Digital Edition PDF

BEST'S REVIEW®

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AM BEST'S MONTHLY INSURANCE MAGAZINE

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BEST'S REVIEW®

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AM BEST'S MONTHLY INSURANCE MAGAZINE

The COVID Catastrophe

Insurers head into hurricane season while in the midst of a storm that won't pass—the global pandemic. **Pages 47-71**

Best's Review's Online Archives


We're invested in the **people** behind the numbers.

Storm Warning

The coronavirus pandemic will rank as one of the biggest catastrophes ever for the insurance industry. Hurricanes, floods and wildfires, however, remain threats that will demand attention.

The pandemic had caused more than 80,000 deaths in the United States as of early May and more than 280,000 worldwide. While the total cost for the U.S. insurance industry may still be hard to quantify, there's no question that the impact has been sweeping and devastating, putting it in a league of its own.

It's a catastrophe that has crossed geographic boundaries, hitting multiple countries simultaneously. It has forced many small businesses to close and has put tens of millions of people out of work due to stay-at-home orders and social distancing measures.

This has been unlike any other catastrophe.

The United States now faces the challenge of attempting to reopen the economy without adding new fuel to the pandemic fire.

With the arrival of hurricane season on June 1, the industry faces a familiar but potentially costly risk while still in the midst of this historic pandemic storm. Hurricanes have been one of the biggest risks for the insurance industry. Hurricane Katrina caused nearly $53 billion in insured losses in 2019 dollars, Hurricane Harvey about $20 billion and Hurricane Sandy about $21 billion.

In the June issue, *Best's Review* focuses on the theme of catastrophes.

"The Covid Catastrophe" looks at the pandemic, what makes it similar to other catastrophes and what sets it apart. The article addresses industry stress tests run by AM Best and looks at steps insurers took years ago that helped them prepare for this event and how the industry may change going forward.

"[Still] Open for Business" looks at some of the challenges facing agents and brokers who sell life, property/casualty, health, employee benefit plans and retirement products. Many are small businesses that normally would meet with customers face-to-face and many have faced government-mandated closings and restrictions as the country moved into lockdown mode.

In "Serving His Country," *Best's Review* spoke with John F. King, Georgia's top insurance regulator and a major general in the National Guard. King had been on the front lines in the pandemic earlier this year, helping to build makeshift medical facilities and increase hospital capacity for patients in New Jersey.

While the virus now takes up much of the nation's attention, other natural disasters such as hurricanes, floods and wildfires will demand industry attention as well.

"Weather Alert" looks at three states that have been hard hit by these disasters in recent years—Florida, Texas and California—and examines some of the steps that have been taken in those states to address the issues.

The June issue also includes an article by Dr. Richard L. Sandor, the Aaron Director Lecturer in Law and Economics at the University of Chicago Law School and an innovator widely known as the father of financial futures. His article "On the Way Out" examines the phasing out of the London Interbank Offered Rate and some of the alternatives available to insurers.

Patricia Vowinkel
Executive Editor
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The Question:

What long-lasting changes to the insurance industry will the coronavirus bring about?

Email your answer to *bestreviewcomment@ambest.com*.

Reader responses will be published in a future issue.

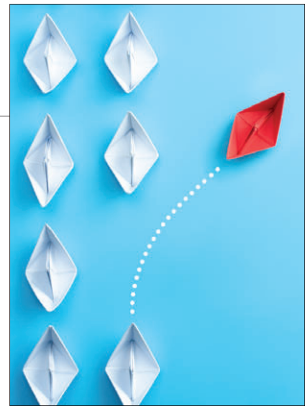
CATASTROPHES

Best's Review explores the impact of COVID-19 and other catastrophes as hurricane season begins.

ISSUES & ANSWERS

CAPITAL MANAGEMENT

FINANCIAL BENCHMARKS



LIFE INSURANCE

COLUMNS

DEPARTMENTS

Cover design by Andrew Crespo.

AHIP Among Insurance Groups With Virtual Events

June 6–10: VIRTUAL. SOA 2020 Health Meeting, Society of Actuaries.

June 7–10: VIRTUAL. IASA Educational Conference & Business Show, Insurance Accounting & Systems Association.

June 16–18: VIRTUAL. CLM Workers Compensation and Retail, Restaurant and Hospitality Conference, Claims and Litigation Management Alliance.

June 17–18: VIRTUAL. AHIP Institute & Expo, Americas Health Insurance Plans.

June 23–25: VIRTUAL. Safety 2020, ASSP Professional Development, American Society of Safety Professionals.

June 24–25: VIRTUAL. CLM Focus, Claims and Litigation Management Alliance.

June 27–30: VIRTUAL. NAHU Annual Convention, National Association of Health Underwriters.

June 28-July 1: NAMIC Management Conference, National Association of Mutual Insurance Companies, Amelia Island, Fla.

June 28–July 1: VIRTUAL. HFMA's Annual Conference, Healthcare Financial Management Association.

All events subject to change as organizations monitor developments regarding COVID-19. For a full list of conferences and cancellations, visit *www.BestReview.com/calendar*

June is Catastrophe Awareness Month
Insurers are accustomed to handling catastrophes, but 2020 has already dealt one major event and hurricane season hasn't even started. This year's hurricane season begins in the middle of a global pandemic with no end in sight. *Best's Review* explores the convergence of these events. Coverage begins on page 47.

WTW Names Climate, Resilience Hub Senior Director

Also: Arkansas has new commissioner; Farmers New World Life names president and former NAPSLO president dies From COVID-19 complications.

Willis Towers Watson has named Matt Scott as senior director in its climate and resilience hub.

Scott played an integral role in the Bank of England's climate team under Governor Mark Carney from 2014 and led delivery of the U.K. government's landmark green finance strategy in 2019, according to a company statement.

In this new role, Scott will lead advice on policy, financial regulation and green finance as part of a growing climate business.

Matt Scott

Scott brings more than 20 years of experience in the area of climate, finance and sustainable business. At the Bank of England, he created the formative physical, transition and liability framework for climate-related financial risks and led the Bank's climate hub.

Prior to joining the Bank, Scott, with a background in science, and following an MBA at Stanford Business School, became a social entrepreneur, delivering solar lighting to off-grid villages in emerging markets. He also has experience in impact investing and teaches at the University of Oxford.

"We are all delighted that Matt has joined Willis Towers Watson. He brings unique, long standing expertise and practical experience that will further enhance the first-class climate advice and services we provide," said John Haley, CEO of Willis Towers Watson.

—Staff Report

Crawford & Co. Names New President and Chief Technical Officer for Asia Business

Crawford & Co. has named Veronica Grigg to succeed Mike Campbell-Pitt as president, Asia.

Campbell-Pitt will assume the role of chief technical officer for Asia.

Veronica Grigg

Grigg has more than 20 years of insurance market experience. Most recently, she was chief executive officer, Asia-Pacific, at Argo Global, responsible for executing the company's business strategy across the region and developing key strategic relationships. Prior to this, she was head of distribution, major trading partner engagement, Asia-Pacific at QBE. During her 14 years at the company, she held numerous senior roles and worked across a number of different territories.

Campbell-Pitt, in his new role of chief technical officer for the region, will report to Grigg. He will continue to head up the company's Hong Kong operations center, while also providing claims technical expertise and support across the Asia region.

Campbell-Pitt has decades of experience in the loss-adjusting arena. He joined Crawford in 2001, becoming managing director and general manager for Crawford's operations in the greater China region in 2005, and president, Asia in 2017.

Liberty Mutual's GRS Names Former Chubb Exec to Newly Created Position

Liberty Mutual's Global Risk Solutions has named David B. Williams to the newly created position of multinational senior vice president and chief underwriting officer.

In this new role, Williams will develop and deliver enhanced data-driven and global risk-based solutions for midsize and large customers and the brokers who support them. Williams has more than 10 years of multinational experience. Most recently, he was Chubb North American Financial Lines vice president. Before that, he was Chubb's vice president of multinational solutions.

Arkansas Governor Appoints New Insurance Commissioner

Arkansas Gov. Asa Hutchinson has appointed Alan McClain as the state's new insurance commissioner.

He fills a vacancy left by Allen Kerr, who in early March resigned to pursue opportunities in the private sector.

Alan McClain

McClain has served as commissioner of the Arkansas Rehabilitation Services within the Department of Commerce since 2015.

McClain began his career in state government in 1992 at the Arkansas Insurance Department after working with Sedgwick Insurance Group. He worked for the Arkansas Workers' Compensation Commission for 13 years and was the chief executive officer of the commission for nearly nine years.

Most recently, as commissioner of the Arkansas Rehabilitation Services, McClain oversaw the agency's day-to-day operations, which administers the federal Vocational Rehabilitation Act.

MIB Group Names Successor To Retiring President and CEO

MIB Group Inc. has named Brian Winikoff to succeed Lee B. Oliphant as president and chief executive officer. Oliphant is retiring after 21 years with MIB.

Brian Winikoff

Prior to joining MIB, Winikoff was senior executive director and head of Axa Equitable Holdings' U.S. life, retirement and wealth management businesses.

Previously, he was president and CEO of Crump Life Insurance Services, an independent broker and service provider to the life insurance, retirement and health markets. Winikoff began his career as an investment banker with Salomon Bros., stationed in the United States and overseas, and held senior management positions with early stage and mature companies focused in the technology and communications industries.

Axis Capital Holdings Names CEO Of Irish Reinsurance Legal Entity

Axis Capital Holdings Ltd. has named Mark McCormick to succeed Helen O'Sullivan as chief executive officer of Axis Re SE, subject to regulatory approval.

Mark McCormick

O'Sullivan would remain CEO and a director of Axis Specialty Europe SE, also serving as a director of Axis Re.

McCormick will be responsible for Axis Re and the legal entity aspects of its Zurich branch. McCormick will also join the board of directors of Axis Specialty Europe as a nonexecutive director.

Most recently, McCormick was co-head of specialty pricing for Axis Re. Previously, he managed all non-U.S. actuarial pricing for Axis Accident & Health from 2010 until that business was merged into Axis Capital's insurance and reinsurance business segments in 2018. McCormick joined Axis from AmTrust.

Former General Star CEO, NAPSLO President, Dies From COVID-19

Kevin P. Brooks, 75, founding chairman, president and chief executive officer of General Star and former president of the National Association of Professional Surplus Lines Offices, died on April 3 from complications related to COVID-19.

Kevin P. Brooks

Brooks joined General Reinsurance Corp. in 1969 and served in many senior roles, including as the founding chairman, president and CEO of General Star, the company said in a statement. He was a retired colonel in the U.S. Marine Corps Reserve.

Brooks served as NAPSLO president from 1989-1990, WSIA President Bryan Sanders and Executive Director Brady Kelley said in a separate statement.

After graduating from Manhattan College in 1966 with a degree in psychology, Brooks was commissioned as a second lieutenant in the U.S. Marine Corps and he served one tour of duty in Vietnam from 1967-1968 as an artillery forward observer, WSIA said. He continued to serve as a member of the reserves, completing 30 years of service with the Marine Corps and retiring as a colonel in 1992. He ended his military career as battalion commander, 2nd Battalion, 25th Marines Reserve Unit in Garden City, Long Island.

Farmers New World Life Names President

Chris Flint

Farmers Insurance has named Chris Flint as president of Farmers New World Life Insurance Co.

Flint will lead strategic plans for Farmers New World Life. He has more than 20 years of experience in the financial services industry. He most recently served as the president and chief executive officer of ProEquities Inc. and senior vice president, distribution companies for Protective Life Insurance Co.

Former Facebook Executive Named First CPO at Root

Annette Reavis

Root Inc. has named Annette Reavis as its first chief people officer.

Reavis joins Root after spending a decade at Facebook, serving as a strategic human resources leader for Facebook's product, marketing, growth/integrity, community operations, and partnerships organizations. She will oversee the recruitment to drive the next phase of Root's geographic and product expansion.

American Farmers & Ranchers Mutual Names Chief Executive Officer

American Farmers & Ranchers Mutual Insurance Co. has named Jon D. Srna to succeed Casey Davis, interim chief executive officer, as CEO.

Srna has 30 years of expertise in personal lines insurance and an extensive farm background. Srna began his insurance industry career with Farm Bureau Financial Services as a customer service supervisor. His career encompasses tenures as business unit vice president at Farm Bureau Financial Services; executive vice president and chief operating officer at ACCC Insurance; and, most recently, senior vice president of operations and chief operating officer at Madison Mutual Insurance Co.

MS Amlin SE Names CEO, Risk Officer

Ludovic Sénécaut

MS Amlin Insurance SE has named Ludovic Sénécaut chief executive officer and Rogier Peters as chief risk officer.

Sénécaut succeeds interim CEO Rudy Benmeridja, who will return to his role of chief underwriting officer for property/casualty Europe and country manager for Belgium. Sénécaut spent 15 years in Euler Hermes Group and has held a number of senior positions such as group chief operating officer, CEO Northern and Eastern Europe. He also served as CEO for the Kerudys Group.

Peters replaces CRO Martyn Rodden, who will transition to a new role as deputy CEO of MS Amlin Underwriting Ltd., an MS Amlin sister company operating at Lloyd's. Peters is a qualified actuary, who joins from Ageas UK, where he served as CRO. He has held a number of senior risk positions in the insurance sector internationally and across Ageas Group.

Swiss Re Names Chief Data Officer

Ian Haycock

Swiss Re has named Ian Haycock to the newly created role of chief data officer.

Haycock will work with Youngran Kim, who started as group chief technology officer in April.

Haycock has more than 32 years of experience in technology, analytics and operations, including 26 years within financial services. He joined Swiss Re in 2003 as head of technology for capital management and advisory. In 2008, Haycock took on the role as head of enabling program asset management. Since 2012, he has held the role of chief operating officer for asset management.

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The Insurance Information Source

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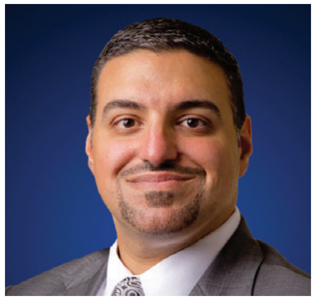
Orchid Underwriters Agency Names CFO

Michael Garamoni

Orchid Underwriters Agency LLC has named Michael Garamoni as chief financial officer.

Garamoni has spent the past 13 years in finance, reporting and planning, which included roles as vice president of global finance for Ryan Specialty Group LLC., and at Pricewaterhouse Coopers LLP. He will be based in Orchid's Vero Beach, Florida, headquarters.

Gemini Financial Holdings Names CEO



Steve Bitar

Gemini Financial Holdings Corp., the parent company of Olympus Insurance Co., has named Steve Bitar as CEO to succeed James McDermott, interim chief executive officer.

Bitar is former chief of underwriting and agency services for Citizens Property Insurance Corp. He has more than 20 years of Florida-specific insurance experience with a diverse background. Bitar has held several executive and senior leadership positions—including both vice president and senior director of consumer and agent services as well as director of consumer services.

QBE Insurance Group Names New International CEO

QBE Insurance Group has named Jason Harris to succeed Richard Pryce as chief executive officer, international. Harris will transition to his new role in the fourth quarter of 2020, and Pryce intends to retire at the end of the year. Harris will be based in London.

Pryce has more than 35 years in the insurance industry, including seven years leading QBE's European operations and more recently the operations in Asia as part of the international division in 2019.

Harris joins QBE from Axa XL, where he held the position of chief executive, global property/casualty. Prior to this, he was the chief executive of international property/casualty at XL in the United Kingdom. BR

New Messages

Insurance industry CEOs step into the spotlight in TV and social media ads to deliver messages about their commitment to customers and the resilience of their organizations in the midst of the pandemic.

by Lori Chordas

The COVID-19 pandemic has ushered in many first-time changes, including state and federal social distancing mandates, the global shuttering of businesses and a widespread call for remote workforces.

The worldwide crisis has also for the first time prompted some of insurers' top-ranking officials to take to the TV airwaves and social media platforms to reiterate in ads their organizations' commitment to customers during these unprecedented times.

In its "Good Neighbor Relief" ad released in April, State Farm Chairman and CEO Michael Tipsord talks about how "now more than ever being a good neighbor means everything."

Progressive CEO Tricia Griffith has also lent her voice to a new spot unveiled this spring in which she talks about the apron as a symbol of protection and informs customers about the relief available to them as the crisis unfolds.

"Because COVID-19 has altered the lives of so many around the world, we immediately focused on a message about how we were helping our customers, employees, agents and communities through our Apron Relief Program, in which we have committed more than $1 billion in this time of need," said Progressive's Chief Marketing Officer Jeff Charney.

Tipsord, along with several State Farm associates and company pitchman "Jake," is also relying on the far-reaching powers of advertising to highlight the various measures State Farm is taking through its Good Neighbor Relief program to better serve its customers, including returning $2 billion to auto policyholders.

The creation of the ad was another first for State Farm. In accordance with social distancing and work-from-home directives, Tipsord and his co-stars in the ad recorded the spot, which was produced by The Marketing Arm, inside their homes using video conferencing technology and mobile devices, said company spokeswoman Anna Bryant.

Different Approaches

Marketers are always standing at the ready to adapt advertising and marketing strategies during changing times and crises.

Over the past several months, news of the COVID-19 pandemic has dominated nearly every local and national headline and become the foremost issue on consumers' minds. As a result, 88% of people said the pandemic is changing how they consume content online, according to Integral Ad Science's Coronavirus Ad Adjacency study released in March.

As insurance marketers navigate the unchartered waters of this global outbreak, they said they're acclimating to "the new normal" by creating new and proactive ways to market their brands online

APRON RELIEF: Progressive CEO Tricia Griffith talks about the company's Apron Relief Program in an ad.

and in other media and spread the word about the dedication and resilience of their industry and organizations in the face of uncertainty.

Amid the pandemic, Liberty Mutual has continued running its popular "Truth Tellers" and "LiMu Emu" ad campaigns in market, along with introducing COVID-19 broadcast and social media messaging and a new 30-second TV ad that informs customers of accommodations available

Photos courtesy of Progressive and Liberty Mutual

Lori Chordas is a senior associate editor. She can be reached at *lori.chordas@ambest.com.*

STAY-AT-HOME ORDERS: Liberty Mutual's ad follows its "Truth Tellers" campaign theme without its customary talent in the foreground.

to them, including a premium refund, flexible payment options and waiving of fees, said company spokesman Glenn Greenberg.

The pandemic, which has claimed the lives of hundreds of thousands of individuals globally, is also forcing marketers to create messages that strike the right tone with consumers. In fact, 92% of markets said they have modified their ad messages since mid-March, with nearly half pointing to "substantial" modifications, according to a survey by the Association of National Advertisers.

Aflac altered its social media approach by temporarily pulling scheduled posts irrelevant to the coronavirus environment "to ensure the public that we understood the gravity of the situation," said company spokesman Jon Sullivan.

The supplemental insurer is also using social channels to direct consumers and small-business owners to customized landing pages filled with pertinent frequently asked questions and guidance on where to find additional information. And on April 23, during the NFL Draft on ABC and ESPN, Aflac debuted a new people-centric brand campaign and ad that reinforce the company's commitment to policyholders and potential customers that say when they are protected by Aflac, whether during a crisis or daily circumstances, they're never alone.

Messages like those are being well-received by consumers, who are interested in hearing how brands are addressing their concerns during these times.

According to a 4A's Research survey of 1,000 consumers conducted in March, 43% of respondents said it's reassuring to hear from brands they know and trust, while 40% want to hear what brands are doing in response to the pandemic.

USAA is touting that message in a TV commercial that debuted in April. The spot highlights how overcoming challenges is what defines USAA members—the military community, and how, as the voice-over says, being prepared "isn't a new thing" for them "or their first experience with social distancing."

"Knowing what our military community and our whole society are going through, we needed a message that was supportive, empathetic and built a connection and sense of community," said Mayra Rivera, vice president of brand management for USAA. "After evaluating all of our advertising, we quickly created a new narrative showcasing how USAA and our employees stand ready to serve active duty, veterans and their families. We understand the needs of our members and communities have changed, and we want everyone to know USAA is ready to help where we can."

As in any crisis, with challenge comes opportunity. And as a calamity like COVID-19 unfolds, marketers have the chance to not only bolster their brands but to also cultivate new consumer connections and strengthen existing customer relationships and long-lasting value. However, sometimes that requires marketers to pull back on ad campaigns that might send the wrong message or fail to reflect the current climate.

Also during arduous times like a pandemic, there's often a need for some levity. While consumers need more than ever to know the brands they trust are there for them, "we also know people want to be entertained and need a break from the nonstop world COVID-19 has brought," Progressive's Charney said.

Along with debuting several new podcasts and ads focused on its "Funny Because It's True" brand content during the height of the pandemic, Charney said Progressive also unveiled in May a creative using humor that shows Flo and her fellow Superstore characters "feeling many of the same pain points we're all experiencing as they navigate working from home."

Marketers also need to reevaluate the placement of their ads during a crisis. One-fourth of respondents to the Integral Ad Science study said they're unlikely to engage with an ad adjacent to coronavirus content, and 28% of consumers reported resistance to ads in the insurance/banking/finance category being adjacent to content about the pandemic. BR

California Workers' Comp Order Opposed by Insurers

The industry says the governor's order jeopardizes the stability of the state's workers' comp system.

by Timothy Darragh

Insurers and business groups are coming out against California Gov. Gavin Newsom's executive order creating a temporary presumption that workers who come down with the COVID-19 virus are eligible for workers' compensation.

Newsom said the May 6 order covers workers who are required to work outside the home while a stay-at-home order remains in place for nonessential employees, and will help them get the care they need.

But insurance industry representatives said the order would end up making employers foot the bill for those who caught the virus outside the workplace.

> "The executive order will create a serious burden on the state's workers' compensation system and could lead to financial hardships for small businesses that need to survive to protect the job market for workers in the state."
>
> **Erin Collins**
> National Association of Mutual Insurance Companies

The American Property Casualty Insurance Association commended the efforts of front-line workers during the pandemic, but their efforts should not require insurers to pick up costs for which they are not responsible, said David Sampson, president and chief executive officer.

"Gov. Newsom's executive order on workers' compensation is overly broad and could force employers in the public and private sector to cover COVID-19 cases not contracted in the workplace," he said. "APCIA believes this overly broad executive order jeopardizes the stability of the workers' compensation system. Maintaining proof of a causal connection that a covered injury or disease was contracted in the workplace is essential for a stable no-fault workers' compensation system for employers and employees alike."

Sampson added it is important to remember that under current law, workers who contract COVID-19 in the course of their employment are already able to file claims and receive benefits.

Erin Collins, vice president of state affairs for the National Association of Mutual Insurance Companies, noted it's been well-documented the virus is transmitted through many types of exposure, including household contact.

"This overly broad coverage is likely to have a significant financial impact upon businesses trying to reopen and restart the state's economy," she said. "The executive order will create a serious burden on the state's workers' compensation system and could lead to financial hardships for small businesses that need to survive to protect the job market for workers in the state." BR

Timothy Darragh is an associate editor, *BestWeek*. He can be reached at *timothy.darragh@ambest.com*.

