The Economics of Work Comp and the COVID Effect

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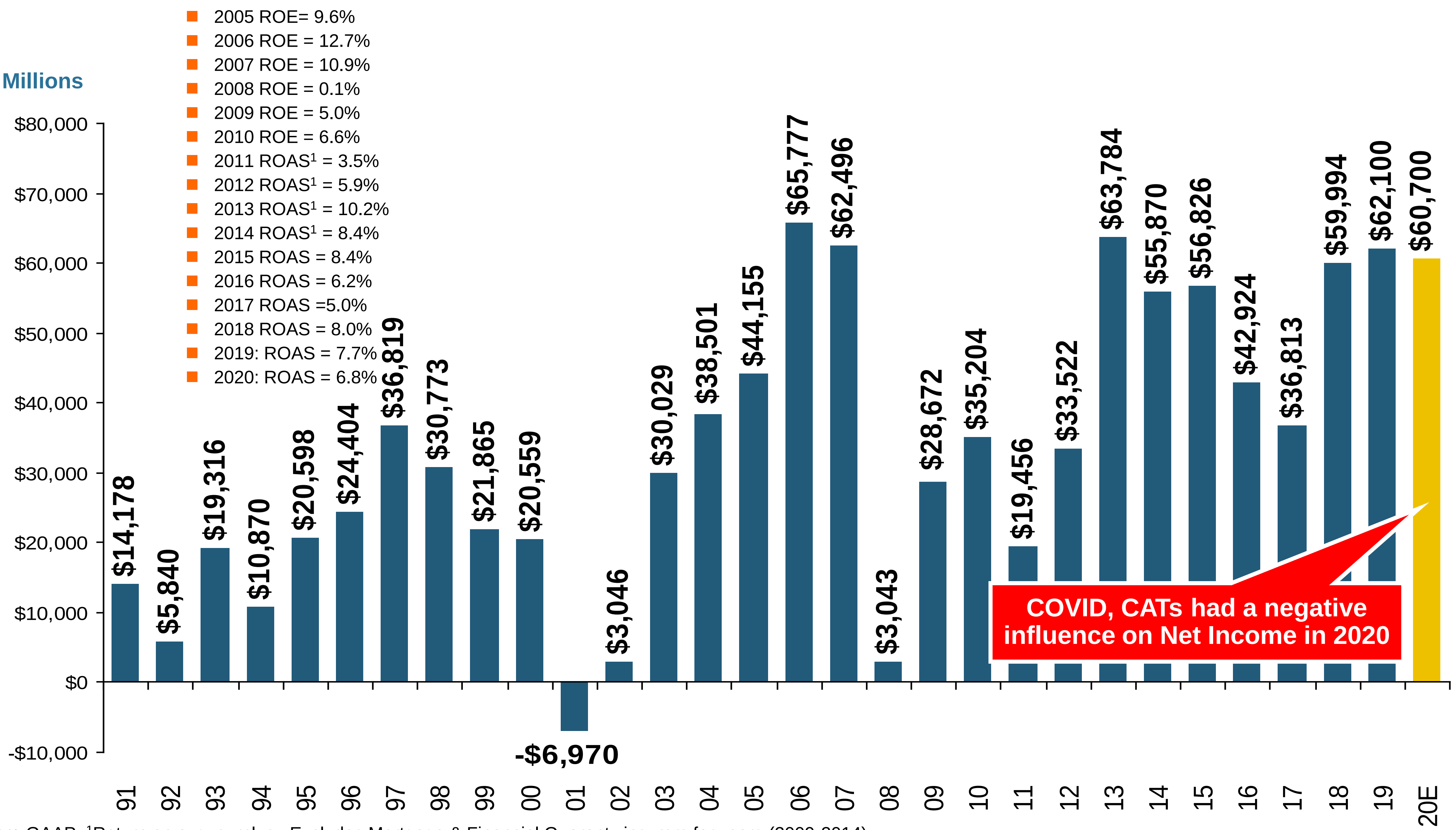
The Economics of Workers Comp and COVID: Outline

- **Economic Scarring**
  - The financial and economic consequences of the COVID-19 pandemic will far outlast the pandemic itself
- **Predicted vs. Actual Impacts of COVID-19 on the P/C Industry**
  - How (in)accurate were the early prognostications?
- **Labor Market Dislocations**
  - COVID-19 was a traumatic event for workers and employers, the effects of which will be long-lasting and are proving to be unpredictable
- **Federal Stimulus Programs**
  - A series of very expensive COVID-19 recovery and stimulus programs are impacting labor markets—both positively and negatively
- **Role of Government in Managing the Economic Consequences of Pandemics**
  - **What is the appropriate role of government? Role of insurers?**

