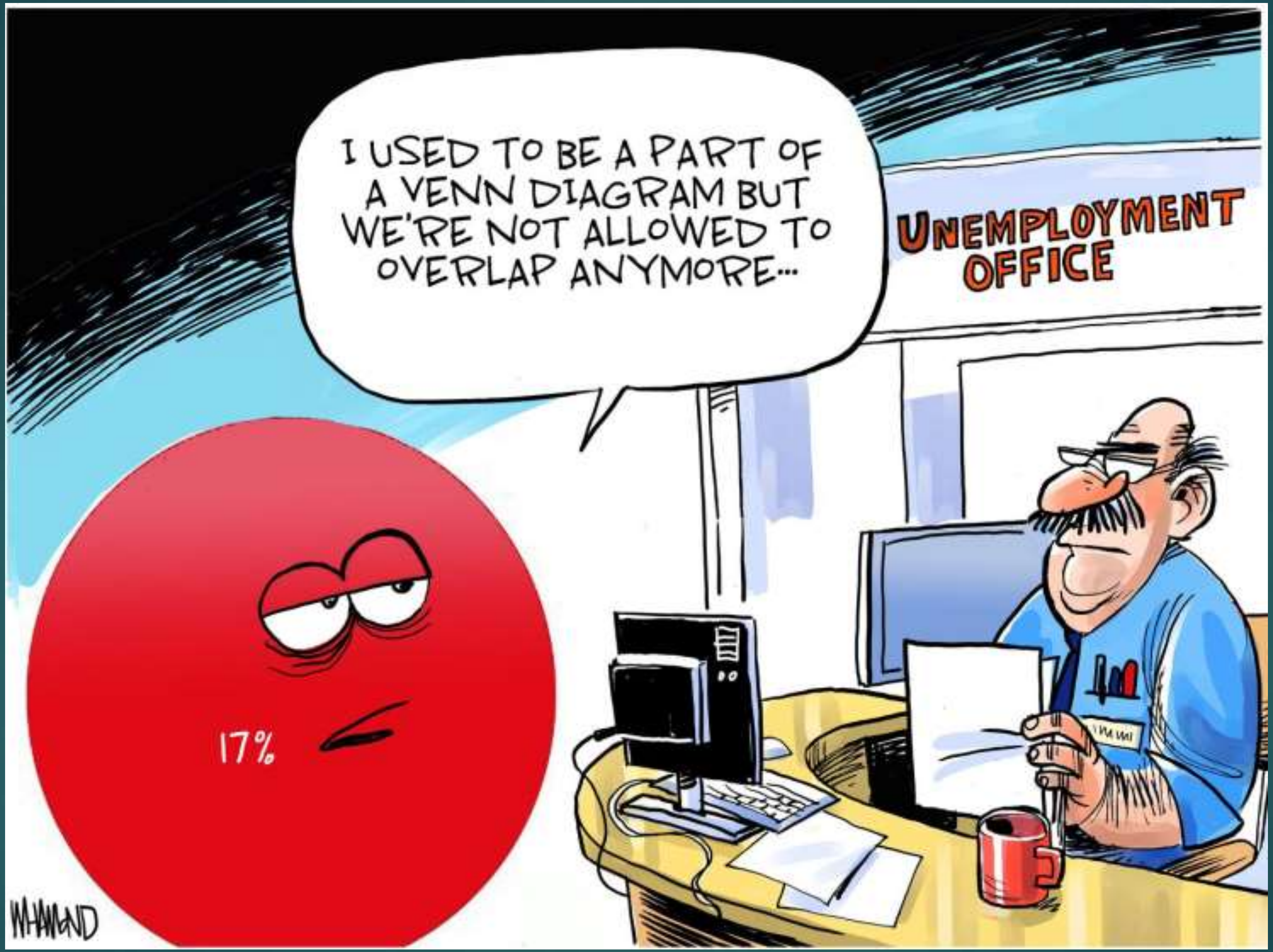
COVID-19 Impact on P&C Insurance

CENTRAL STATES ACTUARIAL FORUM

OCTOBER 26, 2020

Key Discussion Points

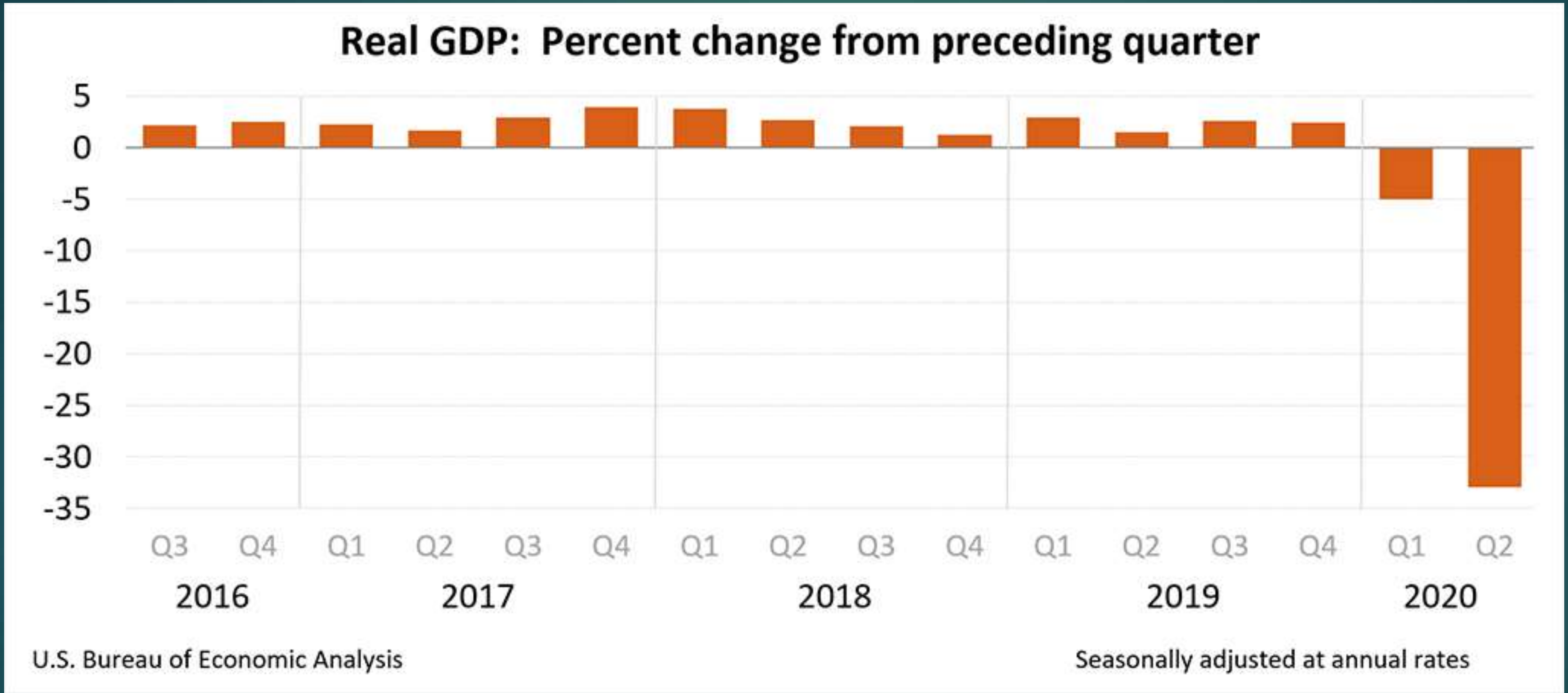
- Overall insurance impact
- Impact on Individual Lines
  - Auto lines
  - Liability lines
  - Property lines
  - Workers' Compensation
- Loss Reserving Considerations



