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Insurance industry responds to COVID-19 pandemic

The business interruption question

More than 40 states have ordered businesses to shutter or severely restrict operations. Businesses—particularly small businesses—face more than a month without revenues, or with greatly reduced revenue. In March—a month only partially affected by governmental shutdown directives—car sales were down by 24% and clothing sales were down by more than 50%. Business income, or time element, coverage exists within most commercial property contracts to cover this type of loss (loss of income due to business closure), but not for this cause of loss (viral pandemic). The pandemic nature of the current crisis is beyond the scope of most insurance coverage conditions, presenting a risk that does not conform to the traditional elements of an insurable risk.

Due to the magnitude of the lost income problem in the U.S., policyholders, lawyers, and legislators will challenge contract language. Coverage will be largely unavailable via the standard commercial policy, but the current situation and the coverage conflict create a potential image problem for the industry—for insurers and for brokers.

Mechanics of BI coverage

At its core, business interruption coverage works to indemnify a business for the loss of income that would have been earned and the obligations the business incurs (such as payroll) during a period of closure. The foundation of the coverage is more clearly understood when it goes by its alternate name, "time element coverage." The term "time element coverage" acknowledges the fact that, when a property is damaged, time is needed to restore the property to a usable condition, during which income will be lost.

Typically, the contract will pay for the actual loss of income the policyholder sustains due to the necessary suspension of operations during a "period of restoration"—the time required to rebuild or repair the damaged property. The contract, however, does not pay for just ***any*** suspension of operations; the suspension must be (1) caused by direct physical loss of or damage to the insured property and (2) the loss or damage must be caused by, or result from, a "Covered Cause of Loss." The property damage requirement does not appear to be satisfied based either on the basis of a state-ordered quarantine or on account of a general decline in economic activity associated with fears of the virus.

Focusing on the most relevant coverage components for the COVID-19 pandemic, civil authority coverage exists under certain situations. Civil authority coverage, however, needs to satisfy three areas: access to insured premises must be prevented by action of civil authority (yes); denial has to be caused by damage to property that is not your own (no); the damage must arise from a covered peril (no). Pandemic falls short of the two of these.

Exclusions

Coverage is unlikely to be found in the current crisis, not only because of failure to trigger under the "direct physical loss" requirement, but also because, in the case of the COVID-19 shutdown, the peril is specifically excluded under most standard commercial property contracts. Following the outbreak of SARS and the Avian Flu in 2004-2006, the industry added extra protection to commercial property policies to expressly exclude loss from viral pandemic causes.

Commercial multiperil contracts that use the standard ISO form contain the exclusion CP 01 04 07 06, Exclusion of Loss Due to Virus or Bacteria. The form contains the wording:

"[w]e 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."

Just in case there were to be questions as to scope, the exclusion specifically states that it applies, among other things, to "forms or endorsements that cover business income, extra expense or action of civil authority."

Why was that exclusion created? ISO explained its rationale in the brief accompanying the form filing: "While property policies have not been a source of recovery for losses involving contamination by disease-causing agents, *the specter of pandemic* or hitherto unorthodox transmission of infectious material raises the concern that insurers employing such policies may face claims in which there are efforts to expand coverage and to create sources of recovery for such losses, ***contrary to policy intent.***" (emphasis added)

There is precedent for courts to find that the presence of harmful substances at a property can constitute "property

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damage" that triggers first-party property coverage, but the issue here is less about the nature of the harmful substance in an individual company's work environment and more about the pandemic/catastrophic nature of the cause of loss. The fact that precedent can be found for a trigger does not address the underlying reason for the exclusion: a pandemic violates the fundamental principals of insurability.

Insurance is based on the law of large numbers, which requires that risks must be independent of one another. Insurance contracts have long excluded risks that violate this principle. Losses such as war or nuclear explosion present an exposure that would spread throughout an insured population and be too great for the insurance mechanism to absorb.

