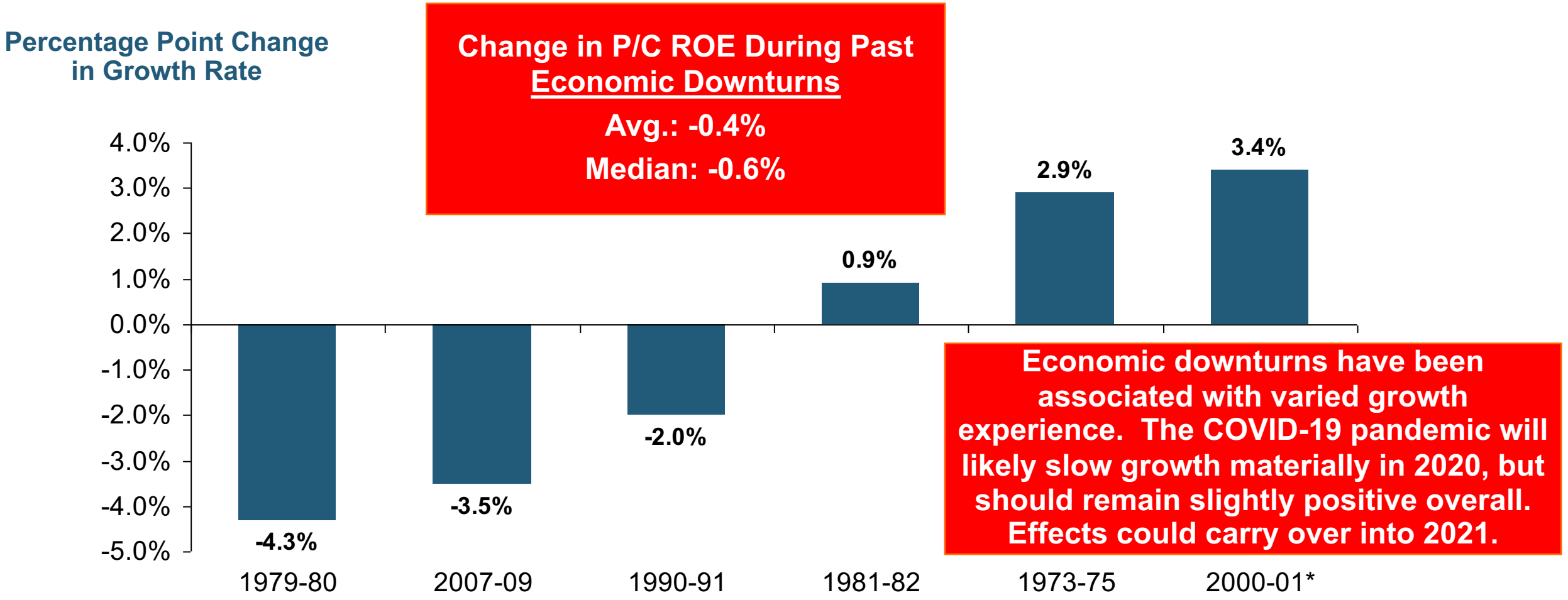
*Figure is actual 2018:9M vs. 2017:9M change adjusted for affects of the TCJA of 2017. Shaded areas denote “hard market” periods
Sources: A.M. Best (1971-2013, 2020F), ISO (2014-19); Risk & Uncertainty Management Center, Univ. of South Carolina estimate for 2019.

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.

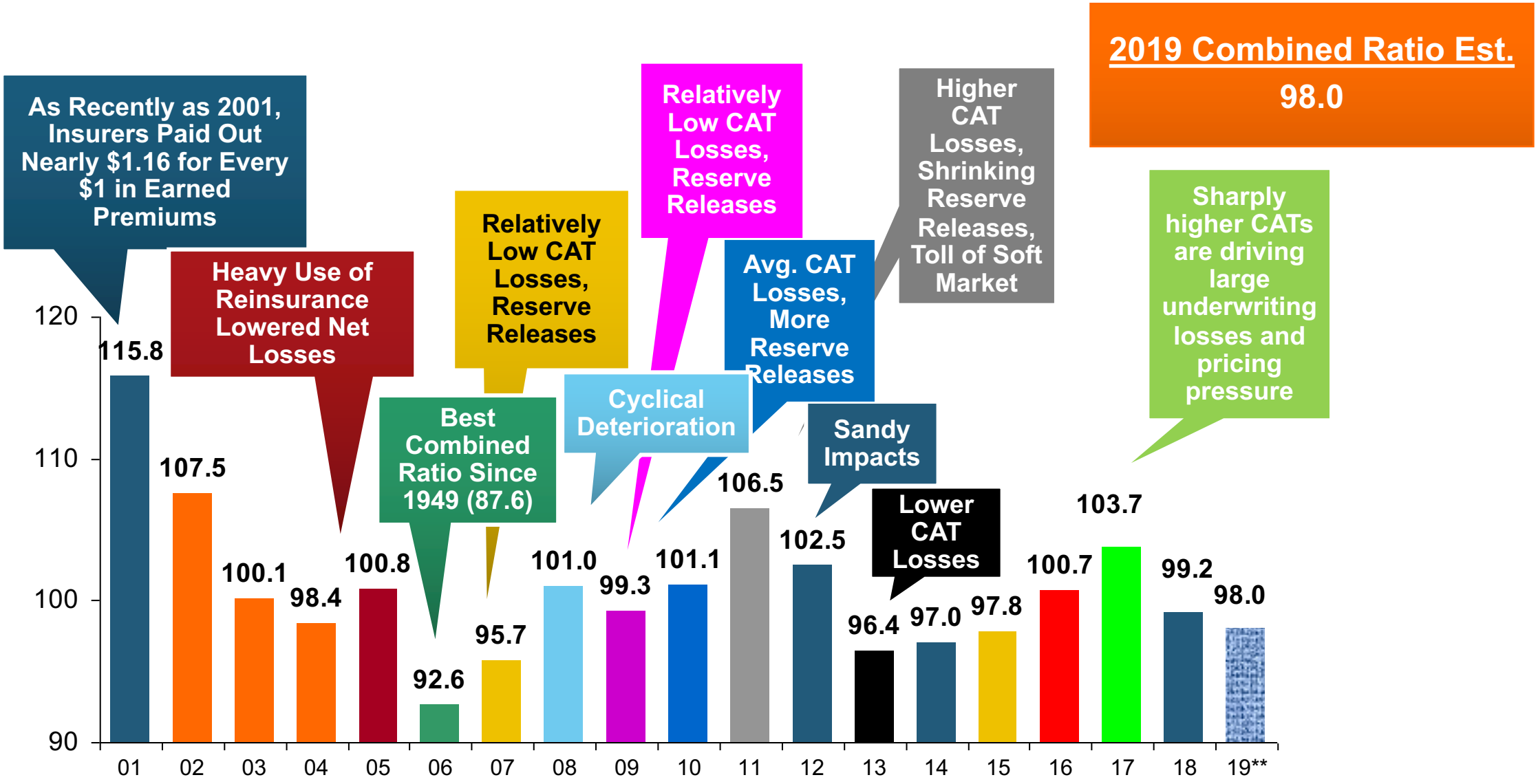
Change in P/C Net Written Premium Growth During Past Economic Downturns: 1971 - Present



*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

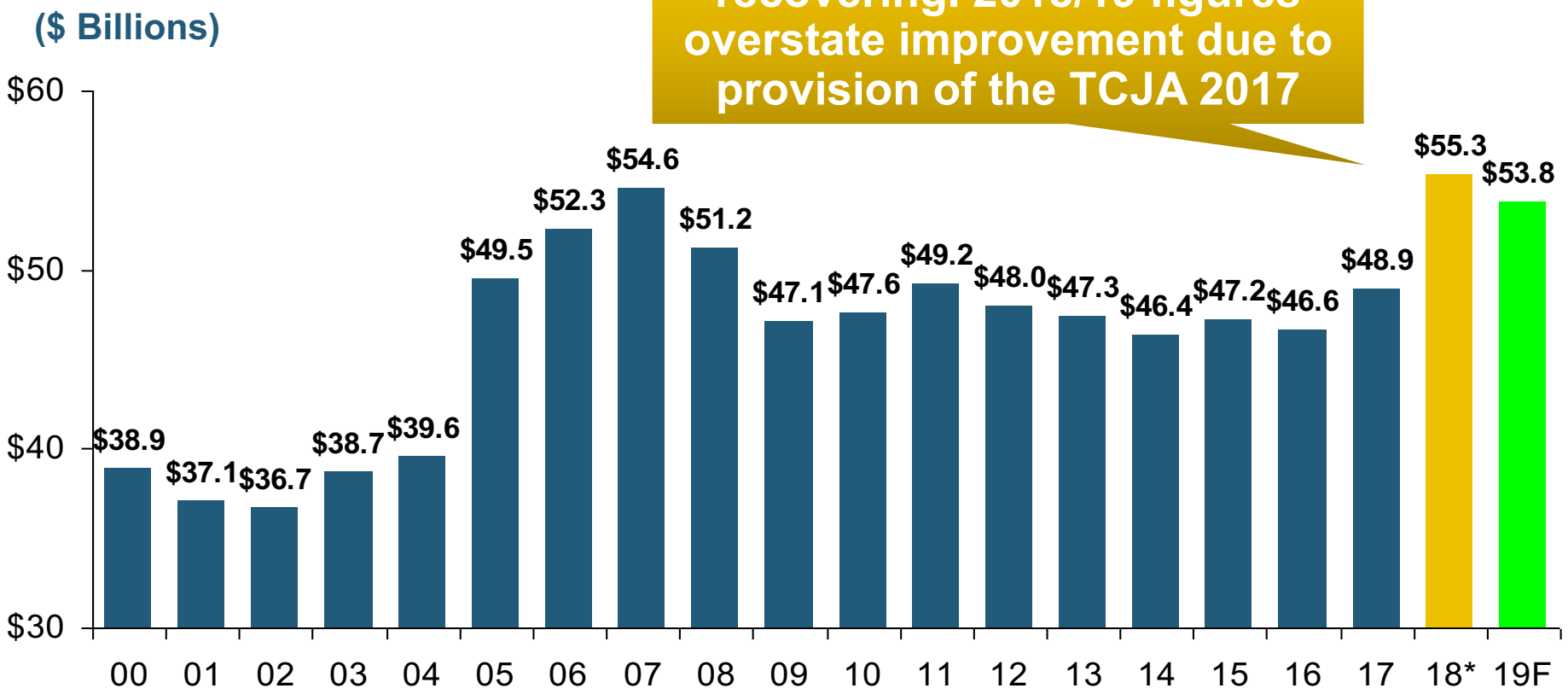
Investment Performance Is a Key Driver of Insurer Profitability

Aggressive Rate Cuts Will Adversely Impact Invest Earnings

Financial Crisis *Déjà Vu*?

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

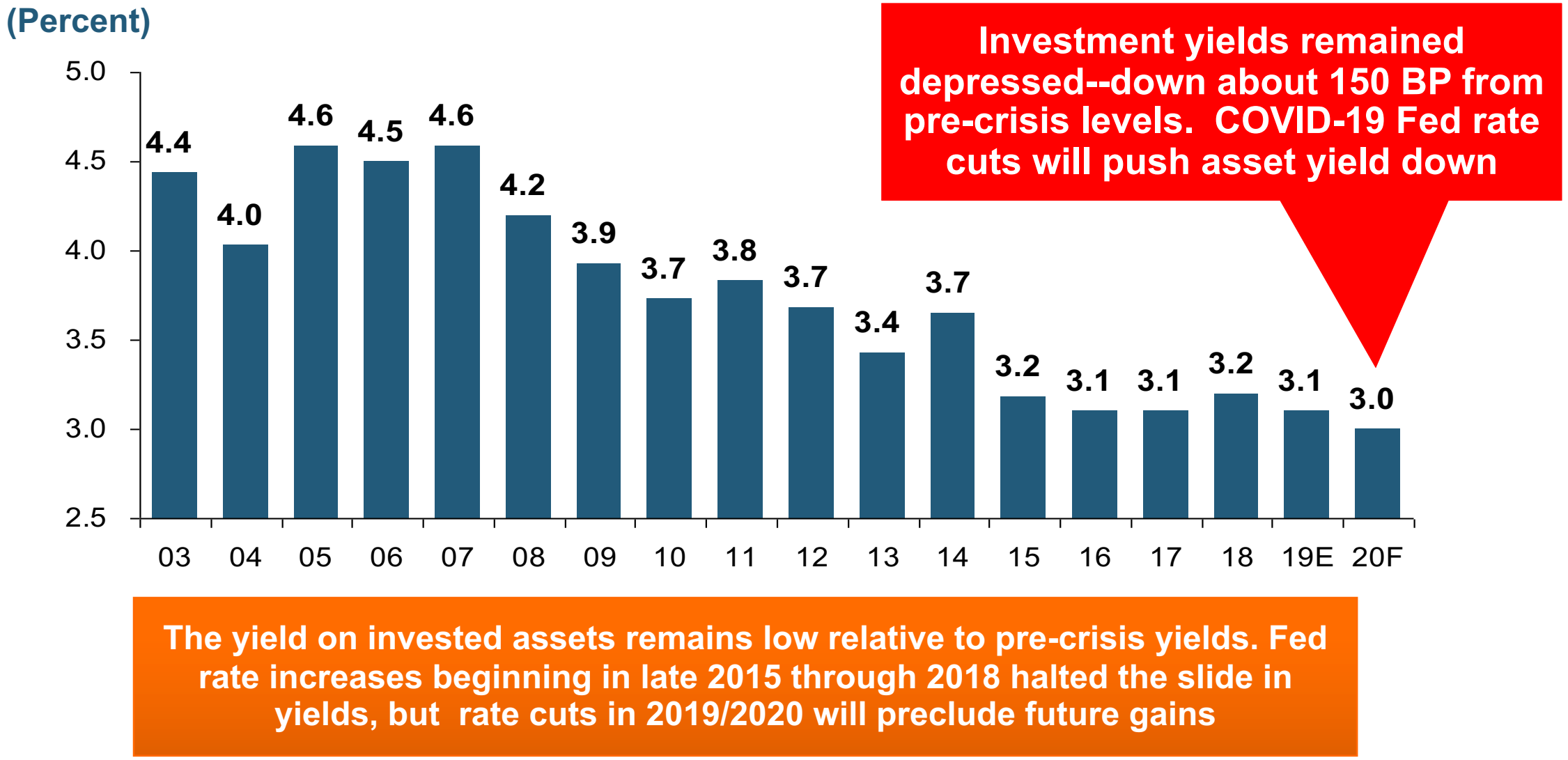
Investment income is slowly recovering. 2018/19 figures overstate improvement due to provision of the TCJA 2017



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.