Source: Philadelphia Inquirer

Overall Insurance Impact

Financial Impact of COVID

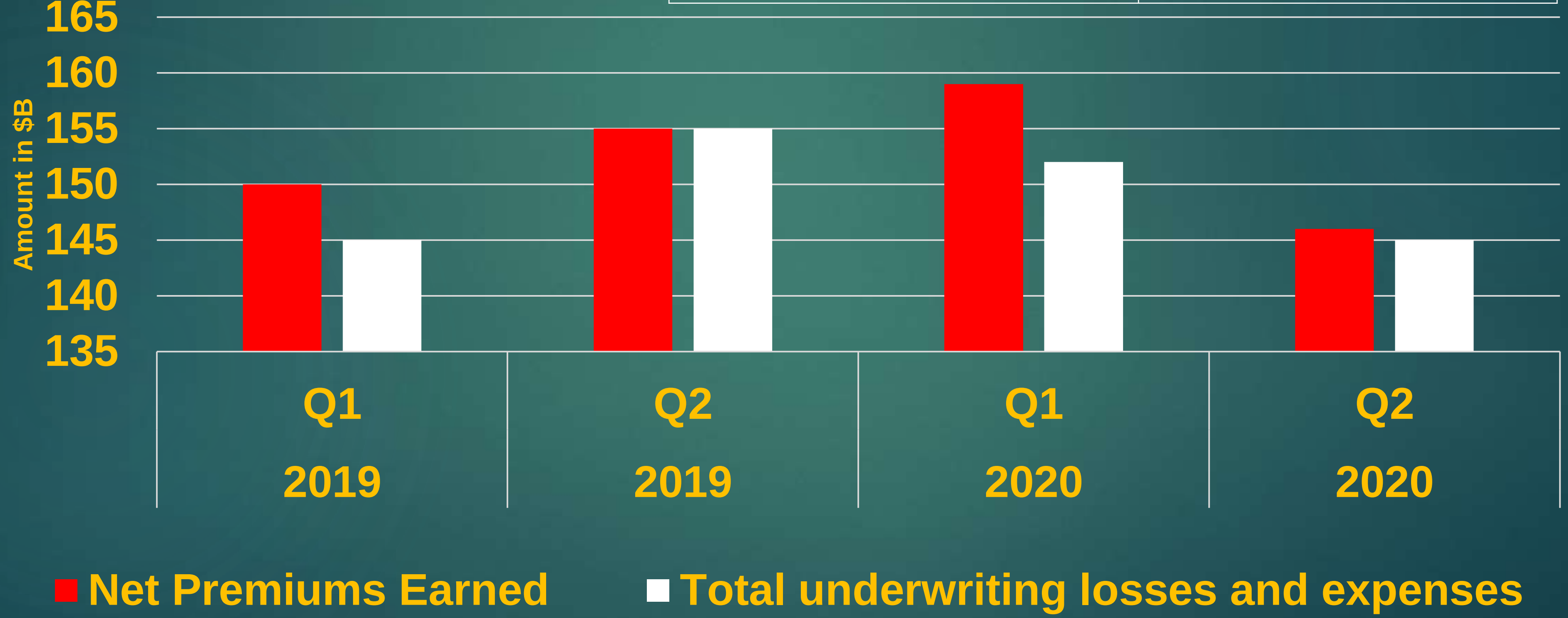


- Decline of 33% in 2020 Q2

Source: Bureau of Economic Analysis

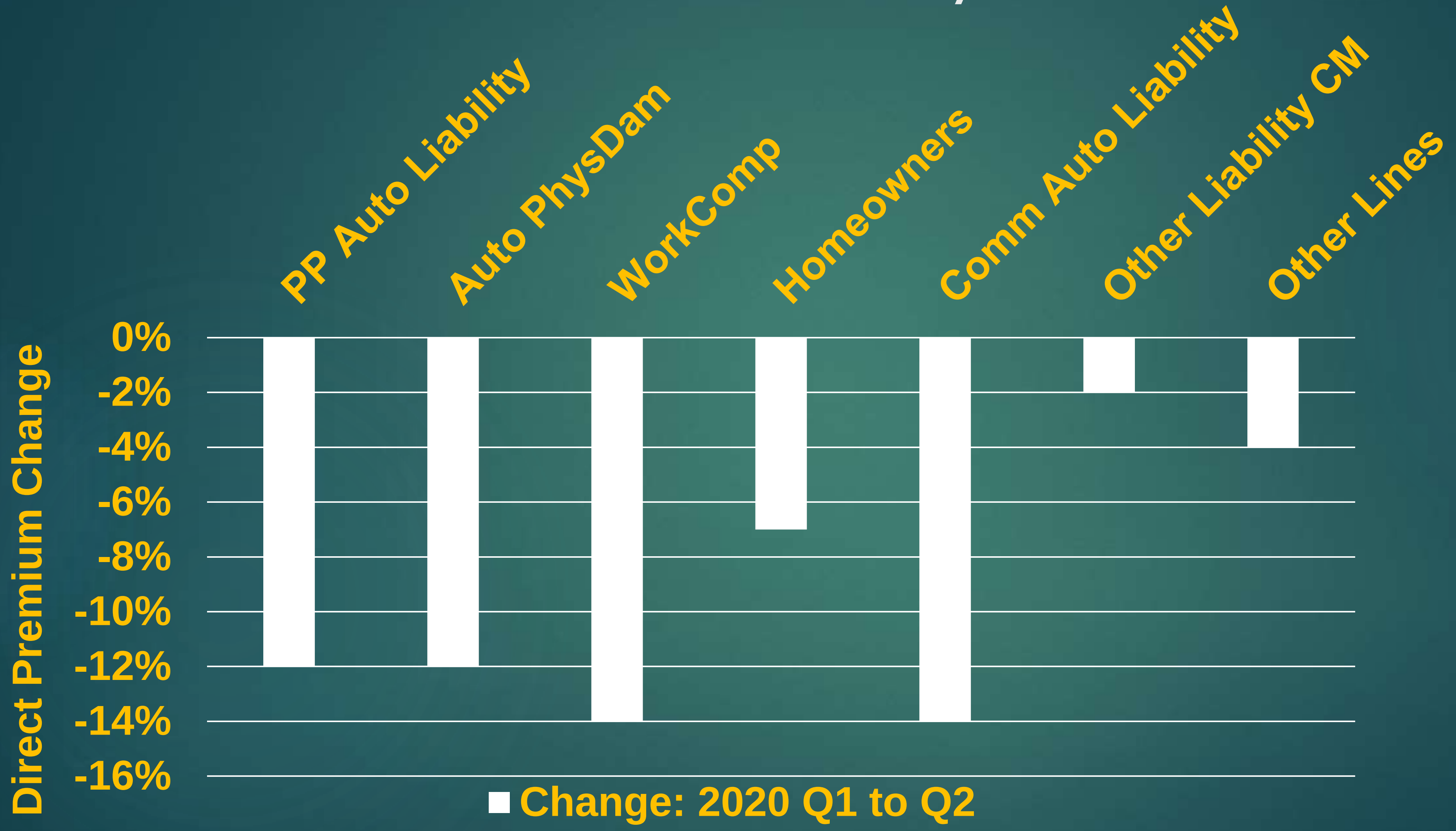
P&C Industry Premiums and Losses

	Change 2020Q1 to 2020Q2
Net Premiums Earned	-8%
Total underwriting losses and expenses	-4%
Combined Ratio	3%