The magnitude of the problem

According to research from the U.S. Chamber of Commerce (conducted with MetLife), 24% of small businesses had already shutdown in response to COVID-19 by the end of March. Among those that had not, 40% said they were likely to close at least temporarily within the following two weeks. This suggests that more than half of all small businesses expected to be closed by mid-April due to the virus. The forced application of business interruption coverage for the coronavirus exposure could create, not an earnings event, but a solvency event for the property-casualty insurance industry. A simplified effort to size the problem is as follows:

- According to the BEA, 2019 U.S. GDP was $21.7 trillion.
- Small businesses account for 44% of GDP, or $9.5 trillion.
- Assuming a 5% profit margin, small business income annually is $477 billion (the profit component of the BI exposure).
- According to data from the Census Bureau, total U.S. private payroll for firms under 500 employees is about $2.9 trillion (the payroll component of the exposure).
- Total income and payroll exposed to loss ***just from small business***, therefore, is roughly $3.3 trillion.
- If 24% of the country's small businesses are shut down, that equates to $69 billion per month. One month of BI claim payments would be a terrible catastrophe year. Two months of loss at the same pace would be 17% of industry capital and a serious erosion of the industry's financial stability, impairing its ability to pay claims on losses that it is contractually obligated to pay.

The foregoing would almost be considered a best-case scenario—considering the impact on only small business, which accounts for 44% of GDP and 40% of payroll. As well, the analysis above is only considering the effect from the 24% that had already shut down as of the end of March. Those figures would double if it were to include those small business firms that likely shut down in the first two months of April—a $138 billion ***monthly loss*** for the industry.

The American Property-Casualty Insurance Association estimate is that business continuity losses just for small businesses with 100 or fewer employees could fall between $220 billion and $383 billion per month.

State and federal action being explored

With so much at stake, the contract wording and the exclusions will be tested. Class-action lawsuits have already been filed in a number of jurisdictions to compel insurers to pay COVID-related business interruption claims. At a variety of paces, state legislators and insurance regulators are turning to the property-casualty industry as a source of protection for the now-shuttered businesses. Regulatory stalwarts, such as California, New York, Massachusetts, and New Jersey (since withdrawn), as well as Ohio, Louisiana, and Pennsylvania, were early states to demand information from the industry on the status of BI coverage.

Early ideas indicated an urge to retroactively override explicit exclusions, compelling insurers to cover COVID-19-related losses under existing policies regardless of policy terms and conditions. This clearly caused immediate concern within the industry. Irony is not lost on the fact that it was the state governments that forced the businesses to shut down and are now looking to the insurance companies to address the resulting financial damage.

A more measured approach that has gathered slightly more support and legal feasibility is for the state government to establish a fund for small businesses and use the insurance claim infrastructure to administer those payments, either directly funding them or creating a reimbursement system for insurers to be made whole after temporarily floating the funds.

As the pandemic has grown, most of these proposed bills have slowed in terms of progress, as the federal CARES Act made available loans to a large portion of the same businesses looking at their BI policies for a lifeline. President Trump spoke to the BI coverage debate in mid-April, seemingly splitting the debate, agreeing that, if explicitly excluded, there would be no coverage, but in cases where pandemic was not mentioned, insurers should pay out for claims.

At the federal level, the proposed "Pandemic Risk Insurance Act of 2020" would create a federal backstop to address the noninsurable nature of a pandemic in a similar vein to the terrorism legislature after 9/11. Lastly, Congress is seeking to replicate the far-reaching state proposals at the national level. HR 6494, The Business Interruption Act of 2020, would mandate BI coverage for losses arising from any viral pandemic event, civil authority including mandatory evacuation, and power shutoff for public safety purposes.

While some legislative proposals seem more aggressive and invasive to the industry's norms, they are a force with which the industry will have to contend.

What happens next?

With the economic survival of many businesses at stake, and with the highly visible impact of the shutdown showing up in headlines, pictures, and economic statistics, the industry will be pressured. Anticipating the likely legal challenges ahead, Chubb CEO, Evan Greenberg, noted that "... the industry will fight this tooth and nail." For the stability of the insurance system, it will be important to hold firm and stick to the terms of the contracts—paying claims promptly where coverage exists.

State insurance regulators are concerned not only with protecting policyholders, but also with safeguarding the solvency of the insurance system in their respective states. The pandemic exclusion exists to protect against the catastrophic risk that insurers are not equipped to address so they can be available for other risks. Windstorms in the southeast produced an estimated $1 billion in damage in April, and the insurance system needs to have the capital and liquidity to address those losses—losses that are within the scope of the contract.

Property-casualty insurers staying relevant during the crisis

The extraordinary conditions created by the COVID-19 crisis have elevated awareness of risk to all-time highs. The insurance industry is the institution to which people turn to manage risk, but with this crisis, coverage needs are beyond the scope of most property-casualty insurance contracts. How can insurers stay relevant at a time of heightened sensitivity to risk when they cannot step in and simply pay claims in their traditional role?

Insurers have been stepping forward and responding to the customer needs by providing premium rebates, expanding coverage, and providing payment deferrals to address the cash flow needs of a distressed client base.