Economic Scarring

The Economic and Financial Scars of COVID-19 Will Run Long and Deep on the P/C Insurance Industry

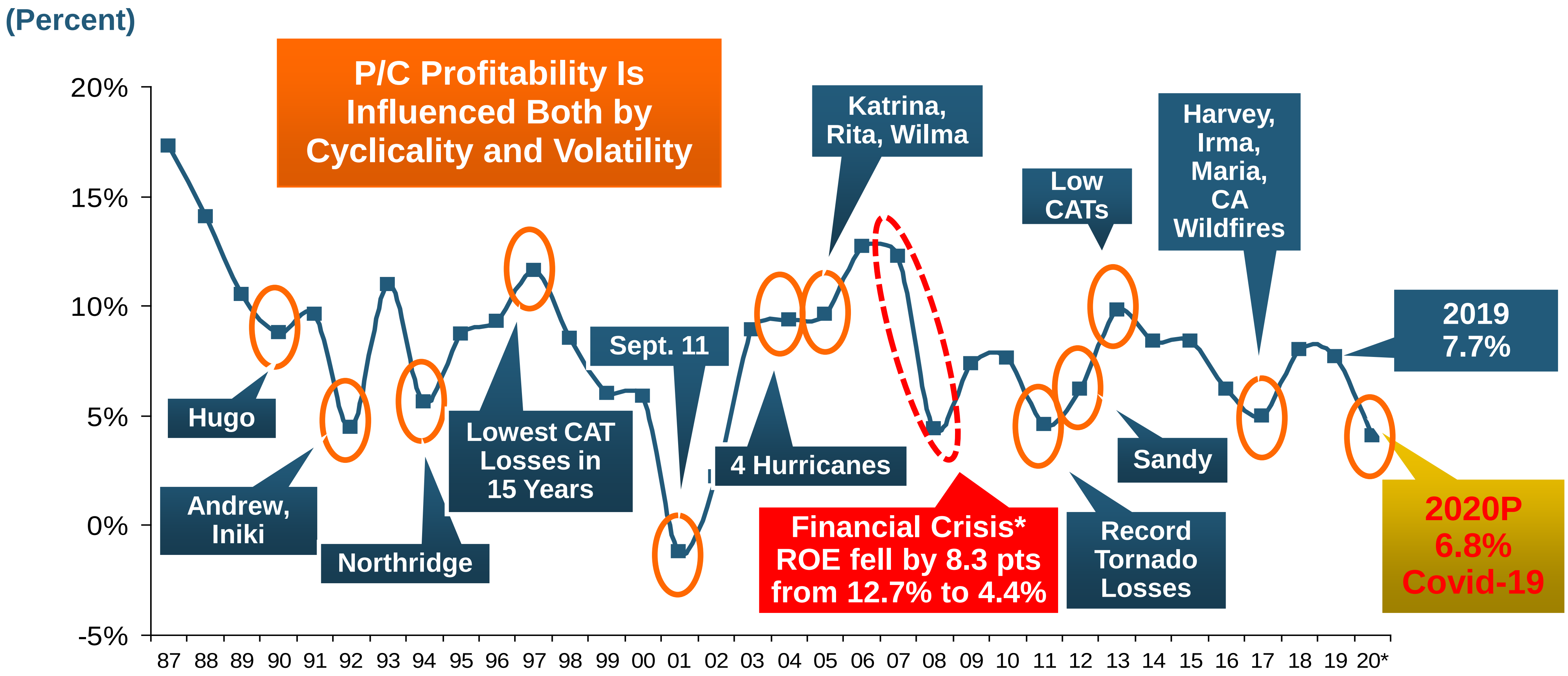
P/C Industry Net Income After Taxes, 1991–2020E*



*ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).

Sources: A.M. Best, ISO.