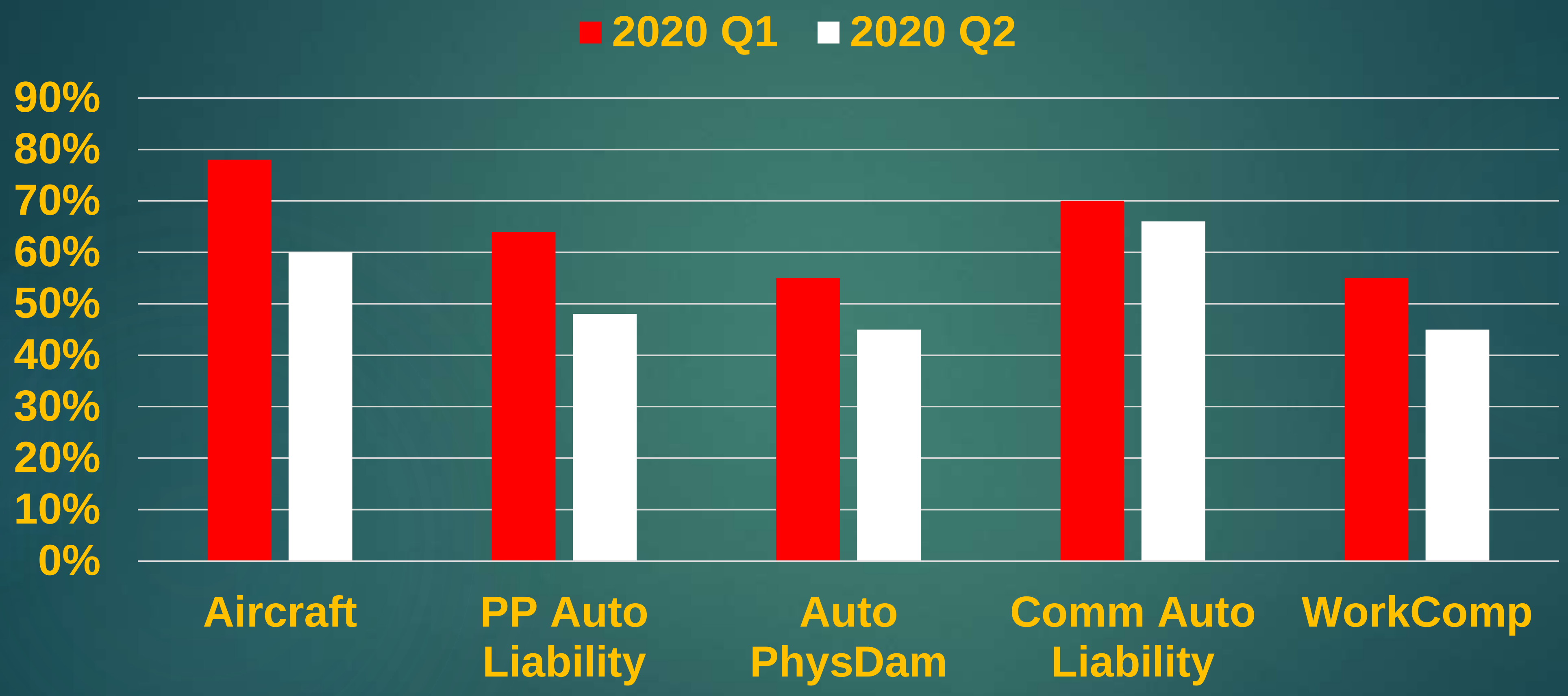
Source: Milliman (based on quarterly statements for P&C Industry)

Premium Reduction by Line



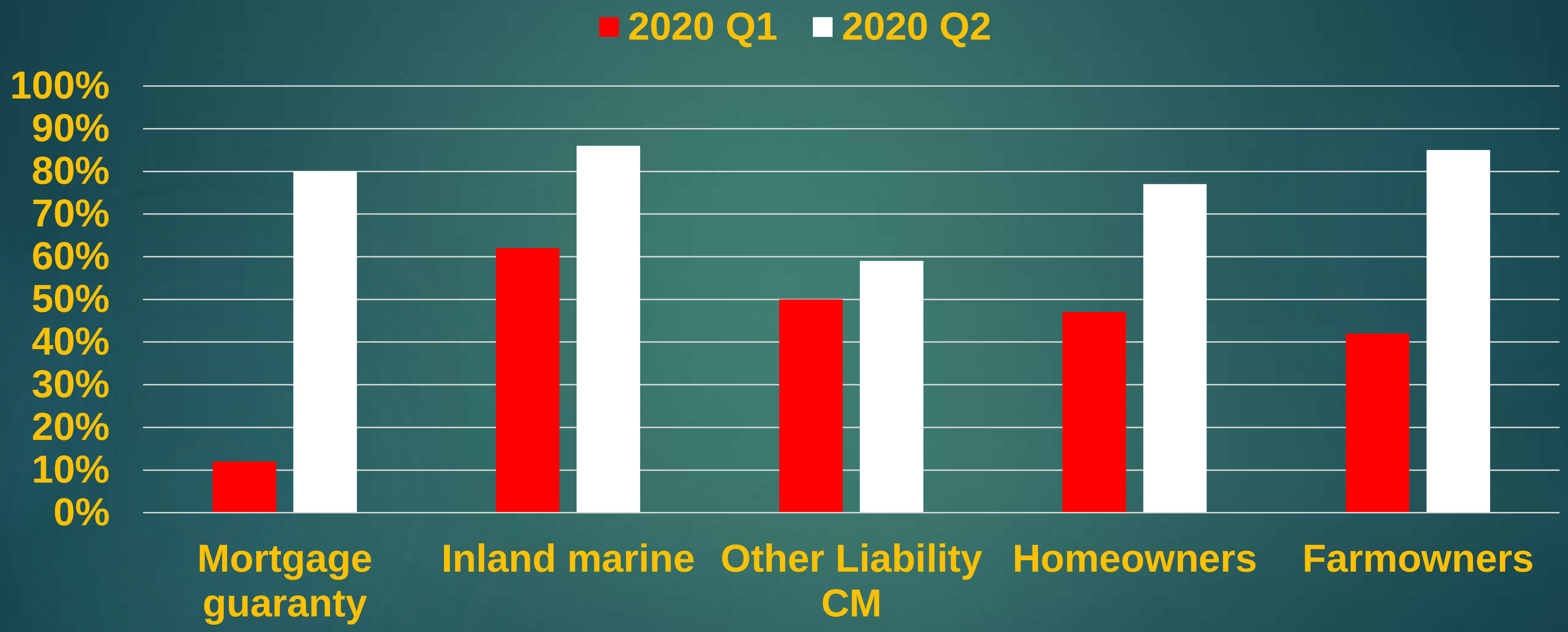
Source: Milliman (based on quarterly statements for P&C Industry)

Lines with Loss Ratio Decreases



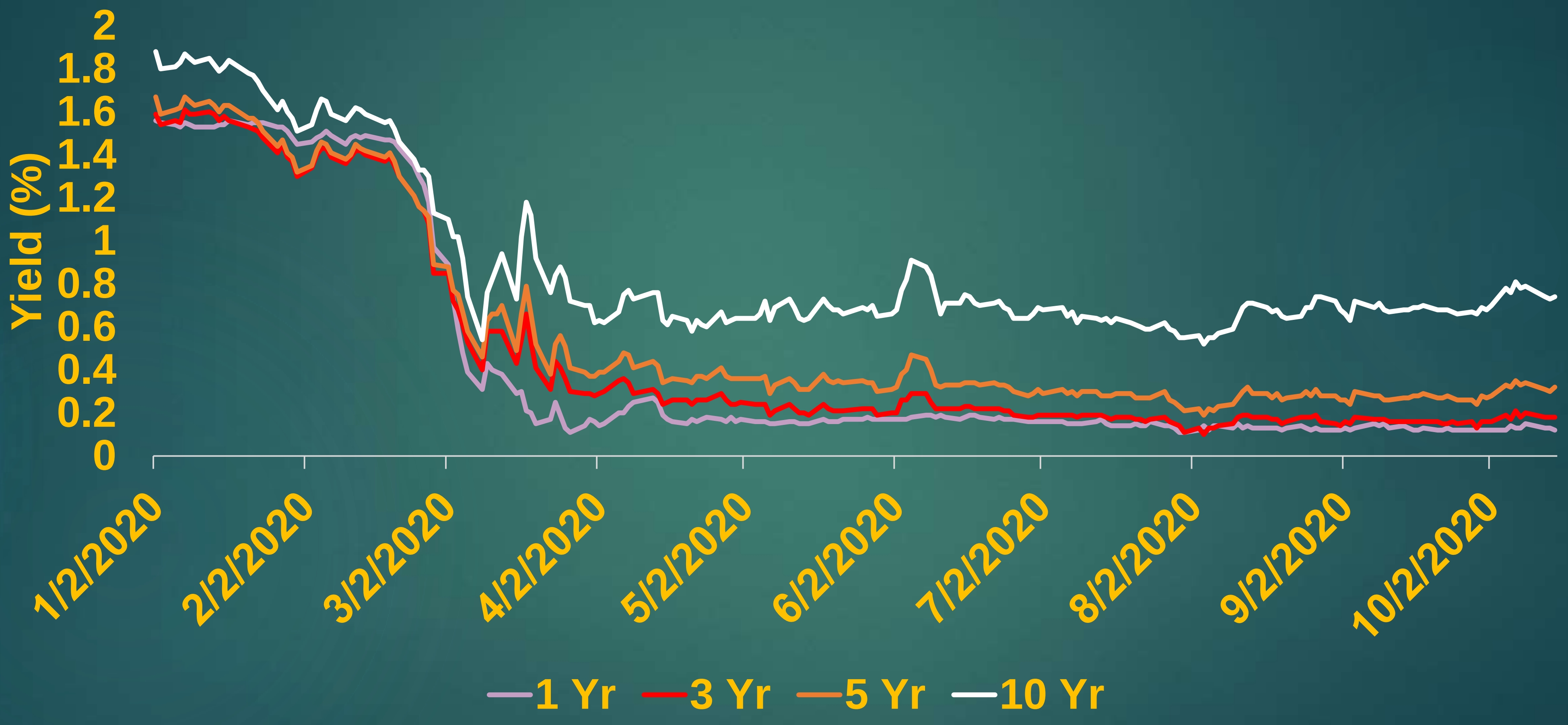
Source: Milliman (based on quarterly statements for P&C Industry)