Premium refunds and rebates

One way to be a part of the solution is to address cash flow constraints facing individuals and businesses that have emerged from the resulting economic crisis. Stay-at-home orders across the nation have decreased loss exposures for many insurers. Personal auto insurers are benefiting from reduced driving that has resulted in a significant decrease in claim activity. In response, insurers are extending credits to their policyholders. American Family and Allstate were among the first to announce refund programs; however, the list is now rather extensive with refund programs becoming a standard among personal auto insurers. These programs vary by company with some issuing dollar amount refunds, some tying refunds to renewals, while others are reducing premiums by certain percentages from one to three months.

With the future still unknown, many companies announced that they will review their policies if stay-at-home orders are extended. Regardless of when orders are lifted, auto insurers are expected to continue to see decreases in claims with unemployment at unprecedented levels, reducing commuting, and vast segments of the workforce working from home. As first-quarter 2020 earnings calls are released, they will give a glimpse into how insurers have been affected. Progressive gave a first look when it released its March report, reporting a personal lines combined ratio of 74.7%, more than 12 percentage points lower than a year ago. Likewise, Allstate estimated it is seeing a decrease in miles driven of 35% to 50%.

Assuming an average rebate of 20% and an average duration of two months, U.S. personal auto insurers can be expected to return about $8 billion to their customers nationwide during this crisis, or a reduction of 3% to annual auto premiums.

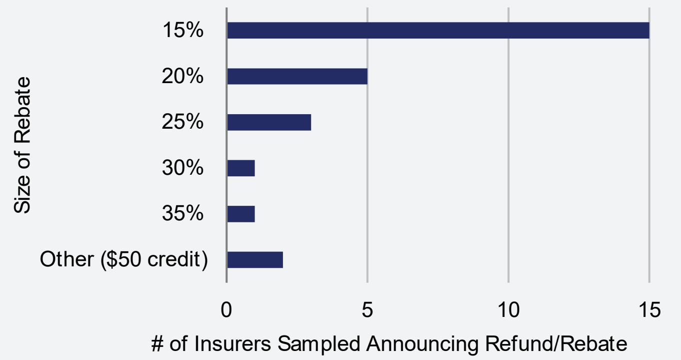
While personal auto insurers are the most active with premium refunds—with the most obvious correlation between the shutdown orders and decreased claim activity—these programs have extended to other lines of business as well. In addition to Progressive crediting personal auto policyholders 20% of their premiums for April and May, it has extended the 20% discount to its general liability and business owners policies. Farmers is applying a two-month 20% credit for its BOPs in addition to reducing auto insurance premiums by 25% for April. Some other examples of support insurers are providing customers are Chubb introducing a 25% reduction to sales and payroll exposures used to calculate small business premiums and a 15% reduction in premiums for commercial auto policies. Digital insurer Next is cutting its April premiums by 25% for general liability, professional liability, and commercial auto policyholders. The Doctors Co. is providing free medical professional liability coverage to formerly insured retired physicians that are volunteering during this crisis.

Introduction of additional coverages

Another step insurers are taking is providing supplemental product and service offerings to demonstrate relevance. Here, too, Allstate was one of the first property-casualty insurers to extend coverage in response to the changing risk environment faced by its customer base. Allstate noted that the company's target market is spending a much greater portion of the day online and, correspondingly, experiencing increased concern about the enhanced level of risk to personal data. In response, the insurer is offering its Allstate Identity Protection product free for the rest of the year when individuals sign up in April or May, regardless of whether they are an Allstate customer.

Plymouth Rock Assurance is also stepping forward to provide a crisis-specific coverage. For home insurance policyholders, the company will apply its Alternative Living Expense Coverage to any health care worker required by illness or by job require-

Personal Auto Insurance Refunds



Prepared by Conning, Inc. Source: Company press releases ments to stay away from home. The coverage is a standard part of the personal property insurance contract but, until now, only applies to a loss by a covered peril that makes the “residence premises” uninhabitable.

Liberalization of policy conditions/language

The Plymouth Rock example is not a new product as much as an expansion of existing coverage beyond its contractual intent. A number of insurers are making similar efforts to expand coverage. Insurers have stepped up to the crisis by declaring affirmatively that they would provide workers’ compensation benefits to certain categories of workers who may not have been covered prior to the crisis. This move amounts to a pre-emptive clarification of coverage intent, which would obviate the usual coverage litigation following claim denials. In many cases, the explicit provision of coverage goes beyond clarification of coverage intent and constitutes broadened interpretation of policy wording.