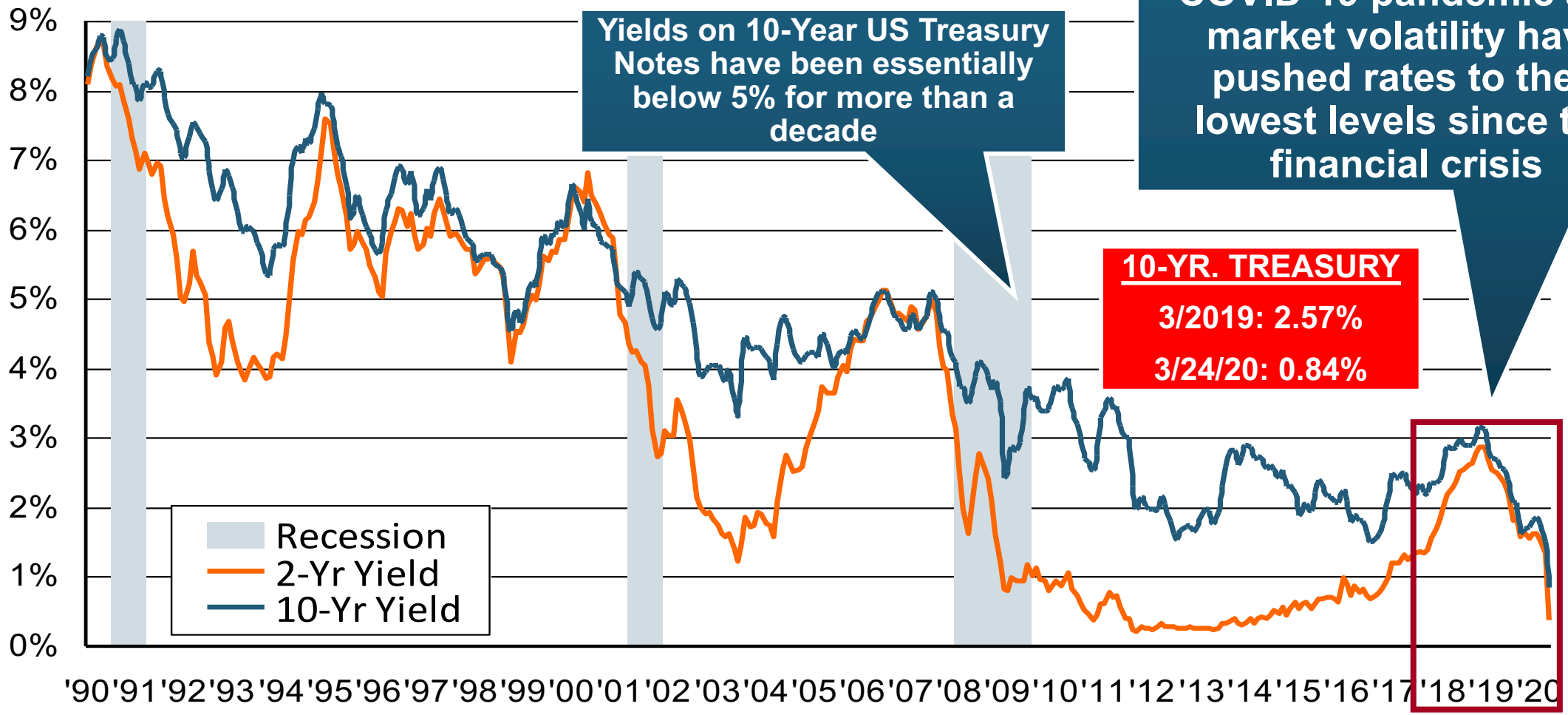
Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2020F*



The yield on invested assets remains low relative to pre-crisis yields. Fed rate increases beginning in late 2015 through 2018 halted the slide in yields, but rate cuts in 2019/2020 will preclude future gains

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*

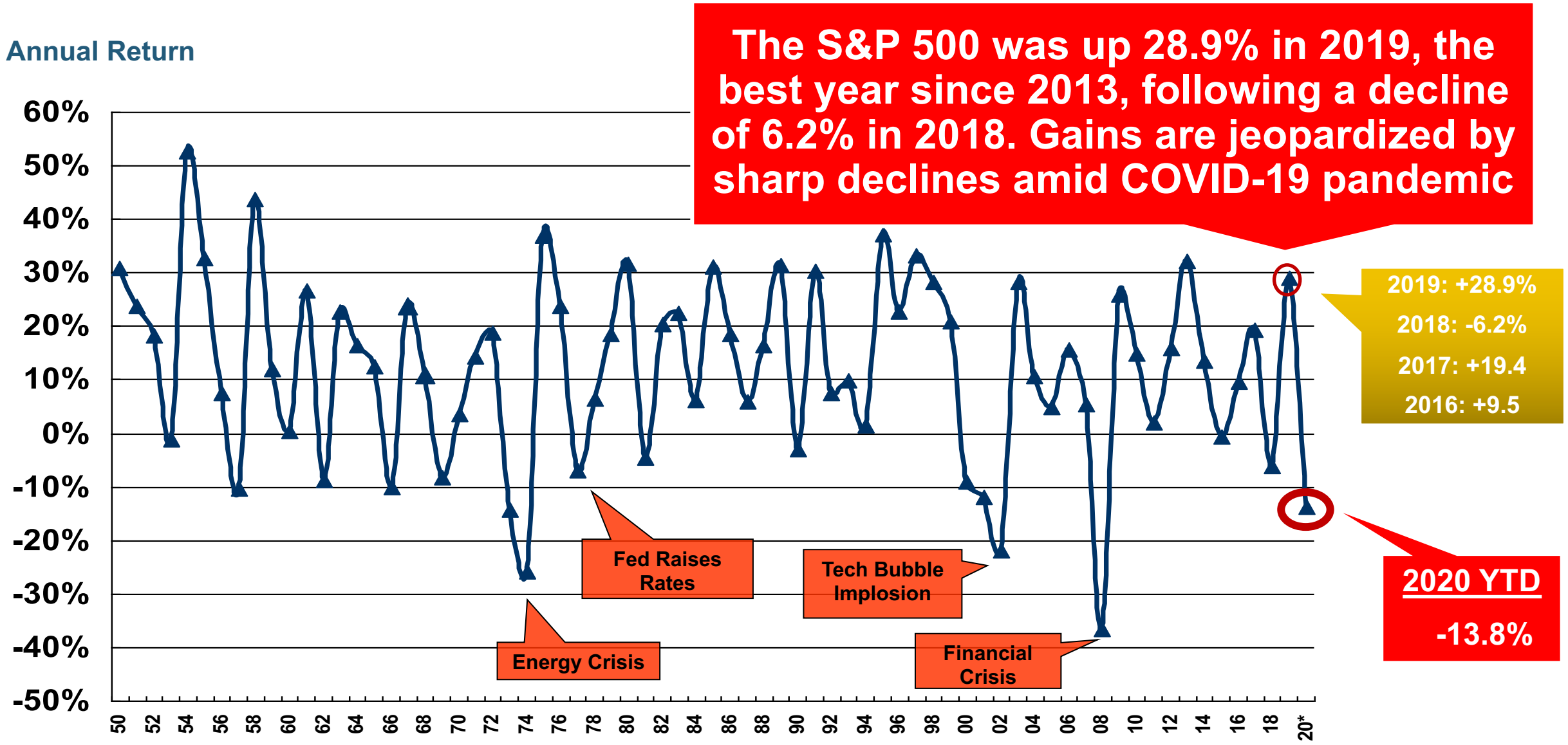


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*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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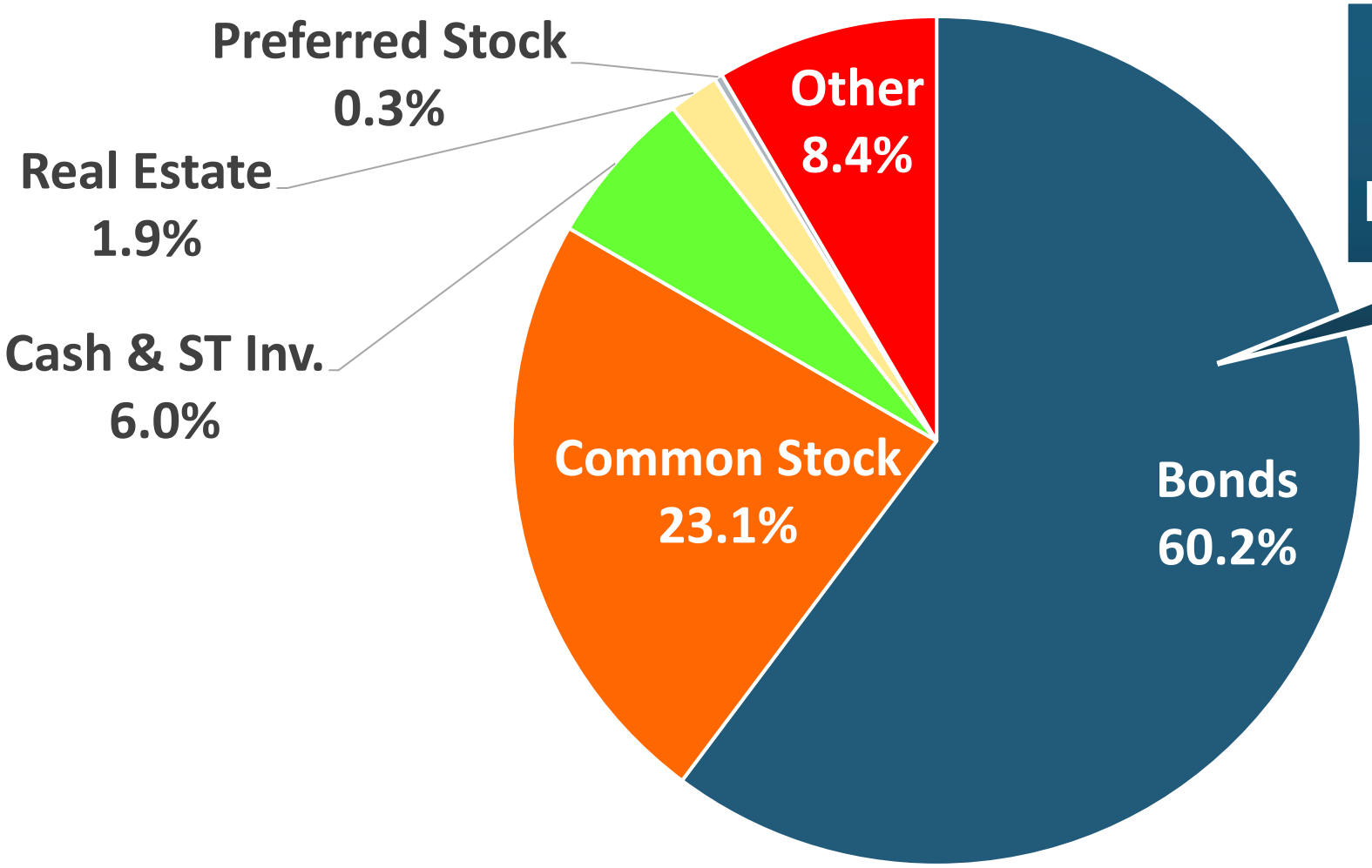
*Through April 15, 2020.
Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html; Center for Risk and Uncertainty Management, University of South Carolina

P/C Insurance Industry Investment Portfolio, 2018



60% of the industry's $1.69 trillion investment portfolio is held in bonds

Amid the aggressive Fed response to the COVID crisis, insurer investment income will once again come under pressure as rates are expected to be kept low through 2021—*at least*

Source: S&P Global Market Intelligence; Risk and Uncertainty Management Center, University of South Carolina.

Financial Markets Have Been *Extremely* Volatile

- **April 15: S&P is up 20% since is March 23 trough (2,192 @ close)**
- **April 9: DJIA had its best weekly % gain since 1974 (+12.1%)**
- **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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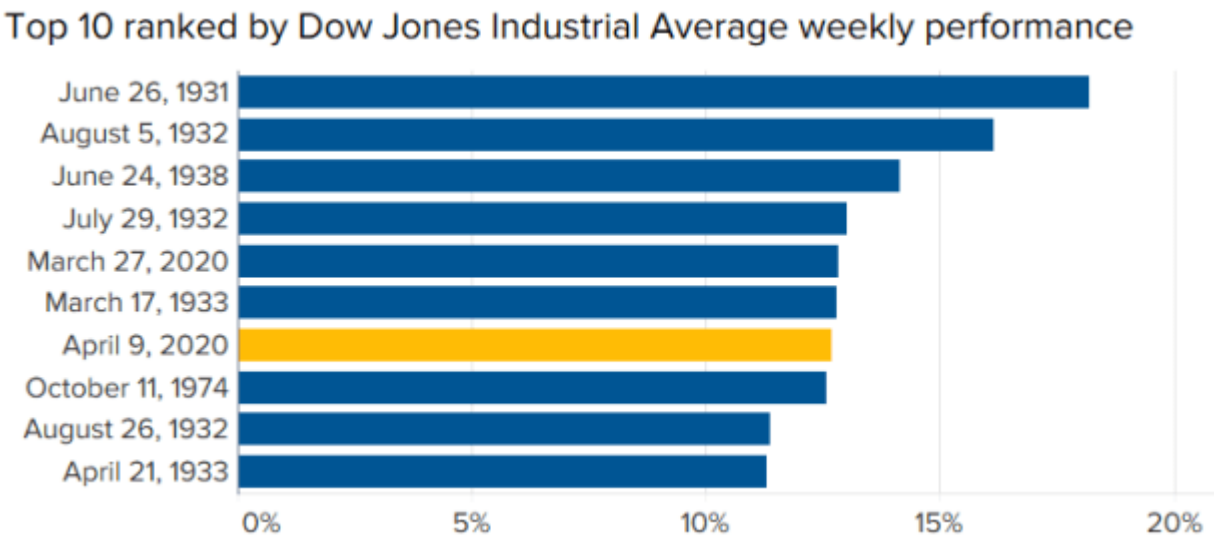
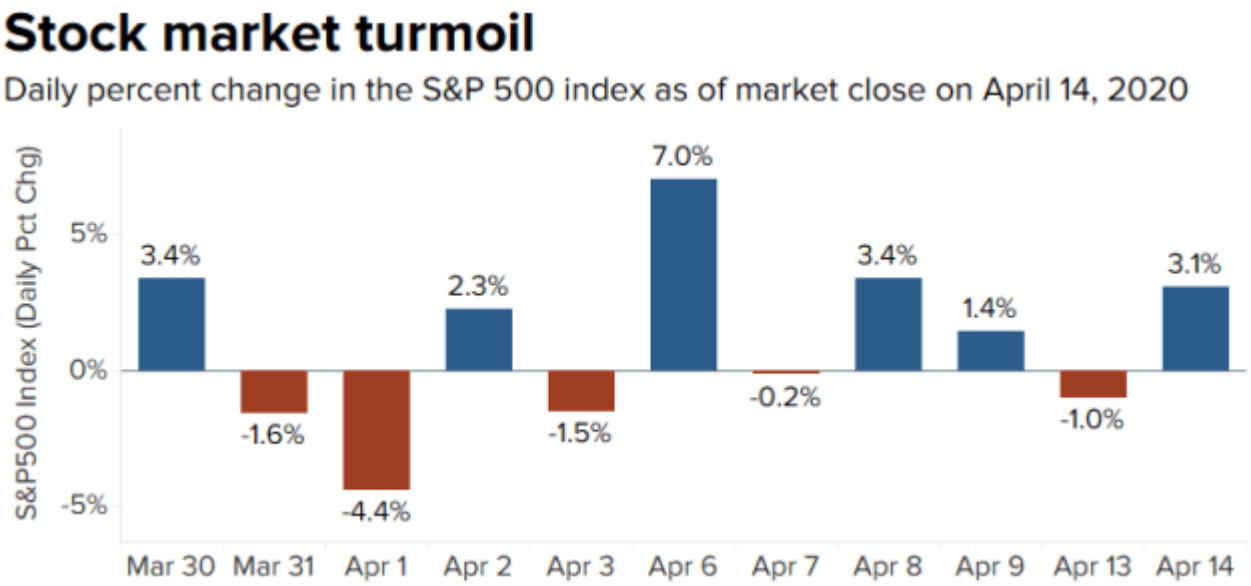
Last week was the DJIA's best since 1974





Source: CNBC.com; 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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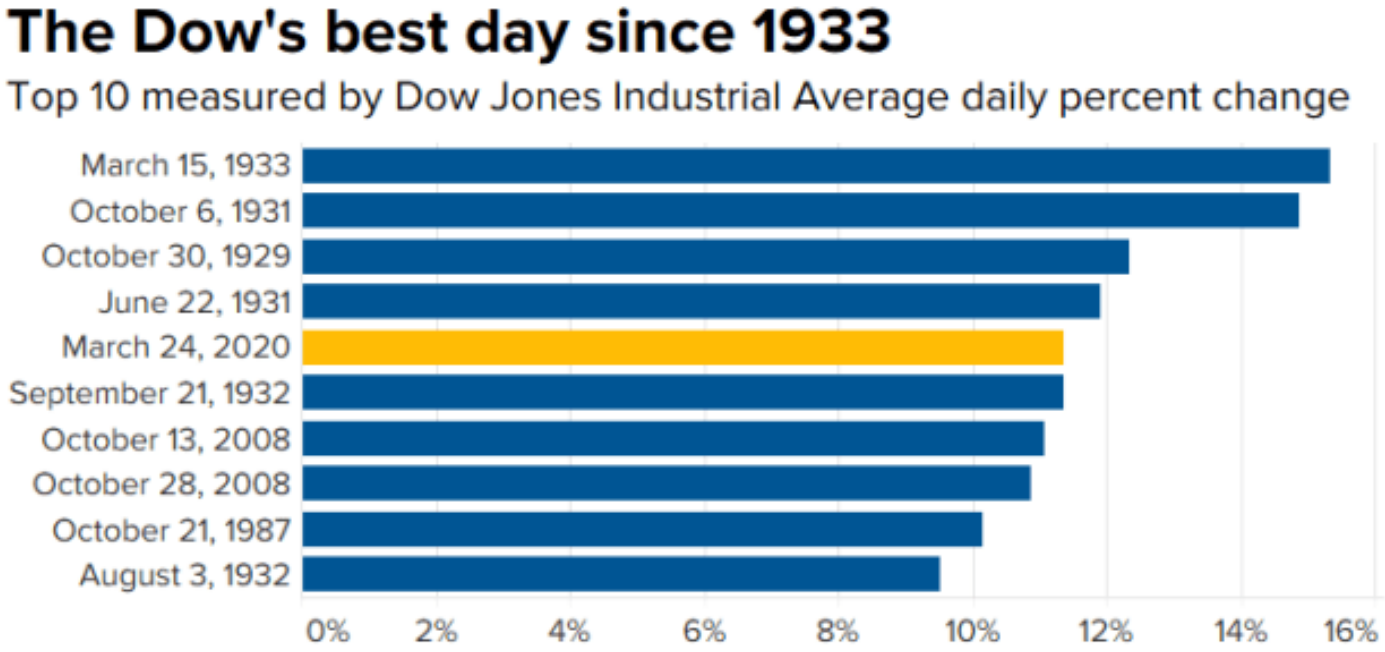
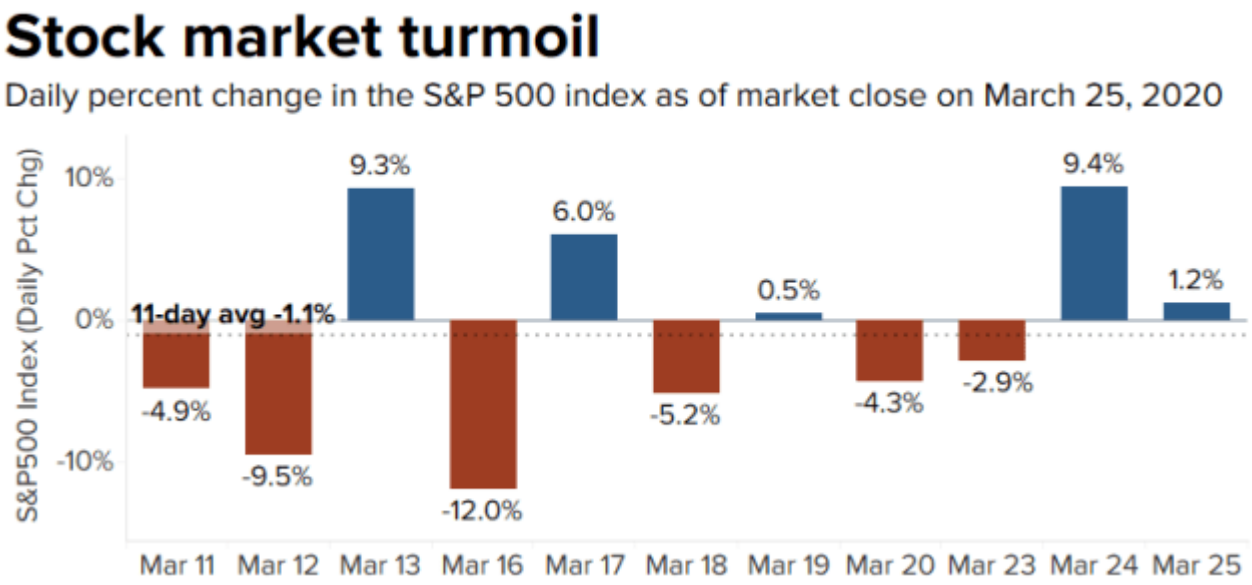