Lines with Loss Ratio Increases



Source: Milliman (based on quarterly statements for P&C Industry)

Treasury Yield Curve Rates in 2020



Source: US Department of Treasury

Equity Markets in 2020

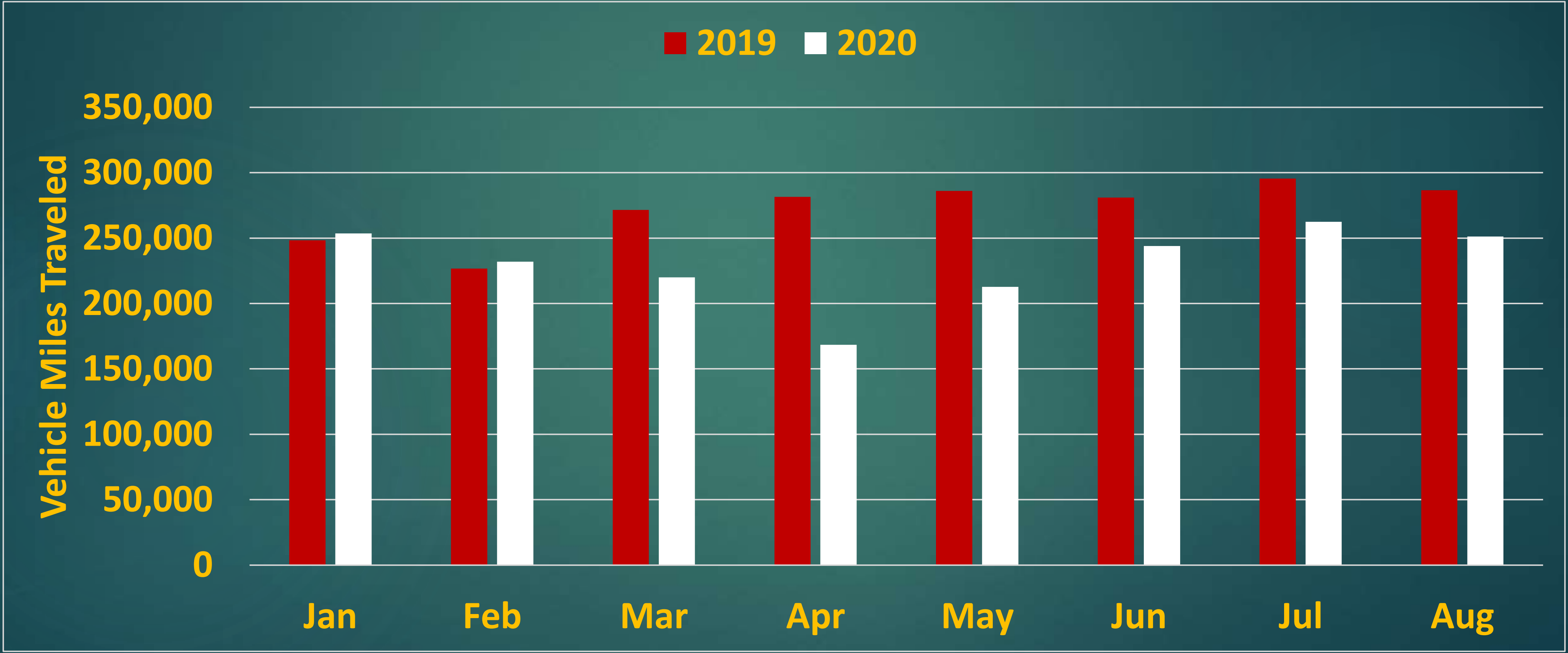
Source: S&P Global

Impact on Individual Lines

Auto Insurance

Vehicle Miles Traveled

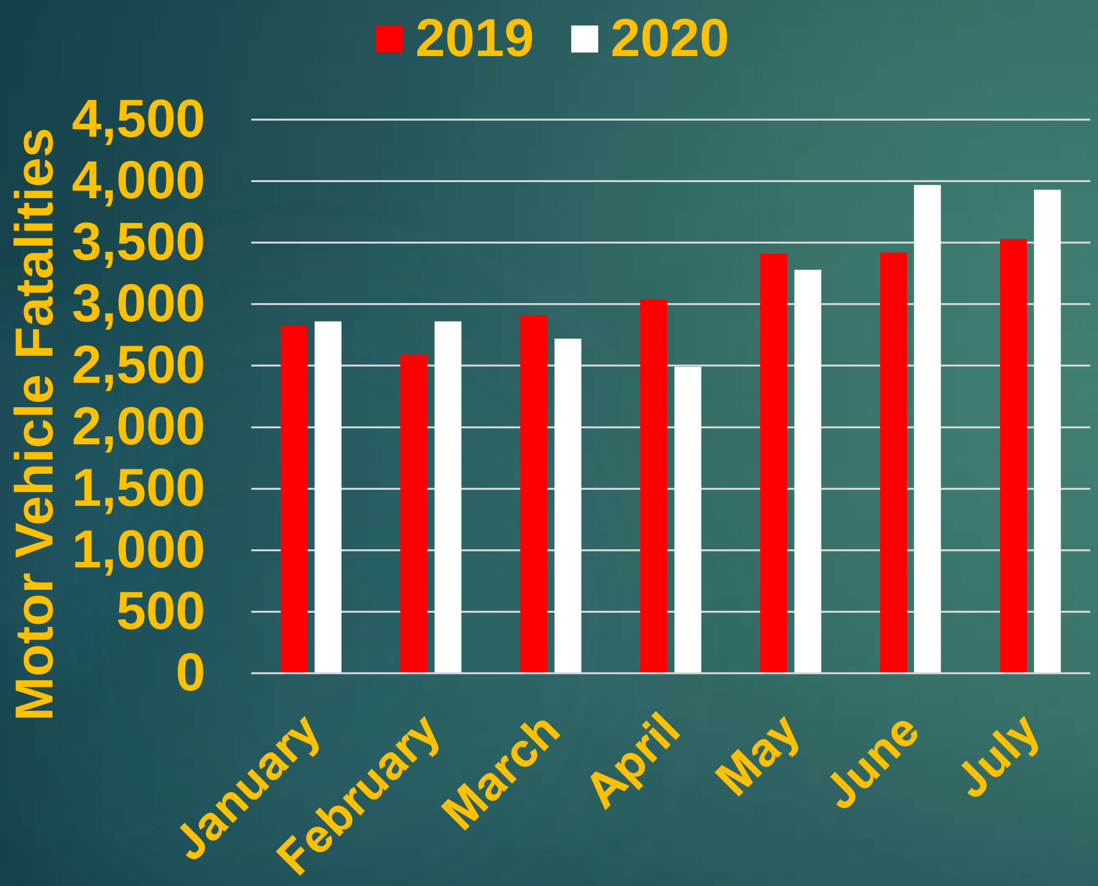
15% reduction in vehicle miles traveled through first 7 months of 2020

