

 THE COUNCIL

COVID-19 SUPPLEMENT

COMMERCIAL PROPERTY/ CASUALTY MARKET INDEX

Q1/2020

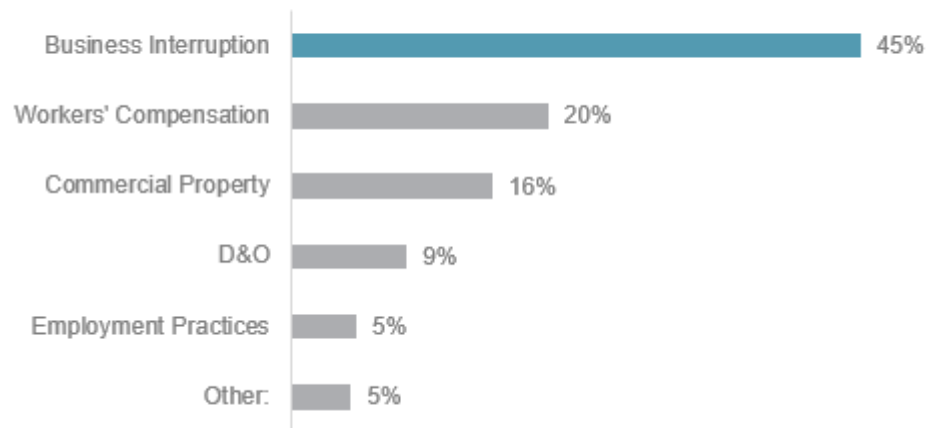


Q1 2020 P/C SURVEY: COVID-19 SUPPLEMENT

This quarter, in order to establish a baseline for future surveys, respondents were asked a number of questions related to COVID-19 and how the current pandemic impacted commercial lines in Q1 2020. It was clear that brokers began to see COVID's impact in the latter half of March, and it's important to note this survey was fielded from April 1 – May 1. Despite it being "too early to tell" regarding the pandemic's true impact on the industry, brokers had a lot to say.

Respondents were asked whether the COVID-19 outbreak resulted in increased claims activity for Q1 2020 and if so, for which lines. Again, respondents noted that the market was not impacted for the majority of the first quarter until around mid-March, but a few key lines, including Business Interruption, Cyber, and Commercial Property had already begun to see COVID-19-related claims.

Respondents Reporting Increased COVID-related Claims Activity for Commercial Lines



One respondent added that claims were being reported to avoid late reporting and loss of coverage, regardless of the outcome of the claim. When noting "other" in the graph above, respondents cited Cyber, Umbrella, General Liability, and Medical Professional Liability as also seeing claims activity.

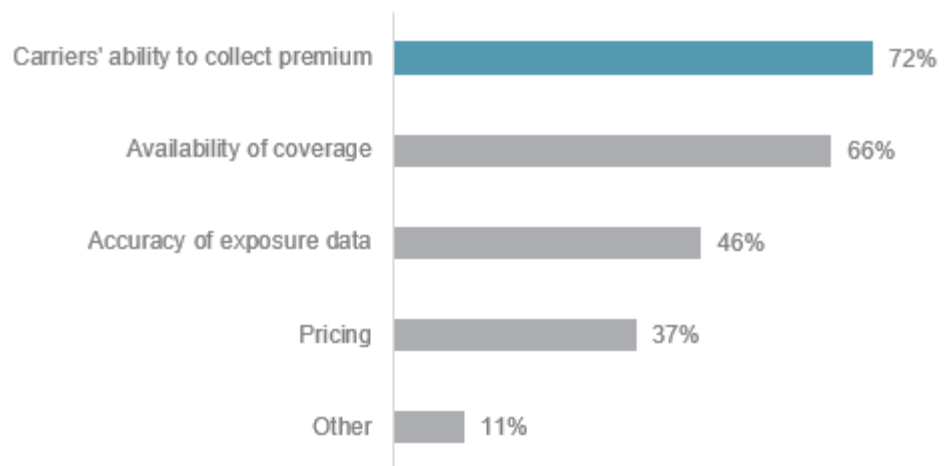
COVID-19's IMPACT ON THE INDUSTRY

Respondents were asked if certain areas of their business had already been affected by the crisis. A strong majority of respondents—72%—noted the pandemic impacted carriers' ability to collect premium, and 66% agreed it affected the availability of coverage.

While most respondents agreed that COVID-19 has not yet impacted premium pricing, one respondent explained, the "availability of coverage, especially in the excess casualty markets, remains a challenge.

Many clients need an exposure reduction and standard carriers are willing to accommodate to a degree. The excess and surplus

Have the following been impacted by COVID-19?



lines markets have remained inflexible.”

CARRIERS ABILITY TO COLLECT PREMIUM

It was evident that many insureds, particularly small businesses, were struggling to pay their premiums and needed premium forbearance in Q1. “The major impact in the near term is collecting premiums. The waterfall June 1 renewals will be very telling,” explained one respondent.

