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Insurance and COVID-19

Keeping Promises Made to Main Street

Thursday, May 21, 2020

A Briefing Before the House Subcommittee on Small Business, United States Congress

Sean Kevelighan, CEO

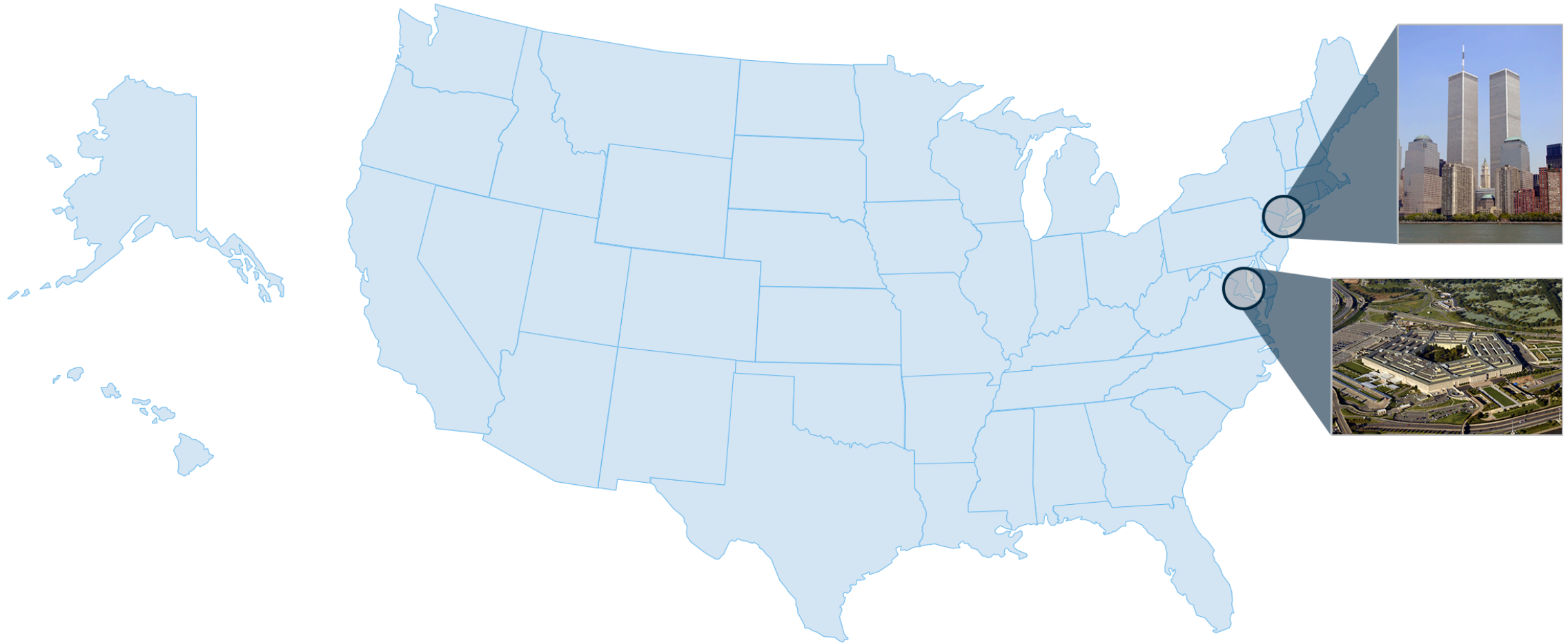
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

