COVID-19 – The Good, the Bad and the Ugly

Tuesday, November 10, 2020
The insurance value chain

How insurance contributes to society

 Protecting People & Organizations

Brains + Bank Account
Create Policy/Treaty
Market Policy/Treaty
Write Risk
Price Risk
Perform Loss Control
Settle Claims
Improve World

How did the value chain weather the pandemic?
Brains: Industry is preserving its human capital

Steady employment among all four insurance sectors despite the recession

Data are seasonally adjusted.
Sources: BLS; Insurance Information Institute.
The bank account – Damage, then recovery

Surplus has rebounded from Q1 decline caused by unrealized capital losses (stock declines).

Sources: ISO, AM Best, Insurance Information Institute.
Regardless of scenario, retroactive attempts to include pandemics in BI causes bankruptcy. Monthly costs of retroactive changes to SME BI policies.

**Retroactive BI Scenarios**

1. **Virus / Bacteria Exclusion Removal**
   - **Higher**
   - **Median**
   - **Lower**
   - **Higher**
   - **Median**
   - **Lower**

2. **Expanded BI to All SMEs**

**Key Assumptions**

- Scenario 1: 40% take-up rate
- Scenario 2: 100% take-up rate
- Loss basis: Compensation, profits, adjustment costs 7 days waiting period
- Retained loss of 10% of total loss

Median estimates are model-driven. The higher and lower estimates assume a standard distribution for BI losses anchored in the mode-driven median loss estimates.
Policy wording: Insurers minimized risk

Insurers understood threat of pandemics well before most

Cumulative Filings

Who Is Suing?

- Food & Drinking Places: 471
- Ambulatory Health Care Services: 174
- Personal & Laundry Services: 75
- Performing Arts, Sports, & Related: 24

Insurer Defenses

- No physical damage
- Exclusion for loss due to virus or bacteria (2006)

Source: COVID Coverage Litigation Tracker, cclt.law.upenn.edu
Pricing: Adjusting on the fly

Insurers reacted nimbly to fulfill regulatory needs

$14B in Personal Auto Givebacks

Consumer Price Index – Personal Auto

In Millions

- Premium Credits $8,724
- Dividends $3,636
- Underwriting Expense $1,639

First Half: $9,610
Second Half: $4,390

Percentage change from year earlier

Sources: Insurance Information Institute, Bureau of Labor Statistics.
Marketing opportunities

Too few knew industry gave back billions, but telematics shone

Did you receive either refund or credit?

% Saying Yes

Actual

0% 50% 100% 150% 200%

60% 85% 100%

Growing embrace of telematics

Percent comfortable with use in pricing

Did insurer tell you it…

…wouldn’t charge late fee?

…would allow installment pmnt?

…wouldn’t cancel?

0% 5% 10% 15% 20% 25% 30%

27% 24% 21%

Source: Insurance Information Institute, Arity.com
Market challenge: A surge in business interruption media coverage

Count of Stories Mentioning Business Interruption Insurance & COVID-19

- February: 834
- March: 7,730
- April: 7,610
- May: 6,910
- June: 3,180
- July: 5,000
- August: 4,210
- September: 1,130

Source: Meltwater.
Market challenge: An industry campaign

The Future of American Insurance & Reinsurance (FAIR) campaign launched in May and has served as a source of education surrounding pivotal industry activity, including Congressional hearings, White House roundtables, state legislation, and media stories.

With a separate website, valuable explanatory assets, stakeholder outreach, and digital promotions, this integrated campaign provides the Triple-I with a separate platform and voice to present information in a digestible, influential manner to key audiences.

The campaign takes on overarching industry issues (i.e. business interruption) and emphasizes its essential role in supporting and rebuilding communities in these uncertain times.

www.fairinsure.org
Communications: Global pandemics are uninsurable

Economic Impact of 9/11
Communications: Global pandemics are uninsurable

Economic Impact of Coronavirus
Settling claims: COVID-19’s claims impact

Losses spread across many lines, but amount is uncertain

**Potential Loss Impact**

<table>
<thead>
<tr>
<th>Category</th>
<th>Billions of US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers Compensation</td>
<td>2</td>
</tr>
<tr>
<td>Political risk, credit, surety</td>
<td>0.8</td>
</tr>
<tr>
<td>Mortgage</td>
<td>1.7</td>
</tr>
<tr>
<td>GL</td>
<td>7</td>
</tr>
<tr>
<td>EPLI</td>
<td>3</td>
</tr>
<tr>
<td>D&amp;O</td>
<td>4</td>
</tr>
<tr>
<td>BI</td>
<td>2</td>
</tr>
</tbody>
</table>

**Industrywide Toll**

- Lloyd’s estimate (May, worldwide) $107B
- Reported (through September 12, worldwide): $22.4B
- Triple-I estimate: equivalent in US to a significant hurricane ($10B - $50B)

Loss estimates range from $30B (≈ bad hurricane) to $140B (2-3 Katrinas)

A better place: Industry outlook

**2020 Commentary**

Overall premium projected to be flat. Underwriting result deteriorates.
- Pandemic and recession reduce exposure in personal auto, several commercial lines.
- Rate increases make up for lower exposures somewhat.
- Tremendous uncertainty due to pandemic’s impact on several lines.
- We assume normal cat year, despite bleak hurricane forecast.

Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis).
Analysis: Insurance Information Institute, Milliman.
A better place: Six months into COVID-19, news coverage discusses federal policy solution

Source: Meltwater.
A better place: FAIR guiding principles: A defined perspective on potential policy solutions

Given their universal scope, pandemics are largely uninsurable. Therefore, only the government has the financial capacity to provide the relief small and large businesses need to weather this crisis.

Proposed solutions must:

- Maintain the federal government as a primary provider of relief, reflecting the reality that pandemic risks are not privately insurable.

- Provide widely accessible relief payments to businesses in a fast and efficient manner once a pandemic is declared by the government, with minimal chance of abuse.

- Protect businesses from losses, and incentivize businesses to retain employees, without jeopardizing insurers' existing commitments.
The insurance industry is applying forward-thinking solutions to take care of its customers, communities, and employees during the COVID-19 crisis

<table>
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<tr>
<th>Customers</th>
<th>Community</th>
<th>Employees</th>
<th>Industry</th>
</tr>
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<tbody>
<tr>
<td>Auto insurers have returned $14 billion so far to customers' pockets around the country through premium relief.</td>
<td>Insurers have pledged more than an estimated $280 million (according to III/Insurance Industry Charitable Foundation) in donations to the national and local organizations fighting this pandemic on the frontlines.</td>
<td>Employing more than 2.8 million Americans, insurers are taking care of their employees—many pledging no layoffs during the ongoing crisis.</td>
<td>Insurers are implementing innovative solutions to carrying out daily operations while respecting social distancing.</td>
</tr>
</tbody>
</table>
Thank you!

www.iii.org