Source: CNBC.com; Center for Risk and Uncertainty Management, University of South Carolina

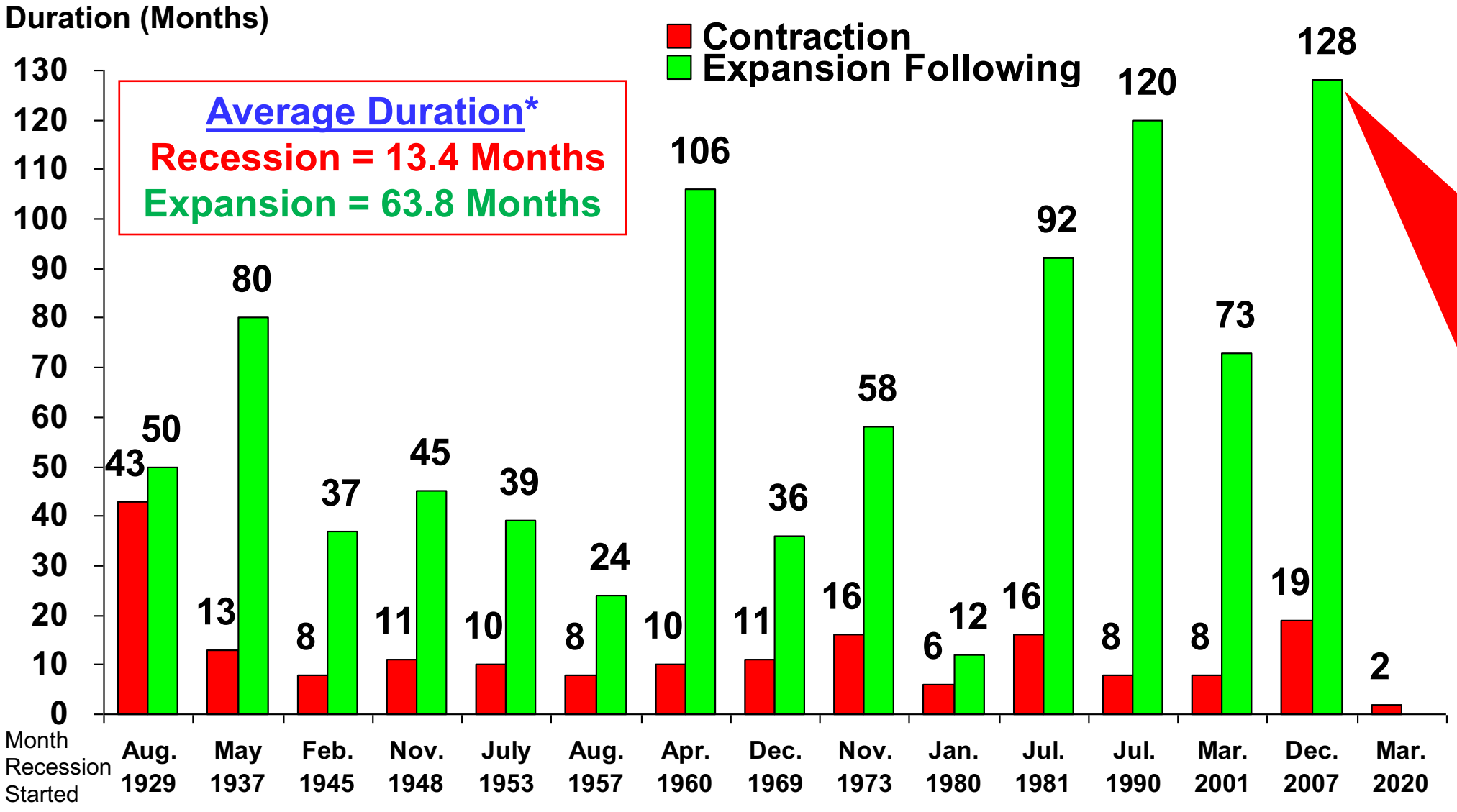
THE ECONOMY

COVID-19 Pandemic Will Directly and Severely Impact Growth As Exposure Growth Rapidly Shrinks

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

Length of US Business Cycles, 1929-Present*



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

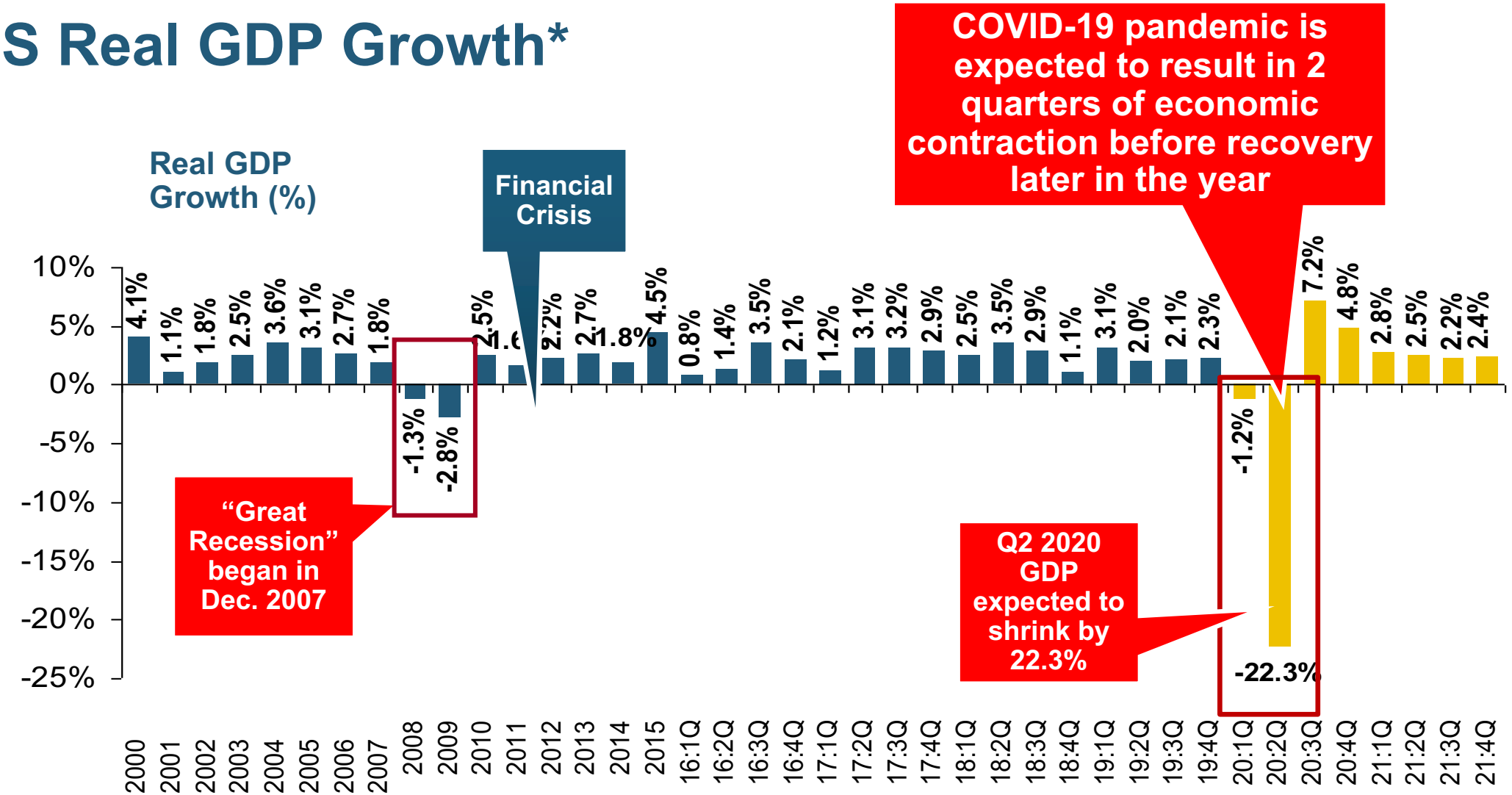
It has abruptly ended—*but perhaps only interrupted.*

Recession may officially last only 5-7 months

* As of April 2020 but excluding current COVID-19 recession which began in March/April 2020 and is ongoing.

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

US Real GDP Growth*



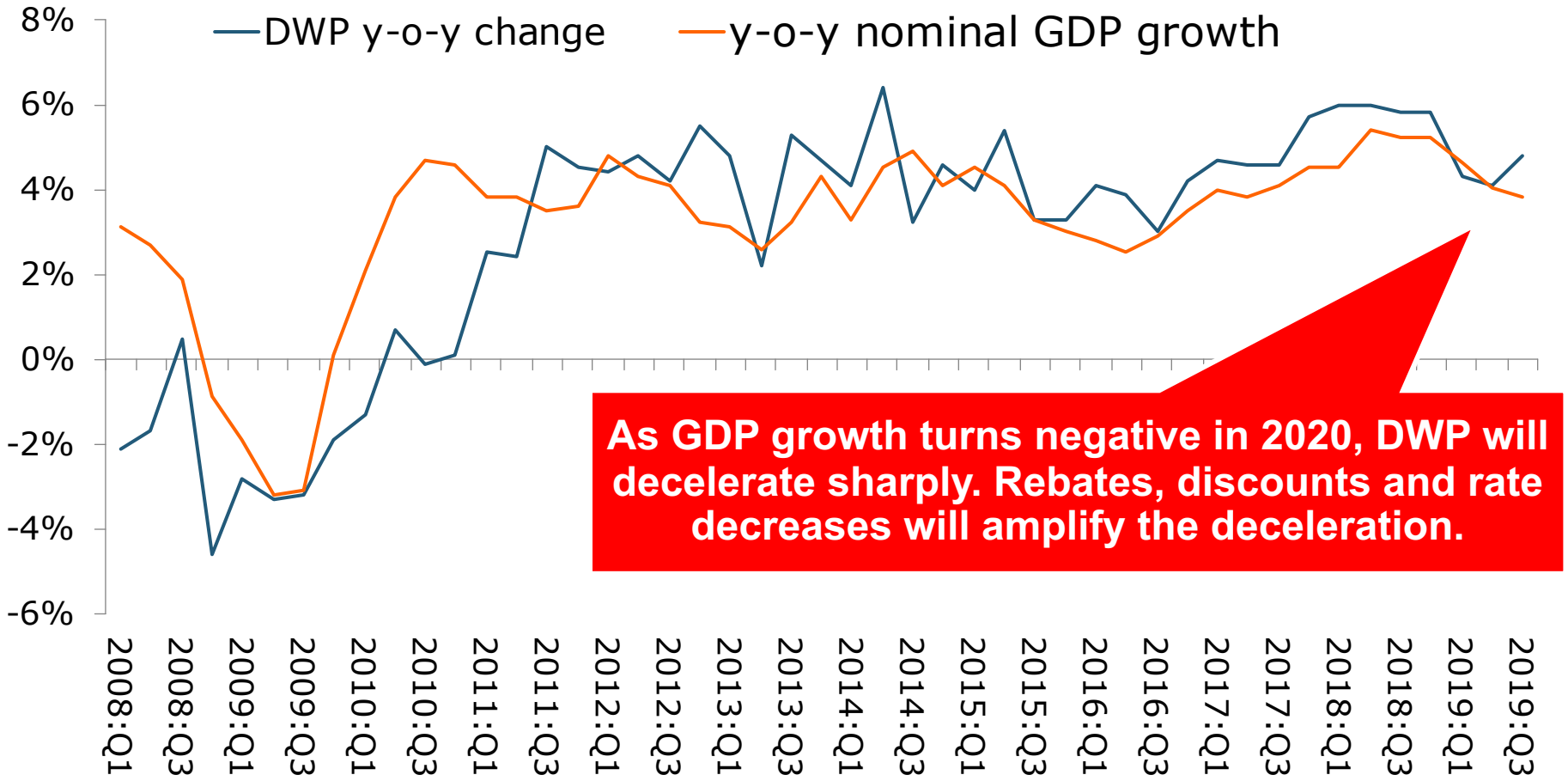
Demand for Insurance Will Be Impacted As the Economy Slows but Should Improve by Late Q3 and into Q4

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities 4/8/20; Center for Risk and Uncertainty Management, University of South Carolina.

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

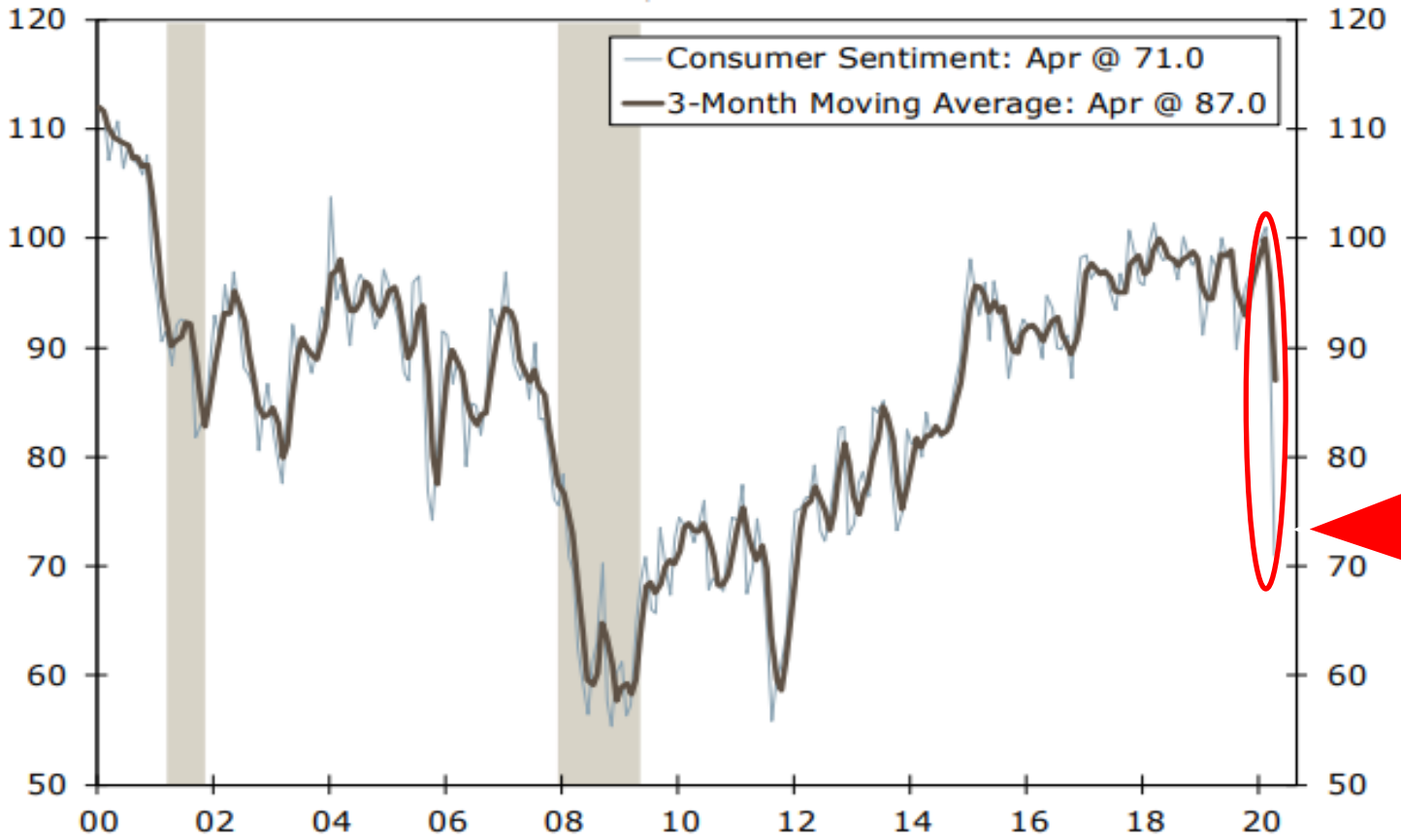


As GDP growth turns negative in 2020, DWP will decelerate sharply. Rebates, discounts and rate decreases will amplify the deceleration.