seank@iii.org ♦ 212 346 5520 ♦ www.iii.org

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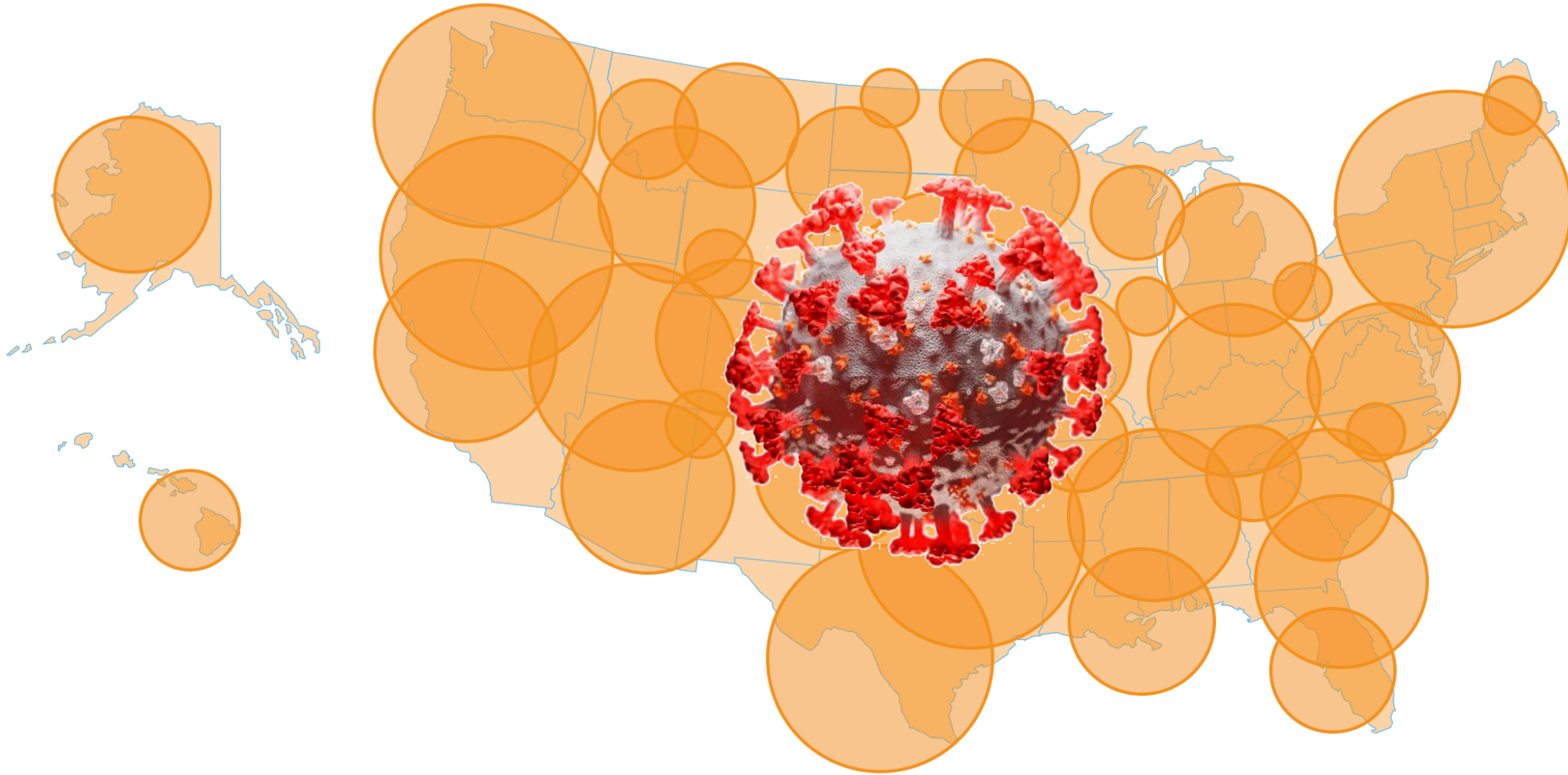
Global Pandemics Are Uninsurable

Economic Impact of 9/11



Global Pandemics Are Uninsurable

Economic Impact of Coronavirus



America's Insurers:

Stepping Up

for customers, communities, and employees

The insurance industry is applying forward-thinking solutions to take care of its customers, communities, and employees during the COVID-19 crisis.

- **CUSTOMERS:** Auto insurers have returned **\$10.5 billion** so far to customers' pockets around the country through premium relief.
- **COMMUNITY:** Insurers have pledged **more than an estimated \$220 million** (according to III/Insurance Industry Charitable Foundation) in donations to the national and local organizations fighting this pandemic on the frontlines.
- **EMPLOYEES:** Employing more than **2.7 million Americans**, Insurers are taking care of their employees—many pledging no layoffs during the ongoing crisis.
- **INDUSTRY:** Insurers are implementing **innovative solutions** to carrying out daily operations while respecting social distancing.