It also appears the majority of carriers were accommodating towards struggling businesses, often granting deferrals for 60-90 days. Additionally, “Governors in various states have issued bulletins mandating that carriers defer cancellation and non-renewal notices due to non-payment of premium,” another respondent said.

Several respondents have also had a number of clients go out of business due to the pandemic. Brokers were monitoring these trends to determine how it may affect their businesses.

AVAILABILITY OF COVERAGE

The majority of respondents, 66%, reported that COVID-19 has affected the availability of coverage for Commercial Property/Casualty lines. “COVID-19 has made availability of coverage and current limits at risk. Businesses that have essential workers are being underwritten with greater scrutiny” said one respondent. “Certain classes of business (healthcare, for WC) have been difficult to find coverage for.” Several respondents also mentioned that carriers were reluctant to offer Civil Authority coverage, adding virus exclusions and lowering pandemic limits. Some carriers “have a moratorium on writing Business Income coverage,” another explained. Lastly, carriers were already beginning to decline new D&O and EPLI risks towards the end of Q1, according to several respondents.

ACCURACY OF EXPOSURE DATA

While just less than half of respondents said the pandemic impacted the accuracy of exposure data, many agreed carriers’ uncertainty around COVID became evident in the latter half of March. “We have seen carriers tightening up on specialty lines and have seen exposures reduced by clients. Many clients wanted to make exposure changes, with some carriers more flexible than others,” said one respondent. “We have been focusing on making sure exposures accurately reflect operations to minimize the expense burden on clients who cannot wait until audit,” explained another.

Others mentioned that due to the change in business operations, payroll, sales, employee layoffs and furloughs impacted the exposure bases, leading to “exposure data being revised downwards.” While clients were already requesting reductions in exposures in Q1, several respondents noted that the end of Q1 was “too soon for underwriters to react.”

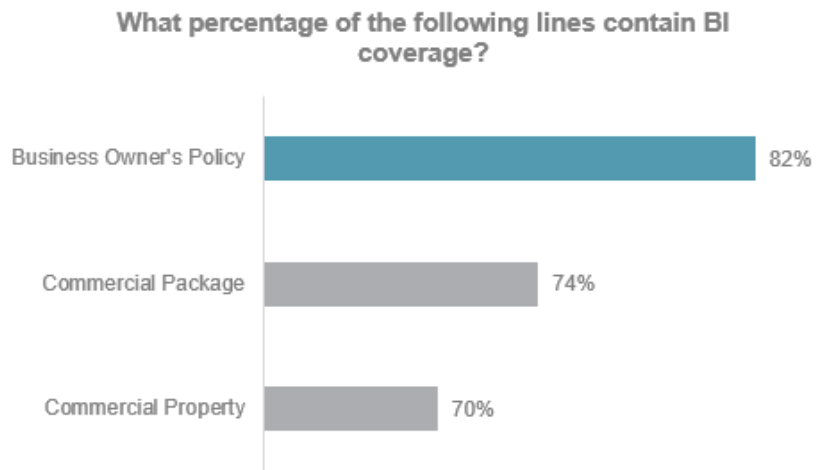
PREMIUM PRICING RELATED TO COVID-19

While Q1 2020 saw increased premium pricing across the board (at a higher rate compared to the previous quarter), the majority of respondents agreed COVID-19 did not impact premium pricing directly in the first quarter. That being said, a number of brokers noted that the current pandemic has constricted coverage for certain industries.

BUSINESS INTERRUPTION

Business Interruption began to receive national (and international) attention towards the latter half of March, as disputes between restaurants and carriers reached the mainstream media. Given the uncertainty around the increase in Business Interruption claims in Q1, there is not enough data to determine how these claims may be adjudicated. Nonetheless, respondents agreed that viral exclusions are common and property damage is the trigger for coverage in most Business Interruption policies.

Respondents were also asked how many of their clients had some form of Business Interruption coverage. While responses varied, in the aggregate, around 75% of respondents' clients had some form of BI coverage. Of those lines that offer embedded BI coverage, 82% of Business Owner's Policies (BOP) contain BI coverage. Seventy-four (74%) percent of Commercial Package policies and 70% of Commercial Property policies contained Business Interruption coverage.



SERVICING POLICYHOLDERS IN THE MIDST OF A PANDEMIC

When asked about servicing policyholders during COVID-19, nearly every respondent said either all or an overwhelming majority of their employees were working (successfully) from home. "While employees often have the option to come into the office for various reasons, nearly everyone agreed their firm has the appropriate tools and technology in place to continue servicing their clients while working from home," explained one respondent. "Our brokerage firm is working remote except for a skeleton crew at the office to process mail and accounting payments. We have held multiple webinars for staff and clients as it relates to COVID-19, and created a resource center on our company website. During this time there have been no roadblocks in our ability to serve our customers nor connect with carriers, vendors and clients." This was a common theme throughout the survey, and although many employees had to take on new and nontraditional roles, it appears the commercial brokerage industry would define this transition as a success. "Business as usual," respondents agreed.