Regulatory Update

In the News

Several states issue regulations on auto, homeowners and health insurance and annuities.

Annuities: The Iowa Insurance Division has filed an adopted regulation requiring annuity agents to act in their customers' best interest.

The annuity standards follow efforts by the National Association of Insurance Commissioners to develop a model Suitability in Annuity Transactions Model Regulation that is harmonized with rule making by the U.S. Securities and Exchange Commission, it said in a statement.

"Iowans expect their financial professional to act in the consumer's best interest when recommending an annuity. Iowa not only expects it, but we will require it," said Insurance Commissioner Doug Ommen. "I hope to also work with other U.S. insurance regulators to require the same of any Iowa insurer writing annuity business in those states."

The best interest standard requires the annuity agent to make only recommendations that match the customer's needs, objectives and situation without placing the producer's or the insurer's financial interest ahead of the consumer's interest, a summary of the rule said.

The rule spells out in detail the producer's obligation to provide care in making recommendations; provide full, adequate disclosure of the producer's relationship to the products and a clear description of them; a requirement to identify, avoid and reasonably manage or disclose material conflicts of interest; and a requirement to fully document the transaction.

Regulatory Update

It further outlines a producer's responsibility in cases where a customer shows interest in an annuity product not recommended by the producer. Other sections detail responsibilities for record keeping and training.

The adopted rule summary said it is designed to preserve consumer choice so that more middle-class Iowans will retain access to retirement education and security that they choose.

Ommen, who also is Iowa's securities regulator, said the division received several comments requesting it delay the proposed best interest standard in the state securities regulations because of the COVID-19 pandemic. "We have decided that is the appropriate course," he said.

Health Insurance: Oregon's Department of Consumer and Business Services has updated emergency health insurance regulations, including ordering a 60-day extension of the grace period for past-due premiums.

The order is in effect through June 3 and can be extended in 30-day increments during the course of the COVID-19 outbreak, the department said in a news release.

In addition to extending the grace period, the order requires health insurers to pay claims for any covered services during the first 30 days of the grace period, and extend all deadlines for reporting claims and other communications. The order also requires insurers to provide members with communication options that meet social distancing standards.

The order affects all covered health care and related services, such as pharmaceuticals, a DCBS spokesman said.

Homeowners Insurance: The California Assembly's Committee on Insurance advanced a bill to expedite

British Regulator to Ask Court For Clarity in BI Coverage

In disputed cases, the regulator will rule on the meaning and effect of some policy wording.

by Timothy Darragh

The U.K. insurance regulator, seeking to speed up resolution of complaints about insurers' failure to cover business interruption losses, will ask the British court to clear up definitions and policies at the center of coverage disputes.

"The issues around BI policies are complex and there are significant differences in policy wording between policies and across firms," the Financial Conduct Authority said in a statement. "These complexities have the potential to create ongoing uncertainty for a lengthy period. It is clear that decisive action is appropriate given the severity of the potential consequences for customers in the current coronavirus emergency."

In April, the FCA announced most business interruption policies purchased by smaller companies don't cover coronavirus-related losses, saying it had no grounds to force insurers to pay uncovered pandemic BI claims.

However, the FCA said in its latest statement the language of each contract needs to be studied.

"Whether there is cover for the business interruption related to the pandemic crisis will depend on a number of factors including the policy's wording," it said. "The range of wordings and types of coverage are sufficiently broad in the BI market that it is difficult to determine at a general level the degree to which any one individual customer may be able to claim."

> "The range of wordings and types of coverage are sufficiently broad in the BI market that it is difficult to determine at a general level the degree to which any one individual customer may be able to claim."
>
> **Financial Conduct Authority**

The FCA called on insurers to pay out quickly on policies where there is a clear obligation to cover, and use interim payments where appropriate.

For disputed cases, the FCA said it will seek an authoritative declaratory judgment regarding the meaning and effect of some BI insurance policy wording. It said it is working to identify a sample of cases representative of all the most frequently used policy wordings that have created uncertainty.

It also said it has outlined to a small number of firms, as well as the Association of British Insurers, its proposals for seeking a timely, transparent and authoritative judgment. Those firms include some that have already made decisions about the application of their policies and others that are considering similar questions around policy coverage that also could create uncertainty, it said. The FCA said the firms needed to clarify their position, by no later than mid-May, as to whether they believe their policy wordings for BI losses arising other than from property damage provide coverage. BR

Timothy Darragh is an associate editor, *BestWeek*. He can be reached at *timothy.darragh@ambest.com*.

Pa. Rehabilitators File Plan To Aid Long-Term Care Insurer

The plan must be confirmed by a judge to go into effect—however a hearing date has not yet been set.

by Lori Chordas

Rehabilitators appointed to manage the rehabilitation of Senior Health Insurance Company of Pennsylvania have submitted a plan to help save the long-term care insurer from liquidation.

Recognizing SHIP faces a substantial funding gap, the plan's aim is to increase revenues and reduce liabilities to narrow or eliminate that gap, according to the plan document. It will use a combination of policy modifications for most of the roughly 45,000 policies in force as of the filing.

Many policyholders have costly policies that provide far more coverage than the policyholders are reasonably likely to require, the document said. A key element of the plan is to allow policyholders to remove coverages that are not essential or even necessary, which will help narrow the funding gap and potentially reducing their premium, it said.

> Once the court approves the notice procedure, the rehabilitation plan will be distributed to SHIP policyholders for comments or objections.
>
> **Patrick Cantilo**
> Cantilo & Bennett

Policyholders will choose either to pay increased premiums or receive reduced benefits through several options, wrote Joseph M. Belth, professor emeritus of insurance at Indiana University, in a blog post. Under the proposed three-phase plan, policyholders already on claim may elect to receive reduced benefits.

The first phase of the plan lays out recommendations that policies not in nonforfeiture status be evaluated and that policyholders be offered several options, Belth said. In phase two, SHIP's insureds are expected to be offered additional options, and in the final phase of the plan, the company will complete the runoff of policies, he said.

At year-end 2018, SHIP's liabilities exceeded its assets by $447 million, according to the company's statutory financial statement. By the end of last year's third quarter, the deficit grew to $524 million. SHIP was ordered into receivership by Pennsylvania regulators on Jan. 29. At the time Insurance Commissioner Jessica Altman filed a petition with the Pennsylvania court to place SHIP in rehabilitation, the company had about 51,000 policyholders and $2.2 billion in assets. Judge Mary Hannah Leavitt appointed Altman as rehabilitator. Patrick Cantilo, the co-founder and managing partner of law firm Cantilo & Bennett, was named by Altman as the special deputy rehabilitator tasked with managing the rehabilitation plan.

Cantilo filed the plan with the Commonwealth Court of Pennsylvania and the plan must be confirmed by Leavitt to go into effect. However, a hearing date has not yet been set. Once the court approves the notice procedure, the rehabilitation plan will be distributed to SHIP policyholders for comments or objections, Cantilo said. BR

Lori Chordas is a senior associate editor. She can be reached at *lori.chordas@ambest.com*.

Regulatory Update

rate filings in parts of the state that are prone to wildfires.

The committee approved the bill in a 14-0 vote May 7, sending it to the Appropriations Committee.

The insurance industry says the Insurance Market Action Plan that would be allowed under the bill will give consumers options they will not have, because insurers otherwise will leave fire-prone markets.

"The whole goal here is to get insurers not writing enough policies … a reason to engage," said Committee Chairman Tom Daly at the hearing.

But Consumer Watchdog said the process of expediting the rate filing violates Proposition 103, the 1988 ballot initiative that requires insurance companies seeking to change rates to submit a rate application to the insurance commissioner, and receive the commissioner's approval before use.

Auto Insurance: Three bills that would have eliminated certain rating factors in setting automobile insurance rates have failed to advance in a Louisiana senate committee.

The legislation, proposed by state Sen. Jay Luneau and backed by Gov. John Bel Edwards, would have prohibited insurers from considering a driver's gender after the age of 25, credit score and status as a widow or widower.

Edwards in March told lawmakers that he supported Luneau's package of bills.

"I think we can all agree that our auto insurance rates should be based on our driving records," Edwards said. "Not on if you're female, or poor, or widowed, or putting your life on the line for our country."

Edwards called the bill package "the common sense thing to do, but more importantly, it's the right thing to do."

Emotional Support

In times of crisis, empathy and understanding are more important than ever.

By **Carly Burnham**

I've been promising a second story about crying at work since my April column. In light of recent events, this topic still feels a little fluffy. But given that we are all under stress, emotional intelligence is more important than ever. This story illustrates an important part of emotional intelligence, so I'm going to share it as promised.

In my first underwriting job, I was in a department that was typical to many in the spread of experience of the team. About half of the underwriters had 15 or more years of experience, about 40% had less than five years of experience, and the remainder were in between. Like many underwriting departments, the tenured underwriters mentored the newer underwriters, and most of the training was done through informal conversations on the floor. As a new underwriter, you're learning lots of things—coverage, rating, culture of the organization and relationship management skills.

Early in my time on this team, a senior underwriter told me: "My desk is in the corner. There is space between the cube and the window, and that is what we call 'the crying corner.'" I must have looked a little surprised because she explained that this is where she and many others on my team went when they needed to cry at work; it was out of sight of support staff and management, and she was a good listener. She explained that underwriters had cried there over divorces, health concerns, etc. But she told me that she most often cried there because of agents. She had a territory that had some particularly challenging agents who would literally yell at her over accounts. She said the second reason she would cry in that corner was after reviewing one of those tough decisions with management and finding herself unsupported. It didn't take me long to learn that she was not the only underwriter with this experience.

I was unsettled by this information as I had never worked somewhere that allowed their staff to be treated this way by customers. Even as a call center representative for a retail credit card company, I was told that if a customer became irate on the phone, I should state, "I am ending

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this call if you will not interact politely," and then I was to hang up the phone if their tone did not change. As an employee in this new environment, I was uncomfortable. I did not intend to allow agents to treat me that way, and I hoped that it would not become a point of contention between me and my manager. I never found out because my agents never crossed that line. That said, I took two lessons from the experience.

First, crying is bound to happen at work, and hearing that your fellow employees are supportive and understanding is reassuring and makes for a more human environment.

Second, setting boundaries, even with customers, should be a standard and accepted practice in any work setting. We all get frustrated, but we should never yell at those we are working with. And if we are being yelled at, we ought to be empowered to disengage from that situation.

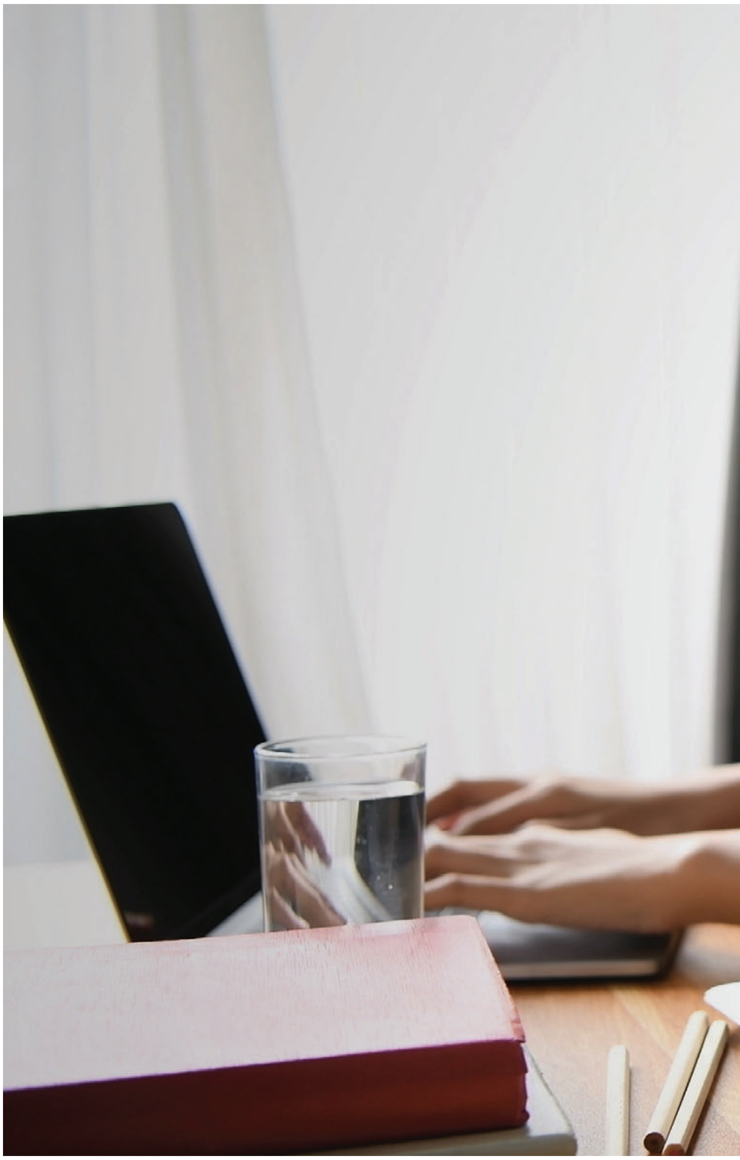
In April, I shared that our work connects on a personal level, and I believe that it should. Insurance is a relationship-based business. Relationships can be challenging to navigate, and they can bring out powerful emotions. Each of us in the profession ought to learn to manage our emotions and ensure that we treat fellow professionals as least as kindly as we treat our customers. Engaging in behavior that brings another to tears should not be tolerated. I hope that, especially in these challenging times, we can remember that the stress we each are under will bring increasing difficulty to interactions. When it does, choose the path of empathy and understanding. BR

At Large

Remote & Resilient

The COVID-19 pandemic highlights the importance of continuity, community and cyber resiliency.

By **Tony Kuczinski**



Until March 2020, few of us could imagine a day when our entire industry, and much of the world, would need to rely almost entirely on technology for virtually all of our day-to-today interactions. The COVID-19 pandemic and its continuing challenges have altered our everyday reality in ways we could never have imagined. Most of all, it has tested our resiliency—on an individual and business level.

Technology has become a lifeline in our current situation, keeping us connected through one of the most trying times. It allows us to maintain "physical distancing" for the sake of everyone's health and well-being at work and at home, and it facilitates the ability to serve our customers and partners safely, effectively and with as little disruption as possible.

I am personally deeply impressed with how our team—and our entire industry—has shifted into this remote work reality. This includes our day-to-day activities, now blended with work and family elbow-to-elbow, requiring major shifts in the way our jobs are done. For example, in our industry, spring is the time when insurers and brokers are negotiating vitally important insurance policy renewals. This is traditionally an activity that relies heavily on personal relationships and face-to-face meetings. Technology has been vital in mediating some of those challenges through videoconferencing and other face-to-face communication platforms.

At Munich Re US P&C Companies, we have considered technology a linchpin in business resiliency for decades. Investments in innovative tools and solutions that lead the industry today—and will tomorrow—remain a top priority for our company and many in our industry. This includes solutions designed to make businesses of all sizes more resilient to cyberthreats, which have increased during this pandemic with cybercriminals seeking new opportunities to exploit weaknesses.

COVID-19 provides an effective smokescreen for launching email phishing attacks, many of which leverage company leaders as the email "senders." This drives more people to open emails and potentially click on malicious links that download malware. Effective management of these attacks relies on two key factors: communication and secure technology.

IT security for any business is critical. Munich Re US P&C Companies have developed a strong

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infrastructure to defend against attacks and raise red flags when threats are detected. All companies must focus on having the strongest possible controls and tools in place to help ensure their cybersecurity. However, without communication, we have won only half the battle. Educating all (and I mean all) employees as well as contractors on how to identify cyberthreats is step one. Having open and accessible communication channels to answer employees' questions or make the right choice in the moment can help prevent a data breach, violations of privacy and much more.

In the re/insurance industry, which is in the business of protecting people and businesses from threats, cybersecurity may be one of the most critical areas of focus for years to come. What the COVID-19 pandemic is teaching us—and will continue to—is that increasing resiliency must always be a priority, not a luxury. It is critical now more than ever. This need to adapt to change will not disappear, but most certainly will increase with time.

It has also taught us the value of community; helping customers and their clients be more resilient in the face of challenges, to not just survive but thrive. It has taught us to think differently, working with our colleagues in new and often better ways. Finally, it has reminded us to appreciate and reach out to those around us.

As we move forward with getting back on our collective feet, our industry will play an enormous positive role in helping businesses and individuals protect themselves, recover and, ultimately, prosper. I think I can speak for more than myself when I say I am proud to be a part of that mission. BR

A Better Remedy

Lawmakers must develop a public-private partnership to address insured losses from pandemics.

By **Howard Kunreuther**

The catastrophic impacts of COVID-19 have presented challenges and opportunities for the insurance industry as to how to deal with business interruption (BI) losses by firms that did not have this coverage due to a viral exclusion clause in their policies. Lawmakers now need to play a creative role in designing new legislation for dealing with future pandemics.

With respect to the exclusion of losses due to widespread diseases such as a pandemic, seven states—Louisiana, Massachusetts, New Jersey, New York, Ohio, Pennsylvania, and South Carolina—have introduced bills requiring retroactive coverage of BI losses. The proposed Business Interruption Insurance Coverage Act of 2020, now being considered by Congress, would nullify existing exclusions in commercial insurance policies. As noted in a recent piece in the American Action Forum, if this legislation is passed it would violate the legal concept of a contract and create litigation that could take years in the courts. It would result in losses to insurers of $220 billion to $383 billion per month, 10 times the amount in claims ever handled by the industry in a year.

Rather than considering legislation that would threaten the solvency of insurance companies, Congress and state legislators should focus their attention on developing a public-private partnership to address losses from future pandemics that will be supported by the business community and the insurance industry.

Recently, there has been an active dialogue on designing such a partnership, using the Terrorism Risk Insurance Act (TRIA) as a model for a Pandemic Risk Insurance Act (PRIA). For terrorism and pandemics, their likelihood of occurrence is highly uncertain and the potential losses can be catastrophic. Thus, there is a need for public sector involvement for insurers to want to provide coverage against either of these risks.

The Wharton Risk Center has designed a framework for developing a private-public partnership for low-probability, high-consequence events that may have relevance in designing PRIA. The losses from pandemics would be covered by

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businesses, the insurance industry and the federal government through the following four layers:

• **Layer 1 (self-insurance by commercial enterprise):** A deductible on the insurance policy would incentivize businesses to develop plans for reducing losses from a future pandemic.

• **Layer 2 (private insurance):** The amount of coverage provided by each insurer would vary depending on their size and the diversification of their risk across businesses. Premiums charged for this coverage would depend on the insurer's ability to estimate the pandemic risk and their risk tolerance.

• **Layer 3 (reinsurance and risk transfer instruments):** Reinsurers need to determine how much coverage they would offer to private insurers to handle large pandemic losses and what premiums they would set for this protection. Other forms of risk transfer, such as catastrophe bonds, would complement or substitute for reinsurance.

• **Layer 4 (federal government protection):** Losses that exceed the ability of the private sector would be covered by the federal government either through ex ante premiums or ex post assessments (as in TRIA) to recoup their expenditures. There is a rationale for an ex post assessment because of the difficulty in estimating an ex ante premium due to the uncertainties associated with the pandemic risk.

Congress should also consider ways to develop a catastrophic insurance program that covers future BI losses from a broad set of extreme events rather than focusing on specific hazards such as terrorism and pandemics. Any program must find a way to cover small and young businesses—those most in need. BR

Technology

Beyond Digital

The journey to digital evolution moves insurers from transformation to innovation to reach customers.

By **Pat Saporito**

The insurance industry has been addressing digital transformation—the fourth industrial revolution—for the past five years.

Companies are at different stages of maturity in their digital evolution. Mature organizations have transformed as many applications as they feel feasible, while others are still on that journey or have elected to focus on new applications.

However, going digital is no longer differentiating. A company's digital maturity is not measured merely by how many systems or processes have been transformed, but how the organization has evolved its digital thinking and how well it can leverage data and analytics holistically across products and functions to set itself apart from its peers.

Insurers need to ensure that there are synergies in the data, technologies and analytics, as well as in their adoption of those tools.

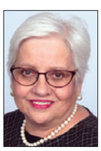
The initial impetus for digital was driven by SMAC technologies (social, mobile, analytics and cloud). Today, almost every insurer has round-the-clock, mobile applications for buying, claims and customer service.

Many have augmented their internal structured data with mobile and text data for sentiment analysis and other advanced analytics. Analytics have become embedded in our transactional systems for quotes, underwriting, claims and service. Most insurers have moved their data and applications to cloud infrastructure environments. Business value in terms of improved customer and producer acquisition and growth, increased operational efficiency and lower information technology costs have all been achieved.

But in order for insurers to innovate and remain competitive with their peers and other broader ecosystem players, they will need to harness and apply the next wave of technologies, which Accenture has dubbed DARQ, or distributed ledger technology (blockchain), artificial intelligence, reality and quantum computing.

Distributed ledger technology enables transactions without middlemen or third parties. Smart contracts, such as electronic surety bonds or reinsurance bordereau premium and loss processing, are good examples of that technology.

AI leverages ever-growing volumes of data,



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automates business processes and feeds advanced algorithms for underwriting, claims and service.

Reality—virtual, augmented or assisted—facilitates new immersive, engaging customer environments for advanced risk management, health and safety management, loss control training and education, and claims and customer service support.

Quantum computing provides more robust processing and platform capabilities to support this next wave of technologies and provide improved data privacy and security.

Understanding customers at a holistic level, along with recognizing and anticipating their changing needs and being able to respond to them, is critical to ongoing success. This means not only being part of customer-centric ecosystems but also creating those networks.

Several years ago, South African multiline insurer Discovery SA created its own ecosystem. Its Vitality Rewards program suite, which includes Vitality Drive, Vitality Health and Vitality Money, incents and rewards customers for "Driving well, living well and banking well."

This customer-centric program uses each of the SMAC technologies, along with some of the DARQ tools. In exchange for their data and participation, customers receive discounts or noninsurance purchase credits that contribute to lower risk and reduced premiums. As a holistic program, it drives customer retention and broader customer wallet share.

Discovery is "doing well by doing good" for its customers and has advanced beyond mere digital transformation to innovation. BR

Regulatory/Law

The Fire Last Time

Insurance coverage during the Spanish flu pandemic of 1918-1920 was much different than it is today.

By **Stephen P. Pate**

Insurance carriers are bracing for COVID-19 claims. Social media is full of information on potential coverage, yet it must be remembered that there was a previous pandemic: Spanish flu in 1918-1920. What were the coverage issues then?

Spanish flu caused almost 50 million deaths worldwide, in a world already ravaged by World War I. In the United States an estimated 25 million Americans—perhaps some 30% of the population—contracted the disease; over 650,000 died. The flu's first wave began in March 1918. This wave was brief, and perhaps the advent of warmer weather contained it. The next wave struck in the fall of that year. This was the deadliest wave and lasted in virulent form for some four to six weeks. It was this second wave that would wreak havoc on the world. In the United States, this second wave began in an army camp in Massachusetts. By September 1918, soldiers nationwide were infected. The disease jumped to the civilian population.