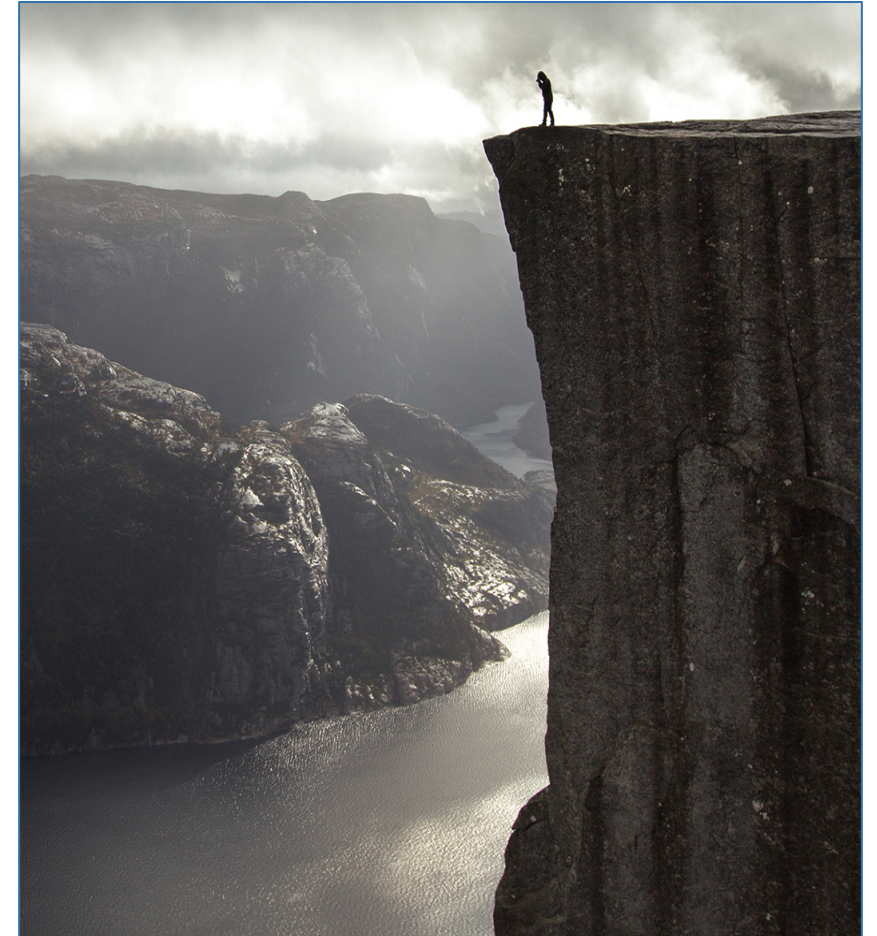


Industry Economic Impact Overview

Facing Challenges Head-On

The U.S.'s property/casualty (P/C) insurers are financially stable and ready to keep the promises made to their customers. The industry is, however, facing challenges.

- ▲ Overall insurance claims will increase, e.g. workers compensation and retailers who use delivery services.
- ▲ Insurer premium revenue will decrease. More unemployment, less manufacturing, less driving, and less economic activity overall will lead to a reduction in premiums.
- ▲ Insurer investment income will decrease. P/C insurer investments are largely in fixed income, yet their equity portfolios and the continued low interest rate environment will reduce insurer investment income, a key revenue source.
- ▲ Beyond the COVID-19 pandemic, insurers are preparing for more severe natural and man-made catastrophes – tornadoes, hurricanes, wildfires, cyber attacks. These covered catastrophes continue to increase in terms of overall loss costs.