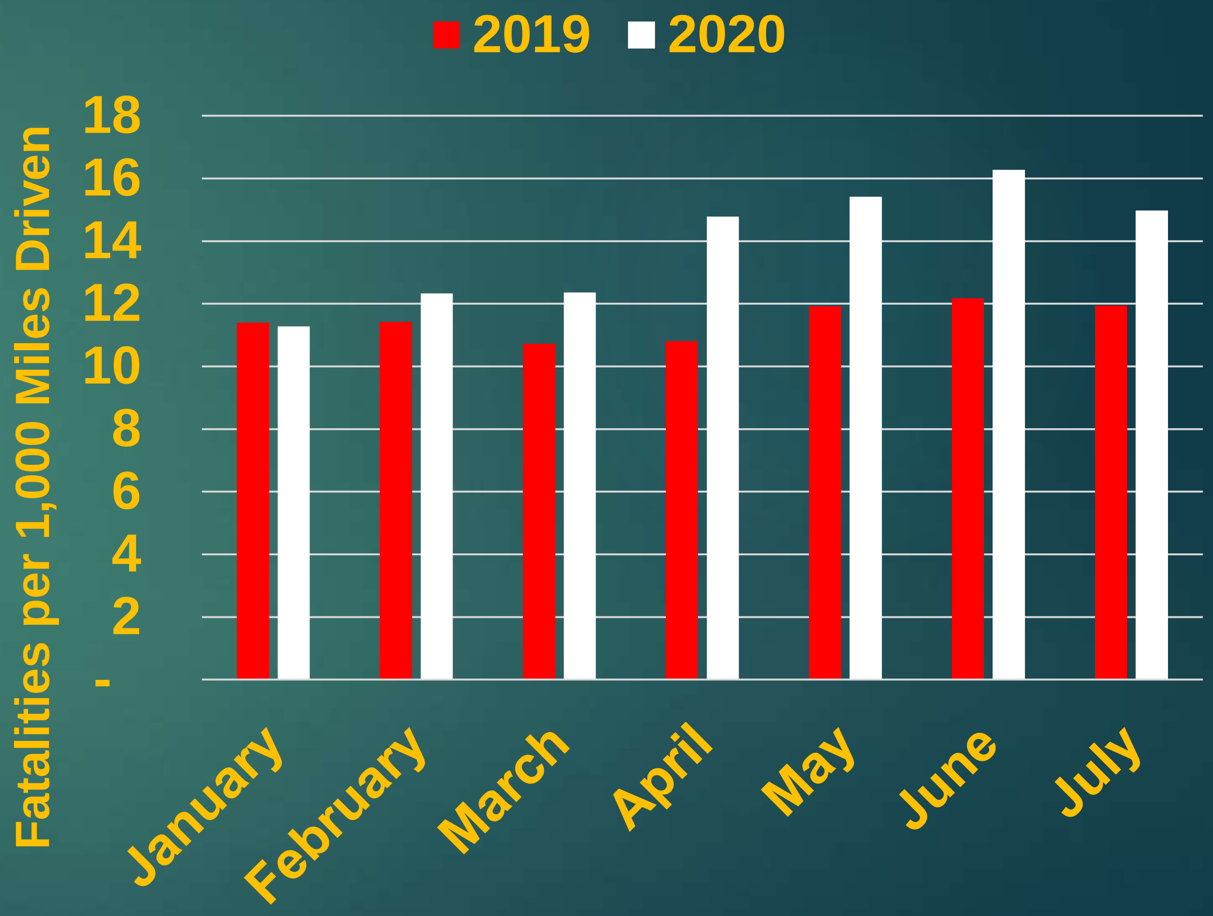


Source: Federal Highway Administration

Fatalities by Month

21% increase in fatalities per miles driven through first 7 months of 2020

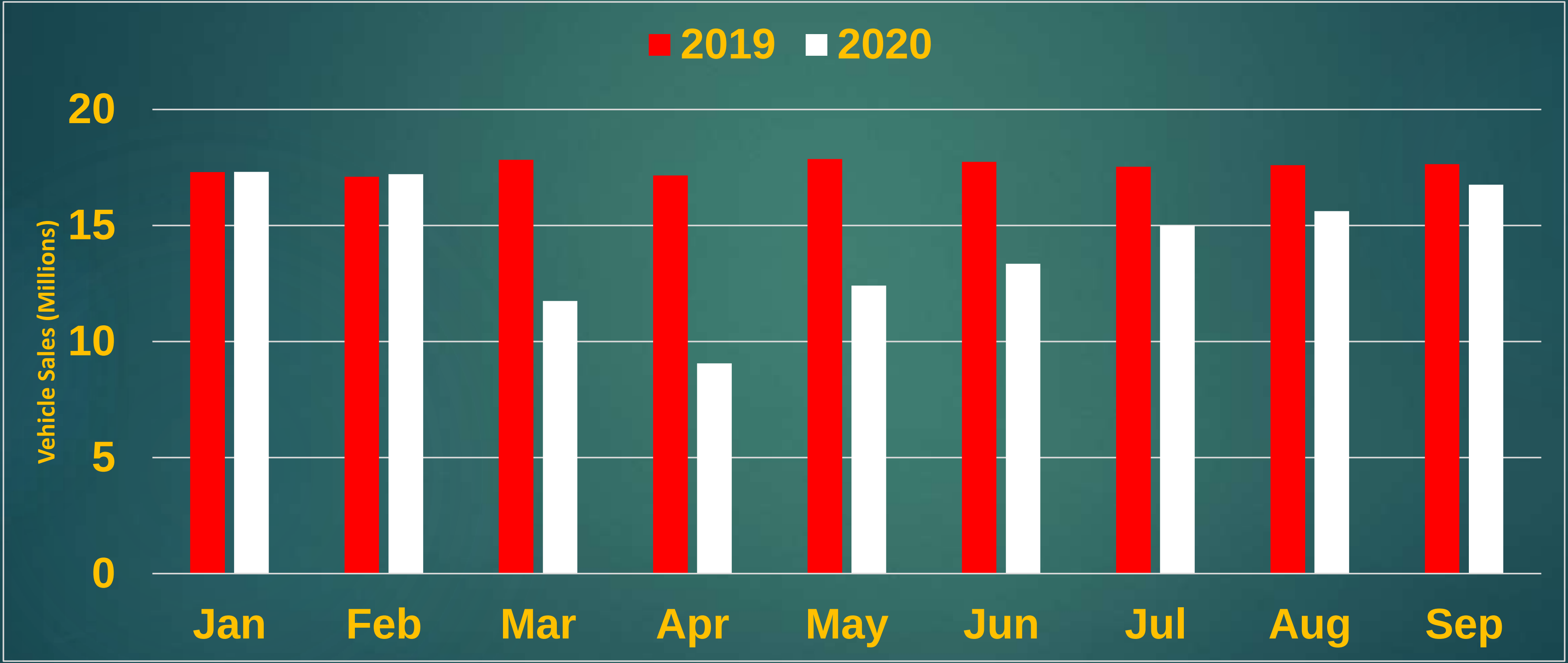




Source: National Safety Council

New Vehicle Sales

March – June: 34% reduction
July – Sept: 10% reduction



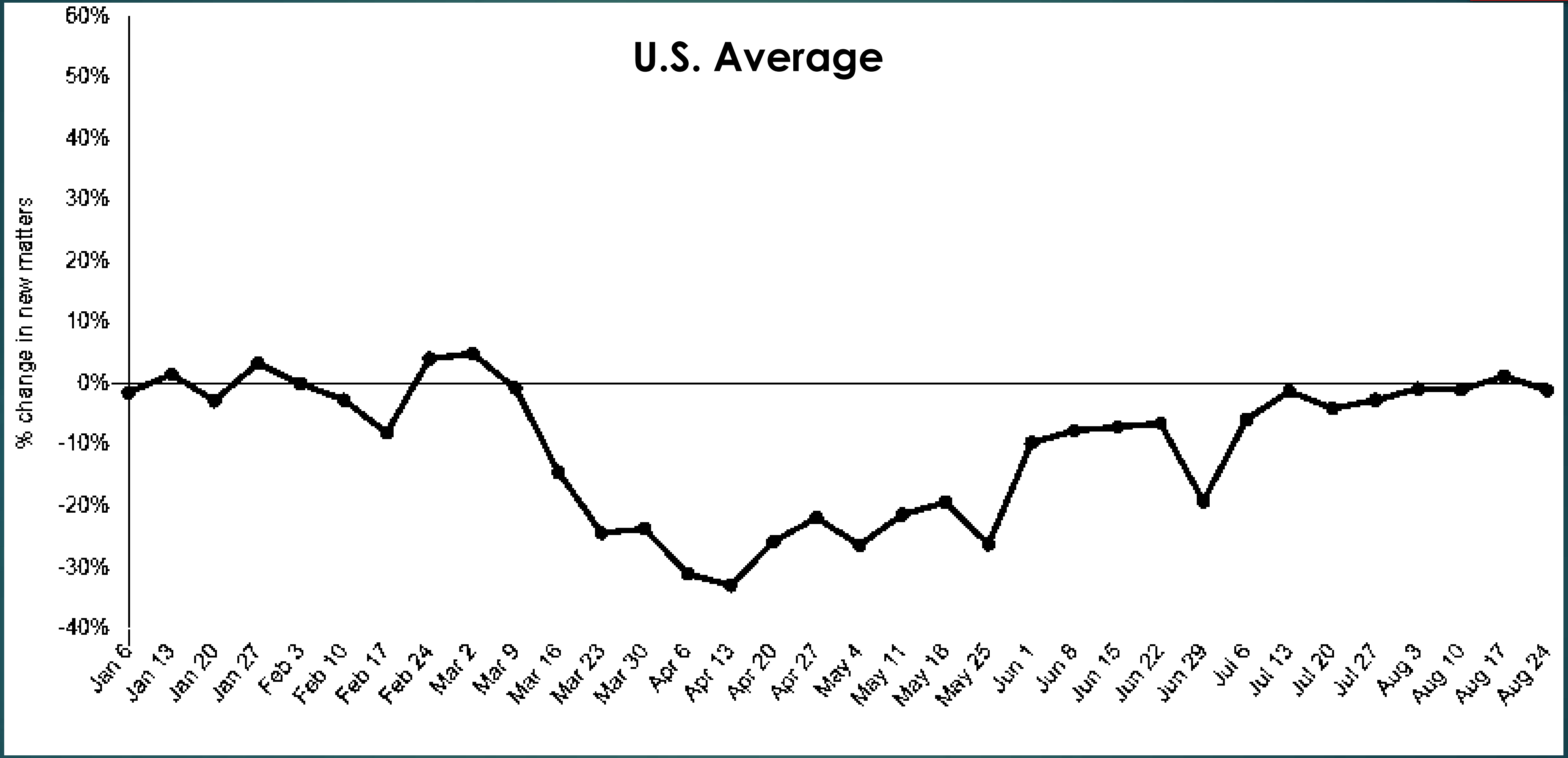
Source: Federal Reserve Bank of St. Louis (FRED)

Other Considerations

- Private Passenger Auto
  - Premium returned to policyholders
    - Exposure mismatch a consideration when evaluating loss ratios