Public awareness of the pandemic was slow. In those months, newspapers were full of news about the end of the Great War. By mid-October, the growing number of cases could not be ignored. Many cities issued quarantine orders. Businesses closed and public gatherings were prohibited. Courts shut down. Still, many places defiantly remained open. The pandemic crested in October. Thereafter, places reopened and remained open despite flare-ups that occurred throughout the winter of 1919-20. After that, the pandemic receded; the last deaths occurred in 1920.

What were the consequences for insurers? There was no such thing as health insurance in the United States at the time. Life insurance was relatively new. Life insurance carriers paid out $100 million in death claims because of the pandemic—$20 billion in today's money. The Spanish flu prompted a boom in life insurance. In one state, sales of life insurance doubled in the first three months of 1919 as opposed to the first three months of 1918.

Insurance litigation centered on these life insurance claims. Many cases involved misrepresentation, as carriers denied claims on the grounds that the deceased hid their influenza

Best's Review contributor **Stephen P. Pate** is an authority on property insurance issues and co-chair of Cozen O'Connor's Property Insurance Group. He can be reached at *spate@cozen.com.*

HEADING 'OVER THERE': Soldiers in the U.S. 39th regiment in Seattle wear masks to prevent influenza in December 1918. They were on their way to France during the Spanish influenza pandemic.

when applying for insurance. Carriers tried to deny claims based on a war service exclusion. This exclusion voided coverage for deaths while on active military service. Since this was the end of a war and Spanish flu was prevalent in the services, this caused controversy. Ultimately courts frowned on these denials, holding that having influenza was not equivalent to being killed in military action. There was also workers' compensation litigation, with many courts ruling that catching the flu while at work was indeed within the course and scope of employment.

There was no hullabaloo about business interruption claims. For one thing, businesses were closed only a short period of time. For another, few, if any, companies would have had this coverage.

Lawyers did see a way to generate business. For example, one newspaper article said plaintiff's attorneys were discussing theories that owners of public places owed a duty to the public to keep their premises influenza-free. A review of case law, however, reveals no appellate decisions on this point.

At the end of the day, there were relatively few coverage disputes. Yet, that was a different day. BR


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Flood of Opportunity

Neal Schmidt, vice president of commercial underwriting for Philadelphia Insurance Companies, said while flooding is the most common and costly natural disaster in the United States, flood insurance is often seen as an optional purchase and take-up rates on flood coverage are in the 20% range. “Flooding can occur anywhere; over 20% of flooding claims are from locations outside high-risk areas. An inch of water can easily result in $25,000 in property damage,” he said. The following are excerpts of an interview.

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- Creative approach to flood risks.

Neal Schmidt
Vice President of Commercial Underwriting
Philadelphia Insurance Companies

“Selling flood coverage is an opportunity for agents to differentiate themselves by serving as a resource for flood insurance and flood education.”

What is the current state of the commercial flood insurance market?

Standard market carriers writing package policies that include property coverages may extend coverage to include flood in more favorable flood areas. When the marketplace is aggressive, property carriers are more apt to offer flood coverages more freely and that has been the case in recent years. However, as the market is firming, flood coverage as part of a package policy may become more difficult to obtain and more expensive. Private market solutions are developing for locations that are no longer eligible under a package policy. For locations in the very unfavorable flood zones, coverage is available through the National Flood Insurance Program.

Why are private market flood options now developing?

Flood insurance in more difficult flood zones was previously considered untouchable by private insurers because they did not have a reliable way of measuring flood risk. In recent years, the quality of available flood data has gotten better and flood modeling is getting more sophisticated. That is giving carriers more confidence around risk selection and risk pricing. In early 2019, federal regulators allowed mortgage lenders to accept private flood insurance if the policies are at least comparable to the NFIP. Reports are showing that net premiums written for private flood insurance in 2018 were around $541 million versus $471 million in 2017. There were 120 private companies writing flood insurance in 2018 versus 50 in 2016. This helps agents as competition develops and also spreads the risk for the industry.

How does PHLY address commercial flood needs?

PHLY’s flood coverage is available in three ways. We can offer flood coverage as part of our package policy that includes property coverages. That coverage is available in lower hazards zones and we’re able to use a variety of data sources and modeling to risk select less vulnerable locations, allowing for more aggressive pricing. We also offer a private market solution for commercial accounts. This is a nonadmitted product offering with available limits and coverages that are broader than the NFIP. This would typically be offered on locations that are in higher hazard zones that would not be eligible for flood coverages as part of a package policy. PHLY is also a “Write Your Own” provider for the NFIP. As a WYO company, we team up with our vendor, National Flood Services, and provide coverage to more than 22,000 policyholders, both commercial and personal.

Buyer Beware

Chip Clark, president of New England Asset Management Inc. (NEAM), said that in this most recent economic downturn the Fed is providing liquidity and supporting markets. “Just understand what you’re buying and make sure you’re getting paid for the risks you’re taking. You can have asset price inflation that doesn’t mirror the fundamentals in the market,” he said. The following are excerpts of an interview.

NEAM

New England Asset Management®

- Customized asset management solutions.
- Over $70 billion assets under management.
- Headquarters: Farmington, Conn.

Chip Clark

President

New England Asset Management, Inc.

“Be very disciplined in this market and know it’s OK to take risk, but just make sure you’re getting paid for that risk.”

Go to the Issues & Answers section at *bestreview.com* to watch an interview with Chip Clark.

What have asset managers learned from previous periods of economic uncertainty?

One of the things we’ve learned over the years is that periods of uncertainty and market dislocation generally create opportunities to buy high quality assets at attractive book deals. We think we’re seeing that again today much like we saw in 2008/2009. During this crisis, we’ve been active buyers of spread product at levels that quite honestly we haven’t seen in over a decade. We think we’ll be rewarded for that as markets tend to oversell in periods of dislocation.

What have we learned about investing in a low rate environment?

You need to remain disciplined, but don’t be complacent. In low rate environments, every basis point counts. As the book yield in your portfolio starts to decline as you’re investing at lower new money rates, the natural inclination is to want to take more risk. Whether that’s interest rate risk by extending duration, credit risk by going down in credit quality, increasing the allocation to structured product or potentially changing the mix of the equity versus fixed income allocations. We would tell insurance companies that this is a good time to take a hard look at how much risk you really want to take and is an opportune time to refresh the enterprise risk analysis that you’re doing. This is a good time to remain disciplined. Don’t be complacent. Don’t step aside. There are opportunities here.

Do companies sometimes make mistakes in a volatile investment environment?

We’ve seen a couple of missteps over the years. One is the natural inclination to want to sell and de-risk a portfolio at the wrong time. Generally, people who are selling on that instinct are leaving money on the table. The second point is waiting to try to time the market. That’s very, very difficult. What we typically like to do in periods like this is what we call “leg in thoughtfully.” It’s put money to work, but keep some powder dry. Typically, market dislocations will have what we call market rallies in bear markets and they can be a bit of a head fake. Leg in thoughtfully, keep some powder dry, you’ll probably get another bite at the apple.


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Brave New World

Ryan Nava, associate vice president, Financial Institutions at Nationwide, reported that the Management Liability market is carefully observing the economic impact of COVID-19, especially for companies directly affected by the pandemic. Peter Trochev, associate vice president, Financial Institutions at Nationwide, concurred, saying "our approach is to give every account the service that it deserves and determine how to best provide a solution." The following are excerpts of an interview.

Nationwide®

- Fortune 100 Company.
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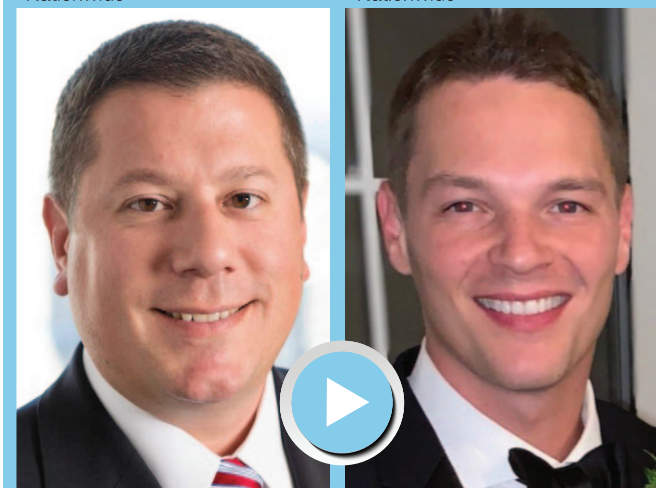
Ryan Nava
AVP, Financial Institutions
Management Liability and Specialty
Nationwide

Peter Trochev
AVP, Financial Institutions
Management Liability and Specialty
Nationwide



Go to the Issues & Answers section at *bestreview.com* to watch an interview with Ryan Nava and Peter Trochev.

Is the Fed policy during distressed times having an impact on insurers?

Nava: It's helping the economy overall for now. The Federal Reserve has taken a lot of action to slow the decline in the economy, which is a major part of why the Fed exists. Their actions are supporting the economy for now, however my concern is if this goes on for an extended period of time, those supports may not be enough.

Trochev: A business relying on commercial paper, repurchase agreement, or anything highly leveraged is going to have a hard time right now. With programs designed to help businesses sustain themselves, the Fed is implementing a round of quantitative easing the likes of which we have never seen.

Are you seeing an uptick in COVID-19-related claims?

Nava: We've seen some COVID-related claims come in, although more in the commercial space than in the financial institution space. We anticipate seeing more in the days ahead, but the bigger question is: will this pandemic result in major losses?

Trochev: We can't predict the future but financial strain on businesses could further stress the private equity space as portfolio companies see their supply chains disrupted.

What are you talking to clients about during these times?

Trochev: We ask what their exposure is and how they're performing. More importantly, what is their strategy or approach to mitigate the current risks in order to find a subsistence level.

Nava: We also ask how COVID-19 is affecting their relationship with their clients from an investment-adviser perspective. Are they still able to communicate with them effectively? Thankfully, technology has allowed the markets, work and life to go on, especially in the FI world. Technology has enabled this transition to be much, much smoother for everyone.

How is Nationwide meeting the challenge for clients through these trying times?

Trochev: We start with our mission statement, which is to protect people, businesses and futures with extraordinary care. We've been helping our members protect assets and prepare for their future for nearly 100 years. It's at the heart of who we are and it's what we'll continue to do in our work and in our service during this pandemic.

Nava: We went from 90% of our workforce in an office, to 98% work-from-home in the matter of a week without missing a beat or any material issues affecting our members. We look to be proactive, not reactive. No matter what challenges we face, we're prepared to continue to operate with our members' best interests at heart.

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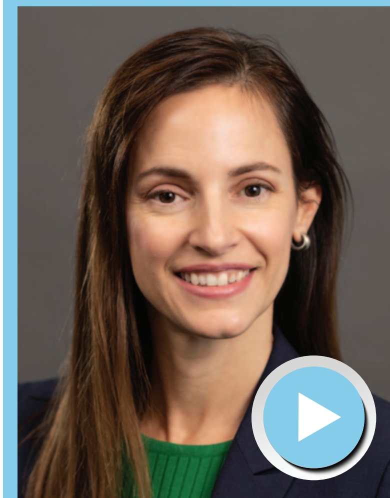
Data as of 12/31/2019

Capital Strategy

Elizabeth Henderson, principal and director of corporate credit at AAM, said the company has increased its exposure to corporate bonds, preferring 'A/AA' quality issuers that are issuing today at levels historically associated with 'BBB' type credit risk. "We expect some turbulence in the underlying assets in the months to come, but see a number of opportunities in the deals with the strongest underwriting," she said. The following is an excerpt of an interview.

Elizabeth Henderson
Principal and Director of Corporate Credit
AAM



"We recommend adding to higher quality below-investment-grade strategies (i.e., avoiding CCCs), and we are encouraging our clients to take advantage of attractive government related programs."

Go to the Issues & Answers section at *bestreview.com* to watch an interview with Elizabeth Henderson.

What investment strategies do you recommend to take advantage of the broad sell-off in the capital markets?

As long-term investors, we strive to find investments that will provide a superior level of income and stability over the term of the investment. The significant selling across all markets associated with the COVID-19-related economic downturn was unprecedented. This distressed environment put a number of high quality investments at risk, but also created a number of opportunities. For example, corporations issued record amounts of debt in April to enhance liquidity at significant discounts, and the Federal Reserve announced programs to help jump-start the ABS and CMBS markets. The announcement that the Fed will buy credit instruments, including some high yield, put a backstop to the downside of these markets. Although the economic picture is cloudy with little certainty as to the strength of the recovery in the third quarter, these events have created great opportunities for long-term investors.

Should an insurance company consider drawing from the Federal Home Loan Bank to provide leverage for yield enhancement or arbitrage opportunities?

We have recommended that all of our insurance clients who have the ability to participate in FHLB programs take advantage of this opportunity. The strong market sell-off in March demonstrated why this membership is so important. In the event that liquidity was required for operational needs, the ability to draw from the FHLB at favorable rates allowed companies to avoid the panic and price deterioration across the bond markets. In addition, those clients that had adequate liquidity were able to draw from the FHLB and invest in high quality corporate, asset-backed and other structured product bonds on a matched-maturity program to generate significant yield enhancement or arbitrage opportunities. In particular, short-to-intermediate bonds offered similar yield spreads to longer maturity issues as the spread curves flattened. We were very opportunistic in approaching clients and executing these strategies both before and immediately after the Federal Reserve announced programs to stabilize these markets. Our ability to communicate and execute these strategies within a short period of time was recognized and appreciated by clients who took advantage of this opportunity.

How do you think the ratings agencies will react to the pandemic in structured products and corporate credit?

We think they're going to be fairly aggressive in taking action against a broad variety of structured products, so they are not playing catch-up as they did in 2008-09. This has already occurred in the corporate bond sector. The agencies were very aggressive on the onset with sectors directly impacted by the virus. Subsequent to that, the agencies have revised their GDP forecasts lower, and they are now more conservative than the consensus. Hence, we expect more actions through the summer in other economically sensitive sectors, as optimistic assumptions fall short. We expect up to $500 billion of fallen angels in corporate credit by the time this is over.

Share this edition at ***www.bestreview.com/issuesanswersarchive.asp.***

Municipal Bond Considerations In the COVID-19 Era

Mark Paris, CIO and Head of Municipal Strategies for Invesco, said the COVID-19 crisis created significant volatility in the municipal bond market. "In response, Congress and the Federal Reserve began providing stimulus and liquidity facilities to the market, which should continue to have a positive impact overall on municipal credits," he said. The following are excerpts of an interview.

Mark Paris
CIO Municipal Bonds
Invesco

"Adding some selective high yield to a diversified high-grade portfolio can possibly add significant total return to a portfolio in our opinion."

Describe the current state of the municipal bond market.

Within high-grade municipal bonds, interest rates have stabilized, and new issue supply has improved, from March levels. However, despite this stabilization, municipal bond yields remain attractive compared to Treasuries as well as other high-quality credit sectors. This may present an opportunity for insurance companies and other investors seeking diversification from corporate credit risk. In particular, European insurers subject to the Solvency II regulatory regime and negative rates in their local bond markets may find municipals to be quite attractive considering their current yields and the fact that some infrastructure-related bonds may qualify for lower capital charges.

How have taxable municipal bonds fared and are they still an attractive asset class?

Taxable municipal bonds sold off alongside investment-grade corporates as COVID-19 weighed on the market. Although corporates and tax-exempts have stabilized, taxable municipal bond spreads remain elevated, widening over 100 basis points year-to-date, as of the end of April. We believe taxable municipal bonds are not only attractive on a spread basis versus corporate bonds but are also higher quality and experience fewer defaults with historically lower equity market correlations. We believe this represents a clear opportunity for institutional investors such as life insurers and pensions who, due to asset-liability management considerations, have a need for longer duration fixed income assets. Notably, most life insurers' and pensions' tax status means they do not enjoy the benefits of a tax-exempt municipal allocation, making the taxable space all the more compelling.

Where are you seeing the most attractive opportunities within the municipal sector?

Although the tone of the municipal market has improved, spreads within the high-yield market remain elevated. We believe there are attractive opportunities in larger liquid credits such as the transportation and hospital sectors. Relative to the high-yield corporate bond market, which could experience a surge in new entrants stemming from the significant current stock of BBB-rated bonds, the high-yield municipal space could be a more attractive way to utilize precious below-investment-grade budgets. With high yield also comes higher risk so we recommend being selective and relying on fundamental bottom-up credit research when investing in this asset class.

ONE OF MANY: The Federal Home Loan Bank of Pittsburgh is one of 11 FHLBanks (or Federal Home Loan Banks) located in cities across the country.

Photo courtesy of Federal Home Loan Bank of Pittsburgh

A Needed Resource

Insurers are positioning themselves to borrow from the Federal Home Loan Bank in the event of further financial stress.

by John Weber

As economic turmoil grows in the United States due to the COVID-19 fallout, insurers looking for additional funds to help offset liquidity pressures may turn to the Federal Home Loan Bank. FHLBs are government-sponsored entities with implicit government backing, according to the Best's Special Report *Growing FHLB Usage Expected to Be Ratings Neutral*. All their lending is secured, and they buy only government guaranteed and Treasury investments, although there are still risks, particularly as related to downturns in the housing and mortgage markets, the report said.

John Weber is a senior associate editor with AMBestTV. He can be reached at *john.weber@ambest.com*.

> "AM Best will continue to analyze FHLB borrowings and operating leverage on a case-by-case basis to determine the leverage treatment and the appropriate risk charges as applied to our Best's Capital Adequacy Ratio or BCAR model."
>
> **Jason Hopper**
> AM Best

Jason Hopper, an associate director in the industry research and analytics department at AM Best, discussed the report with AMBestTV.

Following is an edited transcript of the interview.

What are some of the dynamics behind borrowing from the Federal Home Loan Bank, and how widespread is FHLB access to the insurance industry?

Not just anyone is able to borrow from the Federal Home Loan Bank. Companies must own capital stock within it to be able to access borrowing funds. Capacity is determined by a mix of collateral and assets.

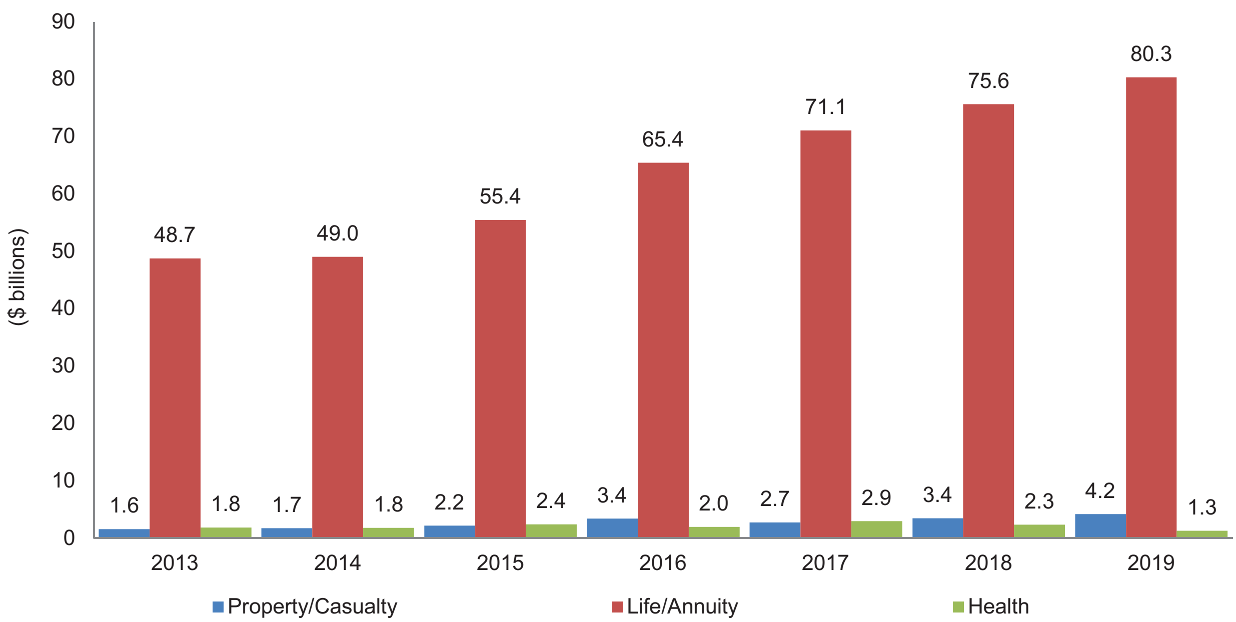
Insurers have been using the FHLB for a long time to varying degrees, and as of year end 2019 there were 471 insurance members, which was a growth of about 8% for the year.

However, FHLB access is not substantially widespread throughout the industry, as only 22% of life insurers, 6% of property/casualty, and 3% of health insurers actually have access to FHLB borrowing.

Have you seen borrowing increase in the past couple of months?

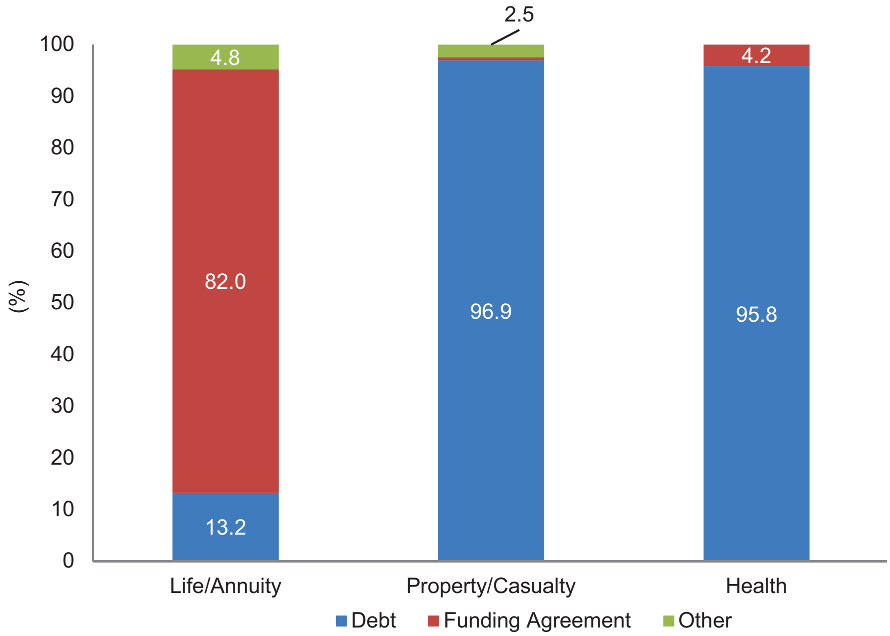
Anecdotally we have, based on a limited number of conversations with a few of the

US Insurers – Total Borrowings, 2013-2019



Source: AM Best data and research

FHLB Borrowing by Type, 2019



Source: AM Best data and research

where they borrow funds at a relatively low rate, invest those funds at higher rates, and make money off that spread.