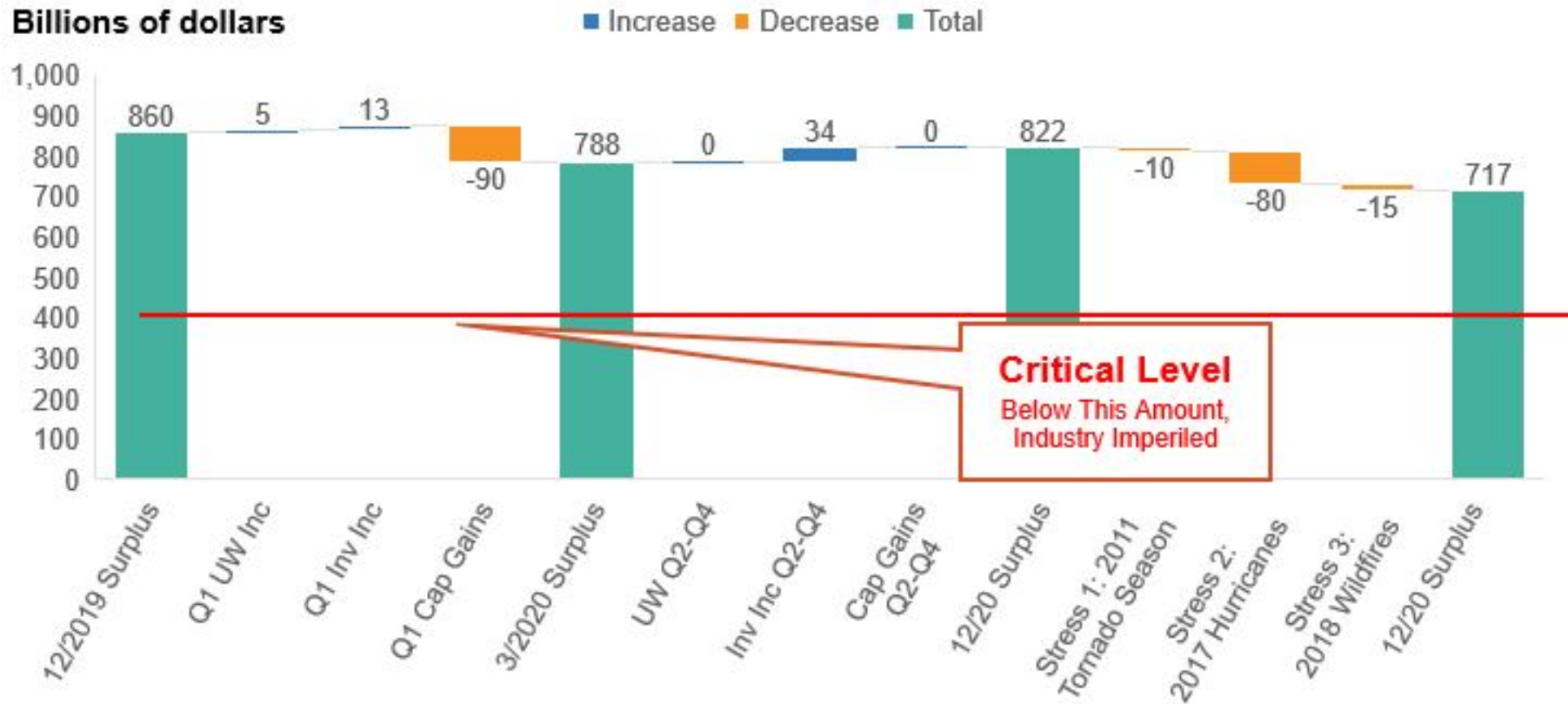
How Business Interruption Insurance Works

- ▲ Sold as an add-on; designed to supplement the general business property policy
- ▲ Triggered by similar event as property coverage – “direct physical loss or damage”
- ▲ ‘We pay to fix the fire, and if you have BI we pay for the loss of revenue’
- ▲ Civil authority coverage – BI pays under the same circumstances – after loss like fire or storm



Industry Capital Snapshot for 2020

After assumptions (at right) surplus available for unexpected losses is \$317 billion – “Critical”

