

As the reinsurance market continues to evolve and navigate the challenging times created by the COVID-19 pandemic, the BMS Casualty Practice Group performed a survey of reinsurers to provide a view of the current state of the market from their perspective. The group of respondents ranged from senior casualty treaty underwriters to CUO's and CEO's, and represents the majority of the largest US Casualty reinsurers in the market. While the survey responses themselves provide valuable insight into the general market position, this is very much a snapshot of today's view (or more appropriately earlier this week's view) – and all respondents were quick to hedge their responses with a “who knows what the future holds” type of caveat.

Casualty Market Survey Results

Question 1: Which Casualty segment (aside from Healthcare and WC) will see the most dramatic loss impact from the current pandemic?

Every respondent named D&O as the line they expect to generate increased loss activity. However, the market was nearly evenly split between Public and Private/Non-Profit as being the D&O segment loss driver coming out of the pandemic. Public D&O will see the impact of the unprecedented stock market drop and potentially class actions around preparedness – but depending upon the shape of the recovery, the overall loss impact could vary widely. The prevailing concern for the Private/Non-Profit sector of D&O is that the viability of typically smaller entities within this space might not have the financial wherewithal to weather the impact of the pandemic and insolvency/bankruptcy claims will follow.

Additionally, while the question asked for a single segment, nearly 40% of responders also added commentary around the Insurance Agents E&O line and expected losses falling out of coverage issues relating to COVID-19. Public Entities were also volunteered as a segment to watch, with the treatment of immunities being the ultimate wild card as to how claims may or may not exceed expectations. And finally, Cyber was mentioned as seeing additional exposure related to the current “work from home” environment – but exposure and losses are two different things.

Question 2a: How would you categorize the degree of change in your Casualty underwriting practices (aside from Healthcare and WC) specifically related to the pandemic?

- 1.) No Change – **27%**
- 2.) Slight to Moderate Change – **73%**
- 3.) Major Change – **0%**

As noted in the selected answers, the overall Casualty market views the impact on their underwriting practices from the pandemic as something “less than major.” Not surprisingly, most respondents pre-empted their response with some form of, “we look at each account and client on a case-by-case basis.” Additionally, most of those selecting response 2 further clarified that their changes are closer to slight than moderate. While there is relative uniformity in the nature of response to this question, there is no doubt that insurers are going to be seeing an increased focus on underwriting questions related to potential pandemic and communicable disease exposures and how the primary insurance policy is meant to respond to these going forward.

Question 2b: Assuming some change noted for Question 2a, which do you deem to be the most impacted?

- 1.) Coverage Terms/Conditions – **42%**
- 2.) Pricing – **42%**
- 3.) Capacity – **16%**

More interestingly, of the nearly 75% of reinsurers who stated a change in their underwriting practices, the “how it has changed” was not viewed consistently. This is an interesting testament to the current transitional market where views and appetites vary widely as markets navigate their next steps from the “firming” market at 1/1/20, to a possible genuine “hard” market in the near future.

Question 3: Which of the following best describes your expectations around the impact of the pandemic on the insurance industry going forward?

- 1.) None to Negligible Impact – **0%**
- 2.) Absolute Meaningful Short Term Impact / Smaller Long Term Impact – **55%**
- 3.) Absolute Meaningful Short and Long Term Impact – **45%**

The clear takeaway from this question is in line with general common sense. COVID-19 will absolutely have both a near and long term impact on the insurance industry. The way in which reinsurers view that impact manifesting itself provided an interesting aspect of responses. Multiple individuals referenced terrorism as an appropriate correlation to the pandemic - a severe market impact immediately following 9/11, but with governmental intervention playing a serious role, one could argue that the long term impact to the insurance industry has been less than dramatic.

Others used asbestos and the market accepted exclusions around that exposure as a correlation. The issue with this approach is obvious. Unlike a “product” like asbestos, there is little that can be done on the front end to mitigate the exposure from future pandemics – which creates a potentially uninsurable risk. NFIP 2.0 anyone? Most feedback to this question eventually pointed to the need for a governmental backstop as the long term solution – removing the exposure from the traditional insurance/reinsurance market to a large degree.

Question 4: Your view of the pandemic’s impact on your company’s day-to-day business flow and process can be best described as:

- 1.) Business as Usual, Except Working from Home - **91%**
- 2.) Some Issues, but Mostly Acceptable – **9%**
- 3.) Material Changes – **0%**

As evidenced by the responses, and the corresponding commentary around them, the reinsurance world has almost perfected the “virtual” work environment. Many reinsurers feel that their efficiency and responsiveness have significantly improved over the past seven weeks – most notably due to the absence of travel and increased accessibility to all aspects of the company “real time”. Over a longer term, the absence of travel and losing contact with clients were noted aspects where the current situation would likely deteriorate and cause more issues to the business process if extended over too long of a time period.

Question 5 : Which of the following creates the most concern for you as an underwriter specific to the ongoing pandemic?

- 1.) Potential Government Mandates of Coverage Where There is Not Clearly Intended Coverage – **36%**
- 2.) Amplification of Pre-Existing Social Inflation Impact on Loss Experience – **9%**
- 3.) Economic Impact - Investment Returns, Capital Requirements, Stress on Reinsurers, Insurers and Insureds Making its Way Through the System – **55%**

Perhaps the most interesting responses of the survey were those associated with this question. While many reinsurers have meaningful concerns in more than one of the response options, there were clear themes around the context for their ultimate choices. Those who selected response 1 were largely of the opinion that if the ultimate liability of the insurance policy or reinsurance contract as bound is altered “after the fact,” it undermines the fundamentals of insurance and reinsurance as a business.

Option 2, while a concern for a small part of the panel, was commented on by multiple underwriters as a possibility that COVID-19 might flatten the social inflation trend that was in play prior to the pandemic as court systems grind to a near halt and jackpot verdicts might seem more frivolous and out of place following the pandemic. An interesting possibility that bears further observation over the coming months and quarters.

The clear “winner” was Option 3, which is arguably unquantifiable at the current time – but everyone knows it is coming. Whether it is reduced revenues for insureds or premiums for insurers, there will be less dollars in the system due to the near shut down of the US economy over the past two months. Pair that balance sheet loss with the asset side loss stemming from the coinciding stock market drop and you have genuine fear and concern in the market.

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The clearest outcomes from the survey emphasized the following:

- Reinsurers are grappling with emerging COVID-19 issues on a daily basis;
- Short term business processes have exceeded expectations and responsiveness to brokers and clients has remained high;
- The impact of the economic slowdown will be material, and quantifying it will be an ongoing challenge; and,
- Market conditions are hardening on an almost daily basis related to coverage, pricing and capacity.

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BMS Re and the Casualty Practice Group remain actively engaged in the marketplace to help our clients and prospects navigate this transitional period. We clearly align our interests with our clients and enhance their success by delivering solutions and advice to help them achieve their goals.