

## Market Reaction

BMS has contacted reinsurance underwriters around the world that specialize in the Regional/Mutual space to get their perspective on the impact of the COVID epidemic on their companies and the overall market. Here are key takeaways from our conversations:

- Renewal and new submissions are running on schedule and for the most part, it is a safely distanced business as usual
- Reinsurers were prepared to work remotely prior to pandemic so transition has been smooth
- Risk appetite and capacity currently remains intact, but could change as the situation evolves
- Underwriters are frequently communicating with their corporate offices regarding potential exclusions and risk appetite
- Several London markets are requiring a communicable disease exclusion and would like LMA 5394 to be used.

## AM Best News

In light of the unique events surrounding the COVID-19 virus, AM Best developed a stress test questionnaire that was disseminated to all rated entities with a April 1 completion date. The questionnaire is intended to gauge the impact on risk adjusted capital level, investment portfolios, reserve adequacy and other risks borne by rated entities. AM Best is still collecting the data and will continue to monitor situation.

AM Best has changed its outlook from Stable to Negative for the commercial lines segment. Despite general industry sentiment that exposure to claims from COVID is not material, the economic fallout, high unemployment and overall environmental uncertainty and are currently impacting the commercial lines segment. AM Best attributed the outlook change to expected reductions in premium volumes, the lack of investment income due to low interest rates for an extended period of time, and reduced policyholders' surplus due to declining asset values.

## Federal & State Update

Representatives of the American Property Casualty Insurance Association, The Council of Insurance Agents & Brokers, Independent Insurance Agents & Brokers of America, National Association of Mutual Insurance Companies, National Association of Professional Insurance Agents, Reinsurance Association of America (RAA), Wholesale & Specialty Insurance Association, and others have joined together to call on the government to set up a COVID-19 Business and Employee Continuity and Recovery Fund, a federal-backed fund that directly aids businesses impacted by the pandemic.

In the letter to President Donald Trump and congressional leaders on March 21, 2020, the coalition of American industries stated "The COVID-19 Business and Employee Continuity and Recovery Fund ("Recovery Fund") would be funded by the federal government and under the authority of a special federal administrator with the ability to enter into contracts with interested businesses to administer the Recovery Fund and facilitate the distribution of federal funds and liquidity to impacted businesses and their employees. The requested relief would be designed to help businesses retain and rehire employees, maintain worker benefits, and meet operating expense obligations. Strong anti-abuse provisions, including audits and Special Inspector General oversight, would be included." There are no monetary details for the new fund yet, but the coalition is standing ready to work with the government in implementation.

There continues to be growing concern of States passing legislation committing insurance companies to cover business interruption claims due to the COVID-19 pandemic. At the end of March, the American Property and Casualty Insurance Association estimated the potential business interruption losses of \$431 billion a month for US small businesses alone.

## Returned Insurance Premiums

Insurance companies were ordered by California Insurance Commissioner Ricardo Lara to return premiums paid to consumers for the months of March and April for private passenger automobile, commercial automobile, workers' compensation, commercial multi-peril, commercial liability, medical malpractice, and any other insurance line impacted by COVID-19 pandemic. This order will also include the month of May if the lockdown continues.

We encourage you to use the [NAIC website](#) for the latest updates by State.

## Preparing for COVID-19 Conversations with Reinsurers

As reinsurers evaluate potential exposure and loss estimates from COVID-19, BMS has compiled several ways companies can prepare for conversations with their reinsurance partners.

### Be Proactive - Communicate with Your Brokers and Reinsurers

- Determine your maximum loss if insurance companies are required to cover business interruption due to COVID-19;
- Identify steps taken to mitigate exposures currently and in the future;
- Summarize business interruption limits and sub-limits with your reinsurers;
- Reinsurers would like to see a copy of primary policies in the submission to determine possible business interruption exposure from pandemic;
- Quantify how this new market will impact your business – written premium projections, cash flow;
  - Consider impact of extended grace periods (potential issue of admitted vs. non-admitted assets), waived late fees/penalties, and granted premium payment plans (to avoid lapse in coverage);
- Foreign reinsurers are not as informed of the US position and would appreciate more frequent updates.

## Reinsurance Impact: Highlights from BMS

### Property

- Reinsurance underwriters are not yet amending their risk appetite. However, they are asking questions about underlying policy terms and conditions, and various versions of pandemic exclusions are being considered.
- There has been discussion whether adding an exclusion for pandemic now could imply previous coverage.

### Workers Compensation

- In order for COVID-19 cases to be compensable for employees, an employee must be tested positive by a medical professional and provide proof that the disease was acquired through their working environment.
- Most excess of loss treaties have hours clauses for Occupational Disease and/or Cumulative Trauma (OD/CT) 48-120 hours, therefore the infection of an Occupational Disease (which COVID-19 could be considered) would need to occur within a 2-5 day window.
- Buyers of WC XOL reinsurance will be at risk of a minimum premium "penalty", where adjusted reinsurance premium falls below the contractual minimum, and clients should feel comfortable discussing alternatives to mitigate the financial risk.

## Contact Information

### Erin Coleman

Senior Vice President - Philadelphia

erin.coleman@bmsgroup.com

Direct: +1 215 825 3087

Mobile: +1 267 804 2486

### Steve Galleger

Executive Vice President - Minneapolis

steve.galleger@bmsgroup.com

Direct: +1 952 253 0055

Mobile: +1 952 258 3936

### Brandon Stack

Broker - London

brandon.stack@bmsgroup.com

Direct: +44 20 7480 0309

Mobile: +44 7557 938 669

### Karolina Hamadan

Vice President - Chicago

karolina.hamdan@bmsgroup.com

Direct: +1 952 229 8879

Mobile: +1 224 600 8222