  - Usage-based insurance
  - Recent increase in sales due in part to mass transit concerns
- Commercial Auto
  - More deliveries due to online retail growth (e.g., Amazon, Instacart)
  - Fewer buses, taxis and rideshares

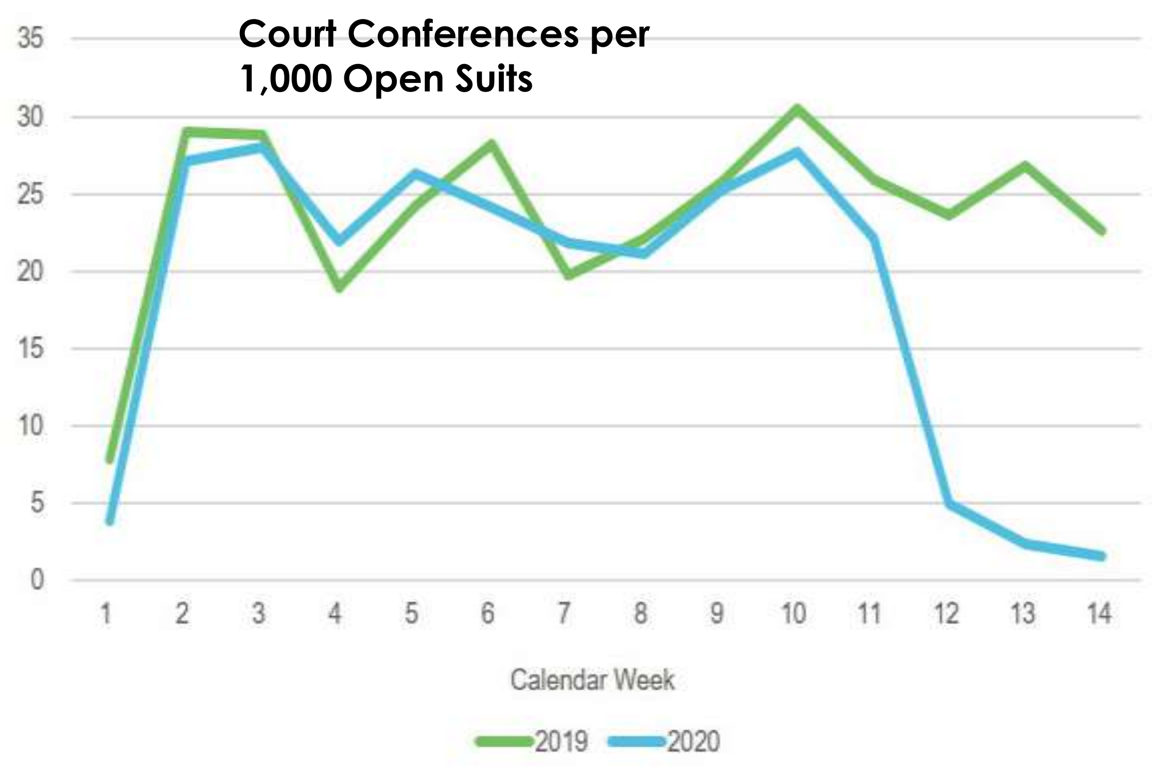
Liability Lines

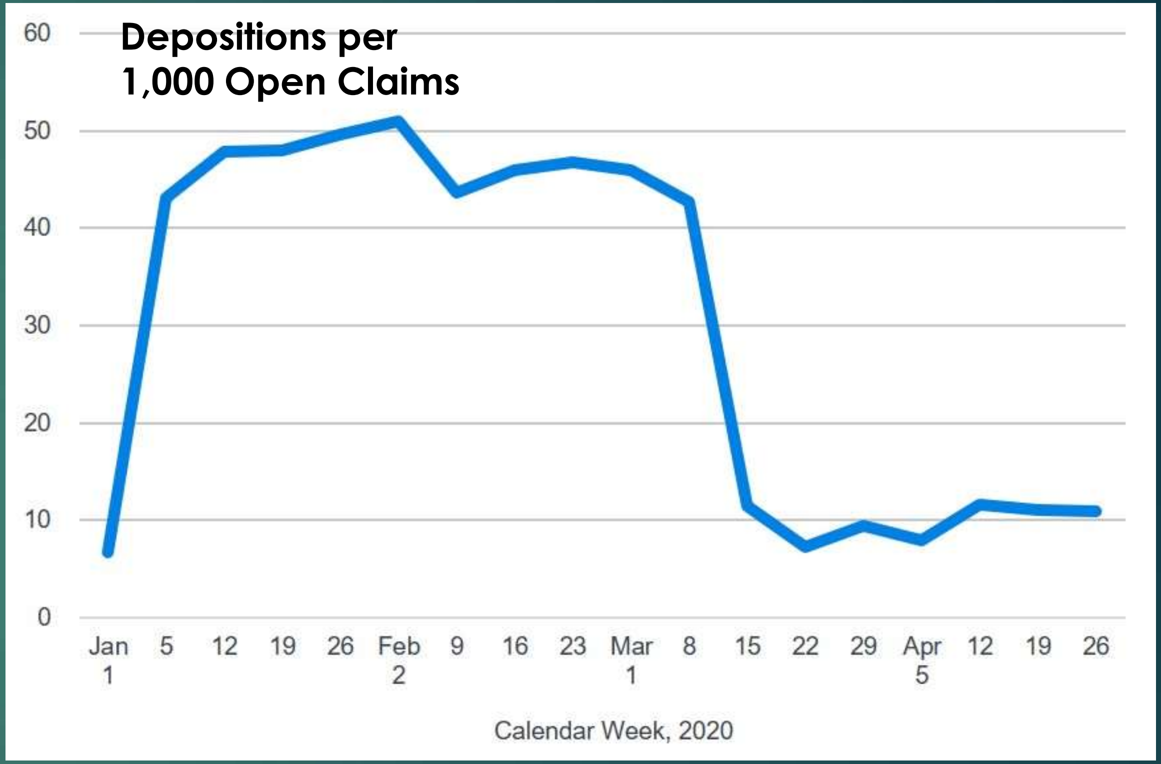
Significant drop in legal matters



- Source: Clio, *COVID-19's Impact on the Legal Industry*

Claim Development Impact





- Source: https://www.milliman.com/en/insight/deposition-delayed-depositions-decline-due-to-covid19-but-attorneys-begin-to-grow-comfortable