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. 2000– Mar. 2020

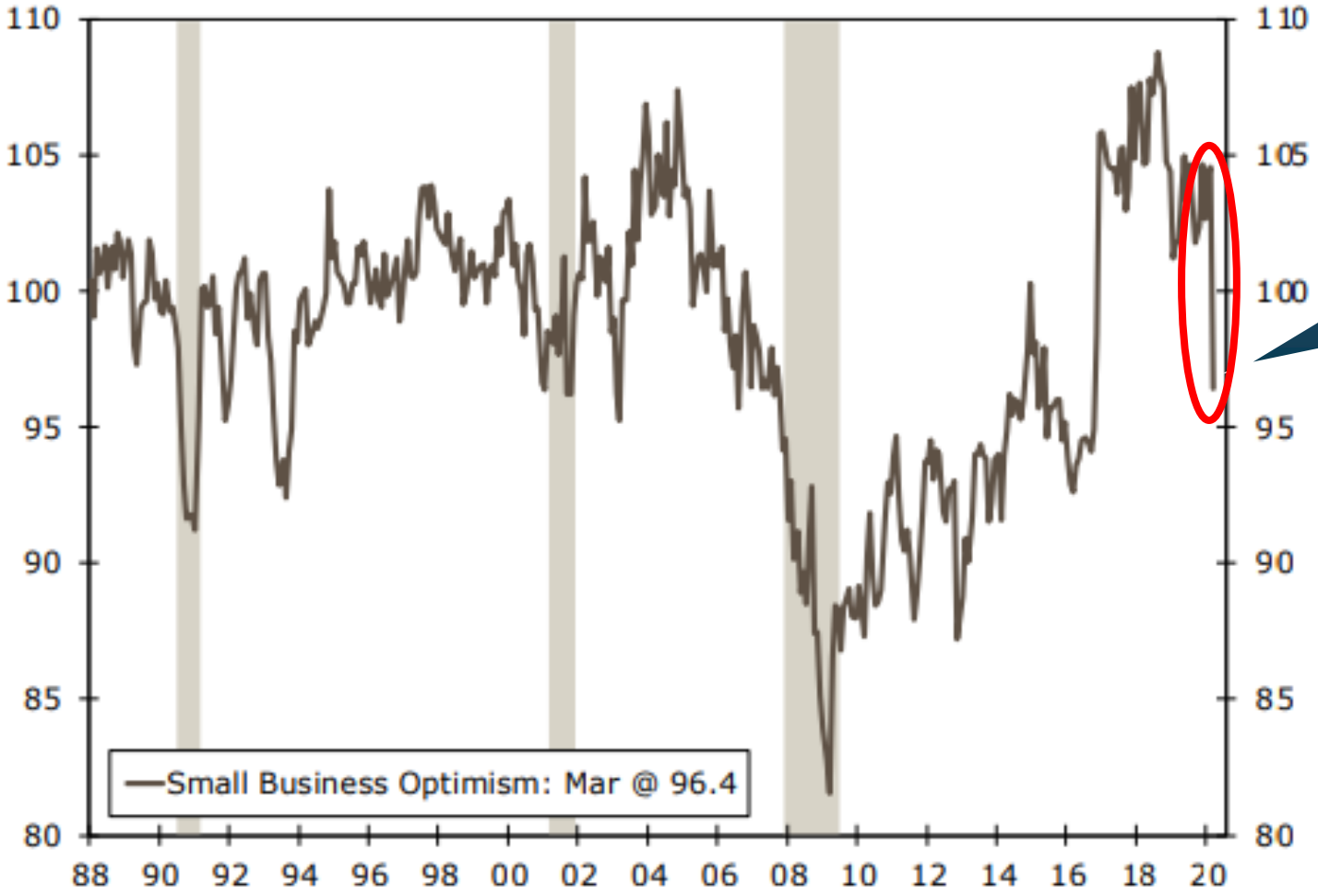


Consumer Confidence plunged a record 31.3 points in March, the largest decline on record and nearly twice the 16.6 point drop (and previous record) in Oct. 2008 during the Financial Crisis

Outlook: Consumer confidence is being severely tested by the COVID-19 economic shutdown. The longer the shutdown persists, the deeper the actual economic damage and further shattering of consumer confidence

Source: University of Michigan; Wells Fargo Research.

NFIB Small Business Optimism Index: Jan. 1988–March 2020 (Survey taken first half of March)



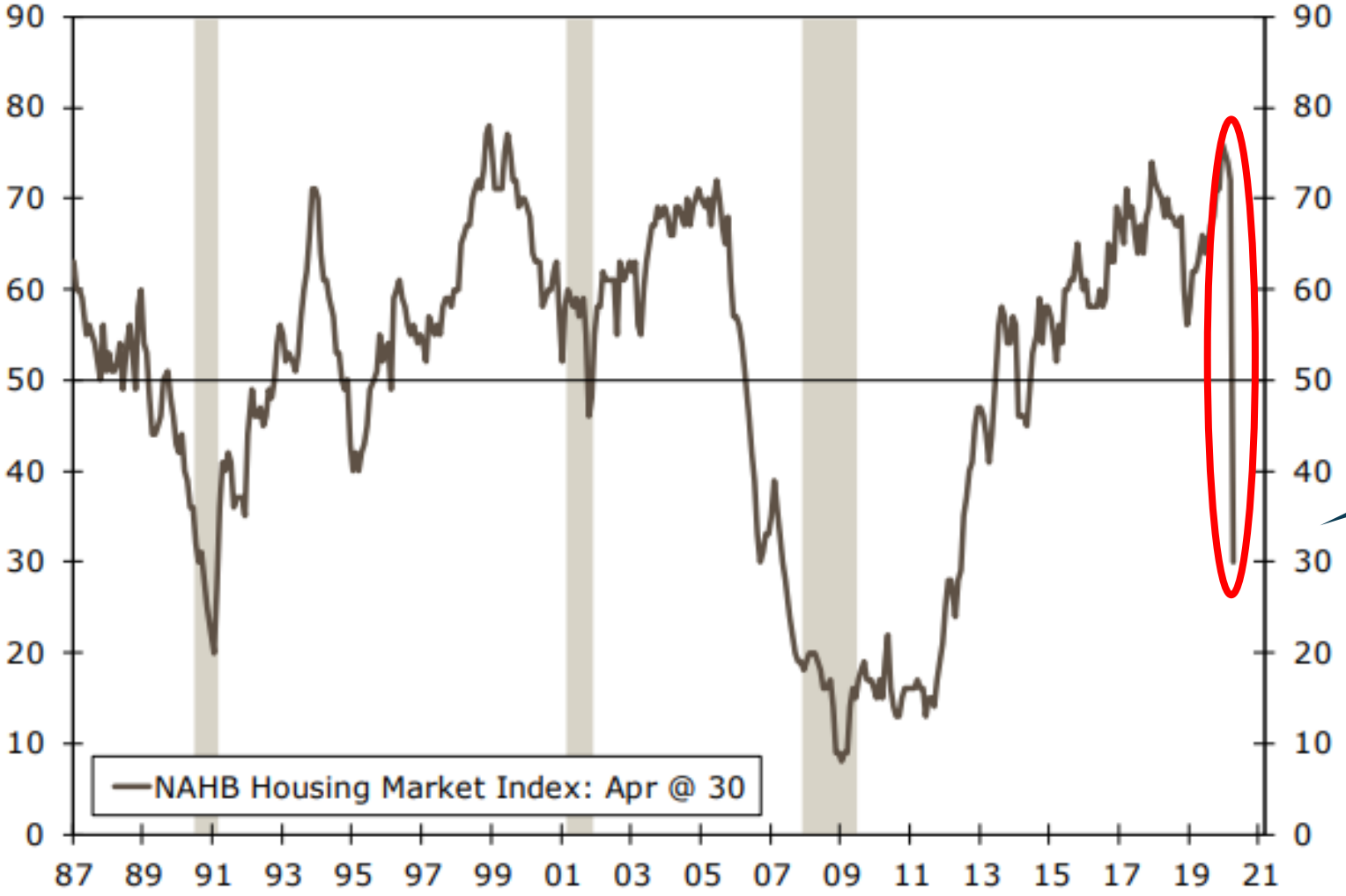
Small Business Optimism weakened sharply (-8.1 pts.) in March 2020 as fears of COVID-19 disruptions took hold. April will see a larger impact.

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

Outlook: Small business sentiment will continue to fall sharply with significant negative repercussions for p/c insurers

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

NAHB: Homebuilder Confidence Index: Jan. 1987–March 2020



Homebuilder Confidence plunged by a record 42 pts. in March 2020 as stay-at-home orders and recession fears eviscerate buyer traffic despite low mortgage rates

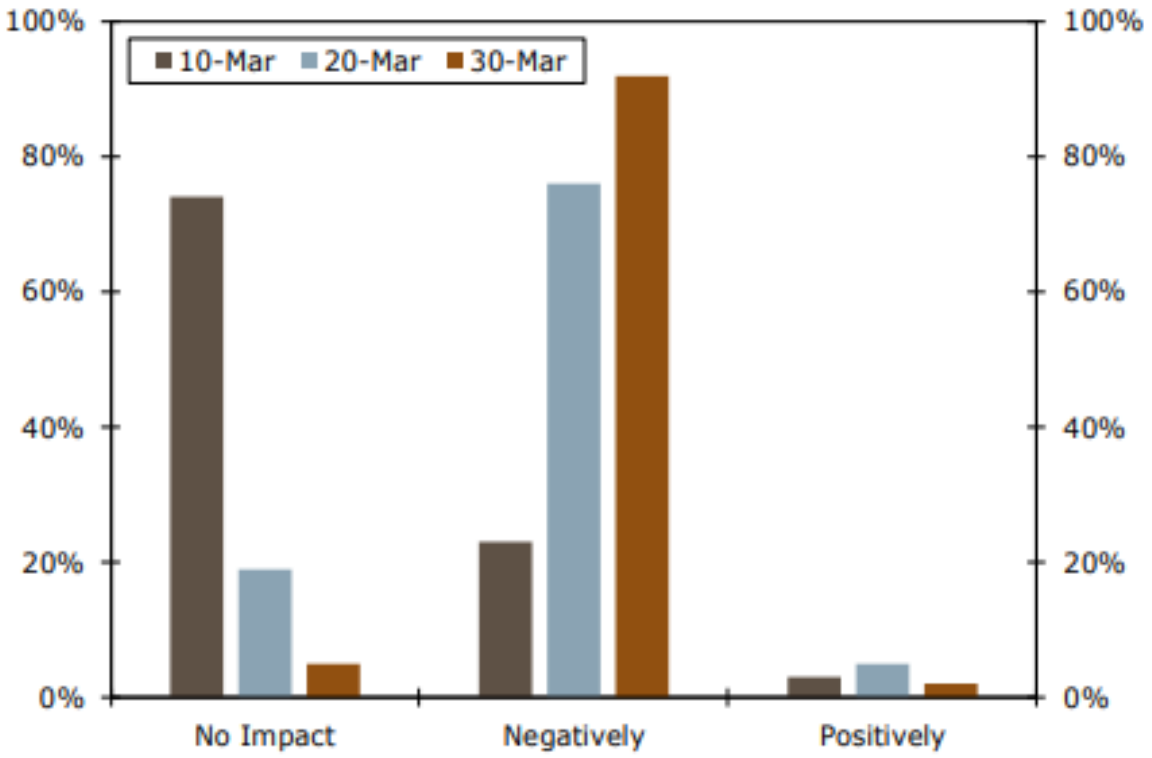
New home construction is projected to fall 10% in 2020, adversely impacting home insurer exposure growth as well as commercial insurers with construction books of business

Outlook: Homebuilders will scale back in 2020 before resuming growth in 2021. Low mortgage rates will help.

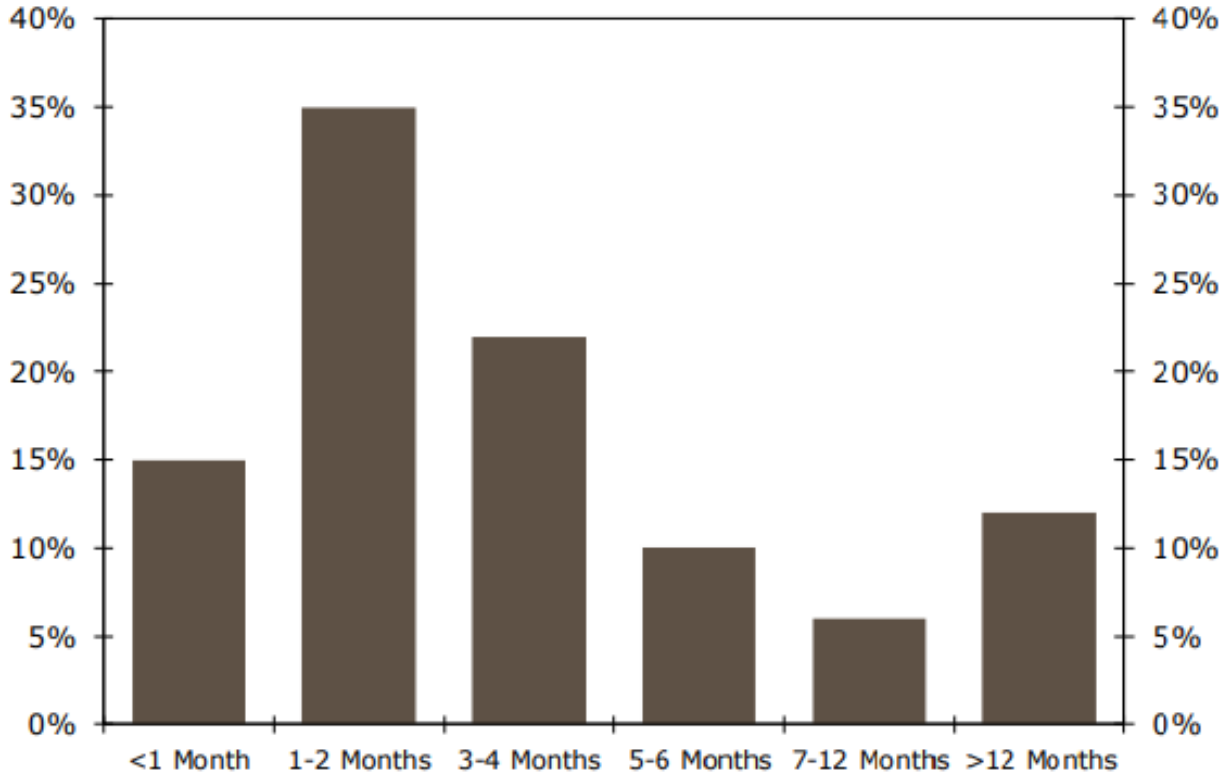
Source: National Association of Home Builders; Wells Fargo Research.

Small Business and COVID-19 (NFIB March 30 Survey)

How Has COVID-19 Impacted Your Business?



How Long Can You Operate Under Current Conditions?