However, what we've seen in the more recent borrowings, life insurers haven't been using it as more of a spread play; they've been using it more from liquidity trades, similar to historically what the property/casualty and the health companies have done.

Are there levels or types of borrowing that would be of concern to AM Best?

Life insurers, the majority of their borrowing has come through funding agreements, which I said are used more for spread plays. Funding agreements have made up 82% of FHLB borrowings at year end 2019 for life insurers.

From a leverage standpoint and treatment at AM Best, we view funding agreements, or they qualify for operating leverage treatment, if insurers demonstrate strong asset liability management, and liquidity management expertise.

Credit for operating leverage ceases once the sum of activities qualifying for operating leverage exceeds 30% of consolidated liabilities, excluding separate accounts.

In any regard, AM Best will continue to analyze FHLB borrowings and operating leverage on a case-by-case basis to determine the leverage treatment and the appropriate risk charges as applied to our Best's Capital Adequacy Ratio or BCAR model. BR

branches. I do know that demand and volume does differ from branch to branch. The branches that we talked to may experience different volumes than some other branches, but in any regard, based on the branches that we have talked to, life insurers have been comprising the majority of the new borrowed funds.

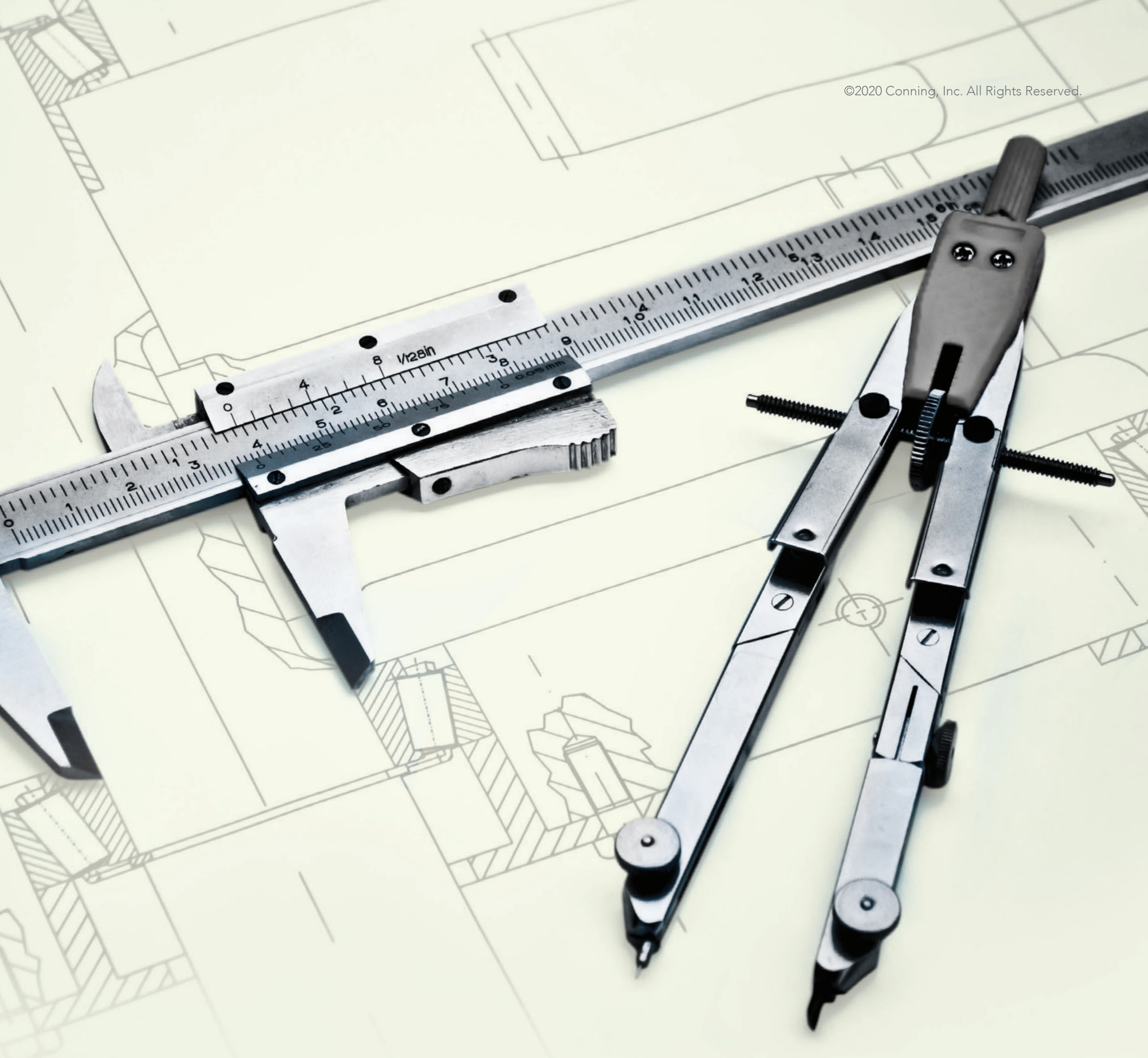
To that end, 41% of life insurers have not used any capacity at all. Obviously, they have a lot more available they can tap if needed, and along with that, 71% of property/casualty and 52% of health insurers have not used any of their borrowing capacity.

Conversely, about 7% of life insurers have maxed out their borrowings, meaning that they have no more available funds to tap. This compares to 3% for property/casualty and about 12% in the health space.

Do we have any idea of how the use of the Federal Home Loan Bank breaks down between the major U.S. insurance segments?

The life insurance sector comprises the large majority of borrowings, which has continued to uptick in 2019. Life companies make up about 80% of total insurance industry borrowings, with health and P/C comprising the remainder.

Historically, life insurers have been using FHLB borrowings as more of a spread play,



On the Way Out

With the London Interbank Offered Rate phasing out next year, insurers should welcome the flexibility alternative rates can bring to their financial decisions.

by Dr. Richard L. Sandor

Before the recent financial turmoil from the coronavirus, regulators were stepping up efforts to require financial services companies to prepare for the sunsetting of the London Interbank Offered Rate, or Libor, interest rate benchmark in 2021. U.S. life insurers write many products that are designed for the long-term, such as annuities and long-term care insurance. Insurers support those obligations with long-duration assets, such as mortgages, mortgage-backed securities and high-grade corporate bonds. They can benefit from understanding the various alternatives to Libor, both secured and unsecured interest rate benchmarks, to meet their specific needs.

Key Points

What's Happening: The rate-setting mechanism insurers use to support their investments, the London Interbank Offered Rate, is being phased out.

The Alternative: The multiple rates emerging might better serve specific segments of the market. The replacements are based on actual trades and are better suited to different segments of the marketplace.

Next Steps: To mitigate the risks of transition, insurers must understand their current risk profiles, including how much is tied to Libor, how much expires before and beyond 2021 and what alternatives can be considered?

Concerns about Libor came to a head in 2012 when a series of investigations revealed collusion among banks to manipulate rates to their benefit. Libor came under U.K. regulatory oversight soon after.

There may be short-term pain as insurers prepare for the transition but it is high time for Libor to go. It was an accident of financial history, based on a poll of banks with a very small cash market to price hundreds of trillions of dollars. Its demise presents opportunities for change and innovation that

Best's Review contributor **Dr. Richard Sandor** is the Aaron Director Lecturer in Law and Economics at the University of Chicago Law School. He is also chair and CEO of the American Financial Exchange. He can be reached at *bestreviewcomment@ambest.com*.

will benefit financial-market participants. There are multiple rates emerging right now to better serve specific segments of the market. The replacements are based on actual trades and are better suited to different segments of the marketplace.

Already a number of alternative benchmark rates have emerged, including:

- The Federal Reserve's SOFR (Secured Overnight Financing Rate), a secured rate derived from borrowing and lending activity in Treasuries.
- The British government's Sonia (Sterling Overnight Interest Average rate).
- The Japanese Tonar (Tokyo Overnight Average Rate).
- The Swiss Saron (Swiss Average Rate Overnight).
- U.S. Ameribor (American Interbank Offered Rate), a benchmark rate that reflects the actual market-determined cost of borrowing for U.S. financial institutions.

The Advantages of Alternative Rates

Economics teaches us that choice is good. Since insurers are heavy users of derivatives, including interest rate swaps, to hedge risks, it is a critical choice. Libor is the most frequently used reference rate in swap transactions. It also serves as the basis for corporate loans, floating rate mortgages and notes and other securitized products.

For large insurers, there is the Federal Reserve's SOFR, which is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities. The Intercontinental Exchange Benchmark Administration, which took over the administration of Libor at the request of the U.K. government in 2014, has introduced another benchmark for large institutions that revamps Libor to mitigate credit risk.

Some insurers have chosen other solutions, including using the Ameribor benchmark for their lending transactions. Ameribor is a benchmark developed to meet the specific lending needs of insurance companies, regional banks and credit unions from the American Financial Exchange (AFX). During the current pandemic, Ameribor performed faultlessly, with an all-time record in volumes (over $3 billion a day) and low volatility. Members of the AFX had access to a reliable source of liquidity that demonstrated great stability.

The world after Libor will provide many options to insurers. It's not that any of these benchmarks are better than the alternatives, just that they work better in some situations than other benchmarks. That's one of the positive things about the transition away from Libor—that it will create multiple alternatives, each with their own distinct features and applications. It will make the lending market more like equities, with its multiple benchmarks from the S&P 500, Dow Jones Industrial Average, NASDAQ to the Russell 2000, EAFE (Europe, Australasia and Far East) and beyond.

> Insurers support [products] with long-duration assets, such as mortgages, mortgage-backed securities and high-grade corporate bonds. They can benefit from understanding the various alternatives to Libor, both secured and unsecured interest rate benchmarks, to meet their specific needs.

With contracts tied to Libor that are valued at hundreds of trillions of dollars, practitioners need to become familiar with which of the alternative new benchmarks out there best conform to their needs. Of particular concern are the trillions in Libor-linked loans whose contractual language enables lenders to renegotiate their terms if the base rate changes or disappears.

We are six years into the transition process. That means there's still time for bankers and other financial institutions involved in financial markets to prepare. There is also much work to be done on loan transition documentation. It is critical that financial players start to pay very close attention and start reviewing their documents. The number of conferences, workshops and white papers concerned with the transition away from Libor is increasing. Interest in them is likely to grow as we move closer to the transition date. Banking, insurance and mortgage trade associations and others who depend on floating rates can play an important role in educating market participants and resolving common problems and challenges the industry faces.

Steps for Insurers

What else can insurers do to prepare for the transition? To mitigate the risks of transition, insurers must understand their current risk profiles. How much is tied to Libor, and how much expires before and beyond 2021? What alternatives can be considered? From an asset-liability point of view what can be done to prevent imbalances? The use of new benchmarks will also require education.

Along with record keeping, education and transitioning to a new rate or rates, an insurer needs to select the right rate. Does it accurately represent the cost of borrowing? If the chosen rate creates asset-liability mismatches, it obviously increases operational and financial risks for insurers. Boards and asset liability professionals must be prepared to address these issues.

The transition to new benchmarks, and the creation of new markets that comes with it, will require building institutional infrastructure. That means that insurers, and regulators who support this change, need to be joined by accountants, lawyers and academics who can help provide the skills and knowledge required to help everyone understand the changes and new options.

We have every reason to believe that the U.S. financial sector, the most developed, flexible and innovative in the world, will maintain an orderly and smooth transition to new interest rate benchmarks. Industry groups are organizing to educate stakeholders. There are contracts currently being traded on organized exchanges, which will provide greater transparency and price discovery and speed up adoption.

When it comes to alternative rates, choice is critical. It enables insurers and other participants to pick the appropriate rate for their circumstances and it helps lower systemic risk. In times of volatility, it is better to have a choice of rates than a single benchmark. A rate like SOFR caters to bigger players, while Ameribor, an unsecured rate derived from transactions on the AFX, is better suited for certain types of financial institutions and client segments. There's still time for insurers to prepare and benefit from better choices available now. Insurers that welcome the transition will enjoy a competitive edge. BR

AP Photo/ mpi43/MediaPunch /IPX

[Still] Open for Business

Stay-at-home orders and social distancing measures took a toll on many small businesses, including Main Street agents and brokers. The Paycheck Protection Program may be something of a lifeline for them.

by Terrence Dopp

Terrence Dopp is a senior associate editor. He can be reached at *terry.dopp@ambest.com*.

FEELING THE IMPACT: Businesses of all types are experiencing the effect of the COVID-19 shutdown—including insurance agencies and brokerages.

Key Points

Issue: The pandemic that shuttered businesses deemed nonessential has caused the nation's gross domestic product to drop. Fast. U.S. GDP shrank 4.8% in the first quarter due to the impact of the novel coronavirus.

People: As Main Street businesses shutter, thousands of insurance agents and brokers are feeling the pinch of customers who can't pay bills or scale back commission-generating coverage.

Salve: The Paycheck Protection Program, one component of nearly $3 trillion in federal disaster aid approved since the pandemic began, offers small businesses forgivable loans to cover some expenses if they keep workers.

The image is practically right out of a Norman Rockwell painting. A small-town life insurance agent, huddled with customers around a Midwestern kitchen table. One side buying life insurance. The other serving a client.

But what happens if a global pandemic puts this kind of everyday, all-American business deal on hold for an extended period of time? What if the agents can't do that face-to-face business for fear of catching or spreading the coronavirus? Where can they turn if they find their normal commerce slowed to a trickle through no fault of their own?

One answer just might lie in the federal government's Paycheck Protection Program. That initiative, part of roughly $3 trillion in emergency aid approved to date in Washington, is aimed at helping small businesses limp through the shutdown by extending them forgivable loans to continue paying employees.

"Every stress that small-business America is under is now being felt by independent agencies," Independent Insurance Agents & Brokers Association Chief Executive Bob Rusbuldt said.

His group counts 25,000 independent agencies across the United States as its members, and they and their clients are currently facing government-mandated closings and restrictions, labor force limitations, supply chain interruptions and the utter suspension of ordinary activities.

Those agents and brokers sell many things—life, property/casualty, health, employee benefit plans and retirement products—from numerous insurance companies. As Rusbuldt sees it, they are the "second line" of businesses to feel the impact of the pandemic: first are the retail and restaurant businesses forced to close their doors; next up are the people who sold them their insurance products and felt the sting of lost business.

"Almost all those businesses are written by independent brokers and agents," he said. "As time continues, this crisis and challenge continues, independent agencies are on the second line of fire where their clients literally cannot pay their premiums and revenue will drop in some agencies by 20% or more. They're hurting bad."

10% to 15%

Percentage of commercial lines business that agents and brokers say could be lost if the COVID-19 shutdown continues.

Source: Independent Insurance Agents & Brokers Association

Rusbuldt said as part of its engagement, the IIABA recently surveyed Big "I" state and national agent/broker leaders throughout the United States on how they are faring in the uncertain conditions. A majority said that if the current shutdown continues, they would lose 10%-15% of their commercial lines business because clients couldn't pay their premiums.

Announcing earnings in late April, Aflac Chief Executive Daniel P. Amos in part blamed the business disruptions for a 39% drop in revenue the company saw for the period compared to a year earlier. The insurer was also forced to withdraw its adjusted earnings guidance for 2020 due to the pandemic's impacts.

"Sales production in both Japan and the U.S. did begin to fall off in March, and the decline accelerated in the month of April, impacted by a reduction in face-to-face activity," he said in a statement. "While our respective sales platforms and distribution partners are working to adapt to the new environment, we believe these trends point to depressed sales at least until we see COVID-19 restrictions subside."

Feeling the Pinch

The spread of the virus came fast.

It was first detected in China late last year and by March the World Health Organization declared it a global health emergency. As of mid-May, almost four million cases had been registered worldwide, including more than a million in the United States, according to the World Health Organization and the Centers for Disease Control.

By April, all but a handful of U.S. states were placed in lockdown mode.

Next came the economic downsides. They piled on fast at that point as retail businesses and the restaurant industry came to a standstill, followed by others.

The COVID-19 shutdown caused unemployment numbers to soar to levels last seen during the Great Depression.

Federal social distancing guidelines were extended through April 30, and coupled with actions taken by states resulted in most businesses

"Every stress that small-business America is under is now being felt by independent agencies."

Bob Rusbuldt
Independent Insurance Agents & Brokers of America

not deemed essential being shuttered. Faced with an economy at a standstill, the White House and some governors are left struggling over when to lift restrictions.

As the situation grew dire in early April, AM Best revised its outlook on the U.S. life industry from stable to negative, citing deteriorating market trends in the near- and medium-term, as well as market dislocations impacting both assets and liabilities. Around the same time, the company shifted its outlook on auto, commercial lines and mortgage insurance to negative as the pandemic's hooks sank in.

Looking to gauge the potential scope of the damage in an April 14 report on the effect of the market downturn on insurers' surpluses, AM Best analysts determined much of that comes down to one unknown: duration. While the report didn't delve into the small-business side of insurance, it did offer a glimpse into the financial conditions it could face industrywide.

Jason Hopper, an associate director in the industry research and analytics department at AM Best who co-authored the report, said that during the 2008 financial crisis, markets lost about half their value over more than a year. This time, they've lost about one-fifth in one to three months.

"So we've lost about one-third of what we did then in a quarter of the time," Hopper said. "Obviously, no one really knows how it's going to play out over the next year. That's really the landscape that we're trying to deal with at this point."

Securing a Check

Helping Main Street meet payroll is where the PPP steps in.

It runs through June 30 and the intent behind it was simple: Offer small businesses loans as an incentive to retain workers during the lockdown. The Small Business Administration will forgive them provided all employees are kept on the company's roster for eight weeks and the money is used for payroll, rent, mortgage interest or utilities, according to the SBA's guidelines.

An initial round of $349 billion in funding was included in the $2.3 trillion Coronavirus Aid, Relief, and Economic Security Act. The program quickly ran out of money and another round of $321 billion in aid for small businesses was included in as part of a $484 billion fourth round of disaster relief approved by Congress and President Donald Trump, bringing the total aid to approximately $3 trillion to date.

"Small businesses are struggling to survive and support their employees," Marc Cadin, CEO of the Association for Advanced Life Underwriting/GAMA International, said. "Most of our members are small-business owners and are still waiting to hear if they will be able to keep their staff on board and establish a path forward."

For smaller mutual companies, the current environment is unfolding on multiple levels.

First, as far as business operations, like every sector of global commerce, people have been working remotely and the initial uncertainty over business continuity and growing pains has generally gone as well as can be expected, said Neil Alldredge, senior vice president for corporate affairs at the National Association of Mutual Insurance Companies.

Second, and more specifically to insurance and smaller companies, are issues around increased business claims, workers' compensation issues such

"There's still a lot of small [mutual] companies around and they've been around for hundreds of years. They're financially strong, they're just small and they keep it that way. They've been through lots of turmoil in the past and came out just fine."

Neil Alldredge
National Association of Mutual Insurance Companies

as how to cover increased claims at the same time as the workforce shrinks and premium volume goes down, he said.

"Evolving isn't the right term—it's almost unknown in terms of the territory," he said.

"So many people still do buy their insurance from an agent and a lot of times that's still a face-to-face transaction," he said. "There are certainly a lot of small mutuals that would qualify for the loans."

He said the organization doesn't yet have data on how many of its members chose to take part in the program. Still, Alldredge said he anticipates a decent number will choose to participate based on the questions about the program his group had fielded.

Rich Sega, global chief investment strategist at asset management firm Conning, said the stimulus package was done quickly in terms of a government time frame. While the marquee names and large-cap insurance companies should be able to weather the events, much of the aid was targeted at smaller firms, he said.

"The real driver of the economy is the smaller businesses and it's unclear as to how they get affected," he said. "They're on their heels right now."

Sega did have some pause. He said that as an asset management professional, he worries some aspects of the stimulus package could prove detrimental longer term. He cited increased unemployment benefits as potentially depressing labor participation rates and higher costs layered on struggling businesses as an example.

Outside of government, the industry has taken steps of its own to deal with COVID-19.

In one example, Rusbuldt's IIABA created the Trusted Choice COVID-19 Relief Fund to assist independent agencies and announced in April that Progressive had donated $2 million to it. To gauge the need for such efforts, he points out that his group had 160 applications for that program within 10 minutes of announcing it.

"I almost fell out of my chair," he said of the level of response.

And at the state level, regulators have attempted to deal with the crisis in ways the industry has at times opposed.

In New York, Department of Financial Services Superintendent Linda Lacewell recently issued a directive ordering insurers' immediate payment of outstanding hospital claims, suspension of preauthorization requirements for all hospital services and a prohibition of retrospective review of claims during the COVID-19 pandemic. Health insurers quickly warned the move could result in higher premiums for policyholders.

No cost-sharing for COVID-19 testing and treatment has been a common move across the United States, along with expanded grace periods for payment of premiums for life, health and property/casualty policies, loosened rules covering prescription refills and coverage for telemedicine.

Also proving to be a vexing issue for the wider insurance industry is how to deal with business interruption claims and whether to enforce epidemic exemptions along with whether states can override them.

Regardless of the big picture, NAMIC's Alldredge said that for his clients, continuing to meet payroll and stay in business remains the primary goal.

"There's still a lot of small companies around and they've been around for hundreds of years. They're financially strong, they're just small and they keep it that way," he said. "They've been through lots of turmoil in the past and came out just fine." BR

Catastrophes And Crisis

The COVID-19 pandemic has been compared to a hurricane that won't pass. The global outbreak has lasted six months thus far and is on track to become the costliest event in insurance history.

As they deal with this public health crisis, insurers also are preparing for a hurricane season that's predicted to have above-average activity. "The COVID Catastrophe" puts the pandemic in historical context and lays out how insurers prepared for this event ... without intentionally preparing for it.

Social distancing restrictions have forced insurers to change the way they handle claims. "A Permanent Adjustment" looks at claims adjusting during the pandemic.

A member of the National Guard, Georgia's insurance commissioner is building makeshift hospitals in coronavirus hotspots. Read about his experience in "Serving His Country."

In the midst of the COVID-19 pandemic, insurers also are dealing with the "regular" lineup of catastrophes, including hurricane season, which begins this month. "Weather Alert" looks at insurance, regulatory and building code changes that three states have made in response to natural catastrophes.

In this special section, *Best's Review* focuses on catastrophes.

Contents

The COVID Catastrophe

The global pandemic is on track to be the costliest event in insurance history. It's also a defining moment for the industry.