The first insurers to announce that they would provide coverage for first responders and health care workers were the monopolistic state funds in four states (L&I in Washington State, BWI in Ohio, and the state funds of Wyoming and North Dakota) and several other state funds, including KEMI (Kentucky) and MEM (Missouri). The workers’ compensation commissions of Illinois and Oregon issued orders to insurers in their states to presume that front-line workers (including delivery workers, hotel and funeral services workers) who claim that they contracted the virus on the job are telling the truth and are entitled to workers’ compensation benefits. Illinois has since reversed itself on this decision, bringing COVID-19 claims back to the status quo and ordinary burdens of proof.

Premium deferrals/late-fee waivers

While insurers are seeing less exposure and adjusting premium accordingly, premiums are still being collected during the pandemic. However, insurers have been on the forefront of allowing deferment of payments and waiving associated late fees during the “shelter-in-place” window. States began to order, request, and mandate premium waivers for personal and small business customers, although most insurers have proactively offered waivers since late March and are extending to late May, with 60 days a common period outlined in state guidelines.

Beyond premium deferrals and waivers, which have become nearly entry stakes at this point in the industry’s pandemic response, other types of waivers are emerging. Plymouth Rock is waiving deductibles for health care workers during their commute.

Charitable activities

Insurers are also turning to charitable activities. In the spirit of good corporate citizenship, many insurers are making financial contributions to their communities and others in need.

- Liberty Mutual has committed $15 million in crisis grants to help Boston-based nonprofit organizations.
- Chubb announced $10 million to pandemic relief efforts, with the aid going to people and programs hit the hardest.
- Travelers announced a $5 million commitment that will target food and shelter for vulnerable populations, wage support for eligible third-party contract employees, and a special matching program for its employees.
- The Nationwide Foundation is making $5 million in contributions to local and national charities that are responding to the COVID crisis.
- MAPFRE Insurance announced a donation of $2.3 million by Fundación MAPFRE. The donation will support urgent needs across Massachusetts in response to COVID-19. The funding is part of a global $38 million package.
- W. R. Berkley announced it will donate $1 million to foodbanks and other programs, as well as a matching program for employee fundraising.
- State Farm is allocating $2 million to COVID-19 relief efforts.
- The Hartford is donating $1 million to several COVID-related funds and Feeding America.

The industry is also taking steps to protect its employees. Chubb, Aon, and Marsh & McLennan have committed to barring layoffs during the crisis.

The industry’s role

From fires and earthquakes throughout the late 19th and early 20th centuries to hurricanes of the early 21st century, the insurance industry has been there to assume risk and to help rebuild. The industry’s role as a backstop cushions the broader economic system, allows individuals and businesses to take new risks, and creates a safer environment for employees and customers. This crisis is a test of the industry’s ability to absorb unprecedented shocks and help restore the economy. To date, the industry has stepped forward with numerous initiatives above and beyond contractual obligations to address immediate needs of the client base. We believe insurers and reinsurers will work to develop effective pandemic risk management approaches that will likely require some form of public-private partnership.

Health insurer responses

As COVID-19 continues to expand across the United States, health insurers are increasing their support to individuals, employees, and health care providers. Health insurers are covering the costs of testing and treatments, easing paperwork and providing financial support to providers, increasing testing efforts, as well as working with federal and state legislatures to make sure individuals are insured.

Insurer responses

As the virus started to spread, health insurers began announcing plans to help counter it. The largest of these focused on individuals. The major publicly traded health insurers have all stated that they will cover the costs of COVID-19 related to screening, testing, and treatment of the virus.

Health insurers are also working to increase the availability of testing. CVS Health has been working with states to open drive-through testing sites. At the time of publishing, they have opened rapid testing in Connecticut, Georgia, Massachusetts, and Rhode Island. The tests are conducted at no cost, and results are available on the spot. UnitedHealth has also been working on testing and researching a self-collected COVID-19 test. The company's research found that the test accurately identified COVID-19 in more than 90% of positive patients, in line with current clinician-administered tests. Using a self-administered test reduces the amount of contact between patient and clinician, eliminating an infection path for the virus and helping to keep health care workers safe.