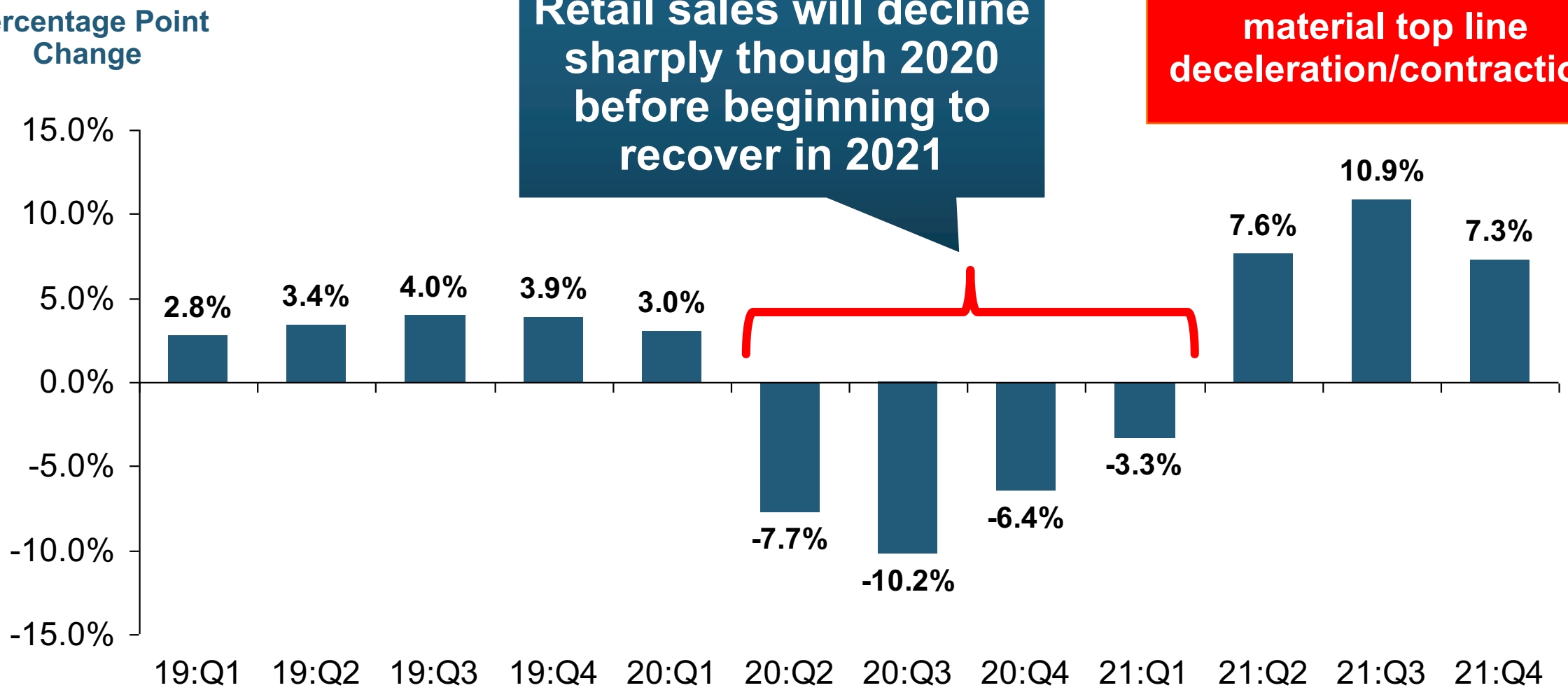


Retail sales (after hoarding runs its course) will plunge due to COVID-19 shutdowns. Large numbers of bankruptcies are likely. Negative impact on P/C exposure growth in this segment into 2021.

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

Retail Sales: 2019 – 2021F

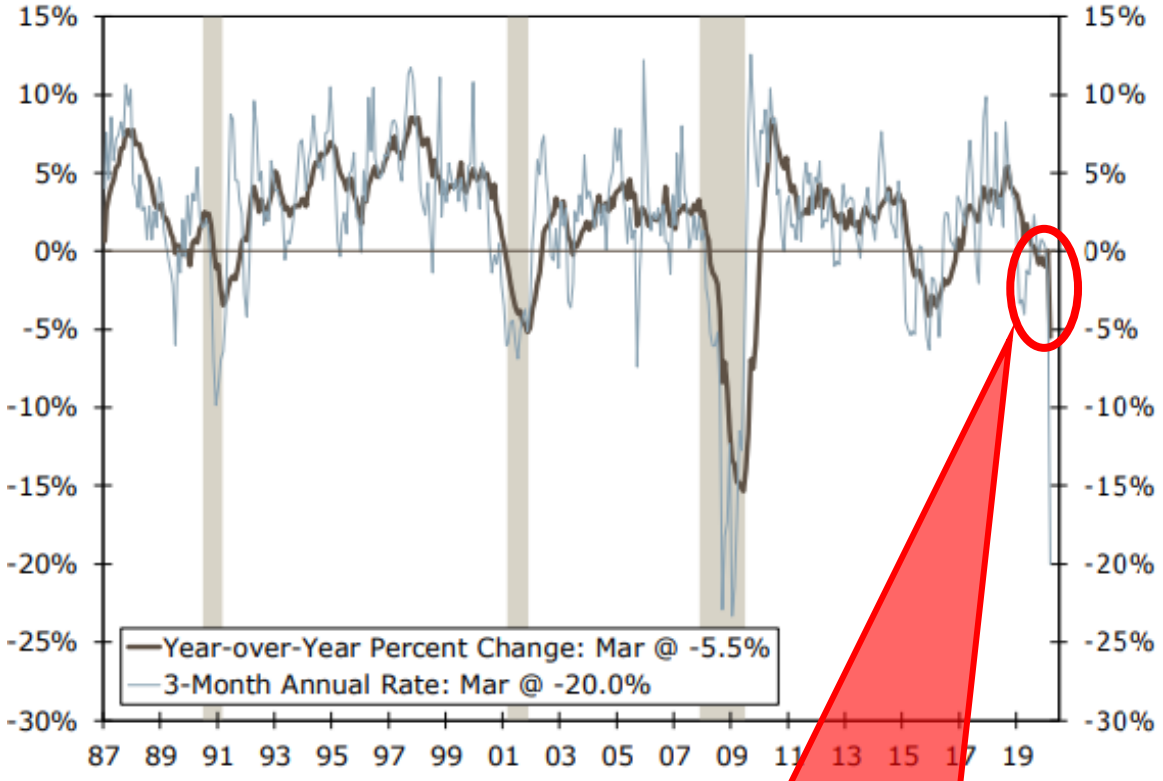
Insurers of small/mid-size businesses will see material top line deceleration/contraction



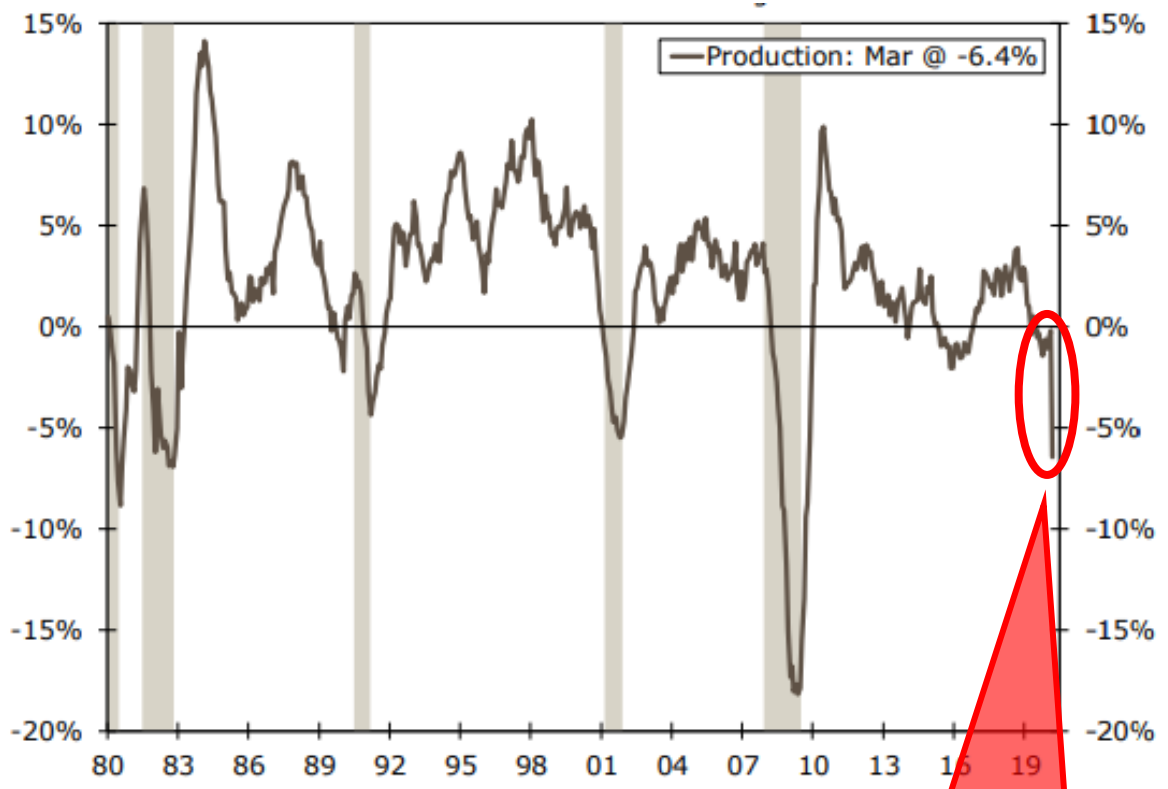
Source: US Dept. of Commerce; Well Fargo Securities (4/20); Risk and Uncertainty Management Center, University of South Carolina.

Industrial and Manufacturing Production: Biggest Drops Since 1946 Demobilization at End of WW II

Total Industrial Production Growth



Manufacturing Production Growth



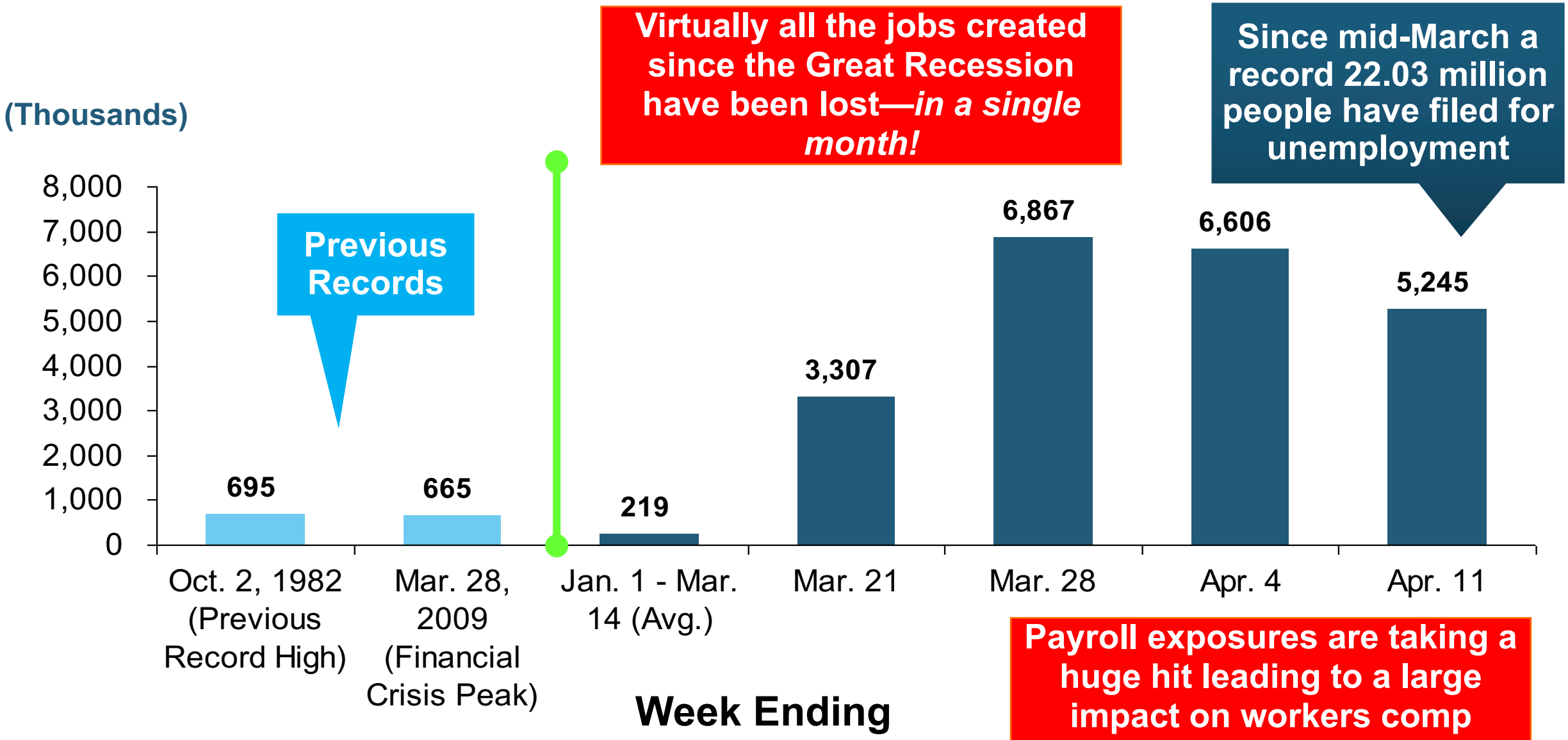
Factory and mine shutdowns caused a 5.4% plunge in industrial activity

Immense implications for commercial insurers

Manufacturing production plummeted by 6.4%

Source: Federal Reserve Board; Wells Fargo Research.

Initial Claims for Unemployment: COVID Surge Shatters Records



Virtually all the jobs created since the Great Recession have been lost—*in a single month!*

Since mid-March a record 22.03 million people have filed for unemployment

Payroll exposures are taking a huge hit leading to a large impact on workers comp premiums written

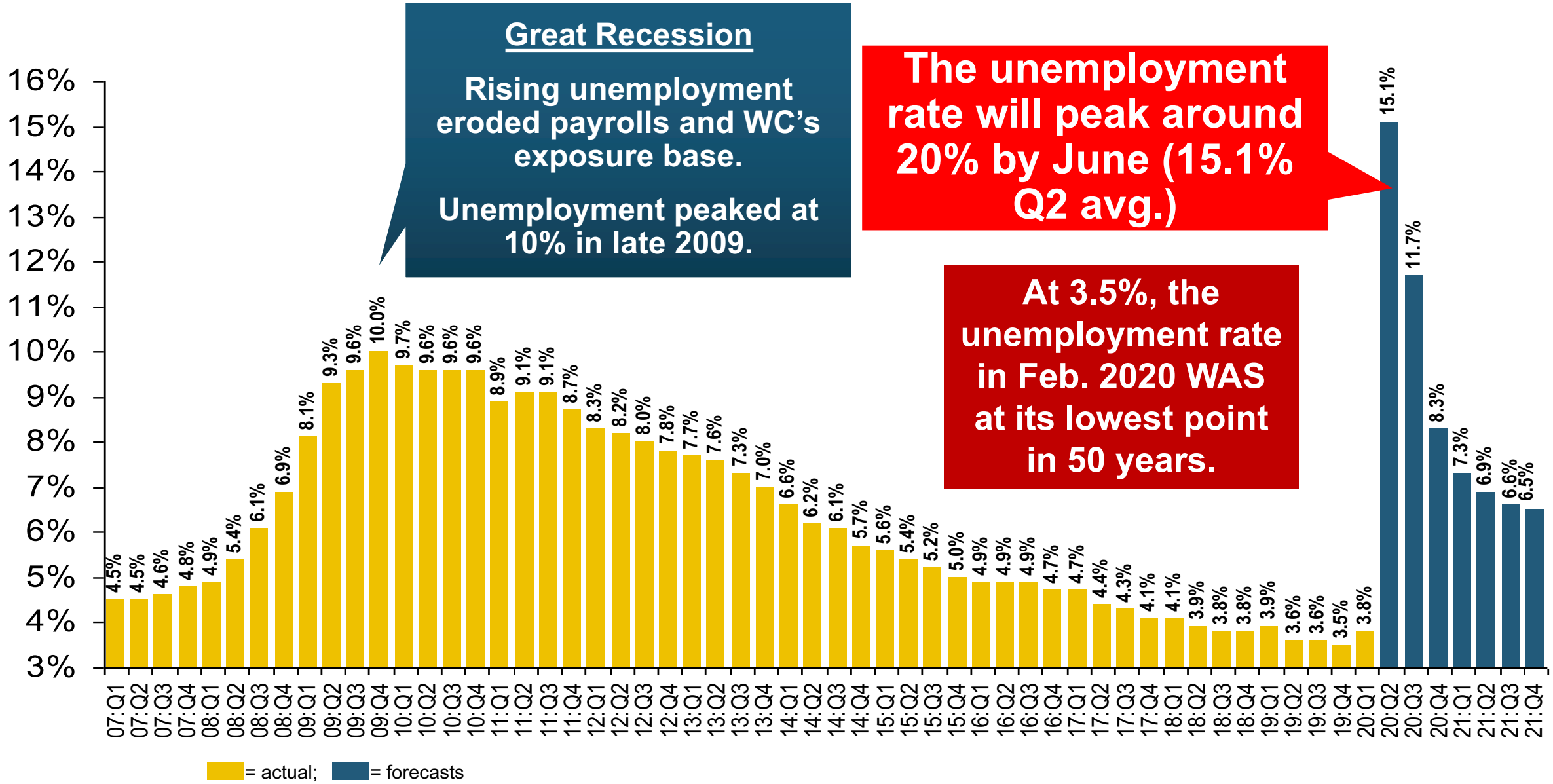
Source: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Initial Unemployment Claims: New Record Highs (Jan. 1967 – April 2020)