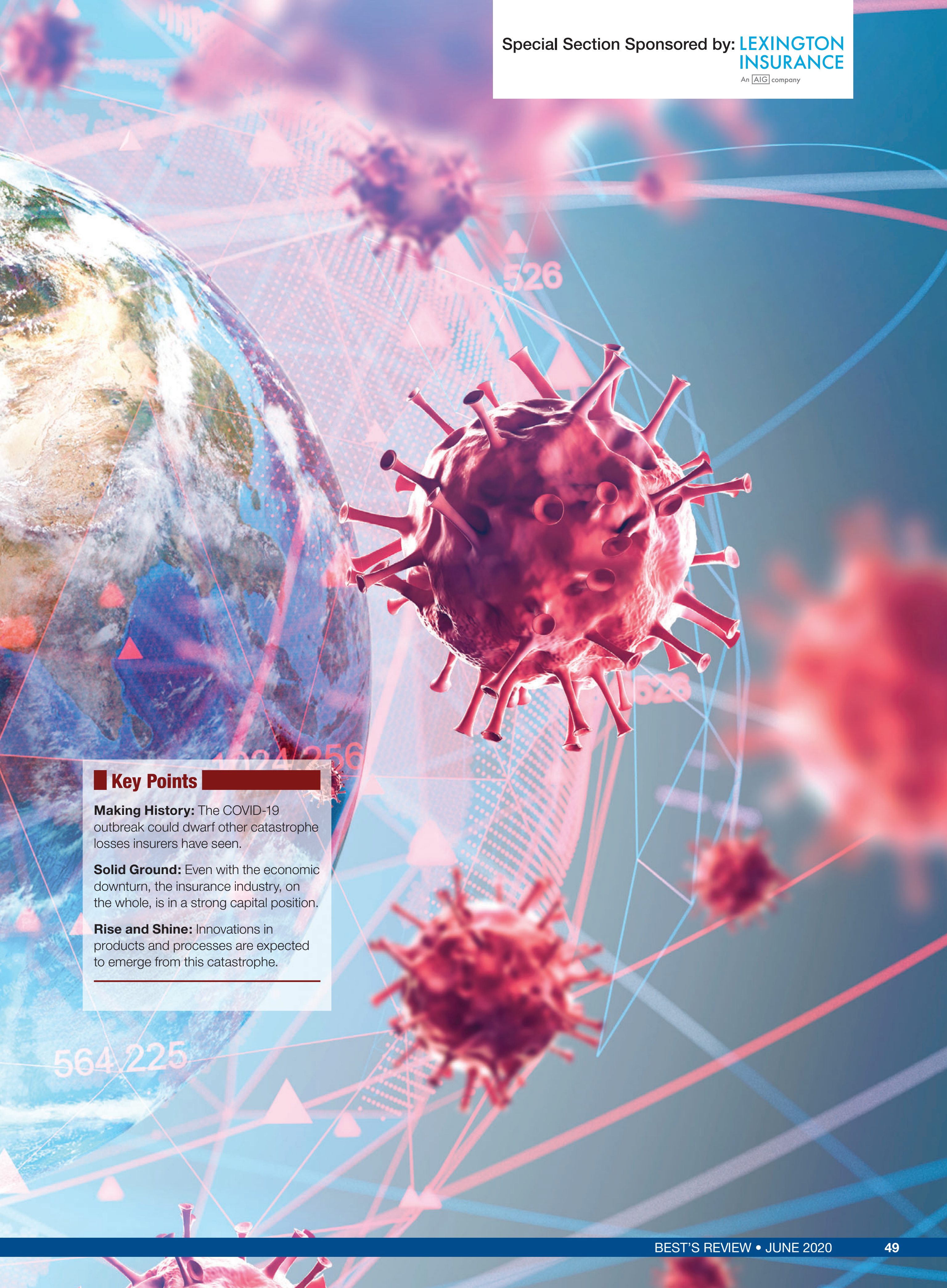
by Kate Smith

Pandemic topped the list of "most extreme risks" in a 2013 Towers Watson survey of insurance executives.

It never made the rankings again.

Since then, cyberattacks have taken the lead as the most dangerous risk. But as the first five months of 2020 have proven, a computer virus has nothing on a real one.

Kate Smith is the managing editor of *Best's Review*. She can be reached at *kate.smith@ambest.com*.



Key Points

Making History: The COVID-19 outbreak could dwarf other catastrophe losses insurers have seen.

Solid Ground: Even with the economic downturn, the insurance industry, on the whole, is in a strong capital position.

Rise and Shine: Innovations in products and processes are expected to emerge from this catastrophe.

COVID-19 is like a hurricane that doesn't pass, a wildfire with no boundaries and a cyberattack that shuts down commerce. All at once. Crossing the globe. Hitting the life, health, property, casualty and reinsurance sectors.

It's hard to quantify the full financial impact COVID-19 will have on the industry. But one thing is certain: This pandemic is on track to become the largest event in insurance history.

"It is truly a catastrophic event the proportion of which we have not seen before," Stefan Holzberger, chief rating officer for AM Best, said. "The breadth and depth of the event, how it is affecting multiple geographies and multiple segments of the insurance market—this is really something that dwarfs the other major events in recent history.

"9/11, Katrina, going back a little further, Hurricane Andrew—those are the big events that have shaped the industry. This will be another one."

Robert Muir-Wood, the chief risk officer at modeling firm RMS, called COVID-19 "the biggest catastrophe we've seen in our lifetime." And John Head, the president of national brokerage for Risk Placement Services, said, "historic is absolutely the word I would use."

There is no shortage of superlatives to describe the widespread loss and economic devastation caused by the COVID-19 catastrophe. As of early May, the pandemic had touched 215 countries, taken more than a quarter-million lives, and caused a global recession.

"This was totally unanticipated," said Bob Hartwig, director of the Risk and Uncertainty Management Center at the University of South Carolina's Darla Moore School of Business. "The COVID-19 issue literally came upon the world this year. There was no opportunity to react."

And yet, the insurance industry has been prepared to handle this event.

Insurers anticipate the worst and reassess after each significant event, learning from their experiences. They added virus exclusions in response to the 2003 severe acute respiratory syndrome (SARS) outbreak. They adjusted financial strategies after the 2008-09 financial crisis.

They may not have prepared specifically for a global pandemic, but their actions have left them well-positioned to absorb these losses on top of an economic downturn.

"There are funds available to pay the claims, even with the unrealized losses across multiple asset classes and the potential for further financial market volatility," Holzberger said. "The vast majority of companies in the U.S. are well-positioned to ride out this period of volatility."

There is a caveat to this, however. The industry's ability to absorb the impact of COVID-19 hinges on business interruption. As of early May, seven states had introduced legislation requiring insurers to provide retroactive business interruption coverage, in some cases regardless of whether policies included a virus exclusion, as most do.

If forced to pay retroactive BI, the insurance industry could be facing losses of $150 billion to $200 billion per month, according to the Best's Commentary, *Legislation to Nullify BI Exclusions Poses Existential Threat to P/C Insurers*. The Insurance Information Institute's estimates are even higher. The III forecast costs of up to $380 billion per month, which it said would "break" the insurance industry within months. That scenario, however, is unlikely (see sidebar page 54).

If you take business interruption out of the equation, the industry as a whole is on solid financial footing.

"We're built financially sound," James Lynch, chief actuary of the III, said. "In the United States, we have $800 billion in surplus. Aside from the retroactive BI threat, it's clear the industry has the capacity to absorb the financial losses they're going to get from both directions—one direction being the losses they'll pay out and the other being the premium revenues they won't receive."

That's no coincidence. Insurers got to this place because of past events.

Parallels from the Past

Dave Ingram, author of Willis Towers Watson's annual report on the most dangerous risks, understands why pandemic fell off the list.

Insurers have experienced many health crises in the 21st century—SARS, avian flu, swine flu and the Ebola virus among them. But not since the 1918 Spanish flu has the world dealt with a pandemic of this magnitude.

"In the last 20 years, the danger of pandemic was always dissipated before it became an actual damaging event, at least to the insurance industry," said Ingram, executive vice president in the enterprise risk management unit at Willis Re. "In any management situation, you can be concerned about things, but if they keep not happening, it's really hard to keep up intensity in preparing for them."

Because COVID-19 is unlike anything insurers have experienced, it's hard to find parallels.

"There isn't a comparison to draw," said Simon Oddy, partner and forensic accountant for advisory firm Baker Tilly. "There are only mini comparisons."

The 9/11 terrorist attacks, cyberattacks and the financial crisis of 2008-09 are the most common ones.

"9/11 is the closest that the current generation of insurance professionals has dealt with," Oddy said. "But the magnitude is not the same. The issues faced then were on a smaller level. …I can't believe we're saying 9/11 was a 'smaller level' than something."

According to the III, the terrorist attacks led to $32.5 billion in insured losses ($47 billion in today's money). It was the largest single event loss in history at the time, but has since been surpassed by 2005's Hurricane Katrina ($52.8 billion today).

In early May, Willis Towers Watson estimated general insurance losses from COVID-19 could reach $80 billion across key business classes in the United States and United Kingdom. The company predicted the hardest-hit lines would be workers' compensation in the United States and business interruption/contingency in both countries. The latter, it said, could amount to $22.7 billion. The National Council on Compensation Insurance offered a staggering range of losses—$2.7 billion to $81.5 billion—for U.S. workers' compensation lines.

The similarities between COVID-19 and 9/11 extend beyond loss costs, however. The biggest similarity is in the way both events have crossed business lines.

"9/11 had workers' compensation claims, liability claims, some directors and officers claims, enormous property claims," the III's Lynch said. "It was a tremendous business interruption event. Of all the lines that paid out, the largest payout was business interruption claims, according to some calculations III did at the time."

The pandemic also has been likened to a cyberattack, not only because of its ability to reach across geographies and business lines but also because of its pace.

"The pandemic is like a massively slow-moving cat," said Tom Johansmeyer, head of PCS, a Verisk business. "Cyber can have a long development period up front until it becomes a cat. We see pandemic showing similar characteristics."

"9/11, Katrina, going back a little further Hurricane Andrew—those are the big events that have shaped the industry. This will be another one."

Stefan Holzberger
AM Best

PCS, which is the arbiter on catastrophes for the property sector, is not tracking COVID-19 losses. But it is watching them closely.

"We have a standard threshold that we use for determining whether or not something's a catastrophe in the United States," Johansmeyer said. "That's a $25 million industrywide insured loss, a significant number of insurers and insureds affected, and it's got to fit into one of our perils for storm families that are predefined lists. We don't have a category for infectious disease or virus. We're not going to add one on the fly."

In terms of its widespread economic impact, COVID-19 draws comparisons to the financial crisis of 2008-09.

"In the financial crisis, you had a tremendous market downturn, a period of financial volatility

"Aside from the retroactive BI threat, it's clear the industry has the capacity to absorb the financial losses they're going to get from both directions—one direction being the losses they'll pay out and the other being the premium revenues they won't receive."

James Lynch
Insurance Information Institute

and a very hard-hit economy," AM Best's Holzberger said. "But even that was not at the same magnitude. That was a Wall Street-type of issue with contagion into other financial markets. The way this pandemic is hitting businesses, local economies, state and national economies from the ground up, truly is unprecedented.

"But a lot of the reason insurers are well-positioned right now is because of lessons learned in the '08-09 financial crisis," Holzberger said. "'08-09 was in large part a liquidity event. Companies are more disciplined now in ensuring they have appropriate access to liquidity to pay claims, to pay off debt that might be maturing in their capital structure."

Financially Prepared

One of the first things AM Best did when COVID-19 hit was run a stress test. The III did the same.

"We ran a stress test across all of our ratings globally, assuming a downturn in the financial market," Holzberger said. "We wanted to see what risk-adjusted capital looked like based on some of the downward investment performance that we had seen in the latter part of the first quarter and into the second quarter.

"The early indications were that the P/C companies held up quite well to the stress test. The life and annuity and health care companies that we rate required more analysis and more conversation with companies to get comfort that the rating was still appropriate. That's ongoing."

The III's approach was a bit different. It modeled coronavirus plus the worst natural catastrophes on record. It wanted to know how the industry would fare if, on top of coronavirus, it suffered the worst hurricane ever (Katrina), the worst convective storm season ever (2011) and the worst wildfire season ever (2017). "Even with all of those things put together, the industry would have plenty of capital," Lynch said. "It can weather this storm."

That's not to say insurers aren't taking a big hit. First-quarter results showed evidence they are, particularly in their investment portfolios.

Berkshire Hathaway, for example, posted a $49.7 billion net loss attributable to shareholders, which was driven by investment and derivative contract losses of $70.3 billion.

Hartford Financial's net income dropped 57%, a decrease it attributed to $231 million in net realized capital losses.

"Many of the losses are being driven by realized losses on their investment portfolio," Hartwig said. "That's because we entered the year on a bull market but by early March the market had turned bearish. On March 23, which is very close to the end of the quarter, we hit low points in the S&P and the Dow. Both indexes shed one-third over their value in the span of a little more than a month.

"At the same time, there were significant liquidity problems in the bond market, so bond values wound up plunging as well. These two factors drove the industry to realize capital losses in the quarter. Fortunately, April was a strong month for both stock and bond markets, so paper losses insurers sustained have been offset by recent gains."

Insurers, however, are designed to withstand such volatility without any interruption in their ability to pay claims or provide service.

"The industry's preference and, in fact, requirement to invest in high-grade corporate and government bonds, meaning munis and Treasury securities, dates back decades," Hartwig said. "This is why the industry will be able to withstand the financial volatility from COVID-19, and why it was able to withstand the global financial crisis in 2008 and '09, the economic turmoil that surrounded 9/11 and other recessions that occurred in the 1990s."

Lessons Emerging

The full financial impact of COVID-19 may not be clear for a long time, largely because insurers expect an onslaught of lawsuits relating to claims, but also because we're still in the midst of it.

"Normally when we deal with a big cat, at some point it ends, usually relatively quickly, and we can start the recovery process," Baker Tilly's Oddy said. "The storm passes, you stand back and survey the damage, and you put into operation your recovery effort. But here we are in a storm that will not pass."

Still, insurers already are thinking about the future.

"They're starting to talk about how we can be prepared for the next time," RPS's Head said. "To me, this is a launching-off point for how to help ourselves and our clients prepare for something similar in the future, much like we did with terrorism after 9/11. This is going to change the way the insurance industry does business in the future."

Though it's still early days, some clear lessons already are taking shape. For instance, the volume of claims from COVID-19, and the need to adjust them remotely in many cases, has brought insurtech into focus. The looming hurricane season will only exacerbate that. With above-average hurricane activity predicted for this year and COVID-19 expected to continue indefinitely, insurers will be managing crises within a crisis while also trying to meet policyholder expectations around customer service.

"The ability to deal with case volume, and the ability to deal with case volume at an accelerated pace, is so important," Oddy said. "The lives we lead are accelerated. It's a double-click mentality in most walks of life; the new expectation is to have a massively accelerated process, whatever the process is. We're starting to see that in insurance, where there is a need for an accelerated response. This highlights that."

Technology and analytics also could allow commercial insurance to take more of a usage-based approach, with policies audited regularly to ensure they reflect true exposure.

"We don't normally audit excess and umbrella policies," Head, of wholesale broker RPS, said. "They're agreed to at the beginning of the term, and no matter what happens that premium stays the same. I believe insurance is going to be much better at using analytics to show what the true risk is.

"For example, if you're in the hospitality industry and you operate 12 months, and you're going to be down for three months due to this pandemic, your excess and umbrella policies should reflect that because exposure is down. Technology is going to allow us to do many more things on the spot."

The pandemic also spotlights the need for nimble underwriting that reflects new risks. The COVID-19 outbreak has prompted business owners to adjust their operations, with sit-down restaurants becoming take-out restaurants and automobile manufacturers shifting to producing medical supplies. Such changes alter exposures and risk profiles, particularly on the casualty side.

"If a restaurant is closed, we need to pivot and cover it as a vacant property," Head said. "Or we have to consider whether a restaurant has new exposures, such as hired and non-owned auto, which we're seeing a lot of because restaurants are doing more delivery."

Because these shifts could be temporary, insurers need to be flexible in crafting coverage. Head said many have been.

"A lot of our carrier partners have put some really good coverages together for this hired or non-auto exposure that more than likely won't go on more than six or nine months," Head said. "So they're writing three-month policies for folks.

"We're already starting to adapt, and I'm very proud of our industry."

Look Ahead

Muir-Wood, of RMS, expects to see a lot of creativity emerge from this period.

"It's always been the case that in the aftermath of the largest catastrophes, the largest innovations occur and whole new lines of business for the insurance sector turn up," he said. "This is exactly that moment."

Once they catch their collective breath, insurers are likely to begin looking for ways to address pandemic risk, both through some form of public-private partnership similar to the Terrorism Risk Insurance Act and through new products. The latter will be more a dipping of the toe, experts said, as the industry remains firm in its belief that pandemic risk is uninsurable on a broad scale.

"I certainly expect, as there was after 9/11 and Katrina, an examination of contract language," Hartwig said. "You will see some adjustments to contract language, which will be responsive to litigation against the industry, that will seek to make the language even more crystal clear than it is today. Today we might characterize exclusions for microorganisms such as viruses and bacteria to be ubiquitous. In the wake of this, they'll be universal.

"With a universal virus exclusion in place, you'll likely see insurers begin to experiment with coverages that would provide some limited amount of coverage for pandemic events in the future," Hartwig said. "In the same way insurers have learned from past cyber events and developed products based on their understanding of those events, and worked very carefully to contain their exposure for those types of events, there is a possibility they could also do that with respect to pandemic."

Parametric products are the early front-runner for doing so.

"With parametric triggers, you front-load the work," Baker Tilly's Oddy said. "You've done your homework and preparation even before there's a loss event."

Johansmeyer, of PCS, said industry loss warranties could be "a very elegant solution" for business interruption.

"BI claims are fairly complex to adjust," he said. "You need lawyers, you need forensic accountants, you need a lot of expert support. Those things take time. Parametric works out really well because you don't need any of that. You use some collection

The X-Factor

The insurance industry can either easily absorb COVID-19 losses or fall in ruin as a result of the pandemic. It all hinges on one thing—business interruption.

Business interruption is the X-factor in the industry's ability to withstand the COVID-19 catastrophe. As of early May, seven states had introduced bills that would require insurers to pay business interruption claims stemming from COVID-19 closures, including some measures explicitly overriding exclusions within contracts. If those measures are passed and upheld, it would devastate the insurance industry.

In a Best's Commentary, *Legislation to Nullify BI Exclusions Poses Existential Threat to P/C Insurers,* AM Best said the legislation could cost insurers $150 billion to $200 billion per month. The Insurance Information Institute and American Property Casualty Insurance Association place the estimates much higher. The APCIA forecast losses of up to $668 billion per month, while the III estimated retroactive BI could cost the industry up to $380 billion per month.

"That's an industry-breaking event," James Lynch, chief actuary for the III, said. "That would break the industry in two directions. One, the financial load it would place on companies to have to pay claims they had priced the business for, and had specifically excluded, would create financial ruin. Moreover, that intervention into clear policy language would call into question the entire insurance business model.

"Insurance at its core is a promise, and that promise is embedded in a contract. If a third party can come in and rewrite the terms of that contract to suit its own purposes, you have to wonder whether anybody would ever want to write a business interruption policy again or, beyond that, what other lines of business might be threatened next time political actors decide insurance should pay for some things it never promised to pay for."

On the federal level, members of the House of Representatives sent a letter to insurance industry groups requesting insurers cover business interruption losses. On the state level, legislators introduced the seven retroactive BI bills. On the local level, several prominent city mayors specifically stated in their emergency orders that COVID-19 caused physical damage and loss to businesses.

"They're trying to make the case that they're shutting down because of physical loss and damage from the virus," said RiskGenius CEO Chris Cheatham, whose company uses software to help insurers evaluate policy language. "That's not an accident. That's not how people talk."

Bob Hartwig, director of the Risk and Uncertainty Management Center at the University of South Carolina's Darla Moore School of Business, said politicians were fed such language from plaintiffs' attorney groups who are "looking at this as a potentially huge payday." Still, he said, just because an emergency order states something doesn't make it true.

"The State of New York cannot alter the laws of physics to satisfy its trial lawyer masters," Hartwig of authoritative data sources. Once the threshold is reached, payment is made, so loss adjustment expense goes way, way down. It becomes a lot easier to manage."

RMS created a pandemic model for business interruption in 2008, Muir-Wood said, but didn't bring it to market because demand for it at the time was limited. There likely will be some interest now, and that model can serve as a skeleton for a new one.

"That 2008 model was built to the knowledge at the time," Muir-Wood said. "That learning can be incorporated into what we offer. We will work closely with sectors of the insurance and reinsurance market to find out what their appetite is."

While Muir-Wood said there "definitely will be" interest in creating new parametric solutions, those conversations have remained on the margins thus far.

"There's so much more for the industry to focus on right now," he said. "We are like people in the middle of the hurricane. But a hurricane might take two or three days to go past, whereas COVID will take a year to go past. So we've had some conversations, but it's not the priority right now.

"It will become the priority, though." BR

AMBestTV

Go to *bestreview.com* to watch a video about this story.

"The State of New York cannot alter the laws of physics to satisfy its trial lawyer masters. That's essentially what happened. They developed this language in an attempt to override the virus exclusion."

Bob Hartwig
University of South Carolina

said. "That's essentially what happened. They developed this language in an attempt to override the virus exclusion.

"All legal scholars agree this will fail a Constitutional test. There's no question about it."

The battle over business interruption will, without doubt, make its way into the courts. And most agree the courts will side with insurance companies.

"The exclusion for viruses is not an ambiguous one," Lynch said. "It's an exclusion of loss due to virus or bacteria. When it was filed, the filing specifically mentioned the potential for a pandemic similar to SARS CoV-1. And the current pandemic is SARS CoV-2. So I don't think there's a lot of ambiguity here about what the exclusion was meant to exclude."

Stefan Holzberger, chief rating officer of AM Best, agreed.

"Those well-defined, long-instituted, regulator-approved exclusions for pandemics or viruses should hold," Holzberger said. "The business interruption policies that have that exclusion, which is the vast majority in the U.S., should not have to honor claims associated with a loss of revenue related to COVID-19. If the legislators actually push through that legislation, it will go to the courts."

Perhaps all the way to the Supreme Court.

"Nullifying or changing a fundamental aspect of a contract has incredibly broad implications for doing business in the United States in any industry," Holzberger said. "Every industry relies on the sanctity of a legally constructed contract. It's inconceivable to think that could be thrown into the garbage. But if that were to happen, we would see widespread insolvency because the magnitude of lost revenue in relation to the capital surplus is so great. The insurance industry could not bear those losses. Which is why they weren't covered in the first place."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BLAZING INFERNO: Massive wildfires raged across parts of Northern California in 2017, including the Kincade Fire that severely damaged several wineries in Sonoma Valley.

WEATHER ALERT

The rising severity and intensity of natural catastrophes, amplified by climate change, in California, Florida and Texas have brought about some insurance, regulatory and building code changes in those states.

by Lori Chordas

Over the years, Florida, Texas and California have been especially hard hit by record-breaking natural perils, which have been amplified by climate change.

Those events have driven a number of insurance, regulatory and building code changes in those states.