As the unemployment rate increases and more than 30 million people have filed for unemployment in the past five weeks, health insurers are also working to add further enrollment opportunities as people are laid off or furloughed. While many states are opening special enrollment periods on their individual exchanges, those states that use the federally facilitated exchanges do not have a special enrollment period scheduled. The Trump administration at the end of March decided against opening up federally facilitated exchanges for a special enrollment period and instead is "exploring other options." Health insurers are now working with Congress to create an open enrollment period. While many of the newly unemployed Americans will be eligible to receive coverage through either the individual marketplace or Medicaid, some will not. Individuals who were uninsured while working are ineligible for special enrollment, as well as those who did not have insurance. The AHIP (America's Health Insurance Plans), a health insurance lobbying group, supports having a special enrollment period and is also working with Congress to expand ACA subsidies to middle-income Americans.

Health insurers are also focused on their own employees. As the larger health insurers have created vertically integrated companies, they now provide medical services through clinics or facilities as well as providing insurance for those services. Besides work-from-home solutions for some employees, many insurers have announced multiple services that they are providing for employees during this pandemic.

Centene, for example, has announced multiple programs they are providing to employees. It is providing a "Medical Reserve Leave" program that allows clinical staff a paid leave for up to three months to provide volunteer services in their communities. The company is also paying for costs related to screening, testing, and treatment of COVID-19, as well as any telehealth-related services.

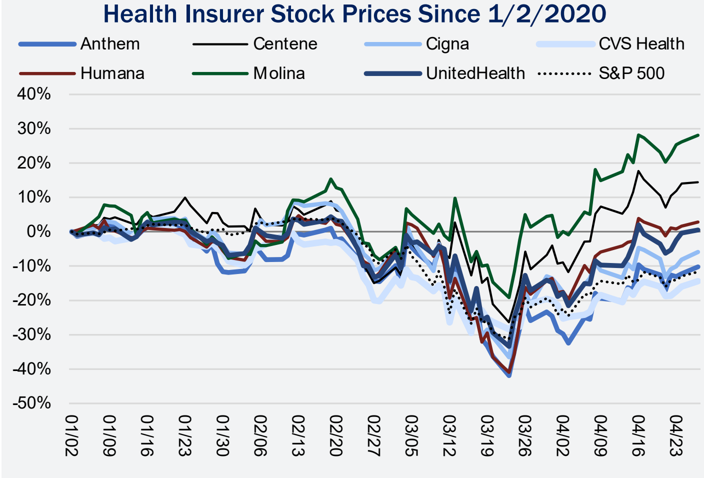
However, not all health insurers have been immune to layoffs. Recent startups Oscar Health and Clover Health have had to lay off employees over the past month-and-a-half. Oscar on April 23 announced it was laying off around 5% of its employees as part of a larger effort to reduce costs. The company has also cut executive compensation, vendor spending, as well as employee perks.

Health insurers are also working to support providers by easing policies as well as accelerate financial payments. Both Cigna and Humana have announced that they are changing policies to providers to ease some logistical burdens. Cigna's changes include making it easier for non-COVID patients to be transferred to other facilities to increase space, bed, and supplies for hospitals to address COVID-19. The company noted in a press release, "We are focused on taking quick, decisive actions to increase flexibility for hospitals and their teams of medical professionals, who are working tirelessly to help ensure all patients get the care they need during this unprecedented time." Humana is also working to simplify administrative issues. The company announced it was implementing a more simplified and expedited claims process. This process will help get reimbursement payments to providers quicker.

As the number of elective procedures decreases, hospitals and providers are being forced to lay off or furlough staff due to a decrease in income. From a financial aspect, health insurers are working to accelerate provider payments. Molina announced it was accelerating $150 million in payments to providers, as well as providing the same payment amounts for telehealth services as for in-person visits. UnitedHealth has done the same, accelerating nearly $2 billion of payments to providers. The company is also providing up to $125 million in small business loans to clinics partnered with OptumHealth.

Finally, health insurers are donating to organizations in their communities. Centene announced it was working with Feeding America and donating one million meals a month for twelve months, working with FirstNet to provide grants to expand high-speed broadband in rural and underserved communities, as well as providing $1.75 million in gift cards to local organizations to provide to individuals in need. The Anthem Foundation, Anthem's philanthropic arm, has worked to provide support to numerous organizations, including the Red Cross, Direct Relief, Americares, and Feeding America. The company is also working to provide up to $2 million in grant funding to local Boys and Girls Clubs to help distribute meals to children and families in need.