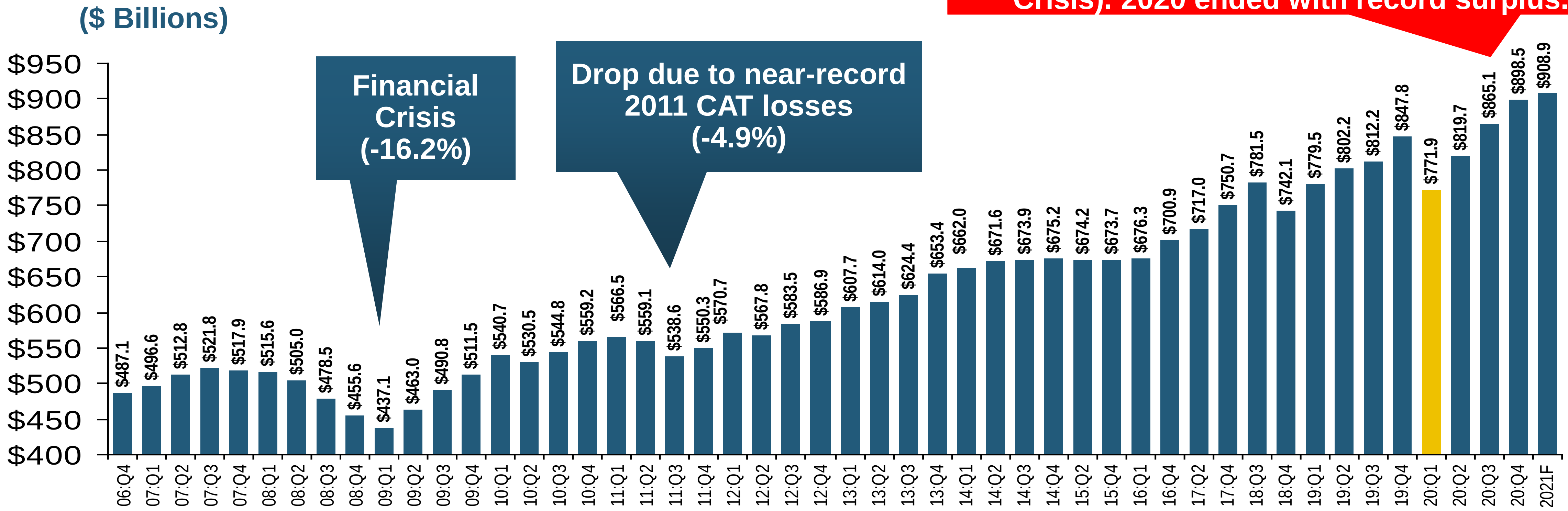
ROE: Property/Casualty Insurance by Major Event, 1987–2020*



*Excludes Mortgage & Financial Guarantee in 2008–2014. 2020P figure is preliminary.
Sources: ISO, *Fortune*; APCIA; USC RUM Center.

Policyholder Surplus (Capacity), 2006:Q4–2020:Q4E and 2021F

The P/C insurance industry entered the COVID-19 pandemic from a position of strength and was able to withstand the 9.0% surplus decline in Q1 2020 (far less than during the Financial Crisis). 2020 ended with record surplus.