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

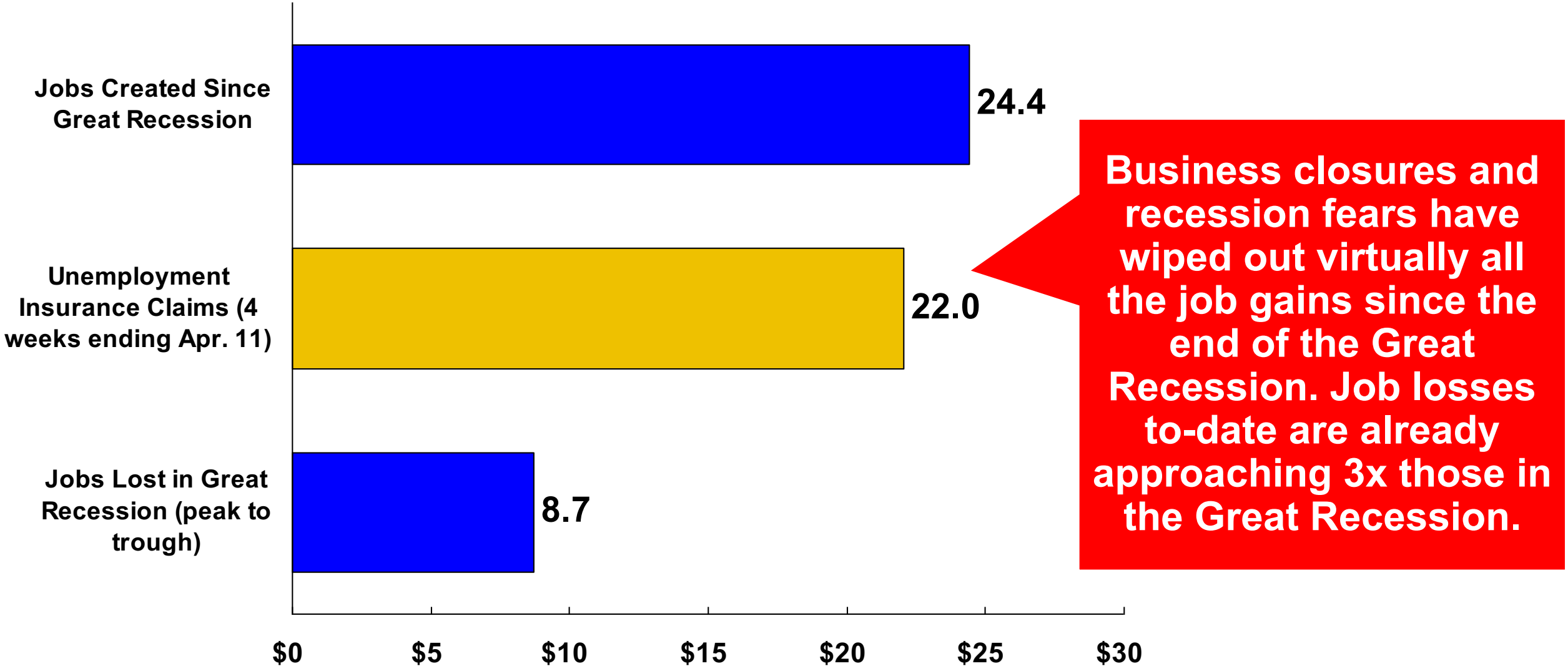
Source: Federal Reserve Bank of St. Louis (FRED) from US Employment and Training Commission.

US Unemployment Rate Forecast: 2007:Q1–2021:Q4



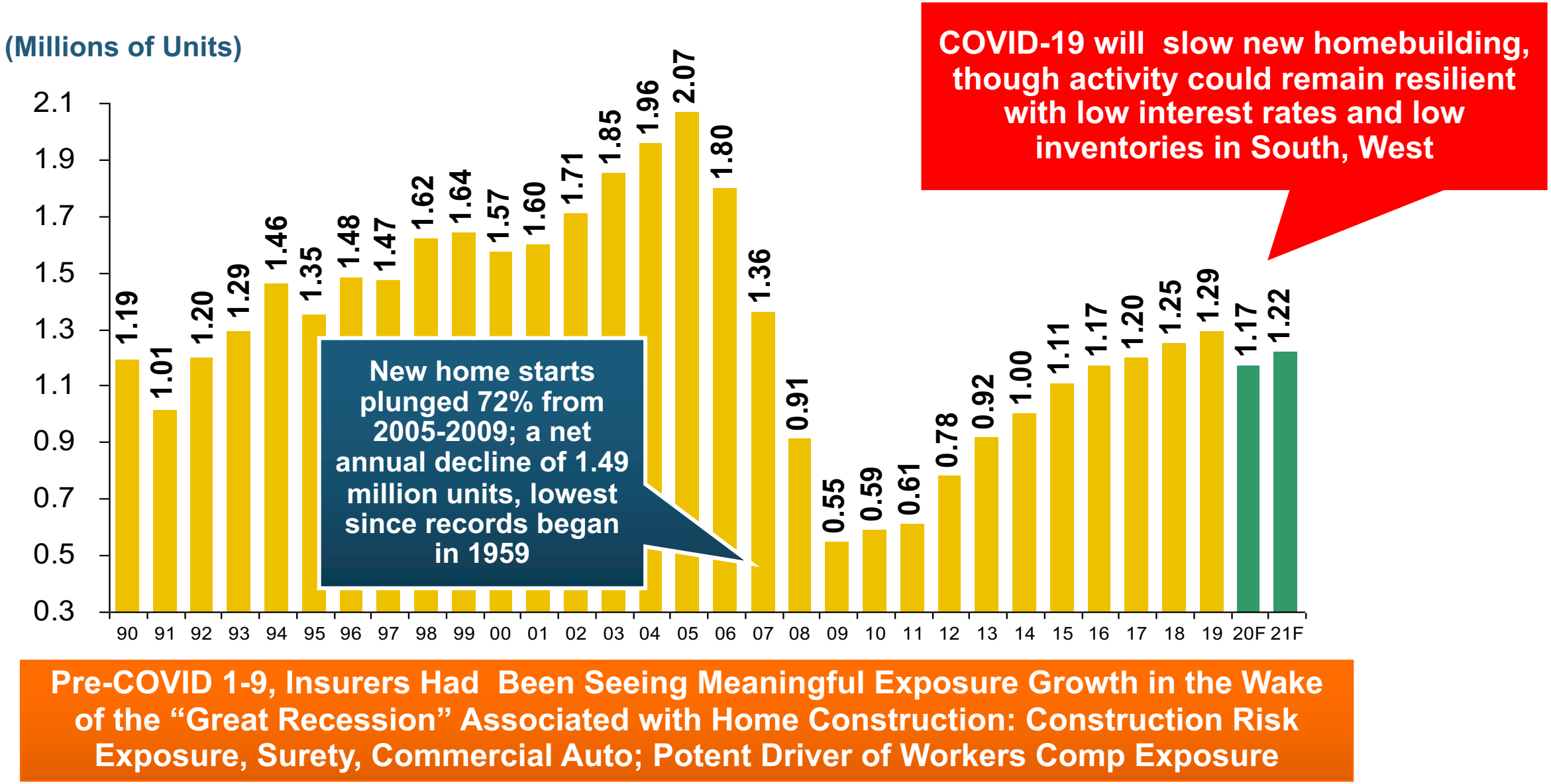
Sources: US Bureau of Labor Statistics; Wells Fargo Securities (4/20 edition); Risk and Uncertainty Management Center, University of South Carolina.

COVID-19 Job Losses vs. Great Recession Gains/Losses *(Millions)*



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

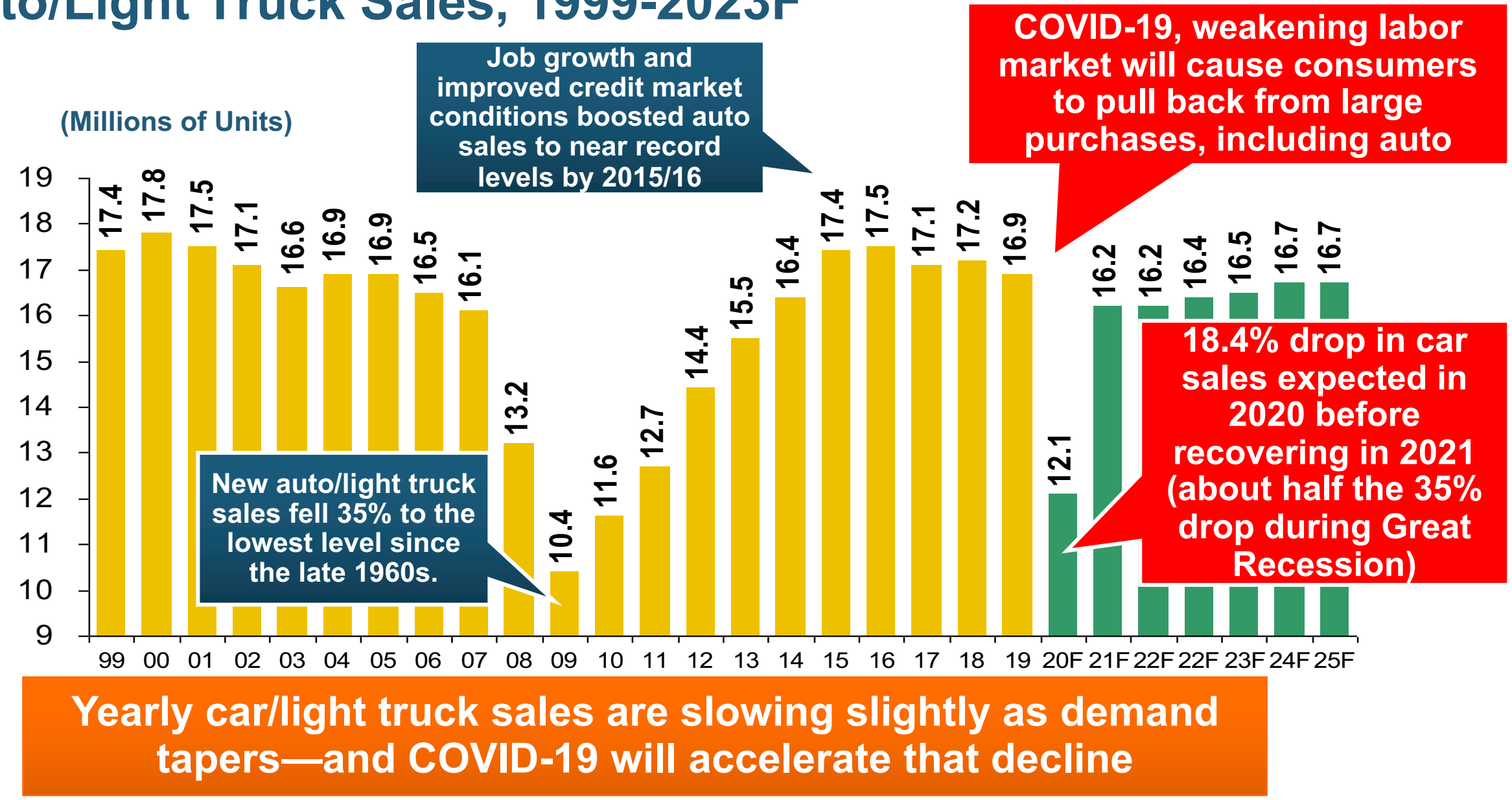
New Private Housing Starts, 1990-2025F



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 (4/20 for 2020-21F);University. of South Carolina, Center for Risk and Uncertainty Management..