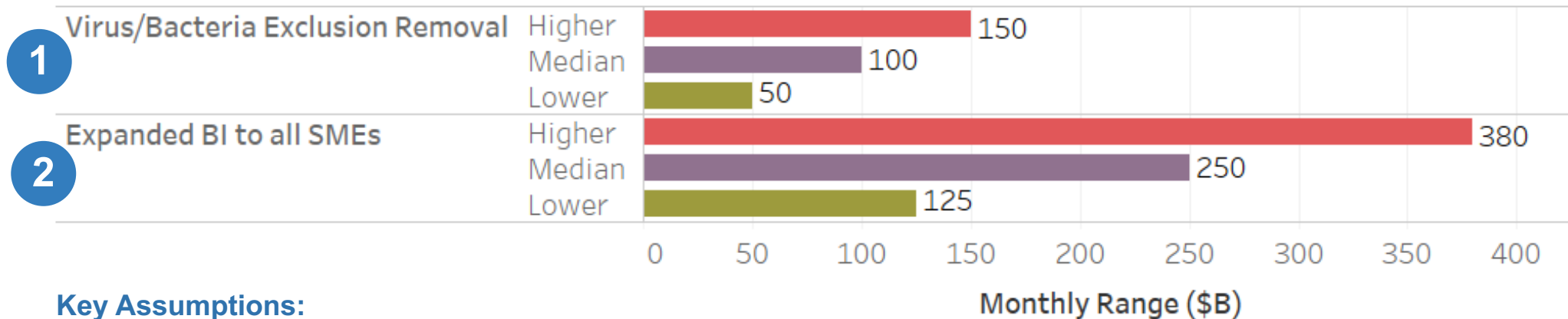


- ▲ Q1 capital loss is Triple-I estimate
- ▲ Q2 capital gains/ losses assumed to be \$0
- ▲ Q2-Q3 assumes worst year of catastrophe claims above trend
- ▲ Q2-Q4 U/W profits assumed to be \$0

Monthly Costs of Retroactive Changes to SME BI Policies

Regardless of Scenario, Retroactive Attempts to Include Pandemics in BI Causes Bankruptcy

Retroactive BI Scenarios



Key Assumptions:

Scenario 1: 40% take-up rate

Scenario 2: 100% take-up rate

Loss basis: Compensation, profits, adjustment costs

7 days waiting period

Retained loss of 10% of total loss

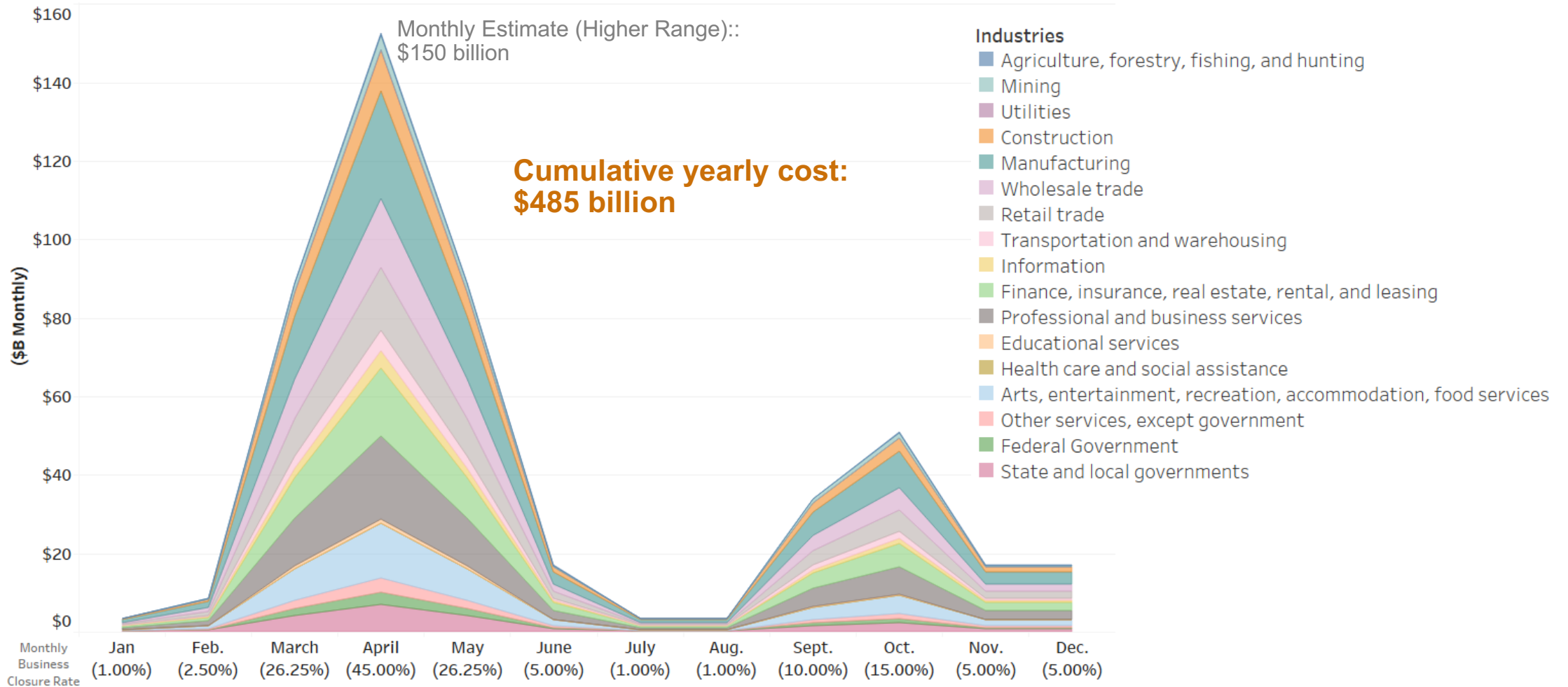
Median estimates are model-driven. The higher and lower estimates assume a standard distribution for BI losses anchored in the mode-driven median loss estimates.