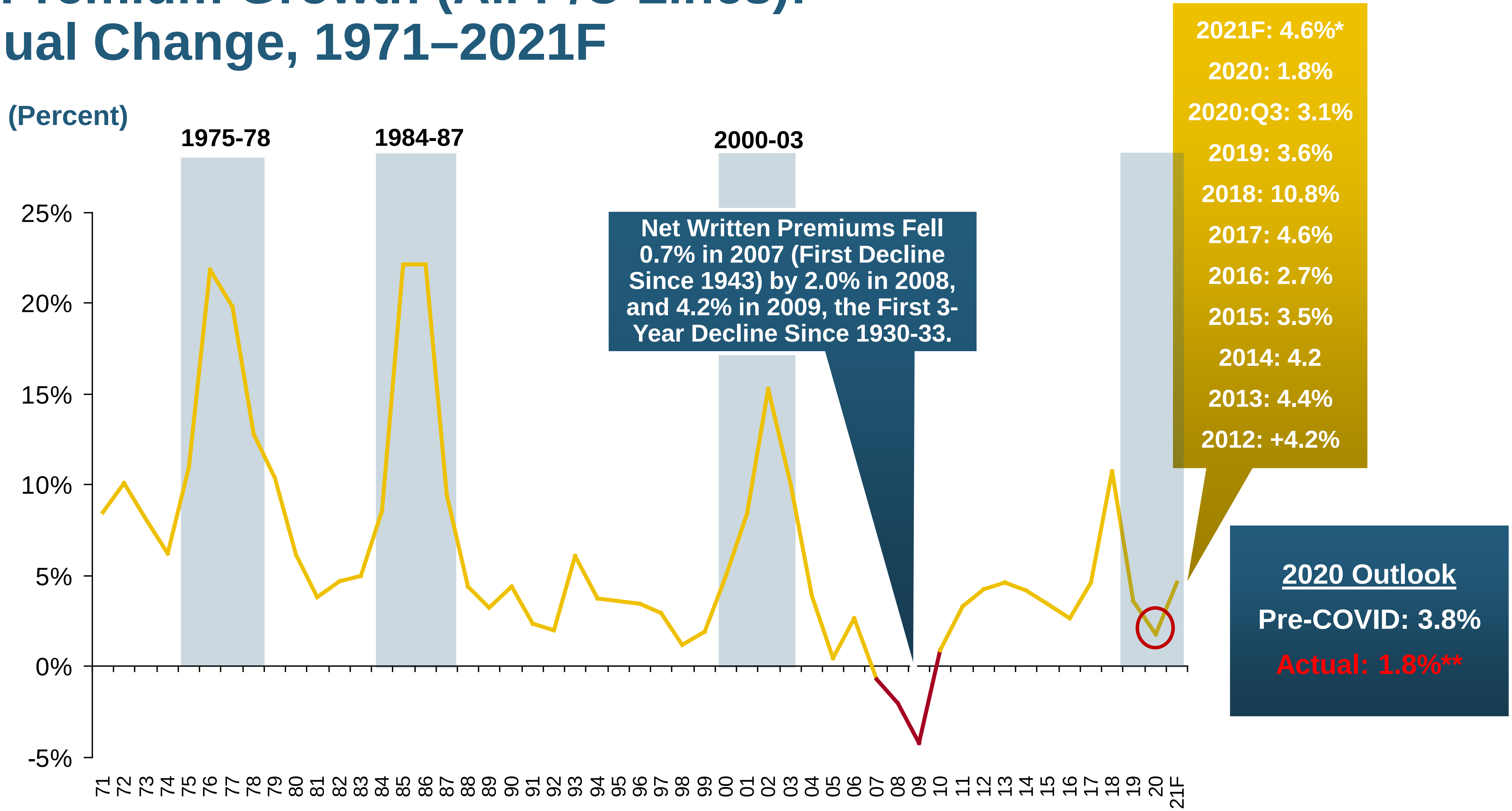


2010: Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

Sources: ISO, A.M .Best; Risk and Uncertainty Management Center, University of South Carolina.