Several global trends are "colliding to create the perfect storm" for growing accumulation of hurricanes and other natural catastrophe risks, said Mohit Pande, head of property underwriting at Swiss Re. Among them, he said, are economic growth and urban development in low-line coastal

Lori Chordas is a senior associate editor. She can be reached at *lori.chordas@ambest.com*.

TROUBLED WATERS: Heavy rains and rising waters from the Buffalo Bayou River flooded parts of the greater Houston area during Hurricane Harvey in 2017.

Key Points

Costly Catastrophes: The number of billion-dollar natural catastrophes continues to rise in the United States.

Weathering the Storm: Population growth, climate change and other factors are driving a rise in those events in states such as California, Florida and Texas, and spurring the need for legislation and reform.

Fighting Back: Some states are implementing new building codes, while others are making changes to their private flood insurance market or requiring homes to be built with flame retardant features to withstand wildfires.

INFLICTING DAMAGE: Hurricane Michael brought widespread destruction and flooding to Mexico Beach, Florida when the Category 5 storm made landfall on Oct. 10, 2018.

regions, flood plains and wildfire urban interfaces, along with climate change, which is fueling the intensity of natural disasters and driving a rise in secondary perils such as floods, droughts and wildfires.

Last year, natural catastrophes, driven in part by changing weather patterns, caused overall losses of $150 billion, including insured losses of about $52 billion, according to Munich Re.

Experts say that's only the beginning.

Within the next five years, the threat of climate change could potentially cost some of the world's largest companies $1 trillion, according to estimates by environmental nonprofit CDP North America.

Although the science of climate change and its impact on natural catastrophes remain somewhat nascent, experts point to a number of probabilities linking the two together.

Warmer temperatures are intensifying precipitation and floods, while changing wind patterns have been shifting the threat of tornadoes from what's known as Tornado Alley in the Great Plains to Dixieland states such as Alabama, Tennessee and Mississippi, said Dr. Peter Sousounis, vice president and director of climate change research at risk-modeling solutions provider AIR Worldwide.

Colorado State University researchers pin this year's projected rise in hurricanes on warmer sea temperatures and the absence of El Nino.

Last year marked the seventh year in the past decade with 10 or more $1 billion-plus weather climate events, including powerful tornadoes in Texas and Ohio, Hurricane Dorian that hard-hit the Bahamas and Typhoon Hagibis in Japan, according to CoreLogic's *2019 Natural Hazard Report.*

The good news is that global insured losses are estimated to be around $56 billion in 2019, down from $93 billion in 2018 and below the annual average ($75 billion) of the previous 10 years, according to Swiss Reinsurance Institute.

Best's Review takes a closer look at some of the recent reforms put in place in the aftermath of several high-loss events in the three states.

Florida

After Hurricane Andrew barreled down on Miami-Dade County on Aug. 24, 1992, racking up more than $15 billion in claims payouts, the historic storm revealed deficiencies in Florida's existing building code compliance and enforcement process.

Ten years later Florida legislators implemented the first statewide building code mandating new structures be built to withstand hurricane-force winds and include features such as storm shutters and impact-resistant windows.

Since then, a number of amendments have been made to the Florida Building Code, including a new directive that, beginning on Jan. 1, 2021, will require a sealed roof deck as a secondary water barrier on all new structures.

Today Florida's uniform building code is among the strongest in the nation, and the rising severity of catastrophes across the state is continually testing the resiliency of those standards.

Recent storms like Hurricane Irma in 2017 and Hurricane Michael in 2018 have proven that the codes are up to the challenge, said Arnie Mascali, president of Brown & Brown subsidiary Procor Solutions.

While Michael brought winds "stronger than what's required for [testing the] buildings," both Irma and Michael revealed the damage water intrusion causes when roof cover is lost, Anne Cope, chief engineer at the Insurance Institute for Business & Home Safety Research Center, said.

In response, the Federal Emergency Management Agency has made additional recommendations for homes built after the first adoption of the Florida Building Code in 2002, including enhanced wind resistance of roof coverings, a secondary underlayment system to prevent water intrusion and improvements to the performance of asphalt shingles.

The Sunshine State has also been hard hit by a growing number of climatic disasters including droughts, wildfires and floods. For years Floridians looking for flood insurance had only one place to turn: the National Flood Insurance Program. As of Sept. 30, 2019, there were almost 83,000 private flood insurance policies in force in the state, according to Florida's Office of Insurance Regulation.

New developments regarding flooding include:

- The Florida Office of Insurance Regulation has made the development of the private flood market a priority in the state, said OIR press secretary Karen Kees. The office encourages companies to participate as flood writers, helps facilitate the development of additional flood insurance options for consumers and has streamlined form and rate filing procedures to make products available on the market quickly.
- Last June, Florida Gov. Ron DeSantis signed a bill that revises circumstances under which insurers issuing homeowners insurance policies must include a specified statement relating to flood insurance with policy documents at initial issuance and renewals.

The rising severity and intensity of floods and other natural perils in Florida are caused by several factors, including population growth, climate change and the state's history of natural variability, said Karen Clark, CEO of catastrophe modeler Karen Clark & Company.

In 2004 and 2005, Florida was hit by an

unprecedented eight named storms, including hurricanes Wilma, Ivan and Charley. That period was then followed by a 10-year lull of land-falling hurricanes.

But the respite came to a screeching halt in 2016 with Hurricane Matthew, followed by Irma and Michael, "proving that a quiet period can suddenly become active again," Clark said.

As of October 2019, Hurricane Michael resulted in more than 149,700 claims and more than $7.4 billion in estimated insured losses, according to OIR. However, nearly 10% of those claims remain open.

Displeased with the number of unresolved claims, subcommittees in the Florida Senate and House earlier this year considered a new wide-ranging consumer protection bill that would make more than 20 amendments to Florida's insurance regulations, such as requiring surplus lines insurers to pay or deny claims within 90 days and increasing the cooling-off period during which a consumer may cancel a contract with a public adjuster from three or five days to seven calendar days.

However, the bill failed to pass during the recent state legislative session that concluded March 13.

Over the years, there has been exponential growth in assignment of benefits litigation in Florida.

According to a release on Gov. DeSantis' website, there were approximately 90 property AOB lawsuits filed statewide in 2008, but by 2018, the number of lawsuits had increased by more than 19,000%.

Florida law permits homeowners to sign over their rights to contractors or auto repair shops so they can receive direct payment from an insurer. However, often the amount of those claims are disputed and wind up in court.

While increasing AOB litigation has become a taxing burden on first-party insurers, it's also saddling some state property owners with rising homeowners insurance premiums.

Last May, DeSantis signed into a law the Insurance Assignment Agreements bill that establishes a series of reforms that address AOB abuse.

The legislation gives an insured 14 days to rescind an assignment without penalty, and gives the insured 30 days to rescind the assignment if the assignee has not begun substantial work during that 30 days. Also, assignees are required to provide a copy of the assignment agreement to the insurer within three days.

Economic growth, urban development and climate change are "colliding to create the perfect storm" for growing accumulation of natural catastrophe risk.

Mohit Pande
Swiss Re

The rule also places a $3,000, or 1% of Coverage A, cap, whichever is greater, on emergency repair AOB invoices.

Experts expect AOB costs to drive some rate increases in the industry this year.

AM Best in its Feb. 3 *Best's Journal* report projected June reinsurance renewals to increase 15% to 20% on the heels of rising AOB and other litigation costs and loss creep from prior storms.

The rising cost of reinsurance has already led several of the state's homeowners insurers to request rate increases earlier this year, some by as much as 28%.

Texas

In 2017, Hurricane Harvey dumped trillions of gallons of water on Texas, flooding large swaths of Houston, Beaumont and other areas of the state.

The U.S. Environmental Protection Agency reports that over the past century, average annual rainfall in the eastern two-thirds of Texas has continued to rise. Harvey eclipsed those average amounts to become a 1,000-year flood event,

Catastrophes are continually testing the strength and resilience of states' building codes, and storms like Hurricane Irma and Hurricane Michael proved Florida's statewide building standards are "up to the challenge."

Arnie Mascali
Procor Solutions

signaling the need for tougher flood-risk mitigation requirements and changes to the state's private flood insurance market.

Nearly 400,000 homeowners lacked flood insurance at the time of the storm, leaving losses largely on the shoulders of the already financially troubled National Flood Insurance Program, which is part of FEMA.

The Insurance Information Institute reports FEMA paid out $8.9 billion in claims filed by 76,000 NFIP policyholders living in the Harvey flood zone.

Flood insurance sales in the state rose 18% from July 2017 to May 2018, according to FEMA.

Also on the heels of the mammoth storm have been a number of changes by state regulators to improve resilience and recovery after hurricanes and floods, including:

- House Bill 1900, which was passed last spring during the only state legislative session to be held since Harvey, allots policyholders additional time to determine final repair costs and permits them to work with the Texas Windstorm Insurance Association if its estimates aren't enough to cover the repair, said Texas Department of Insurance press secretary Jerry Hagins. Also under the new rule, he said, TWIA policyholders have more time to request an appraisal to resolve payment disputes.
- Hagins said also during last year's legislative session, several laws were passed that now require homeowners insurers to indicate in their policies if flood is not a covered peril, and allow surplus lines companies to write flood insurance without requiring two rejections in the regular market.

While industry experts laud those measures, some point to the need for additional overhauls in the disaster-prone state, including a statewide building code and uniform minimum construction standards.

A recent review of coastal Texas building codes by the Insurance Institute for Business & Home Safety revealed gaps that could leave one-third of homeowners living in coastal counties at risk if mitigation efforts and modern building codes aren't developed.

Texas, unlike Florida, lacks a statewide building code, leaving the adoption and enforcement of those standards up to city and county officials.

While 21 cities surveyed in the IBHS study have adopted a code, only 20% of counties have adopted a standard, leaving more than 840,000 residents in areas outside city limits with no adopted residential building code, according to Cope.

She said that is driving the need for more investment in mitigation "to bridge the gap and help vulnerable coastal communities build stronger."

State insurance regulators hope new construction standards set to go into effect later this year will help to close that gap for coastal homeowners.

Earlier this year, the Texas Department of Insurance announced it was moving to newer standards that will provide greater windstorm protection to homes and buildings built along the Gulf Coast. The standards, designated for new structures or property repairs by owners seeking insurance coverage from the TWIA, were set to begin on April 1. But because of business disruption caused by the COVID-19 pandemic, TDI has decided to push back the start date to Sept. 1.

California

In 2017 and 2018, wildfires razed northern areas of California.

The Tubbs Fire ravaged more than 36,000 acres of land, destroyed more than 5,600 structures and claimed 22 lives in 2017, according to the California Department of Forestry and Fire Protection. The fire's destructiveness was surpassed the following year when the Camp Fire became the deadliest and most destructive wildfire in state history and was the single costliest global natural disaster for insurers in 2018.

Thomas Holzheu, Swiss Re's chief economist for the Americas, points to warmer temperatures and housing growth in wildfire urban interfaces as fueling the rise in those and other recent wildfires.

Since 2017, fires across the state have set off a domino effect that includes some insurers pulling out of the market, a reduction in capacity, and a rise in homeowners insurance prices and policy nonrenewals.

In 2018, nonrenewals in eight counties, including Sierra and San Diego, climbed by 10%, according to the California Department of Insurance.

But out of the ruin of the fires have come some big changes designed to aid homeowners living in fire-prone areas:

- In December 2019, California Insurance Commissioner Ricardo Lara issued a mandatory, year-long moratorium, set to expire on Dec. 5, that prohibits insurers from issuing nonrenewal notices to nearly one million policyholders living inside or next to the perimeter of a state-declared wildfire disaster. Lara issued the moratorium amid growing evidence that homeowners insurance has become more difficult for Californians to obtain from traditional markets, forcing them into more expensive, less comprehensive options such as the California Fair Access to Insurance Requirements Plan, the state's insurer of last resort.
- The FAIR Plan has also recently undergone some changes, including an order by Lara last year calling for the plan to offer a comprehensive HO-3 policy in addition to its current fire-only policy; expand residential coverage limits from $1.5 million to $3 million; and offer consumers a monthly payment plan and the ability to pay by credit card or electronic funds transfer, all without fees.

California wildfires continue to rack up large losses for insurers, including more than $12 billion from the November 2018 fires, according to the California Department of Insurance.

State homeowners insurers, in turn, have been implementing re-underwriting measures, filing rounds of rate hike requests and exiting fire-prone areas "where not restricted by recent legislative changes," according to an April 6 Best Market Segment Report.

The authors of the report said many insurers are also continuing to reevaluate their wildfire underwriting strategies and enhance their reinsurance programs to limit exposure concentrations.

While improvements have been made to bolster the resilience of those structures, Cope, of IBHS, said even more needs to be done to the state's building codes to protect homes in fire-prone areas.

"Unlike Florida with its strict adoption and enforcement of a uniform building code, and Texas that has yet to adopt a statewide mandate, I believe California lies in the middle with its history of good building codes for wind and earthquake perils and the challenge of the increasing severity and limited code provisions for wildfire," she said.

State legislators are hoping to change that. Last October, California passed several bills that encourage communities to adopt standards for making homes and their surroundings more fire resistant.

One of the new rules encourages home hardening efforts through a California Wildfire Mitigation Financial Assistance Program for communities in forest and brush areas across the state, while another creates statewide defensible space requirements to reduce wildfire risks in communities.

Gov. Gavin Newsom also signed into law last year legislation that creates a single rule to be used in determining the value of property damage for total and partial losses in insurance policies. Prior to the new rule, state homeowners were paid the actual cash value of their home in the event of a total loss. Now insurance payouts for a total or partial loss are based on the cost to repair, rebuild or replace a property, minus a "fair and reasonable" deduction for physical depreciation based on its condition at the time of an event. BR

ON THE HOMEFRONT: Georgia Insurance and Safety Fire Commissioner John F. King (center) and members of the Army National Guard were deployed to New Orleans earlier this year to help convert a local convention center into a 2,000-bed hospital to treat COVID-19 patients.

Serving His Country

Georgia insurance commissioner who assisted with COVID-19 facilities with National Guard likens virus fight to World War II.

by Lori Chordas

Georgia's top insurance regulator has seen it all in his career with the Army National Guard. John F. King, a major general, has been mobilized with combat units in Iraq, Afghanistan, Bosnia and Africa, but the COVID-19 pandemic has brought him a bit closer to home.

Earlier this year King was in New Jersey helping to build makeshift medical facilities and increase hospital capacity for New Jersey patients infected with the coronavirus.

The fight against the disease, which had killed close to 300,000 globally as of mid-May, is unlike anything "we've seen since World War II," King said.

Prior to his trip to the Garden State, the Georgia insurance and safety fire commissioner spent nearly two weeks in New Orleans helping to turn a downtown convention center into a 2,000-bed hospital to treat COVID-19 patients.

"Its scale is extraordinary," King said.

"We're used to dealing with hurricanes, which may affect one or a few states, and having the forces to work closely with FEMA to deal with that. But this is a global event. Every FEMA region in the U.S. has a request for federal resources, and every national and worldwide agency is now being called upon to assist in efforts to combat the volatile nature of this crisis," he said.

Over the years, King and the members of his unit have assisted the Federal Emergency Management Agency in emergency preparedness and recovery efforts during national hurricanes, floods, tornadoes and other catastrophes.

While hospitalizations in the New York and New Jersey area had peaked by mid April, new cases were still being reported throughout the country, with more than 1.2 million confirmed cases in early May.

The pandemic is also hitting King's home state. Georgia had its first reported case on March 3. The number of cases totaled more than 32,000 in early May, with more than 1,300 reported deaths, according to the Georgia Department of Public Health.

King, a former Doraville, Georgia police chief, was appointed as the state's insurance commissioner by Gov. Brian Kemp in July 2019, and is the first

Photo by Staff Sergeant Leach of U.S. Army North

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Hispanic statewide official in Georgia's history.

The COVID-19 pandemic, King said, is unlike any other catastrophe he's assisted with in the past.

Limited medical resources and overcrowded hospitals have become a grim reality, and stark statistics about rising mortality rates continue to paint a dismal picture of a crisis with no projected end in sight.

But King said he doesn't put too much weight into statistical models that offer future projections about the crisis.

"Instead we have to focus on what we can do now and bringing the resources we have to the right locations. We're now spending a lot of time coming into states and listening to leaders about their needs and where gaps exist," he said at the time of his deployment in New Jersey.

King, a member of Kemp's coronavirus task force, said the biggest challenges his state now faces is developing ways to fill those gaps and identifying where to build makeshift facilities to house infected patients.

"There is no model or playbook for this crisis, but we want to get it right the first time," he said. "That will require a great deal of innovation and recognizing and understanding what works and what doesn't so we can immediately switch gears to try something else that offers the promise of success."

King, who is also heading up the governor's Emergency Preparedness Committee, has called on Georgia insurers to assist those impacted by the pandemic.

On March 20, he told health insurers not to cancel policies for nonpayment until further notice and to waive copays for COVID-19 testing. Also at that time, King requested all property/casualty insurers refrain from canceling, for the cause of nonpayment, commercial policies that include business interruption or business income coverage for 60 days.

In addition, the commissioner waived nonfederal filing deadlines and requirements and late filing fees for agents in the state.

King said one of the most rewarding experiences of his recent deployments is "continuing to witness the determination and amazing courage" of medical professionals and those on the front line.

"It's very humbling as a soldier that served overseas to see the incredible courage that these individuals have as they go to work every day and put their lives on the line to treat patients," King said.

In April, he and his unit were working in Edison, New Jersey, to help ease that burden by coordinating efforts with "the talented team of state leaders" to prepare medical infrastructure and increase hospital bed capacity needed for the surge of cases in the state.

State officials said New Jersey hit its peak in hospitalizations on April 14. Nearly 5,000 patients with the coronavirus or under investigation for the virus remained hospitalized in early May.

King returned home to Georgia on April 22. While deployed he said he was excited to bring back to his state several things he's learned while assisting other states in their fight against COVID-19.

One of those observations, he said, is that a crisis of this magnitude requires the response of everyone.

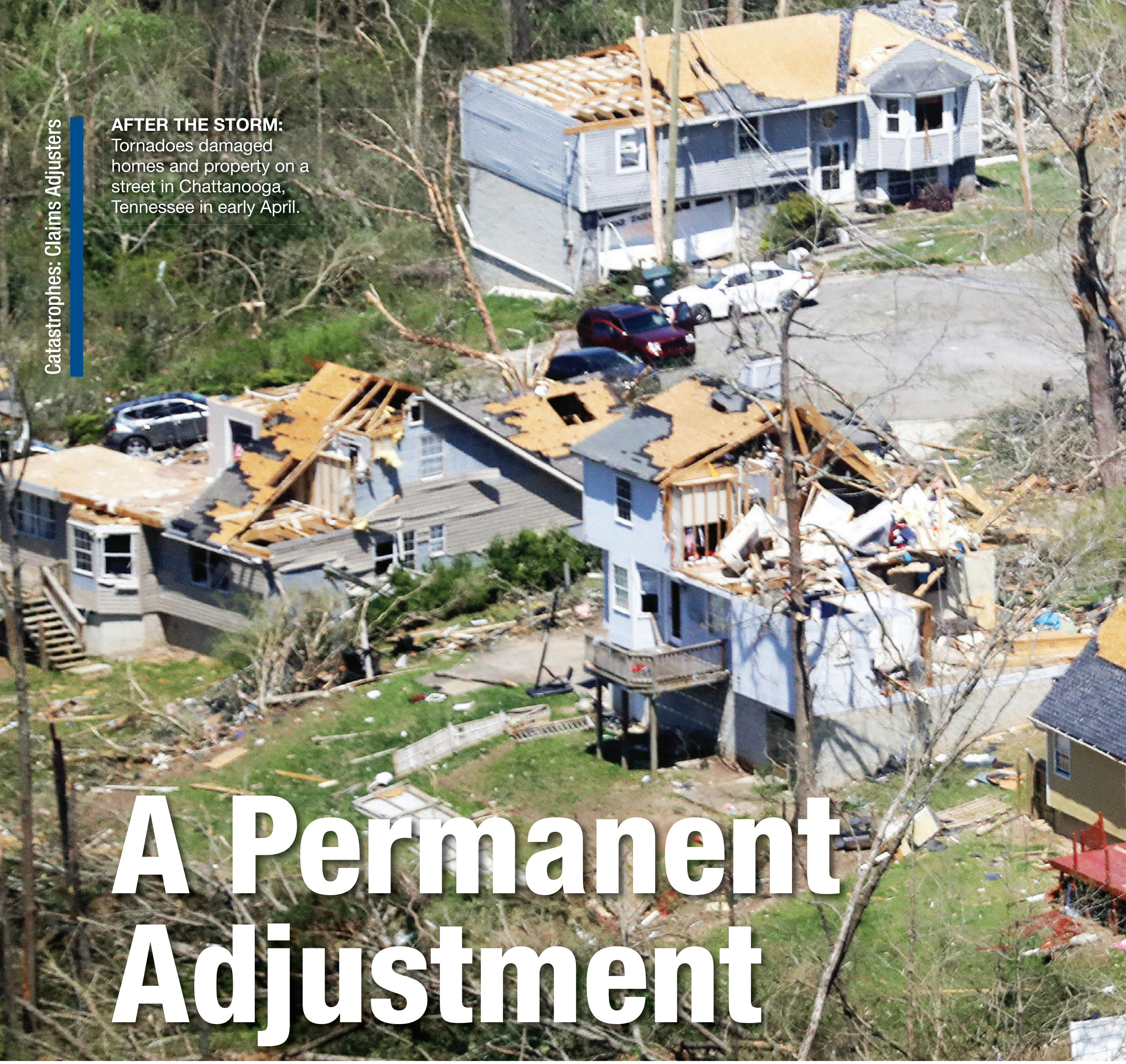
"One of the most important things we can do is to get to know our partners across state governments and other agencies early on and establish trust with them. And realize that we are all in this together," King said.

"When I come to these communities with the stars on my uniform I'm very humbled. I let them know I'm here to help them and not to take over. It's about establishing trust and being a valuable partner and delivering what you promise. Otherwise you become irrelevant," said King, the recipient of numerous awards for military and public services, including the Bronze Star Medal and Combat Infantryman Badge, the Meritorious Service Medal and a NATO award for his service in Bosnia and Afghanistan.

King said he's very proud of how the insurance industry has responded to the global COVID-19 health pandemic and the "voluntary changes" it's making to assist insureds and other stakeholders.

He is also very optimistic that local, state and national leaders and agencies will continue to come together to combat the crisis.

"People in other nations often underestimate our resilience, but America is not a victim country. We've been challenged many times before and we see the gravity of this crisis, but we will thrive from this. We'll have to change the way we do things to protect our families, but we will emerge stronger as a nation," King said. BR



AFTER THE STORM: Tornadoes damaged homes and property on a street in Chattanooga, Tennessee in early April.