Medical Professional Liability

- Elective procedures temporarily halted in many states
- Decrease in emergency procedures
- Legal immunity of healthcare providers in COVID cases
- Favorable publicity of front line workers

Sources: Wall Street Journal
Business Insurance, *Convergence of coronavirus, flu could boost med mal claims*

Medical Professional Liability

- Delays in procedures could lead to more complex cases in the future
  - Delayed cancer screening projected to result in 10,000 deaths
- Danger of missed diagnoses
  - Similarities of flu or pneumonia symptoms
- Some legal protections have an expiration date
- Potential legal loopholes for current protections (e.g., "gross negligence)
- Goodwill towards healthcare workers will end
- Socioeconomic factors that led to larger verdicts will not disappear
- Uncertainty may exacerbate hardening market

Source: Business Insurance, *Convergence of coronavirus, flu could boost med mal claims*

Cyber Liability

- Attacks targeting home workers rose five-fold in 6 weeks since lockdown
- COVID-19 blamed for 238% rise in attacks on banks
- 80% of firms have seen an increase of cyberattacks
- Cloud based attacks rose 630% between January and April 2020
- Phishing attempts rose 600% since end of February
- Ransomware attacks rose 148% in March
- 5% of COVID-19 related domains deemed suspicious

Source: Fintech News, *The 2020 Cybersecurity stats you need to know*

Other Liability Lines

- Shift in exposures from non-essential businesses (e.g., restaurants and retail) to essential businesses (e.g., supermarkets)
- Potential liability to hold businesses responsible for exposure to virus
- Employment Practices Liability claims of discrimination and/or retaliation
- D&O claims alleging misleading information on COVID impact to corporations

Property Lines

Impact on Property Lines

- Homeowners
  - 57% of homeowners did some home improvement between March-May
  - Dramatic increase in sales for smart home security devices
  - Increased frequency due to heavier usage of appliances and utilities
  - Severity down as repair issues are being identified more quickly
- Commercial Property
  - Commercial Property Price Index dropped 10% between February 1 and September 1
    - Potential long-term decline as more people work from home and shop online
  - 10.3% delinquency rate for property loans bundled into commercial mortgage-backed securities (up from 2.8% in prior year)
    - Lodging and retail hit hardest
    - Higher risk of loss due to lack of maintenance
  - Business interruption exclusions being challenged in courts and legislatures

Sources: National Underwriter, Actuarial Review, Green Street

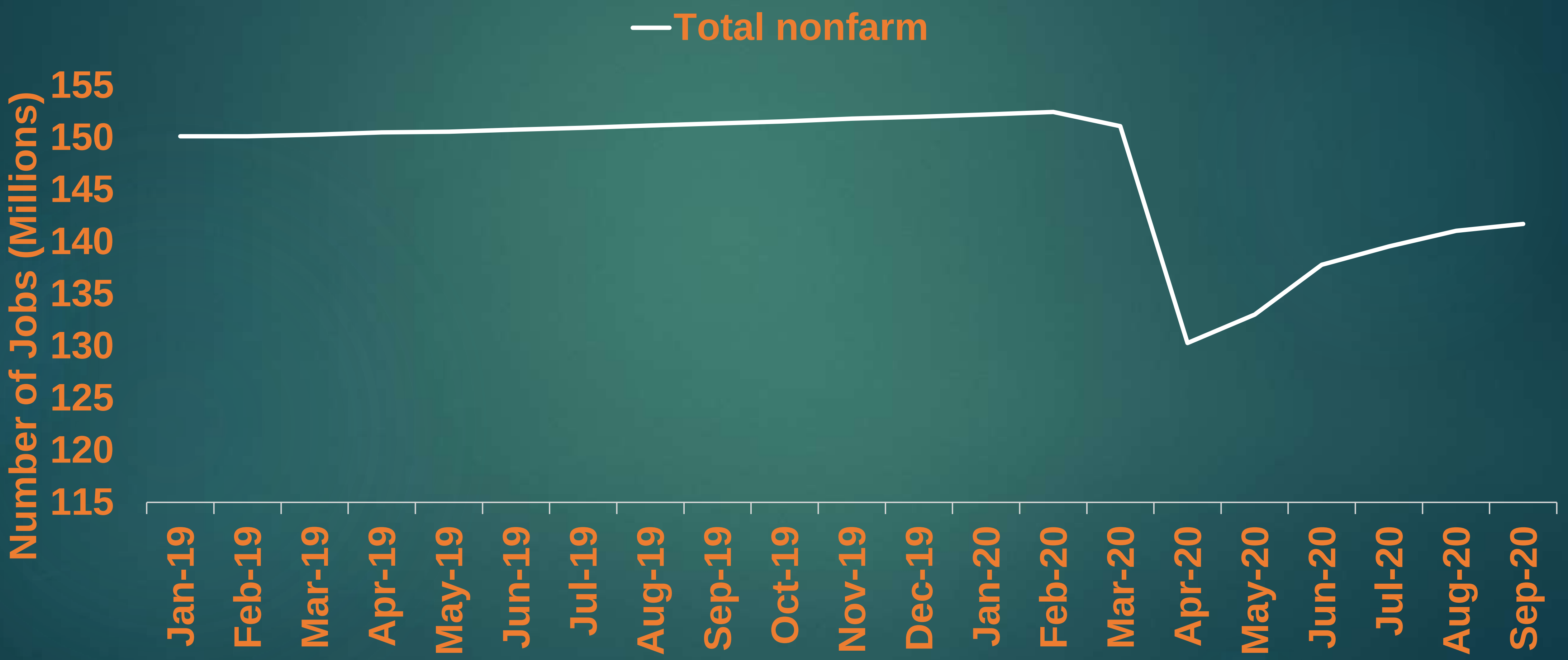
Workers' Compensation

Workers' Compensation

- Premium impact from job losses
- Increased risk to essential workers, particularly in healthcare
- Challenges of medical care with non-COVID injuries
  - Telemedicine
  - Apprehension about going to hospitals to treat injuries
- Consideration of injuries while working from home