Health Insurer Stock Prices Since 1/2/2020



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General update

As we hit the first-quarter earnings season, health insurers will begin to address what they are seeing in their markets and industry as a whole. At the time of writing, UnitedHealth was the only health insurer that had reported earnings. Because COVID-19 did not become a major event until the last few weeks of March, UnitedHealth noted: “the first quarter financial impact was limited.” The company also noted that it is maintaining its 2020 full-year per share outlook. UnitedHealth Group Executive VP and CFO said: “... this view is subject to a number of key considerations that yet to play fully out, including the full incidence and intensity levels we experienced; the duration and ultimate impact on economic, employment and business activity levels; and the duration and extent of disruptive care patterns as the virus runs its course.”

With the stock market volatility over the past two months, health insurers have been no exception. Health insurers that have a larger share of individual or Medicaid premiums as a percentage of total business have seen their stocks perform much better than those with larger group businesses. Molina, as of April 27, increased 28.1% year-to-date, followed by Centene, which is up 14.4%. As of 2018 year-end, 78.8% of Molina’s direct written premium came from Medicaid and Centene at 56.8%. Centene’s performance can also be attributed to its success on the individual market, with many states opening up special enrollment periods. For comparison, as of April 27, the S&P 500 is down 11.6% year-to-date.

Conclusion

Over the past month, health insurers have done quite a bit to help and support multiple aspects of the U.S. health care system, from individuals, to providers, to their local communities. However, as the COVID-19 situation continues in the United States, health insurers may still be required to do more to help support customers, employees, as well as health care providers. As we continue through the second quarter of 2020, insurers will begin to have a clearer picture on the impact of COVID-19 on their businesses. Health insurers will have to continue to be nimble as the pandemic situation evolves.

Life insurer responses

According to the Centers for Disease Control, as of April 30, there have been about 60,000 COVID-19 deaths, including probable deaths (people who had not been officially diagnosed with COVID-19, but had been showing symptoms when they died). Projection models as of April 28 from the Institute for Health Metrics and Evaluation at the University of Washington project a total of 73,000 COVID-19 deaths through August 1, given current policies, with a range from 57,000 to 121,000.

Obviously, a pandemic such as COVID-19 will affect mortality, the foundational event for the entire life insurance industry. However, the effects are not limited to just mortality for already-issued policies. We have already seen impacts on sales, the sales process, and investments, and some of the impacts will actually create benefits for the industry in the longer term.

Mortality: likely to differ by region

Based on the mortality projections mentioned above, and assuming they are all “excess” deaths on top of the normal 2.8 million deaths seen in 2017, the projected deaths would represent a 2% increase in the total annual number of deaths. Of course, there may be additional mortality effects, with reported reduced health care visits for other conditions, such as heart disease or cancer. Some hospitals have reported a reduction in visits for non-COVID causes. In addition, there could be multiple waves as U.S. states and localities free up restrictions and more people start interacting again.

The Society of Actuaries published survey results from 53 life insurance and reinsurance companies from the U.S. and Canada. Of those companies, 85% reported modeling COVID-19 mortality scenarios on their books of business, many incorporating age, infection rates, case fatality rates, and even geography in their models. As the northeast and, in particular, New York City have been heavily affected by COVID deaths, the geographic component can be important for some insurers.

Of those estimating the impact on individual life and group life claims, the impact for individual life was estimated to be higher, with 19 companies assuming a 10% increase in death claims in dollar amount due to COVID, seven assuming an increase between 5% and 10%, and 19 assuming an increase less than 5%. A much smaller group of companies had group life business, and the plurality of those, 13 of 31, are assuming death claims increase between 1% and 5%. The nature of individual life business versus group life business makes sense: group life tends to cover active workers as an employee benefit, and individual life often has the highest face values for their oldest policyholders.

Age and co-morbidity effects continue from initial statistics of fatalities, with oldest people having the highest mortality by far. Many COVID-19 deaths have come from nursing homes and other long-term care facilities, where residents already have impaired health. Given this mortality pattern, as well as the oldest lives having the highest life insurance policy reserves, increased death claims may not have a very large effect on most life insurer financials. With higher reserve amounts being released to cover these claims, some of the mortality effects could balance out.

Distribution and underwriting: challenges and opportunities

Life insurance applications have increased in the first quarter of 2019, according to MIB reports. History shows a similar pattern of policy growth in 2009-2010. This is good news for life insurers that have struggled to increase market penetration. This good news is tempered, however, by several factors.

Product advice. First, bricks-and-mortar agencies are finding it difficult in a social distance era to provide product advice, help with product selection, and complete the sell via face-to-face meetings. The increase in 2009-2010 occurred when there were no restrictions on the ability of agents and customers to meet.