AP Photo/Mark Humphrey

A Permanent Adjustment

After spring storms cause damage, the COVID-19 crisis brings new challenges and approaches for claims professionals.

by Renée Kiriluk-Hill

The coffee stations that policyholders gather around at mobile automobile claims centers are gone. So are the personal reassurances claims adjusters give out to customers—hugs, handshakes and pats on the back. Video chats, emails and phone calls have replaced one-on-one interactions with claimants. The COVID-19 pandemic has stolen insurance adjusters' personal touches.

Adjusters had to change their approach to claims handling after multiple severe storms hit southern and Midwest states between late March and mid-April. The largest property/casualty writer in the United States, State Farm, received nearly 36,000 claims from the round of bad weather. But in the meantime, COVID-19 had spread

Renée Kiriluk-Hill is an associate editor, *BestWeek*. She can be reached at *renee.kiriluk-hill@ambest.com*.

Key Points

What Happened: Spring storms hit the southern and Midwest states causing damage as the COVID-19 pandemic was unfolding.

Impact: Due to social distancing orders, insurance adjusters had to widely forgo personal visits to assess damage and turn to video chats, email and drone technology to settle claims.

Looking Ahead: Facing uncertainty due to the pandemic, insurers and their adjusters say the use of technology to settle claims may become a permanent solution.

throughout the country and ushered in the need for safety protocols such as social distancing.

"We're built on agent and one-on-one interactions with customers," spokesman Chris Pilcic said. "Claims specialists spend their careers traveling the country, helping people in their worst moments. They look forward to the opportunity to shake someone's hand, or give them a hug and tell them everything's going to be OK."

Quietly he added, "It all just looks a bit different right now."

The new age of adjusting, in which almost all claims are handled remotely, was born.

And it could become permanent, according to claims professionals.

A Different Approach

State Farm is leveraging technology and offering virtual claim handling when appropriate, said spokeswoman Michal Brower. To limit in-person contact it "encourages customers to take advantage of potential options for virtual inspections" where legally permitted.

When a site visit is needed, State Farm has additional safety protocols in place. "Every case and situation is a little different," but customers are regularly submitting photos or videos—after

"Most property and casualty insurers are already capable of acting 95% remotely, or more, which has allowed them to continue handling claims efficiently during the pandemic."

Sharon Stuart
International Association of Defense Counsel

connecting on a video chat—of damage, Pilcic said. Payments are sent electronically. At State Farm, mobile auto claims centers' drive-through lanes are wider and available only by appointment. Policyholders are asked to remain in their vehicles, communicating via phone.

The company deployed a drone team to Missouri's capital, Jefferson City, following a large-size hailstorm on March 27. "Customers appreciate the different options they have," Pilcic said.

The impact of the virus is being discussed at every level, said Cullen Sophy, managing director and head of claims and catastrophes services at international insurance services company Charles Taylor.

"There has been a significant change, across the board in all of insurance. As large-loss adjusters, we're the eyes and ears of the insurance community," said Sophy.

Charles Taylor adjusters are racking up far fewer air miles and using more artificial intelligence, online mapping services and drone footage.

Adjusters who need to travel during the pandemic will meet with two or three people at a loss site instead of potentially dozens. They interview other claimant employees via phone or email. "That's a huge adjustment," said Sophy. "A lot is being done in the back office now."

Technology to the Rescue

Personal lines policyholders are more willing to electronically document damage and submit claims. In commercial lines, investments in technology are paying off amid travel restrictions and business shutdowns. Adjusters in both segments are using more eyes in the sky, from Google maps to drones.

Carriers and adjusting companies employ technology and triage to process claims and meet virus safety goals, according to Sharon Stuart, chair of the Insurance and Reinsurance Committee of the International Association of Defense Counsel.

"Most property and casualty insurers are already capable of acting 95% remotely, or more, which has allowed them to continue handling claims efficiently during the pandemic." Auto claims have fallen 30% to 60% during shelter-in-place orders, said Stuart, but first-party property and health insurance claims have risen, as have policyholder claims complaints to state insurance departments, causing a shift in duties for claims employees and in-house counsel.

The level of loss also dictates how a claim is documented—via electronic submission or physical inspection and evidence collection. "COVID-19 claims are likely going to be handled like other cat losses; uploading photos often will not substitute for in-person inspection," said Stuart, but where the virus-inspired claims changes are effective, they could become permanent.

More Claims to Come

Charles Taylor already used drones and satellite imagery, and Sophy said he thinks the coronavirus changes are speeding up integration in the workflow as the technology complements the work of claims adjusters.

Over the long run, he anticipates a significant jump in coronavirus late claims reporting, a departure from many traditional catastrophe claims. For instance, he said shutdowns rolled out in the middle of the spring apparel season, stranding what is now mostly unsaleable product in factories or on ships.

That season is gone, but the product isn't—one of many complicated claims situations he foresees

AT WORK: Casey Jones, a State Farm claims specialist, uses a drone to inspect damage to a residence in Jefferson City, Missouri following a late-March hail storm.

State Farm - photo taken by Kevin Gamble

when shipping and factories resume operations.

"This is different from anything we've seen— it's happening everywhere in the world," he said. "Every insurance policy you can imagine will be affected greatly" and complicated further by virus-related litigation, legislation and government bailouts.

Claims also may rise as businesses reopen and owners discover damage such as a water leak or vandalism, said Sophy. "We could see a huge increase because people weren't there to inspect buildings. There are a lot of unknowns."

Claims volumes declined in auto and some commercial lines as shelter-at-home protocols took effect, said Erol Kantar, Raphael & Associates executive vice president of operations. "The exception is that there has been an uptick in claims for business interruption, workers' compensation virus claims and vandalism claims," he said.

Raphael & Associates handles claims in lines ranging from property, liability, workers' compensation and auto/transportation to yacht/marine, fine arts and professional liability. The greatest percentage is in commercial property/liability and homeowners.

His company employs about 500 at multiple locations across the country, with a large presence in the two states with the highest number of confirmed COVID-19 cases—New York and New Jersey. While the Northeast was deemed a hot spot, Kantar said the company rolled out social distancing and work-from-home programs nationally.

The majority of hardware and software investments enabling work-from-home occurred prior to the outbreak, said Kantar. "We have had the ability ... as part of our standard catastrophe protocol, so it was not a difficult transition for our staff," even as the number of employees doing so climbed. With regional outposts, Kantar said field adjusters already drove cars to appointments and therefore haven't been impacted by mass transit schedule changes.

"I believe hosting software programs in the cloud will be a permanent part of claims organizations going forward," said Kantar. "Cloud hosting allows more staff to work remotely, which will also be a trend moving forward."

A Local Approach

The depth of caution deployed can be regional or even site-specific. Alfa Insurance has a large customer base in the rural South. Claims adjusters live throughout the carrier's three-state coverage area, where local claims employees open the doors for appointments only, said spokesman Jeff Helms.

Because of the virus, office surfaces are disinfected between appointments and hand-washing protocols are in place. On April 16, Alfa was still awaiting a shipment of face masks for adjusters, with some employees wearing their own face coverings.

In the field, Helms said social distancing was the primary change during the outbreak. "It doesn't require a lot of person-to-person contact. They are being careful with any exchange of paperwork," he added.

Jamie Yoder, the president of virtual claims solutions provider Snapsheet, recently advised carriers to use the current situation as a catalyst to drive a stronger digital transformation agenda. "Not just replace with a text back, but truly change the way we interact," he said. BR

AMBestTV

Go to *bestreview.com* to watch a video about this story.

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An 'Existential Threat'

AM Best: Forcing insurers to cover business interruption claims retroactively would have grave implications for the industry.

by John Weber

Insurers could see widespread insolvencies if forced to cover COVID-19 business interruption claims, according to a Best's Commentary, *Legislation to Nullify BI Exclusions Poses Existential Threat to P/C Insurers*. Stefan Holzberger, chief rating officer, AM Best, discussed the report with AMBestTV.

Following is an edited transcript of the interview.

What's the central issue regarding BI coverage and COVID-19?

The economic reality is that the COVID-19 pandemic has had disastrous effects for U.S. businesses. We read about it in the news every day. Small, medium-size, Main Street businesses are forced to close their doors, lay off employees, and, in many cases, are struggling to avoid bankruptcy.

These events have created a huge amount of political pressure to figure out a relief valve to support these businesses, even beyond the loan programs already sponsored by the federal government. It's these political pressures that have brought business interruption coverage to the forefront.

Business interruption coverage is typically triggered by events that cause direct physical loss to a covered property. Those events could be, for example, a fire, vandalism, burst pipes, or natural catastrophe events such as tornados or windstorms.

The bills currently under consideration at the state and the federal level attempt to retroactively put business interruption coverage in place for loss of use and occupancy to premises resulting from COVID-19. For the vast majority of insurance policies in the United States, this legislation would sanction an interpretation contrary to the insurance policy's original intent.

The reason for this is clear, because most business interruption policies specifically exclude losses caused by a virus, a bacterium, or other microorganism.

If retroactive coverage came into effect, what could this mean for commercial lines insurers?

AM Best estimates the loss of revenue to businesses with fewer than 100 employees to be roughly $294 billion per month. The potential impact on insurers of forcing them to apply business interruption coverage to this lost revenue would be between $150 billion and $200 billion per month.

We estimate the capital and surplus of the commercial lines industry in the U.S. to be roughly $633 billion. That's a broad estimate encompassing the capital and surplus of dedicated commercial insurers in the U.S. We've also included the capital of predominantly personal lines insurance companies, insurance groups that also underwrite some commercial business.

We wanted to arrive at the greatest figure we could in terms of what's backing commercial insurance business in the United States.

If you take that $633 billion and you add two months of losses, or look at that $633 billion in relation to two months of losses, even at the low end of $150 billion per month, you can see that half, roughly, of the capital and surplus of commercial lines insurers in the United States would be eroded in merely two months.

Based on what we're seeing in the market today, we know that it will take much more than two months for businesses to restore to that pre-COVID-19 level of business volume.

Would any particular group of insurers be more at risk here?

At AM Best our role is to evaluate the financial strength of insurance companies. Business insurance is a central aspect of our analysis.

John Weber is a senior associate editor, AMBestTV. He can be reached at *john.weber@ambest.com*.

“At AM Best our role is to evaluate the financial strength of insurance companies. Business insurance is a central aspect of our analysis. In the event that policy exclusions relating to COVID-19 are nullified, we would expect to see a large number of insurer insolvencies.”

Stefan Holzberger
AM Best

In the event that policy exclusions relating to COVID-19 are nullified, we would expect to see a large number of insurer insolvencies. To your question, the companies that would be most at risk would be the small- to medium-size insurers who specialize in business insurance.

The national and international commercial insurers would certainly experience a material reduction to their capital, but most would survive. In contrast, the hundreds of regional commercial insurers who are writing insurance business for Main Street commercial businesses, those are the companies that would be most at risk of an insolvency.

The companies simply do not have the capital resources to cover a loss of this magnitude. It's for this specific reason that these small- to medium-size insurers, and really, for that matter, practically all insurers in the United States have used the ISO exclusion and excluded pandemic risk from their insurance policies.

Beyond the initial financial implications for insurers, what would the long-term implications be of this action?

For one, we would see a shortfall in the availability of insurance in the United States. You'd have companies that would be financially impaired and unable to continue to write commercial insurance business.

You'd have, probably, quite a few other insurance companies who, based on current market conditions and the uncertainties around the insurance contract, would choose to cease writing commercial insurance for the time being.

What that means is that individuals, businesses, state and local governments could find a capacity shortfall, could find it very difficult to obtain the insurance that they needed. For those businesses or individuals that did obtain the insurance, they would certainly be purchasing that insurance at higher rates.

Another important aspect is the financial markets. The financial markets that are already on unstable ground would be further in disarray because if you envision the commercial insurance market having to liquidate hundreds of billions of dollars of assets in order to pay claims, which would mean a huge influx of sell orders into the investment markets, which would further erode investor confidence, as well as asset valuations.

Also, the sanctity of the insurance contract would be put into question. How could an underwriter underwrite and price an insurance policy if the coverage terms could be changed after the fact?

One last point, getting back to the whole premise of introducing business interruption coverage and factoring in business interruption coverage as a relief valve for the difficulties experienced by U.S. businesses, the whole premise is the idea of, how best do we restore the economy under these unprecedented times?

How do we get confidence in the economy and businesses back up and running? It would seem to me that would be very difficult to reach a stable economic position with consumer confidence and growth without a healthy insurance market there to protect the assets of individuals and businesses. BR

AM BestTV

Go to *bestreview.com* to watch the interview with Stefan Holzberger.

Best's Analysis

AM Best continues to monitor the impact of COVID-19 on various segments of the industry, including the insurance-linked securties market. It also comments on the existential threat posed by pending business interruption legislation.

A selection of recent industry research:

Commentary: COVID-19 Impact on the Insurance-Linked Securities Market
Life/Health cat bonds may be affected by COVID-19.

May 7, 2020 - 5 Pages

Market Segment Report: Panama Insurance
We revised our outlook for Panama's insurance industry to Negative from Stable, owing to the significant challenges the country and industry face amid the COVID-19 pandemic.

May 6, 2020 - 3 Pages

Market Segment Report: Japan Life Insurance
Risk-adjusted capitalization remains solid, but Japan life insurers face short-term challenges in growth and investment returns.

May 6, 2020 - 4 Pages

Commentary: Legislation to Nullify BI Exclusions Poses Existential Threat to P/C Insurers
Current legislation in the works in a number of states could have disastrous consequences for the P/C insurance industry.

May 5, 2020 - 6 Pages

Commentary: IFRS 17: IASB Decisions Impact Insurers and Users of Accounting Data
An economic evaluation of accounting data will remain AM Best's basis for assessing the underlying financial health of (re)insurers.

April 29, 2020 - 4 Pages

Market Segment Report: US Medical Professional Liability Insurance Market Remains in Flux
The MPL segment is beset by several risks—rate adequacy, rising loss costs, and social inflation, with the COVID-19 outbreak now foremost among them.

April 28, 2020 - 25 Pages

Commentary: Singapore Non-Life Insurance: COVID-19 Impacts Add to Deterioration in Underwriting Results
Lackluster underwriting performance may persist with added strain from the economic fallout of COVID-19.

April 27, 2020 - 5 Pages

Commentary: Indonesia Strengthens State-Owned Insurers with Holding Company Formation
Indonesia's setup of a state-owned holding company to improve risk management standards is a positive industry development.

April 27, 2020

Market Segment Report: Guatemala Insurance
Stable foreign exchange rate, ongoing low interest rate environment, and controlled inflation underscore Guatemala's Stable outlook.

April 23, 2020 - 4 Pages

Market Segment Report: France Non-Life
Premium levels are expected to drop as commercial activity in France has stalled in response to the COVID-19 outbreak.

April 20, 2020 - 6 Pages

Market Segment Report: Argentina Insurance
Outlook remains Negative for Argentina's insurance industry as COVID-19 pandemic adds to existing challenges.

April 20, 2020 - 3 Pages

Special Report: Growing FHLB Usage Expected To Be Ratings Neutral
Insurers are positioning themselves for more borrowing in the event of further stress, but we think any uptick will be within risk tolerance guidelines and will thus be a ratings neutral event for most of the rated population.

April 17, 2020 - 5 Pages

Market Segment Report: UK Non-Life
Underwriting margins may be further squeezed this year as a COVID-19-driven economic slowdown pressures premium volumes.

April 15, 2020 - 6 Pages

Best's Insurance News & Analysis subscribers can download PDF copies of all Best's Special Reports, Best's Commentaries and Best's Market Segment Reports along with supporting spreadsheet data at *www.ambest.com*.

Legal and Logistical Issues Insurers Face During Pandemic; Effects on Earnings

AM BestWebinars

AM Best Webinars

Industry experts discuss the coronavirus pandemic and related shutdowns that have opened up uncharted territory for the insurance industry; AM Best analysts review the impact of COVID-19 on earnings and balance sheets.

On Demand

Tipping Point for Claims Handling?

Social distancing has forced many carriers to accelerate virtual claims handling sooner than expected. This webinar shows how claims departments can utilize data and analytics to improve the transition to the new normal.

The Perils and Promise of Insurtech

The insurtech movement is uncovering new processes and pathways for insurers. A panel of insurance technology experts will examine how insurers are learning and profiting from the new wave of entrants into the insurance technosphere.

UK Market Non-Life Insurance, Trends, Outlook and Impact of COVID-19

Analysts discuss how AM Best has maintained its negative outlook on U.K. non-life insurance, sparked by the COVID-19-driven economic slowdown, the pressure on underwriting performance, as well as its impact on earnings and balance sheets.

COVID-19 Implications for US Insurance and Reinsurance Markets

AM Best analysts review the changing impact of COVID-19 on AM Best's U.S. insurance sector and global reinsurance outlooks, as well as discuss additional rating considerations.

Streaming Live

How the Impact of COVID-19 Is Changing Insurance Claims

A panel of insurance claims professionals will examine the legal and logistical issues confronting the claims sector, and the developments shaping the post-COVID-19 era.

Wednesday, June 10, 2 p.m. ET

Webinar Highlights

The Unseen Passenger: How Telematics Data Is Reshaping Private Passenger Auto Insurance

A panel of insurance and technology experts discuss the use of telematics in private passenger auto insurance and how it is impacting underwriting, claims and even driver behavior.

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The latest edition of *Best's Guide to Understanding The Insurance Industry* is available on Amazon.

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Pandemic Pressure

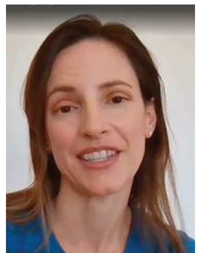
As the COVID-19 pandemic and the economic effects of it continue, AMBestTV and AMBestAudio report on how the ongoing catastrophe is impacting insurers.

On Demand

Insurance Asset Managers Are Under Pressure With Pandemic Market Turmoil

Woody Bradford, chairman and CEO, Conning; Elizabeth Henderson, a principal and director of corporate credit at Asset Allocation & Management Co. and William E. Rotatori, chairman and CEO, New England Asset Management told AMBestTV that asset managers are under pressure to adjust to changing market conditions due to the pandemic.

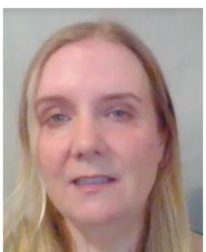

Woody Bradford


Elizabeth Henderson


William E. Rotatori

AM Best: COVID-19 to Contract World Economies by 3% in 2020

The economic impact of COVID-19 is estimated to be three times worse than the 2008 financial crisis, said Ann Modica, economist, AM Best.


Ann Modica

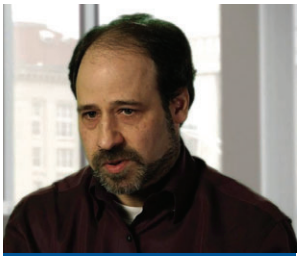
FM Global SVP: Vandalism, Fire Among Hazards Facing Empty Buildings

Companies must have strong security in place to protect buildings now empty due to the COVID-19 shutdown, says Brion Callori, senior vice president, engineering and research, FM Global.


Brion Callori

Visit *www.ambest.com/video* to see new and archived video from AMBestTV.

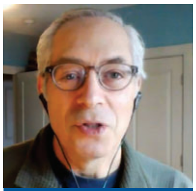
CCC Information Services: Insurers That Invested in Digital Now Reaping Benefits



Jason Verlen

Insurers are seeing those tech investments pay off now while employees work remotely, said Jason Verlen, senior vice president, product management, CCC Information Services.

Car Insurers Return $10.5 billion to Policyholders



Birny Birnbaum

Sean Keveligan

Car insurers are returning $10.5 billion to policyholders through rebates and premium credits to reflect fewer claims and miles driven during the quarantine. Insurance Information Institute Chief Executive Officer Sean Kevelighan and Birny Birnbaum, executive director, Center for Economic Justice, spoke with AMBestTV.

Special Programming: Multiple Roads Lead to the Top For Next-Gen Insurance Talent

Morgan Kimble

Insurance and personnel experts say the most important skill that will define next generations of insurance leadership is the ability to master developments without losing sight of the big picture. The panel discussion at the Emerging Leaders Conference is moderated by Morgan Kimble, Erie Insurance's medical claims facilitation supervisor.

AM BestAudio

Pandemic Brings Changes to Regulation For Agents, Brokers

Industry experts talk to AMBestAudio about an expected uptick in regulation and the CARES Act.

COVID-19 Could Spur Insurance Legislation and Regulation

Dan Rabinowitz, head of the insurance practice at the law firm of Kramer Levin, explains how the National Association of Insurance Commissioners, as well as state legislatures, are responding to the coronavirus pandemic.

CIAB Supports CARES Act

Joel Kopperud, vice president of the Council of Insurance Agents and Brokers, says the organization finds the Coronavirus Aid, Relief, and Economic Security Act vital to the economy and the well-being of member agents and brokers.

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BEST'S REVIEW®

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Best's Credit Rating Actions

This edition lists all Credit Rating actions that occurred between April 1 and April 30, 2020. For the Credit Rating of any company rated by AM Best and basic company information, visit the AM Best website at *www.ambest.com/ratings/access.html* or download the ratings app at *www.ambest.com/sales/ambmobileapp*.

Operating Companies

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
U.S., CANADA AND BERMUDA LIFE/HEALTH								
⇅	H	Elan Insurance USVI, Inc.	062123	B+ bbb-	Stable Stable	B+ bbb-	Negative Negative	U.S. Virgin Islands
⇥	L	U.S. Financial Life Insurance Company *Calton Holdings, LLC*	008492	NR nr		A- a-	Stable Stable	Ohio
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY								
⇥	P	American Modern Surplus Lines Ins Co	013062	NR nr		A+ aa	Stable Stable	Ohio
⇥	P	American Transportation Group Ins RRG*	020620	NR nr		C++ b	Negative Negative	North Carolina
⊕	P	American West Insurance Company *Nodak Mutual Group, Inc.*	012426	A a+	Stable Stable	A- a-	Stable Stable	North Dakota
⇅	P	Aspen American Insurance Company *Highlands Holdings, Ltd.*	014149	A a	Negative Negative	A a	Stable Stable	Texas
⇅	P	Aspen Bermuda Limited *Highlands Holdings, Ltd.*	083210	A a	Negative Negative	A a	Stable Stable	Bermuda
⇅	P	Aspen Specialty Insurance Company *Highlands Holdings, Ltd.*	012630	A a	Negative Negative	A a	Stable Stable	North Dakota
⇅	P	Barnstable County Insurance Company *Barnstable County Mutual Insurance Co*	002896	A a	Negative Negative	A a	Stable Stable	Massachusetts
⇅	P	Barnstable County Mutual Insurance Co *Barnstable County Mutual Insurance Co*	000203	A a	Negative Negative	A a	Stable Stable	Massachusetts
New	P	Bridgeway Insurance Company *Munich Reinsurance Company*	020791	A+ aa	Stable Stable			Delaware
New	P	California General Underwriters Ins Co *Mercury General Corporation*	000233	A a+	Stable Stable	NR nr		California
New	P	Direct Auto Insurance Company *Nodak Mutual Group, Inc.*	013774	A a+	Stable Stable	NR nr		Illinois
New	P	Fergus Reinsurance Limited	071688	B+ bbb-	Stable Stable			Bermuda
⊕	P	Guarantee Company of North America *Intact Financial Corporation*	085021	A+ aa-	Stable Stable	A u a u	Positive Positive	Ontario
⊕	P	Guarantee Company of North America USA *Intact Financial Corporation*	011083	A+ aa-	Stable Stable	A u a u	Positive Positive	Michigan
⇅	P	GuideOne America Insurance Company *GuideOne Mutual Insurance Company*	001854	A- a-	Stable Stable	A- a-	Negative Negative	Iowa
⇅	P	GuideOne Elite Insurance Company *GuideOne Mutual Insurance Company*	001870	A- a-	Stable Stable	A- a-	Negative Negative	Iowa
⇅	P	GuideOne Mutual Insurance Company *GuideOne Mutual Insurance Company*	002404	A- a-	Stable Stable	A- a-	Negative Negative	Iowa
⇅	P	GuideOne National Insurance Company *GuideOne Mutual Insurance Company*	014334	A- a-	Stable Stable	A- a-	Negative Negative	Iowa

* Ratings were downgraded to C++/b from B/bb on April 2, 2020. Ratings were withdrawn on April 2, 2020.