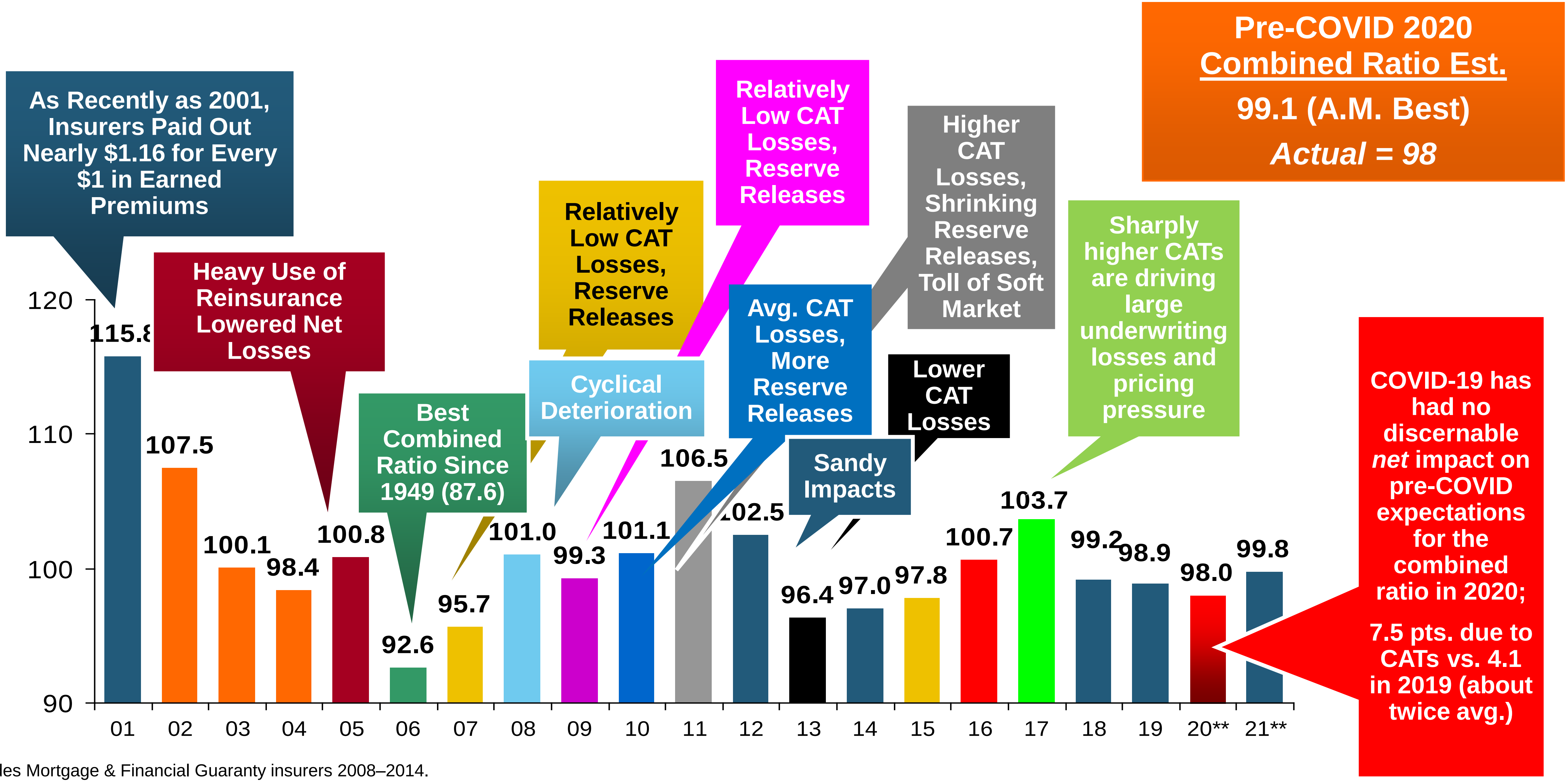
Net Premium Growth (All P/C Lines): Annual Change, 1971–2021F



* **Pre/Post-COVID-19 forecast from A.M. Best Review & Preview (Feb. 2020, 2021). NOTE: Shaded areas denote "hard market" periods

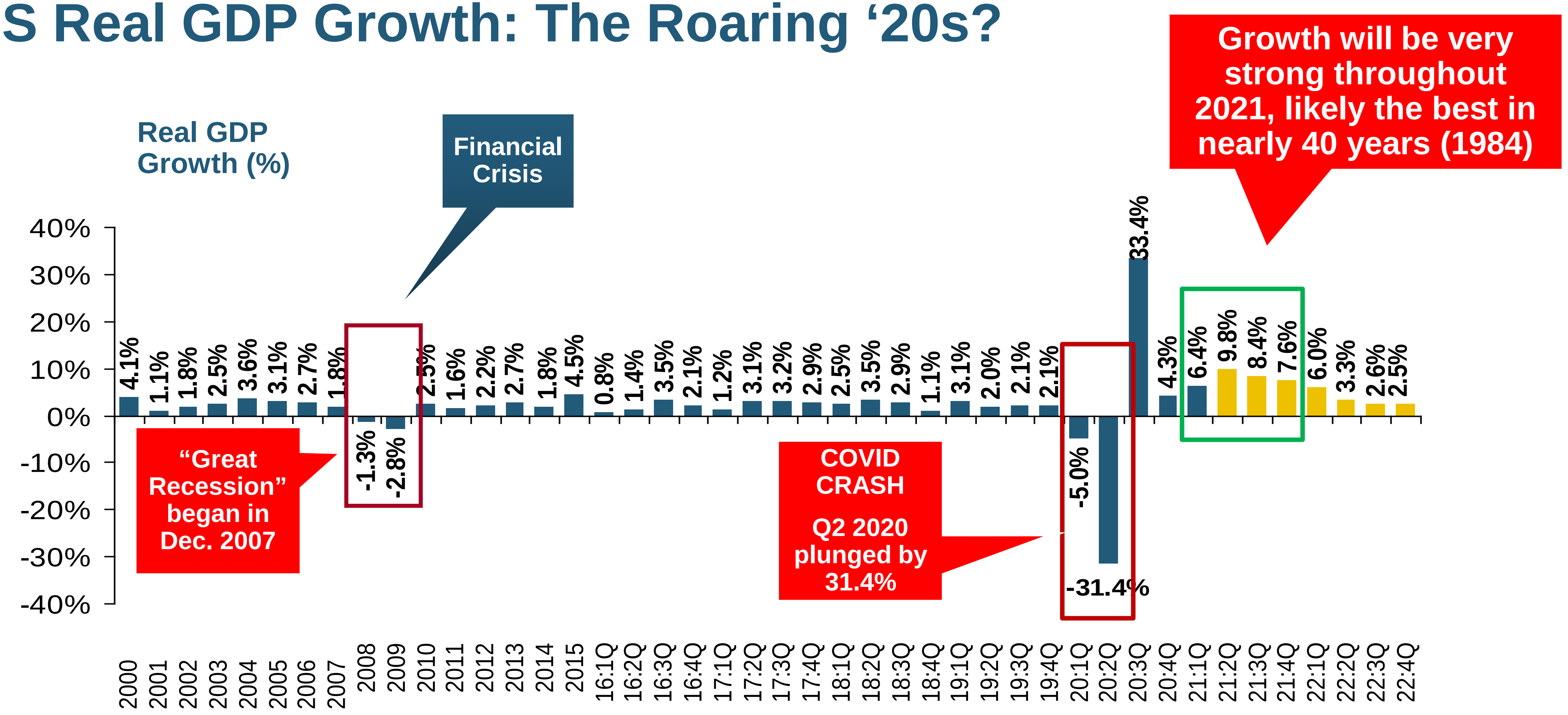
Sources: A.M. Best (1971-2013, 2021F), ISO (2014-19); Risk & Uncertainty Management Center, Univ. of South Carolina