Underwriting. For those applications that agents do submit, obtaining parameds needed for underwriting may be difficult/delayed due to COVID impact on nurses/health officials, labs, and consumer fears of visits by strangers. This difficulty/delay is occurring at a time when many life insurers have tightened application qualifications. Some are now excluding older age groups from applying for life insurance. In general, these are for older age ranges that still require full medical underwriting of policies, such as those age 70 or older, who have been excluded from automated underwriting systems due to increased mortality differentiation at higher ages. Prudential, Protective, and Lincoln Financial have halted or postponed life applications for those age 80 or older. Mutual of Omaha, Penn Mutual, and Securian have halted or postponed accepting applications for those in their 70s or older.

While some avenues of underwriting have been cut off, automated underwriting systems that reduce the need for parameds, and speed contract issuance, are now a distinct advantage in this environment. By triaging the applications, the insurer can focus paramed and underwriter resources on those cases that need that attention.

Some companies have been looking to expand their digital-only capabilities and reduce their reliance on in-person exams and labs. Nationwide changed underwriting requirements to waive labs, exams, and collection of medical records from applicants in lockdown states who qualified for the standard risk class. The company was also considering accepting applicant-provided health records and exam results. Haven Life, a digital life distribution agency owned by MassMutual, announced the expansion of various avenues of underwriting information that would not require in-person exams and labs. Haven was expanding its LifeTouch underwriting program, which helps identify ambiguous aspects of the underwriting, to make it more likely an immediate offer could be made. Haven also announced the expansion of use of applicants' prior exam results as well as medical claims records in incorporating into the underwriting process.

Of course, insurers have not faced a broad health crisis like COVID-19 in over a century. So, it would not be surprising to see that insurers have become more cautious and increased their underwriting standards.

Companies are also addressing the broader social and societal impacts of the COVID-19 pandemic. Many companies are extending premium grace periods and signaled a willingness to be flexible to address policyholders' financial conditions. In mid-April, MassMutual announced $3 billion of free term life insurance for health care workers in Massachusetts and Connecticut, via its newly launched MassMutual HealthBridge program. These are three-year term life policies of up to $25,000 face value for active employees of licensed hospitals, urgent care centers, and emergency medical services providers, with application and delivery completely online. This program is an extension of its LifeBridge program, which has provided free life insurance to low-income families for almost 20 years.

Looking ahead, one result of this crisis could be increased interest among insurers in InsurTech to support missing pieces of digital sales and underwriting. The good news for insurers is that they can decide how to best acquire those missing pieces. Some reinsurers already provide automated underwriting systems and support. Third-party digital application and delivery systems are already widely available and used.

The combination of these factors suggests that life insurers with automated underwriting and digital sales/delivery systems in place may have a stronger position to win more business. It is important to understand that digital sales and delivery encompass more than pure online applications. Many insurers already have digital application systems for agents to use. Other insurers use call centers to help consumers select and complete an application. To the extent agents and call center employees can work from home and insurers feel confident in the automated underwriting systems, the sales process may be slowed, but not stopped; once life returns to normal, the new capabilities will continue to help make the whole process more efficient.

Liability platform investment strategies stressed

Liability platforms such as Athene have three keys to generate profits on the business they acquired from other insurers. Their technology is newer and more efficient. Their investment strategies can be more aggressive/longer-term. Their use of offshore reinsurance reduces capital requirements. The COVID-19 economic turmoil is a real-time stress test for two of those three keys.

All investment strategies face challenges in this environment, and more aggressive strategies may be even more challenged.

The use of reinsurance has been a major way that liability platforms acquired blocks of business. The result is that the reinsurer's operating result can swing due to the reserve increases by the primary insurer flowing through as net investment losses for the reinsurer. Primary insurers are likely to strengthen annuity reserves to support either in-the-money guarantees and/or crediting rates. That strengthening may well lead to net operating losses for those offshore reinsurers.

At the same time, the liability platforms that also originate new business, mostly through annuity sales, will find themselves facing similar pressures to increase reserves as do other annuity insurers.

History, however, teaches us that, as the economy recovers, the reserves added during an economic crisis are released and result in positive operating results. We would expect that pattern would repeat; the challenge is knowing when it occurs and dealing with the economic pressures until it does.

Impact of pension pressures on group annuity players

As of the end of April, there are about 30 million unemployed Americans. This high unemployment, combined with the economic downturn, creates pressure for group annuity insurers.