Scenario 1: Virus/Bacteria Exclusion Removal

If Only 40% of Business Insurance Policies with BI Coverage, Surplus in Jeopardy

Cost of Removing Virus Exclusion from SME's Existing BI Coverage (Scenario 1)



Four Key Takeaways on Business Interruption Insurance

Global pandemic risks are uninsurable

- ▲ A pandemic impacts all lines of insurance at once
- ▲ Only the federal government has the financial wherewithal to cover pandemic risks
- ▲ Only a handful of business interruption policies cover communicable disease contamination; very few U.S. businesses purchase them

Retroactive payouts would bankrupt insurers

- ▲ Rewriting contracts after they have been agreed to is unconstitutional – Article I
- ▲ Requiring an insurer to pay for losses it never insured would cause irreparable harm to the industry
- ▲ Mandating business interruption payouts would eliminate the surplus sets aside for covered claims in a matter of months

Insurers ready and actively paying covered claims

- ▲ Insurer stability is essential in meeting all the covered losses from people, businesses and communities
- ▲ Covered losses include accidents, injuries, liability lawsuits, fires, and disasters such as windstorms
- ▲ The industry's financial strength is especially important in an era of more frequent and severe hurricanes, tornadoes and wildfires

Policies clearly explain “virus and bacteria” exclusions

- ▲ Business interruption policies generally require the losses to be caused by physical damage to the property
- ▲ The threat of a virus is generally not considered physical damage to the property
- ▲ Policies typically have exclusions saying an insurer will not “pay for loss or damage caused by or resulting from any virus, bacterium or other microorganism that induces or is capable of inducing physical distress, illness or disease”



Federally Backed Government Solutions Are Available

And More Are Expected

Solutions To Date – Nearing \$3 Trillion

- ▲ HR 748 CARES Act (total cost **\$2 trillion**): Includes \$350 billion in loans for small businesses
- ▲ HR 6074 (total cost **\$8.3 billion**): Small Business Administration provisions include \$20 million for administrative expenses to carry out the SBA Disaster Loan Program and deem the coronavirus outbreak a disaster
- ▲ S.Amdt. 1580 to H.R. 266 (total cost **\$484 billion**): Additional funding for small business



Insurers & Policyholders Jointly Support Federal Recovery Fund

- ▲ More than 40 industry trade organizations have voiced support for the **COVID-19 Business and Employee Continuity and Recovery Fund**
- ▲ Funded by the federal government and operated by a special federal administrator, the Recovery Fund would facilitate the distribution of federal funds and liquidity to impacted businesses during this time of incalculable business interruption



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