P/C Insurance Industry Combined Ratio, 2001–2021F**



*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
**2021 forecast from A.M. Best Review and Preview (Feb. 2021).
Sources: A.M. Best, ISO (2014-2019).

US Real GDP Growth: The Roaring ‘20s?

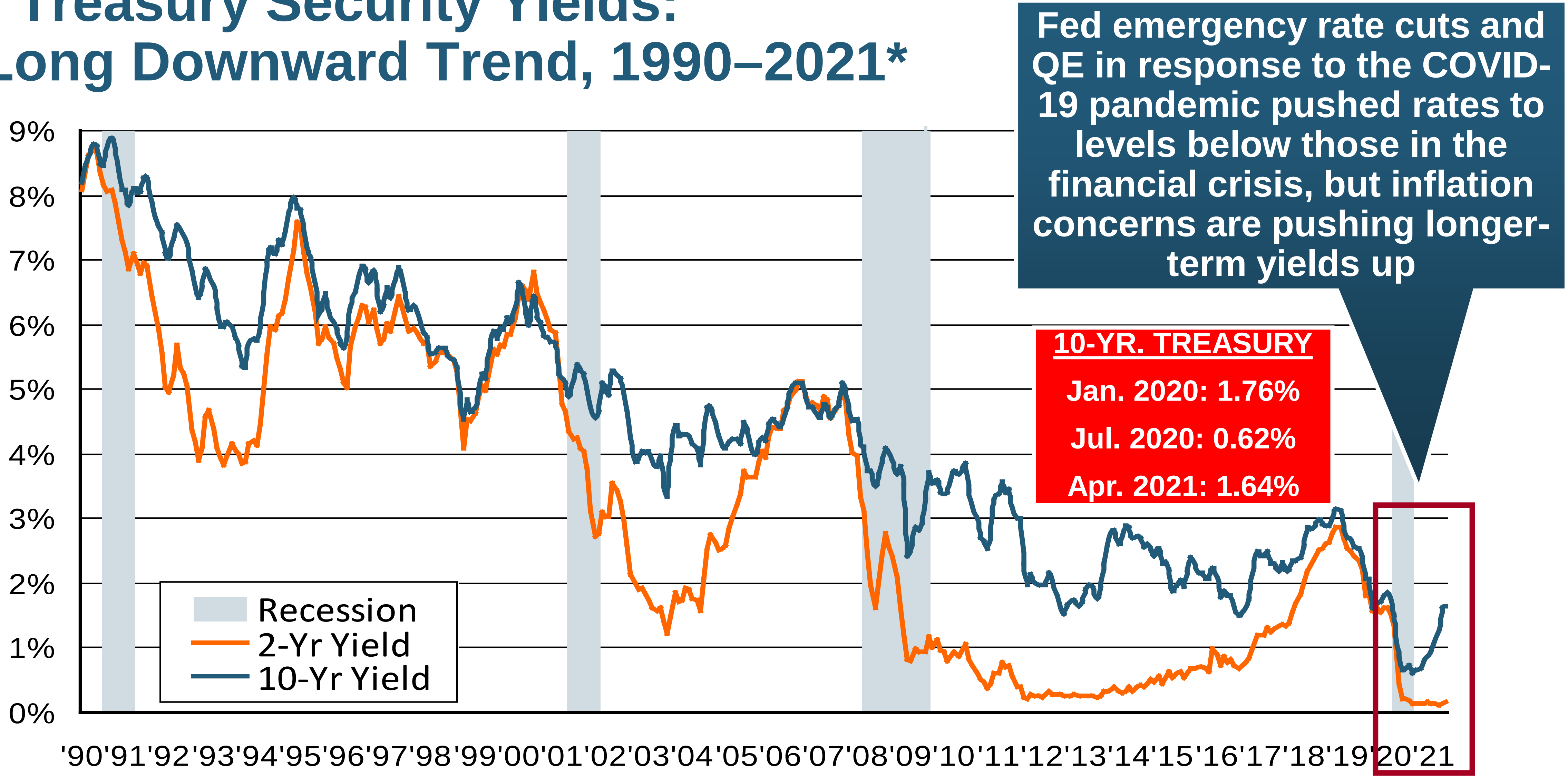


GDP Recovered to Q4 2019 Level in Q1 2021. Demand for Insurance Will Increase Materially in H2 2021 and into 2022—Particularly in Economically Sensitive Commercial Lines Such as WC

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities 5/21; Center for Risk and Uncertainty Management, University of South Carolina.

US Treasury Security Yields: A Long Downward Trend, 1990–2021*

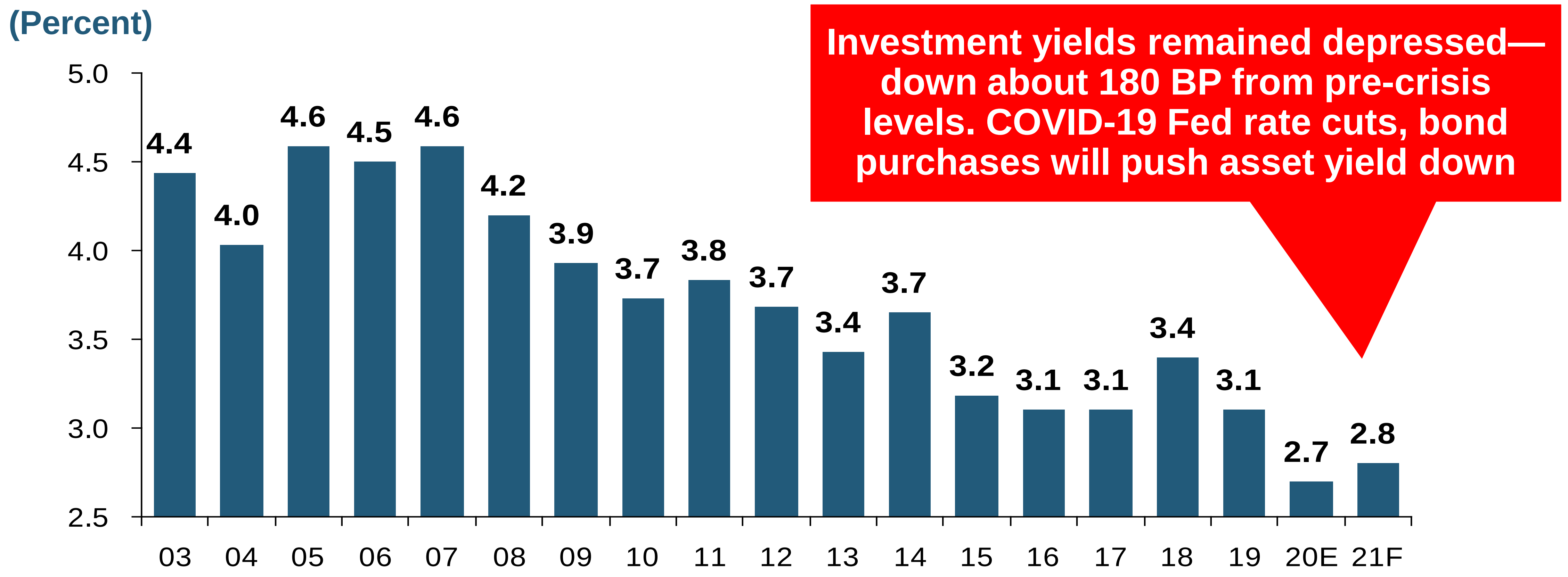


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for many years to come.