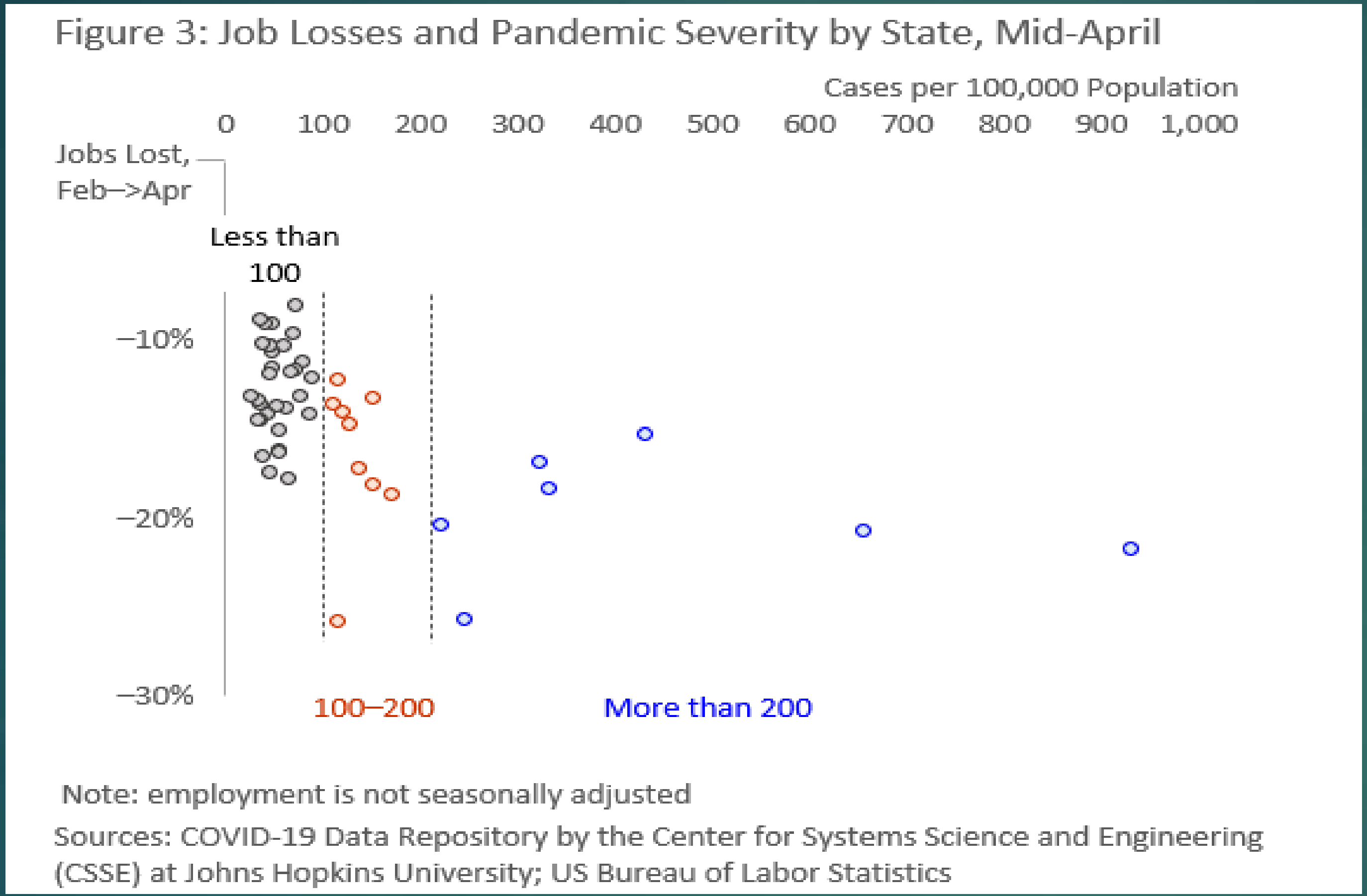
Employment in US

- **Employment dropped by 14% from March to April**
- **September employment is down 7% from the peak in February**



Source: Bureau of Labor Statistics

Workers' Comp



- Variation of job losses by state highly correlated with severity of pandemic

Source: NCCI

Potential COVID Impact: Georgia

<u>Frequency Assumptions</u>

- Percent of workers infected: 10%
- Report rate: 50%
- Total Frequency = 10% * 50% = 5%

<u>Severity Assumptions</u>

- Fatality Rate: 1%
- Hospitalization rate: 7.4%
  - Percent of those hospitalized needing critical care: 19%

Sources: NCCI Research Brief: *COVID-19 and Workers Compensation: Modeling Potential Impacts*
Georgia Department of Public Health

Potential COVID Impact: Georgia

			Average Wage Benefit			
Severity of Symptoms	% of Total	Avg. Duration (weeks)	All Workers	First Responders	Healthcare Workers	Avg. Medical Benefit
Mild	92.6%	2	$451	$419	$555	$1,000
Moderate	6.0%	3	$902	$839	$1,109	$19,000
Severe	1.4%	6	$2,706	$2,517	$3,328	$59,000
Non-Fatal Total Severity			$509	$473	$626	$2,873

Mild: No hospitalization

Moderate: Hospital stay but no ICU

Severe: Requires ICU stay and/or ventilator

Source: NCCI Research Brief: *COVID-19 and Workers Compensation: Modeling Potential Impacts*

Potential COVID Impact: Georgia

	All Workers	First Responders	Healthcare Workers	
(1) Employee Count	4,471,860	70,410	381,060	Bureau of Labor Statistics
(2) Average Fatality Benefit	$183,836	$170,967	$226,118	NCCI
(3) Fatal Frequency	1%	1%	1%	GA Dept of Public Health
(4) Average Non-Fatal Indemnity	$509	$473	$626	From Previous Exhibit
(5) Average Medical Benefit	$2,873	$2,873	$2,873	From Previous Exhibit
(6) COVID Avg. Loss Cost	$5,221	$5,056	$5,761	= (2) * (3) + (4) + (5)
(7) COVID Frequency	5%	5%	5%	NCCI
(8) COVID Expected Losses	$1,167.3M	$17.8M	$109.8M	= (1) * (6) * (7)

Source: NCCI Research Brief: *COVID-19 and Workers Compensation: Modeling Potential Impacts*

Potential COVID Impact: Georgia

	All Workers	First Responders	Healthcare Workers	
(1) Employee Count	4,471,860	70,410	381,060	Bureau of Labor Statistics
(2) Average Salary	$49,620	$46,287	$60,920	Bureau of Labor Statistics
(3) Pure Premium Factor	0.89	1.92	0.43	NCCI (Per $100 of payroll)
(4) Non-COVID Expected Losses	$1,974.9M	$62.6M	$99.8M	= (1) * (2)/100 * (3)
(5) COVID Expectred Losses	$1,167.3M	$17.8M	$109.8M	From Previous Exhibit
(6) Total Expectred Losses	$3,142.1M	$80.4M	$209.6M	= (4) + (5)
(7) COVID Impact	59%	28%	110%	= (6) / (4)

Source: NCCI Research Brief: *COVID-19 and Workers Compensation: Modeling Potential Impacts*

Additional Considerations

- Variation of state laws on COVID presumption
- Benefit may not be 100%
- Long-term disability from COVID survivors

Loss Reserving Considerations

Changes in Loss Development Patterns

- Factors that may delay reporting and/or settlement
  - Delays due to shutdown
  - Reductions in claims staff
- Factors that may speed up reporting and/or settlements
  - Digital reporting and remote claims handling
  - Unemployed claimants needing cash
  - Clearing of backlogs

American Academy of Actuaries 2020 Committee on Property and Liability Financial Reporting, *P&C Financial Reporting Considerations with Repect to COVID-19,* June 2020

Changes in Expected Loss Ratio

- Premium reductions for some lines
  - Rebates/refunds and their associated accounting entries
  - Risk of non-payment
  - Reduction in risk and exposures in certain lines
- Increase in risks, exposures and premiums for other lines
- Appropriateness of reliance on history

American Academy of Actuaries 2020 Committee on Property and Liability Financial Reporting, *P&C Financial Reporting Considerations with Repect to COVID-19,* June 2020

Economic Impacts on Cost of Claims

- Changing demands for health care and medical supplies
  - Increase for certain lines
  - May be postponed due to concerns of COVID-19 infection
- Impacts on cost of goods and indemnity payments
- Potential long-term medical cost savings
  - Telemedicine
  - Increased utilization of electronic monitoring of patients

American Academy of Actuaries 2020 Committee on Property and Liability Financial Reporting, *P&C Financial Reporting Considerations with Repect to COVID-19,* June 2020

Other reserving considerations

- Impacts of morbidity on run-off books for lifetime annuity payments
- LAE cost changes
  - Lower claim frequency
  - Reductions in workforce
  - Reductions in attorney fees due to accelerated settlements
- Reinsurance collectibility
- Savage & subrogation considerations
  - Lags in recoveries
  - Possible changes in salvage values

American Academy of Actuaries 2020 Committee on Property and Liability Financial Reporting, *P&C Financial Reporting Considerations with Repect to COVID-19,* June 2020

Questions?