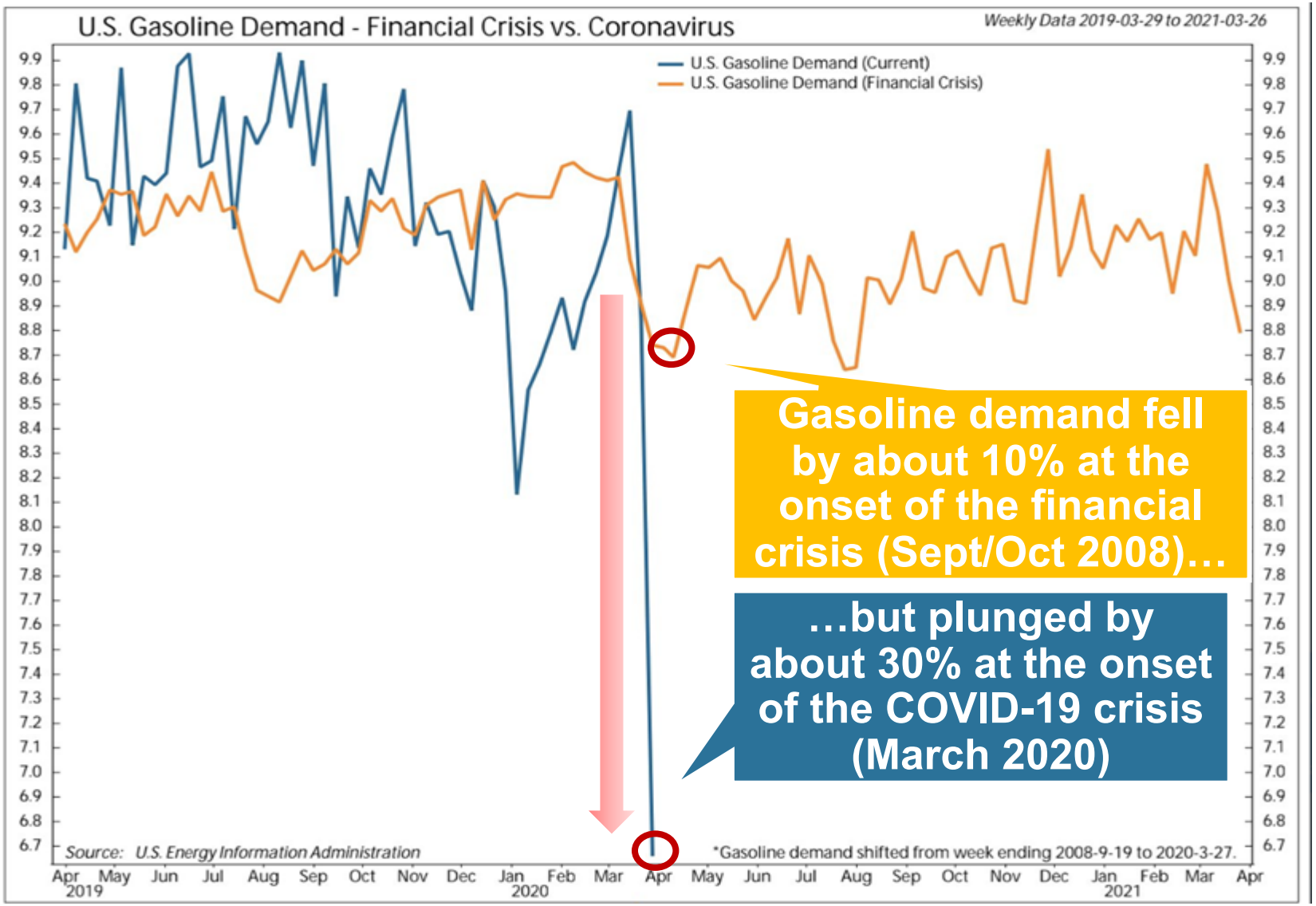
Auto/Light Truck Sales, 1999-2023F



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

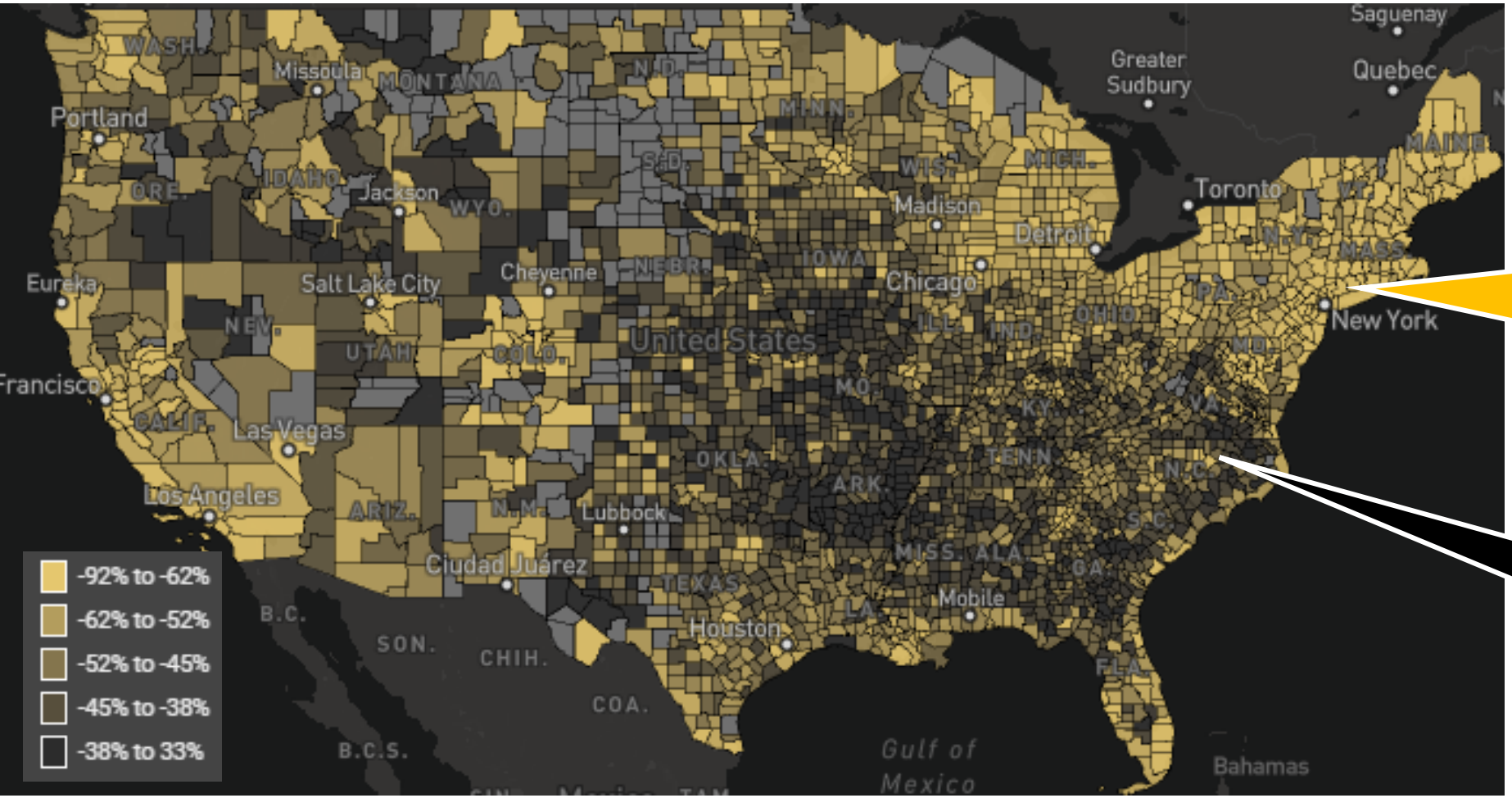
Source: U.S. Department of Commerce; Well Fargo Securities (4/20 for 2020-21F); Blue Chip Economic Indicators (3/19 for 2022-25F); Univ. of South Carolina, Center for Risk and Uncertainty Management.

Gasoline Demand: Far Steeper Drop than During Financial Crisis



Source: US Energy Information Administration; University of South Carolina, Risk and Uncertainty Management Center.

Vehicle Miles Traveled Are Down Sharply, Especially in Urban Areas (As of Apr. 10, 2020 vs. Jan. 2020 Baseline)

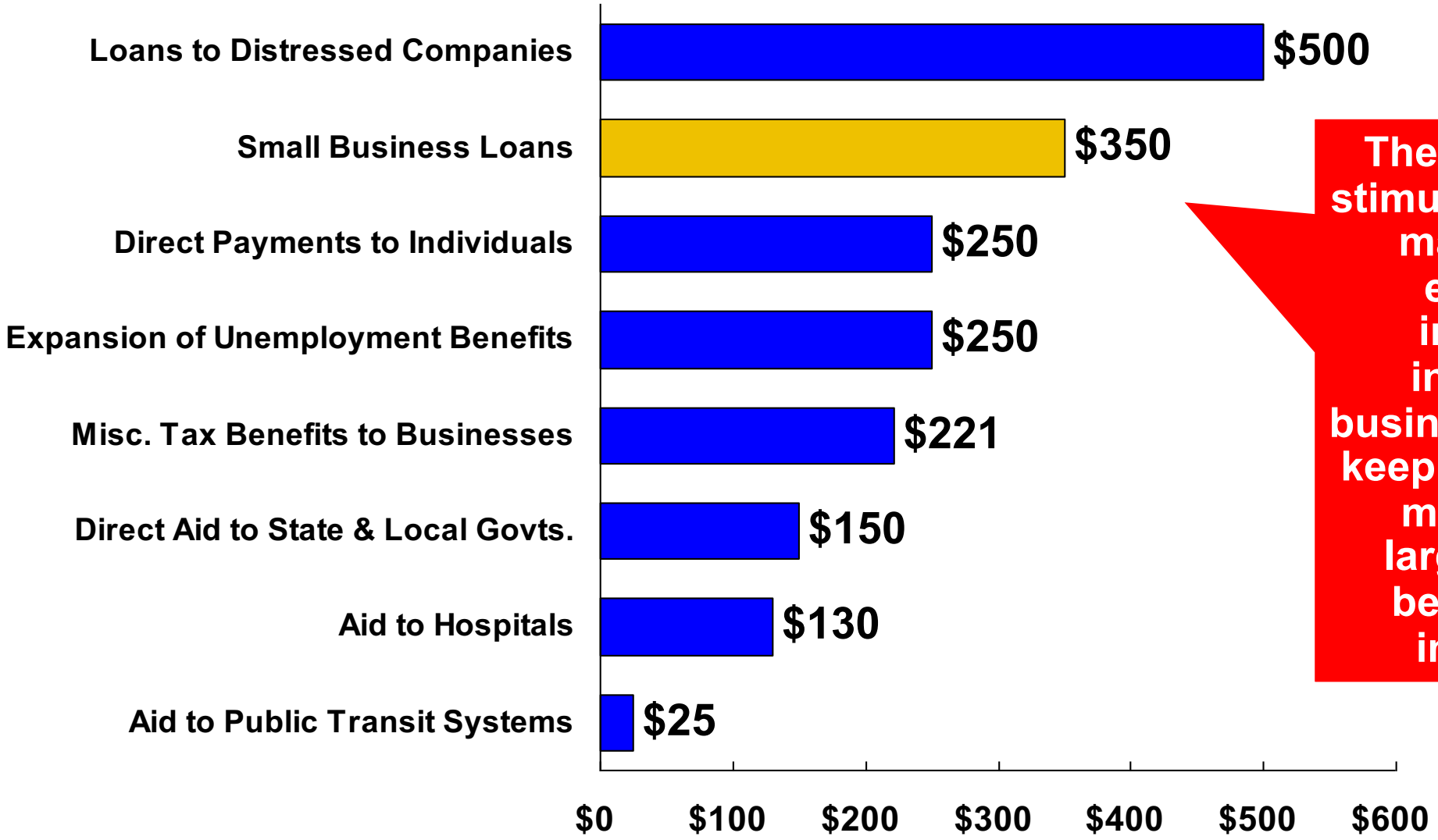


Vehicle miles traveled (VMT) are down 80%-90% in many urban areas, especially on the east and west coasts

VMT are down about 35% - 45% in more rural areas

Source: StreetLight Data accessed 4/15/20 at: https://www.streetlightdata.com/VMT-monitor-by-county/; University of South Carolina, Risk and Uncertainty Management Center.

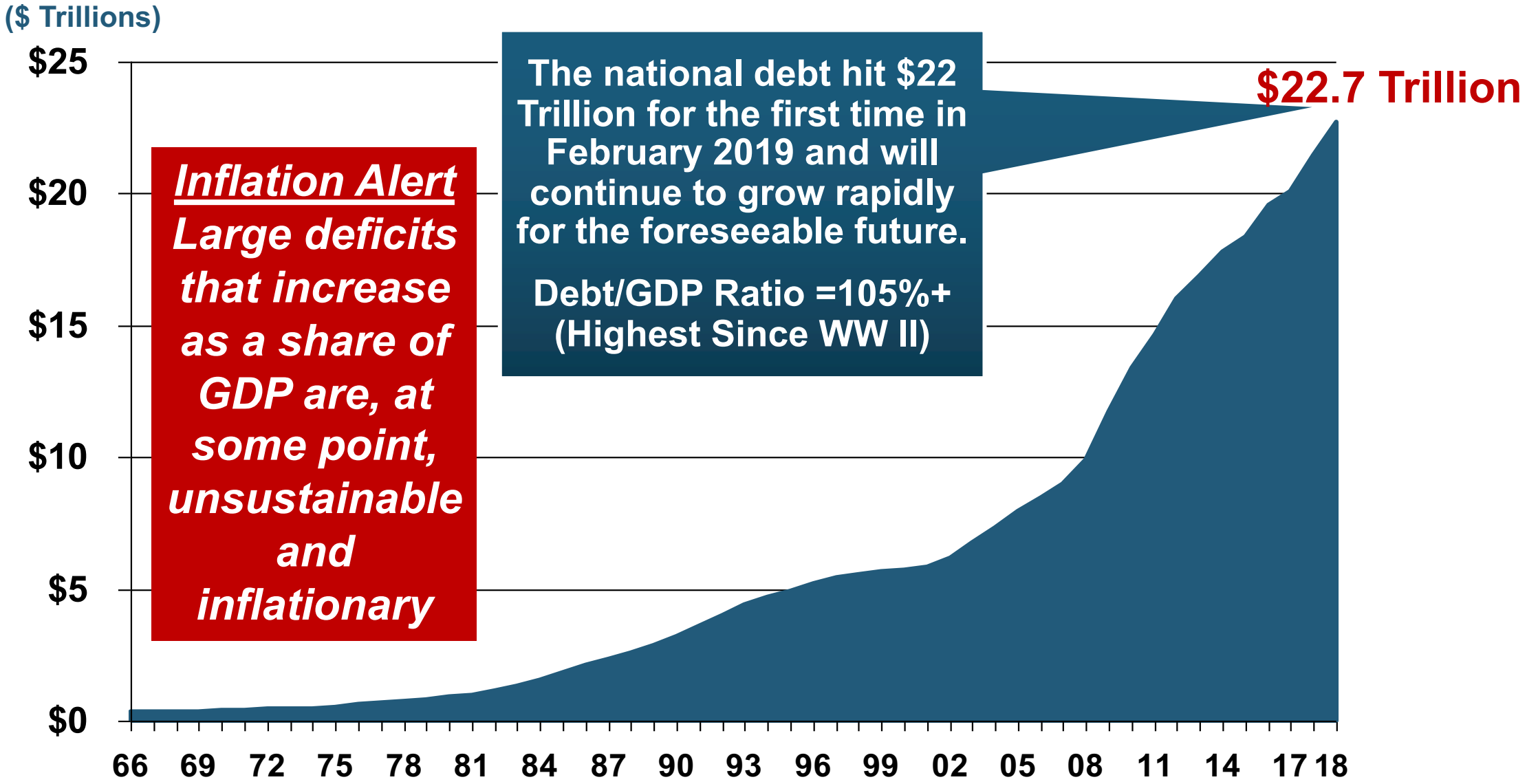
Breakdown of $2 Trillion Emergency Aid/Stimulus Bill



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

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 tens of thousands of claims related to COVID-19 losses
  - Business interruption
  - Workers comp
  - GL
  - 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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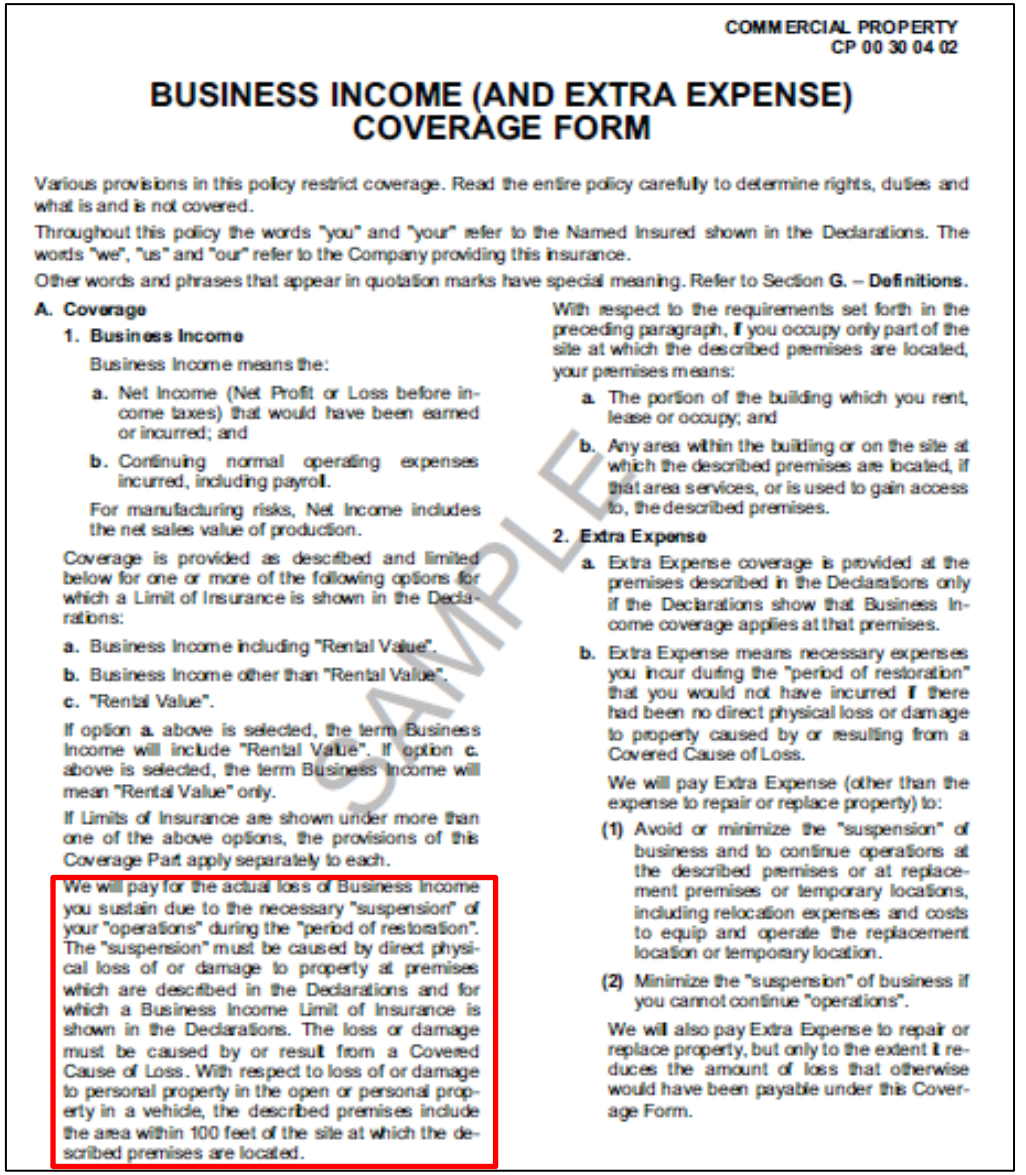
Business Interruption Coverage (BIC) & COVID-19

- **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.