Rating Action: (⊕) Upgrade; (–) Downgrade; (New) Initial Rating; (⚑) Under Review; (⇅) Change in Outlook; (⇥) Rating Withdrawal; (☑) Rating Affirmation.
Outlook: Positive, Negative, Stable. **Implications:** Positive, Negative, Developing. **Business Type: P** = Property/Casualty (Non-Life); **L** = Life; **H** = Health; **T** = Title; **C** = Composite.

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY (CONTINUED)								
⇅	P	GuideOne Property & Casualty Ins Co *GuideOne Mutual Insurance Company*	011577	A- a-	Stable Stable	A- a-	Negative Negative	Iowa
⇅	P	GuideOne Specialty Mutual Insurance Co *GuideOne Mutual Insurance Company*	002403	A- a-	Stable Stable	A- a-	Negative Negative	Iowa
New	P	Primero Insurance Company *Nodak Mutual Group, Inc.*	012701	A a+	Stable Stable	NR nr		Nevada
⊕	P	Privilege Underwriters Reciprocal Exch *Tokio Marine Holdings, Inc.*	013816	A a+	Positive Positive	A u a u	Positive Positive	Florida
⊕	P	PURE Insurance Company *Tokio Marine Holdings, Inc.*	013929	A a+	Positive Positive	A u a u	Positive Positive	Florida
New	P	Stonetrust Premier Casualty Insurance Co *Chou Associates Management Inc.*	020725	B++ bbb+	Stable Stable	NR nr		Nebraska
New	P	Transverse Specialty Insurance Company *Transverse Insurance Group, LLC*	020633	A- a-	Stable Stable	NR nr		Delaware
☑	P	Universal North America Insurance Co *Universal Group, Inc.*	011600	B++ bbb+	Stable Negative	B++ u bbb+ u	Negative Negative	Texas
⊕	P	Westminster American Insurance Company *Nodak Mutual Group, Inc.*	004198	A a+	Stable Stable	A- u a- u	Positive Positive	Maryland
EUROPE, MIDDLE EAST AND AFRICA								
⇅	C	Al-Sagr National Insurance Company PSC	090714	B+ bbb-	Negative Negative	B+ bbb-	Stable Stable	United Arab Emirates
⚑	P	Arab Reinsurance Company SAL	089190	B+ u bbb- u	Negative Negative	B+ bbb-	Negative Negative	Lebanon
⇅	P	Aspen Insurance UK Limited *Highlands Holdings, Ltd.*	084806	A a	Negative Negative	A a	Stable Stable	United Kingdom
—	C	Bankers Assurance S.A.L. *Nasco Ultimate Holding Limited*	092115	B u bb u	Negative Negative	B+ u bbb- u	Negative Negative	Lebanon
⇅	C	Kenya Reinsurance Corporation Limited *Kenya Reinsurance Corporation Limited*	085416	B bb+	Stable Negative	B bb+	Stable Stable	Kenya
⇅	C	Oman Insurance Company P.S.C. *Mashreqbank psc*	078177	A a	Stable Stable	A a	Negative Negative	United Arab Emirates
⇅	P	Protector Forsikring ASA	091925	B++ bbb+	Stable Negative	B++ bbb+	Stable Stable	Norway
⇅	C	Qatar Islamic Insurance Group Q.P.S.C.	078631	B++ bbb+	Positive Positive	B++ bbb+	Stable Stable	Qatar
ASIA PACIFIC								
—	P	PT Asuransi Jasa Indonesia (Persero) *PT Asuransi Jasa Indonesia (Persero)*	078591	B++ bbb	Stable Stable	B++ bbb+	Stable Negative	Indonesia
CARIBBEAN AND LATIN AMERICA								
☑	P	Universal Insurance Company (PR) *Universal Group, Inc.*	003665	A- a-	Negative Negative	A- u a- u	Negative Negative	Puerto Rico

Holding Companies

Rating Action	Company Name	AMB#	Current ICR	Current Outlook/ Implications	Previous ICR	Previous Outlook/ Implications	Domicile
⇅	Aspen Insurance Holdings Limited	051148	bbb	Negative	bbb	Stable	Bermuda

Rating Action: (⊕) Upgrade; (—) Downgrade; (New) Initial Rating; (⚑) Under Review; (⇅) Change in Outlook; (⇥) Rating Withdrawal; (☑) Rating Affirmation.
Outlook: Positive, Negative, Stable. **Implications:** Positive, Negative, Developing. **Business Type:** **P** = Property/Casualty (Non-Life); **L** = Life; **H** = Health; **T** = Title; **C** = Composite.

BEST'S FINANCIAL STRENGTH RATING GUIDE – (FSR)

A Best's Financial Strength Rating (FSR) is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In addition, an FSR may be displayed with a rating identifier, modifier or affiliation code that denotes a unique aspect of the opinion.

Best's Financial Strength Rating (FSR) Scale

Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Superior	A+	A++	Assigned to insurance companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations.
Excellent	A	A-	Assigned to insurance companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations.
Good	B+	B++	Assigned to insurance companies that have, in our opinion, a good ability to meet their ongoing insurance obligations.
Fair	B	B-	Assigned to insurance companies that have, in our opinion, a fair ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Marginal	C+	C++	Assigned to insurance companies that have, in our opinion, a marginal ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Weak	C	C-	Assigned to insurance companies that have, in our opinion, a weak ability to meet their ongoing insurance obligations. Financial strength is very vulnerable to adverse changes in underwriting and economic conditions.
Poor	D	-	Assigned to insurance companies that have, in our opinion, a poor ability to meet their ongoing insurance obligations. Financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions.

* Each Best's Financial Strength Rating Category from "A+" to "C" includes a Rating Notch to reflect a gradation of financial strength within the category. A Rating Notch is expressed with either a second plus "+" or a minus "-".

Financial Strength Non-Rating Designations

Designation Symbols	Designation Definitions
E	Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
F	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
S	Status assigned to rated insurance companies to suspend the outstanding FSR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
NR	Status assigned to insurance companies that are not rated; may include previously rated insurance companies or insurance companies that have never been rated by AM Best.

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Financial Size Category

To enhance the usefulness of ratings, AM Best assigns each rated (A++ through D) insurance company a Financial Size Category (FSC). The FSC is based on adjusted policyholders' surplus (PHS) in U.S. dollars and may be impacted by foreign currency fluctuations. The FSC is designed to provide a convenient indicator of the size of a company in terms of its statutory surplus and related accounts.

Many insurance buyers only want to consider buying insurance coverage from companies that they believe have sufficient financial capacity to provide the necessary policy limits to insure their risks. Although companies utilize reinsurance to reduce their net retention on the policy limits they underwrite, many buyers still feel more comfortable buying from companies perceived to have greater financial capacity.

Class	Adj. PHS ($ Millions)	Class	Adj. PHS ($ Millions)
I	Less than 1	IX	250 to 500
II	1 to 2	X	500 to 750
III	2 to 5	XI	750 to 1,000
IV	5 to 10	XII	1,000 to 1,250
V	10 to 25	XIII	1,250 to 1,500
VI	25 to 50	XIV	1,500 to 2,000
VII	50 to 100	XV	2,000 or greater
VIII	100 to 250		

For the most current version, visit www.ambest.com/ratings/index.html. BCRs are distributed via the AM Best website at *www.ambest.com*. For additional information regarding the development of a BCR and other rating-related information and definitions, including outlooks, modifiers, identifiers and affiliation codes, please refer to the report titled "Guide to Best's Credit Ratings" available at no charge on the AM Best website. BCRs are proprietary and may not be reproduced without permission.

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GUIDE TO BEST'S ISSUER CREDIT RATINGS – (ICR)

A Best's Issuer Credit Rating (ICR) is an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis. A Long-Term ICR is an opinion of an entity's ability to meet its ongoing senior financial obligations, while a Short-Term ICR is an opinion of an entity's ability to meet its ongoing financial obligations with original maturities generally less than one year. An ICR is an opinion regarding the relative future credit risk of an entity. Credit risk is the risk that an entity may not meet its contractual financial obligations as they come due. An ICR does not address any other risk. In addition, an ICR is not a recommendation to buy, sell or hold any securities, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser. An ICR may be displayed with a rating identifier or modifier that denotes a unique aspect of the opinion.

Best's Long-Term Issuer Credit Rating (Long-Term ICR) Scale

Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Exceptional	aaa	-	Assigned to entities that have, in our opinion, an exceptional ability to meet their ongoing senior financial obligations.
Superior	aa	aa+ / aa-	Assigned to entities that have, in our opinion, a superior ability to meet their ongoing senior financial obligations.
Excellent	a	a+ / a-	Assigned to entities that have, in our opinion, an excellent ability to meet their ongoing senior financial obligations.
Good	bbb	bbb+ / bbb-	Assigned to entities that have, in our opinion, a good ability to meet their ongoing senior financial obligations.
Fair	bb	bb+ / bb-	Assigned to entities that have, in our opinion, a fair ability to meet their ongoing senior financial obligations. Credit quality is vulnerable to adverse changes in industry and economic conditions.
Marginal	b	b+ / b-	Assigned to entities that have, in our opinion, a marginal ability to meet their ongoing senior financial obligations. Credit quality is vulnerable to adverse changes in industry and economic conditions.
Weak	ccc	ccc+ / ccc-	Assigned to entities that have, in our opinion, a weak ability to meet their ongoing senior financial obligations. Credit quality is vulnerable to adverse changes in industry and economic conditions.
Very Weak	cc	-	Assigned to entities that have, in our opinion, a very weak ability to meet their ongoing senior financial obligations. Credit quality is very vulnerable to adverse changes in industry and economic conditions.
Poor	c	-	Assigned to entities that have, in our opinion, a poor ability to meet their ongoing senior financial obligations. Credit quality is extremely vulnerable to adverse changes in industry and economic conditions.

** Best's Long-Term Issuer Credit Rating Categories from "aa" to "ccc" include Rating Notches to reflect a gradation within the category to indicate whether credit quality is near the top or bottom of a particular Rating Category. Rating Notches are expressed with a "+" (plus) or "-" (minus).*

Best's Short-Term Issuer Credit Rating (Short-Term ICR) Scale

Rating Categories	Rating Symbols	Category Definitions
Strongest	AMB-1+	Assigned to entities that have, in our opinion, the strongest ability to repay their short-term financial obligations.
Outstanding	AMB-1	Assigned to entities that have, in our opinion, an outstanding ability to repay their short-term financial obligations.
Satisfactory	AMB-2	Assigned to entities that have, in our opinion, a satisfactory ability to repay their short-term financial obligations.
Adequate	AMB-3	Assigned to entities that have, in our opinion, an adequate ability to repay their short-term financial obligations; however, adverse industry or economic conditions likely will reduce their capacity to meet their financial commitments.
Questionable	AMB-4	Assigned to entities that have, in our opinion, questionable credit quality and are vulnerable to adverse economic or other external changes, which could have a marked impact on their ability to meet their financial commitments.

Long- and Short-Term Issuer Credit Non-Rating Designations

Designation Symbols	Designation Definitions
d	Status assigned to entities (excluding insurers) that are in default or when a bankruptcy petition or similar action has been filed and made public.
e	Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
f	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
s	Status assigned to rated entities to suspend the outstanding ICR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
nr	Status assigned to entities that are not rated; may include previously rated entities or entities that have never been rated by AM Best.

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Corporate Changes

All companies listed are life/health or property/casualty insurers in the United States and Canada that underwent changes in January 2020.

LIFE/HEALTH

Mergers

The Canada Life Assurance Company (AMB# 006183), Toronto. This company amalgamated with The Great-West Life Assurance Company (survivor now known as The Canada Life Assurance Company), London Life Insurance Company, and holding companies, Canada Life Financial Corporation and London Insurance Group Inc. on Jan. 1, 2020.

London Life Insurance Company (AMB# 006667), London, Ontario. This company amalgamated with The Great-West Life Assurance Company (survivor now known as The Canada Life Assurance Company), The Canada Life Assurance Company, and holding companies, Canada Life Financial Corporation and London Insurance Group Inc. on Jan. 1, 2020.

SSQ Insurance Company Inc. (AMB# 061762), Québec City. This company merged with and into SSQ, Life Insurance Company Inc. on Jan. 1, 2020.

Name Changes

American Integrity Life Insurance Company (AMB# 068362), Hot Springs, Ark. This company changed its name to Indy Health Insurance Company on Jan. 31, 2020.

The Great-West Life Assurance Company (AMB# 006493), Winnipeg, Manitoba. This company amalgamated with its subsidiaries, The Canada Life Assurance Company and London Life Insurance Company, and their holding companies, Canada Life Financial Corporation and London Insurance Group Inc., and changed its name to The Canada Life Assurance Company on Jan. 1, 2020.

Acquisitions & Ownership Changes

Total Health Care Inc. (AMB# 064297), Detroit. This company became a wholly owned subsidiary of Priority Health on Jan. 1, 2020.

State Actions

Senior Health Insurance Company of Pennsylvania (AMB# 007910), Harrisburg, Pa. This company was placed into rehabilitation on Jan. 29, 2020.

PROPERTY/CASUALTY

Name Changes

Arrowood Surplus Lines Insurance Company (AMB# 020633), Wilmington, Del. This company changed its name to Transverse Specialty Insurance Company on Jan. 23, 2020.

Church Mutual Insurance Company (AMB# 000259), Merrill, Wis. This company converted to a stock insurance company from a mutual insurance company that is wholly owned by a newly organized mutual insurance holding company, Church Mutual Holding Company, Inc., and changed its name to Church Mutual Insurance Company, S.I. on Jan. 1, 2020.

Jewelers Mutual Insurance Company (AMB# 000532), Neenah, Wis. Through a member-approved mutual holding company reorganization effective Jan. 1, 2020, the company became an indirect, wholly owned stock subsidiary of Jewelers Mutual Holding Company, and changed its name to Jewelers Mutual Insurance Company, SI.

Maiden Reinsurance North America, Inc. (AMB# 013979), Jefferson City, Mo. This company changed its name to Fletcher Reinsurance Company on Jan. 23, 2020.

21st Century Preferred Insurance Company (AMB# 020786), Harrisburg, Pa. This company changed its name to Trisura Insurance Company on Jan. 24, 2020.

PROPERTY/CASUALTY (continued)

Name Changes

Western Professional Insurance Company (AMB# 012240), Seattle. This company changed its name to Alestri Insurance Company on Jan. 1, 2020.

Acquisitions & Ownership Changes

Arrowood Surplus Lines Insurance Company (AMB# 001745), Wilmington, Del. This company was sold as a shell to Transverse Insurance Group, LLC by Arrowood Indemnity Company on Jan. 23, 2020.

Danielson National Insurance Company (AMB# 011351), San Diego. This company was acquired by Incline Insurance Group, LLC from National American Insurance Company of California on Jan. 14, 2020.

Westminster American Insurance Company (AMB# 004198), Owings Mills, Md. This company was acquired by NI Holdings, Inc. from Westminster American, LLC on Jan. 1, 2020.

State Actions

Windhaven Insurance Company (AMB# 013129), Miami. This company was placed into insolvent liquidation on Jan. 6, 2020.

Domiciliary Changes

Granite Re, Inc. (AMB# 011379), Oklahoma City. This company redomesticated to Minnesota from Oklahoma on Jan. 1, 2020.

New Companies 2020

P/C Federated Underwriting Company (AMB# 020822), incorporated Jan. 6, 2020.

L/H Vermont Blue (AMB# 062418), incorporated Jan. 15, 2020.

'Road to Oblivion'

Starr's Greenberg lobbies Congress to shield insurers from uncovered business interruption claims.

When airline insurers struggled to find reinsurance in the wake of the 9/11 attacks, Maurice "Hank" Greenberg flew to Washington and lobbied then-President George W. Bush to establish a government-backed reinsurance program. The industry was struggling, and it needed the government to step in. And Greenberg took action.

Today, the insurance industry again is under enormous pressure. And again, Greenberg is taking action.

Hank Greenberg

As states introduce legislation retroactively forcing insurers to cover COVID-19 business interruption claims, the chairman and chief executive officer of C.V. Starr has been working with U.S. senators to ensure the government has the insurance industry's back.

"I've talked to several key people in the Senate and in the government," Greenberg said. "Many members of the U.S. Senate are opposed to killing the insurance industry. They believe the intent and language [of policies] are critical. My guess is that the Democrats feel the opposite and this will wind up in the courts."

Seven states have introduced legislation that would require insurers to pay business interruption claims stemming from COVID-19, in some cases overriding exclusions. Greenberg said these measures, if passed and upheld, would "put the industry on the road to oblivion."

Greenberg's issue is not with legitimate losses, but with legislators creating liability coverage where none was intended or paid for or where coverage was contractually excluded.

"Many insurance companies were either silent or negligent in what they were covering," he said. "They're going to have some problems. It's a mixed bag right now. But if the Democrats have their way, it could be the end of the insurance industry."

Greenberg stressed that legislative actions related to insurance coverage should be "realistic" rather than political, and decisions should be made "intelligently, not emotionally."

These times, he said, remind him of post-9/11.

"At that time, reinsurers refused to cover the airlines," recalled Greenberg, who ran American International Group Inc. at the time. "They had no knowledge whether the bombing of the World Trade Center was the beginning of something or end of something, and they refused to reinsure the airline industry. I called the President of the United States. I took about four or five CEOs from the insurance industry with me and we went down to see him. In a matter of an hour, he authorized the establishment of a reinsurance company owned by the federal government, and it went into business."

The Air Transportation Safety and System Stabilization Act was introduced in Congress on Sept. 21, 2001 and signed into law the next day. Among other things, it allowed the U.S. Secretary of Transportation to provide insurance and reinsurance for American aircraft or foreign-flag aircraft while in the United States, and to reimburse an air carrier for any increase in the costs of insurance since Sept. 11, 2001.

Greenberg expects the Trump administration to stand with the insurance industry, when appropriate.

"There will be a fight," Greenberg said. "But my guess is the administration will ultimately back the insurance industry. That doesn't mean the language in some insurance companies' policies won't hang them. If they thought at the time this wouldn't be a problem and they covered it, they can't back away from that now."

On April 10, Trump called on the nation's insurers to pay for COVID-related business interruption claims on policies that do not contain coverage exclusions blocking payments for pandemic-type events. "I would like to see the insurance companies pay if they need to pay, if it's fair," Trump said during an April 10 White House press conference. "When I was in private, I had business interruption."

Greenberg expects the battle over business interruption coverage will drag on through the legal system. As such, he said, the industry should "absolutely" be prepared to fight these measures all the way to the U.S. Supreme Court.

"Hopefully it will get to the Supreme Court," he said. "I don't believe the Supreme Court would rewrite the policies to include liability when there was no intention to have liability and you never collected a premium for it. It will be a while before that happens. It's going to be a long fight."

—Kate Smith

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A Model Approach

COVID-19 is shining a spotlight on the need for predictive infectious disease modeling to help insurers project the onset and spread of costly outbreaks.

by Lori Chordas

The COVID-19 pandemic has insurers, and the world, thinking about how to track the onset and spread of disease. Robert Muir-Wood, chief research officer at catastrophe risk modeler RMS, offered some insight.

"The challenge with any type of catastrophe is that we never know what will come next—the next hurricane, the next earthquake, the next influenza outbreak," Muir-Wood said. "When it comes to a disease outbreak crisis, what we do know is that there is a wide range of possibilities and disease types and we can model how infectious they are, how lethal they may become and project incubation periods for those infected with a virus."

As of late April, RMS' infectious disease model estimated that while 81% of COVID-19 cases were mild and could be treated at home, 14% were considered severe and required hospital care and around 5% were deemed potentially fatal, requiring intensive care.

RMS introduced its infectious disease model in 2006. Since then, the model, which uses data and assumptions to understand the impacts of an outbreak and its likely progression, has yielded some powerful projections.

Several years ago, the model calculated that the breakthrough of a universal flu vaccine could potentially confer immunity to half of the world's population and reduce the risk of a novel flu pandemic outbreak by as much as 75%.

RMS' model covers 59 countries and measures the speed at which a pandemic spreads through the population. It also captures the impact of age using demographic profiles and pharmaceuticals and vaccines to account for the reduction in mortality, and case fatality and infection fatality rates help project the virulence or severity of a pandemic.

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While losses from the spread of infectious disease have historically fallen on life and health insurers, COVID-19 shows how vulnerable insurers across all lines of business can be to a global pandemic. Event cancellation, travel insurance, business insurance, workers' compensation, directors and officers and general liability coverages have all felt some pressure and losses from the current outbreak.

"Insurers are not only wondering what types of claims they might see and how this and future pandemics could impact their markets, but they're also questioning what it would take to make it more likely we can stamp out a pandemic like COVID-19 from the start and whether those actions could prevent its spread," Muir-Wood said.

The outbreak of highly contagious diseases dates back to 430 B.C. in Athens during the Peloponnesian War. Since then, plagues, leprosy, the Black Death and other pandemics have destroyed a large swath of the world's population. However the highest profile event remains the 1918-1919 influenza pandemic, which claimed at least 50 million lives worldwide and generated what at that time was about $100 million in life insurance losses.

RMS uses data from that historic event as the benchmark in its model to assess pandemic risks, Muir-Wood said. "Reproducing that single scenario in today's environment raises a number of questions for the industry, including the relationship between age and mortality in a pandemic, whether the quick discovery and delivery of a vaccine could impact the spread of disease, and the financial toll pandemics can have on the global economy," he said.

Muir-Wood expects COVID-19 to drive a number of significant changes in the industry, including an increased appetite among insurers to write more pandemic-related risks and new changes to infectious disease models, including estimations on secondary impacts of a pandemic beyond just the life and health insurance markets. BR