Group annuities represent two broad types of products. The first are retirement plans offered to employees, the most familiar being the 401(k) and 403(b). The loss of workers affects the flow of premium into retirement plans. For example, in 2008, group annuity direct premiums decreased 12%. The loss of jobs then contributed to an 11% decrease in group annuity renewal premiums.

The second broad group annuity product type are unallocated annuities. These are investment products for defined benefit pension plans. In 2008, unallocated group annuity direct premiums decreased 4% as companies reduced pension contributions.

Both products are also used in PRTs (pension risk transfers), which have been a growing business. That growth has been driven, in part, by increasing funding statuses (assets/liabilities) among defined benefit pension plans. The equity market downturn combined with lower interest rates is likely to reduce some funding statuses. That could delay the short-term outlook for further PRT business.

Life-annuity insurers up to the challenge?

COVID-19 and the resulting economic turmoil have created significant challenges for life-annuity insurers in the short term. Sales will be dampened, investment return and capital strength weakened, claims and surrenders increased, all leading to lower profitability. In the face of these challenges, it is not unreasonable to wonder whether the life-annuity industry is up to the challenge. There are reasons to think it is.

The industry, overall, is in strong financial strength. As the economy recovers, so too should sales. In fact, as we have seen, demand for new life insurance may actually increase as consumers once again recognize the important need for protection. This increased demand may also accelerate the use of automated underwriting and digital sales and delivery, pushing the life-annuity industry further along the digitization path. In the short term, the life-annuity industry will suffer. However, as life-annuity insurers emerge from this crisis, they may find themselves positioned for stronger growth in the future.

Conning's New and Upcoming Releases

ANNUAL—2020 Managing General Agent & Program Market

The managing general agent (MGA) market accounts for a growing share of both commercial and personal lines premium spread over an increasingly large number of insurers. This sector continues to be at the forefront of product, technology, and business model innovation. The MGA structure is typically the business model that InsurTechs choose, and fronting arrangements with insurers are expanding. Using industry-filed data from insurers, as well as Conning's proprietary survey results, this study will analyze the overall industry, the largest MGAs and insurer partners in this market. Conning will also look at the changing role of MGAs, their influence in today's insurance market, and what is next in the evolution of the MGA model. Coming soon

Old Lloyd's, New Lloyd's

Lloyd's has responded to pressures to address longstanding expense, performance, and service issues with an ambitious plan launched in 2019. The Future at Lloyd's plan proposed a bold, comprehensive overhaul of Lloyd's business processes to slash expenses, attract new capital providers, and enhance customer service. Conning's study explores prospects for the plan's success. The study presents important implications for brokers as well as insurers competing with Lloyd's at both ends of the market—complex risks as well as binding authority business. Coming soon

Financial Risk in the Life Insurance Industry—Surviving the Next Disaster

This study will examine what we've learned from prior financial crises to help outline what life insurers need to consider to survive the next financial crisis. Challenges such as management preparedness, policy setting, and the impact of regulation will be reviewed, along with an assessment of credit, interest rate, and equity risks. Coming soon

Medical Professional Liability

This Strategic Study will explore the changing dynamics within the medical professional liability line of business. It will explore the impact of hospital consolidations, a shrinking physician exposure base, along with financial performance of the line and other factors that will influence strategic decision-making for MPL insurers and groups that service this line of business. Coming soon

ANNUAL—Mergers & Acquisitions

Conning's annual insurance M&A study examines both insurer, distributor, and service company mergers & acquisitions. This year, Conning will publish separate reports for the P&C and life/health sectors. These studies include in-depth analysis of emerging or expected trends in M&A activity, along with the motivations behind key individual transactions. Insights will benefit market participants and investors alike. This global insurance M&A analysis provides a listing of transactions announced in 2019 and in early 2020. Released April 2020

Life-Annuity Liabilities—Growing Interest in a New Asset Class

The life-annuity industry has seen the emergence of a new type of insurer and reinsurer focused on acquiring and managing liabilities. Companies outside the industry, such as asset managers and private equity funds, have formed new platforms, with some insurers beginning to partner as well. The study examines the business model development, financial performance, the role of reinsurers, and growth potential. Released March 2020

Surplus Lines Insurance—A Booming U.S. Market

The surplus lines market is booming in the United States. This study includes analysis of the U.S. E&S market and conditions shaping its performance. It examines the drivers of the growing E&S U.S. market, including distribution, technology, and M&A, along with a review of E&S insurer peer group comparisons, and assessments of the different strategies employed by E&S writers. Additionally, the strategic study provides for a primer on the E&S market, E&S premium by state, and Conning's Surplus Lines index. Released January 2020

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