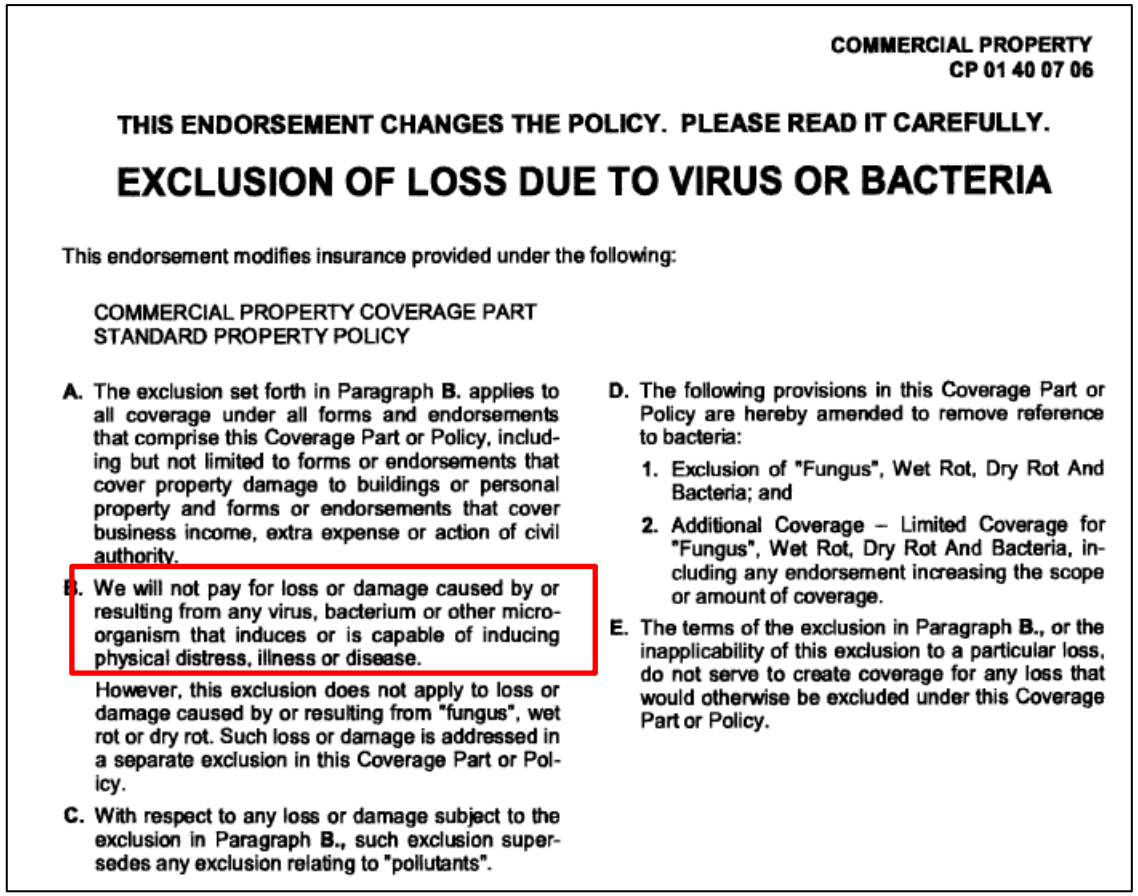
SAMPLE

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: STATES

- **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 15: NJ, OH, LA, MA, PA, NY and SC 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.**

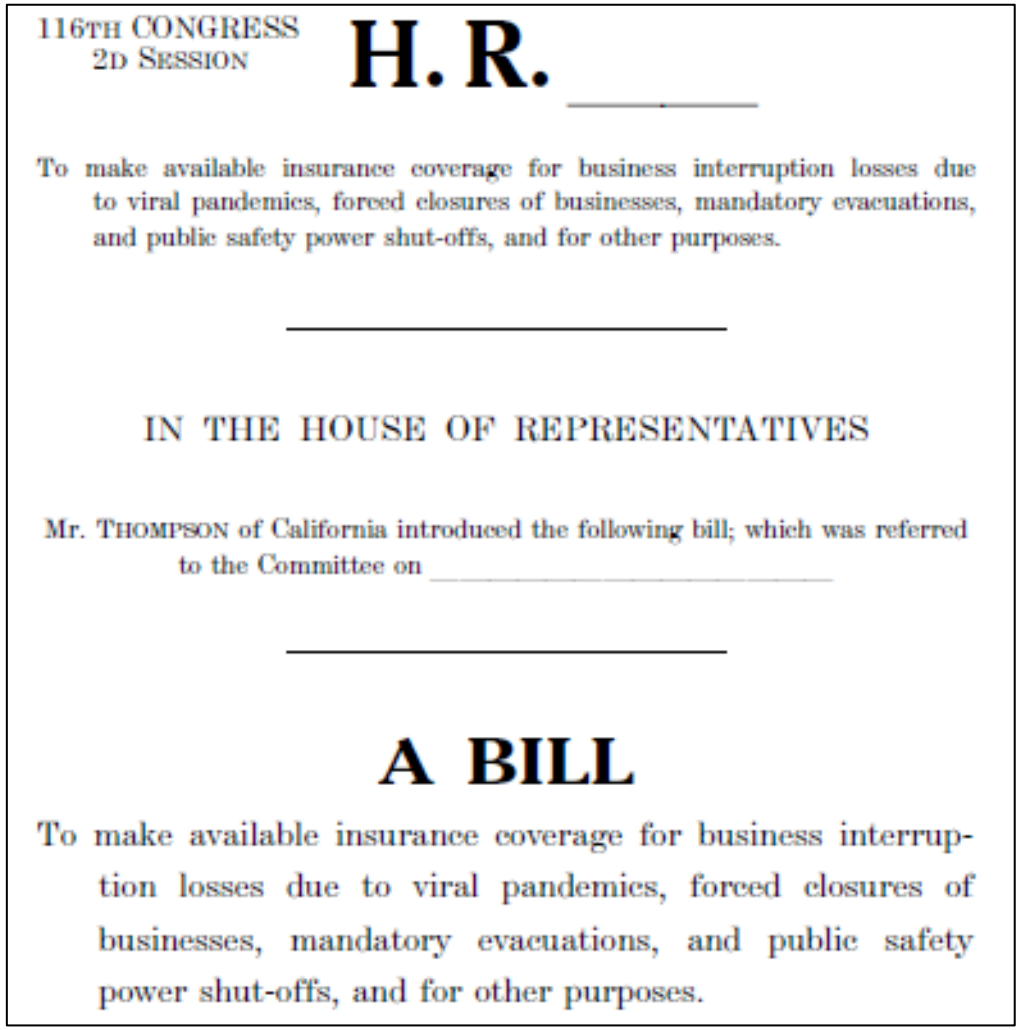
- **From Massachusetts S. 2888 (as of 3/25/20)**
  - *"…**no insurer in [Massachusetts] may deny a claim** for the loss of use and occupancy and business interruption on **account of (i) COVID-19 being a virus** (even if the relevant insurance policy excludes losses resulting from viruses); **or (ii) there being no physical damage to the property** of the insured or to any other relevant property*

Business Interruption Coverage & COVID-19: FEDERAL

- **Federal legislation is pending too**
- **"Business Interruption Insurance Act of 2020" has been proposed**
- **The Act would (as of 4/15/20):**

"…make available insurance coverage for business interruption losses due to viral pandemics, forced closures of businesses, mandatory evacuations, and public safety power shut-offs, and for other purposes."

- **Act goes WELL beyond pandemics (e.g., compel BI payment due to evacuation ahead of a hurricane—even if hurricane actually causes $0 in damage**



116TH CONGRESS
2D SESSION

H. R. _____

To make available insurance coverage for business interruption losses due to viral pandemics, forced closures of businesses, mandatory evacuations, and public safety power shut-offs, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. THOMPSON of California introduced the following bill; which was referred to the Committee on _____

A BILL

To make available insurance coverage for business interruption losses due to viral pandemics, forced closures of businesses, mandatory evacuations, and public safety power shut-offs, and for other purposes.

Business Interruption Coverage & COVID-19: FEDERAL

- **But that's not all…**
- **The "Business Interruption Insurance Act of 2020" would also nullify pre-existing exclusions**
- **Section 3 "*Preemption and Nullification of Pre-Existing Exclusions*" states:**

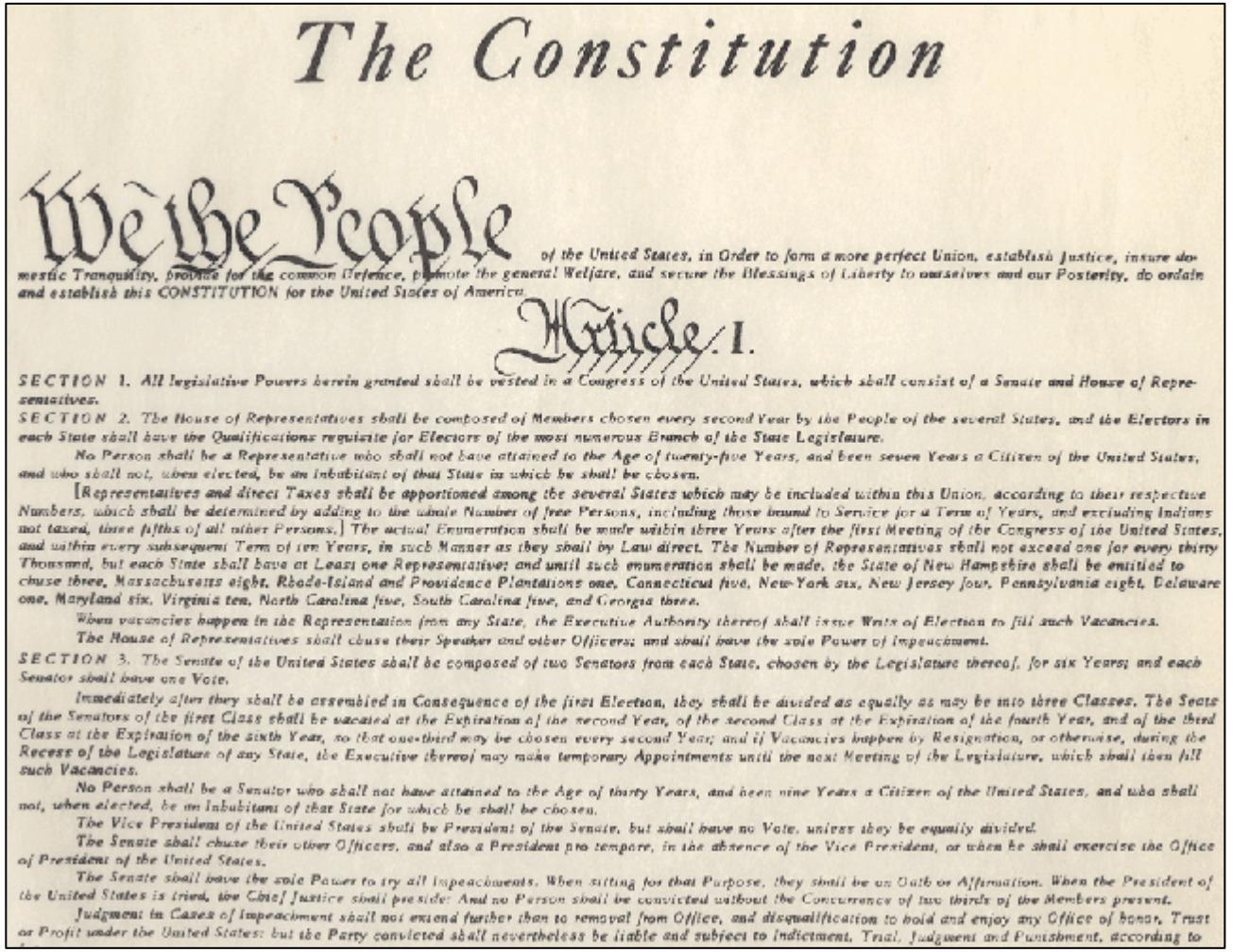
(a) ***General Nullification:*** *"Any exclusion in a contract for business interruption insurance that is in force on the date of the contract for business interruption insurance shall be void…"*

(b) ***General Preemption:*** *"Any State approval of any exclusion of losses from a contract for business interruption insurance that is in force on the date of the enactment of this Act shall be void…"*

- **In other words, *your legal contract is void* and the federal government will *trample over state regulatory authority and the U.S. Constitution* to achieve this end**

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 (PRIA) 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.

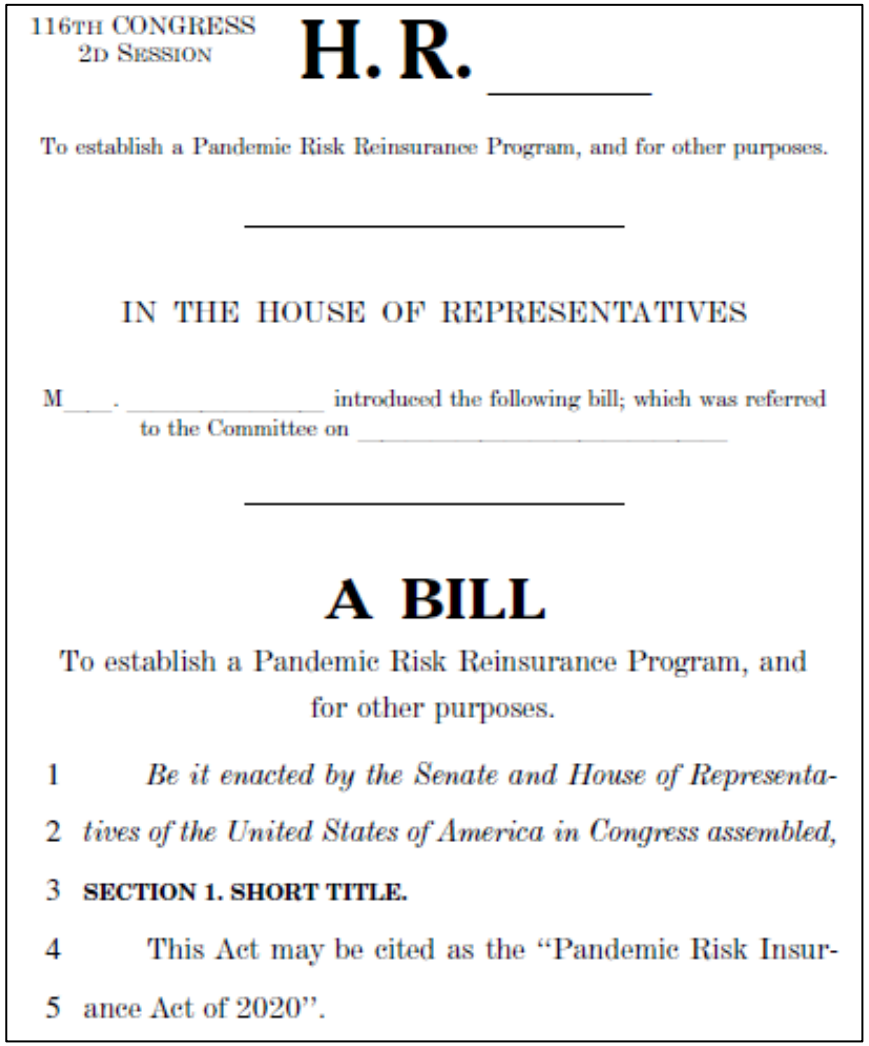
A draft bill outlining the proposal has been circulated, led by House Financial Services Committee Chairwoman Maxine Waters, D-Calif., they said. The office of Chairwoman Waters did not return a call for comment.

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.

Why PRIA Is a Well-Intentioned but Bad Idea

- **Unlike TRIA, PRIA would create a large potential balance sheet liability for insurers**
- **This is because PRIA would impose a 5% coinsurance provision for industrywide BI losses exceeding a $250 million industrywide and a 5% individual company deductible equal to 5% DPE**
  - **This is distinct from TRIA where the "reinsurance" is effectively "free"**
- **Program is capped at $500 billion so a 5% co-insurance requirement implies a potential industry liability of up to $25 billion**
- **These deductibles and coinsurance requirements would have potentially material implications for:**
  - **(Re)insurance balance sheets**
  - **RBC ratios**
  - **Surplus**



116TH CONGRESS
2D SESSION

H. R. _____

To establish a Pandemic Risk Reinsurance Program, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

M____. _____ introduced the following bill; which was referred to the Committee on _____

A BILL

To establish a Pandemic Risk Reinsurance Program, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Pandemic Risk Insurance Act of 2020".

Source: Risk and Uncertainty Management Center.

Forced Rebating and Discounting

Consumer Groups Want Rates Lowered Immediately…

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

52

Personal Auto Premium Returns & 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, because rates are already sensitive to changes in claim frequency and severity**

- **That said, numerous personal auto insurers have announced premium returns to policyholders that will likely be worth $6B - $10B in aggregate, assuming no additional returns beyond April 2020**

COVID-19: Premium Return Mandates in Other Lines

- **On April 13, CA Insurance Commissioner Ricardo Lara issued a bulletin titled:**
  "Premium Refunds, Credits, and Reductions in Response to COVID-19 Pandemic"

- **The bulletin…**

"…*hereby orders insurers to make an initial premium refund for the months of March and April to all adversely impacted California policyholders in the following lines of insurance, as quickly as practicable, but in any event no later than 120 days after the date of this Bulletin:"*

- Private passenger auto
- Commercial multiperil
- Commercial automobile
- Commercial liability
- Workers' comp
- Medical malpractice

And *"Any other line of coverage where the measures of risk have become substantially overstated as a result of the pandemic."*

- **Approach could be adopted elsewhere**

Workers Compensation

Some Pressure Points

Payroll Exposure Likely to Fall Materially

55

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 22 million initial unemployment claims data (week ending April 11) with much more to come
  - Wage growth, which had been making gains, will also slow
  - Overall likely net reduction in claim frequency

Workers Compensation & COVID-19

- **Example of presumption expansion beyond “front-line” workers**
  - **On April 10, KY extended WC presumption to day care, grocery store and postal worker**
  - **April 13, IL extended to a very large number of occupations:**
  - Grocery and pharmacy; food, beverage and cannabis production; charitable and social service organizations; gas stations and businesses needed for transportation; financial institutions; hardware and supply stores; critical trades; mail, post, shipping, logistics, delivery and pick-up services; educational institutions; laundry services; restaurants for consumption off-premises; essential business and work-from-home suppliers; home-based care and services; residential facilities and shelters; professional services; day-care centers for children of essential workers; manufacture, distribution and supply chain for critical products and industries; critical labor union functions; hotels and motels; and funeral services.

Impacts for Other Key Lines

A Wide Variety of Manageable Pressures

58

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?

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

Thank you for your time and your attention!

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Download at www.uscriskcenter.com