*Monthly, constant maturity, nominal rates, through April 2021.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm. National Bureau of Economic Research (recession dates); Risk and Uncertainty Management Center, University of South Carolina.

Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2021F*

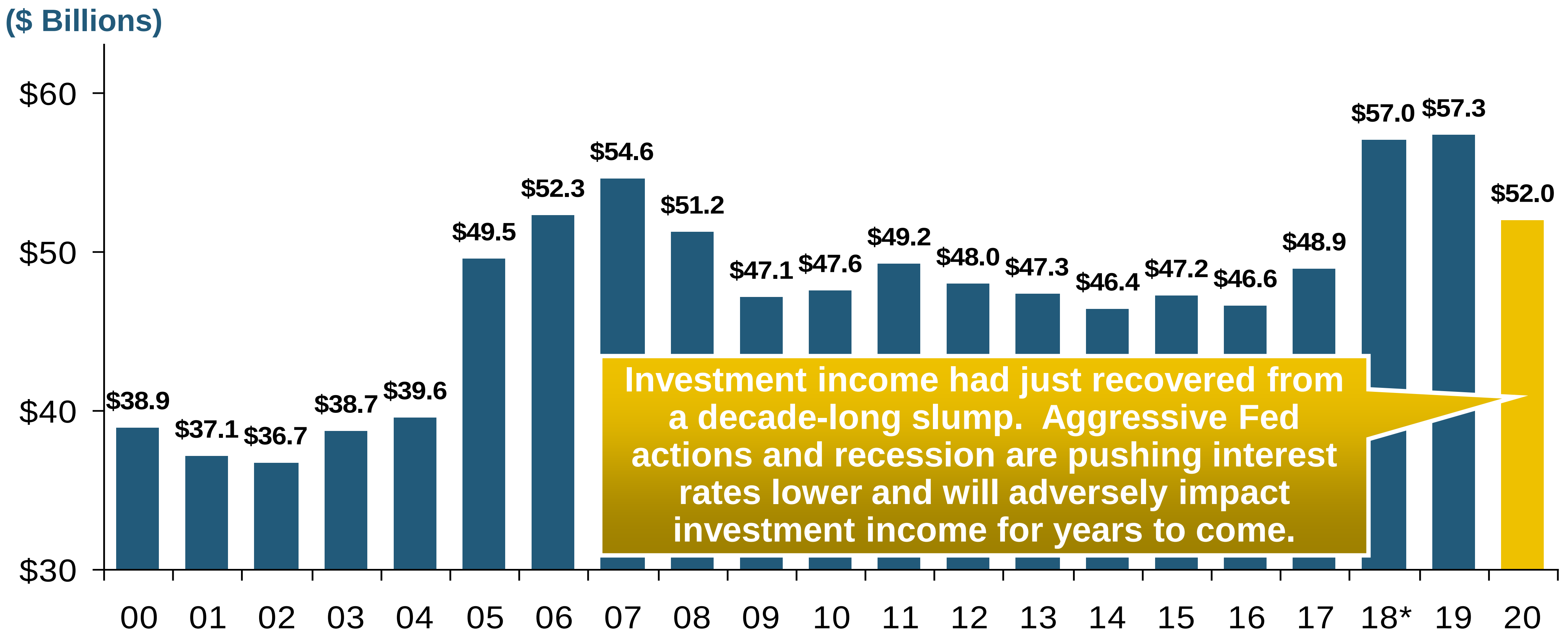


The yield on invested assets remains low relative to pre-crisis yields. Fed rate increases beginning in late 2015 through 2018 halted the slide in yields, but rate cuts in 2019/2020 will preclude future gains

Average: 1960–2019 = 4.9%
Low: 2.8% (1961)
High: 8.2% (1984/85)

Sources: NAIC data, sourced from S&P Global Market Intelligence, 2003–2016; 2017–19 figures are from ISO; 2020–2021F are from A.M. Best 2021 Review & Preview; Risk and Uncertainty Management Center, Univ. of South Carolina.

Property/Casualty Insurance Industry Investment Income: 2000–2021F

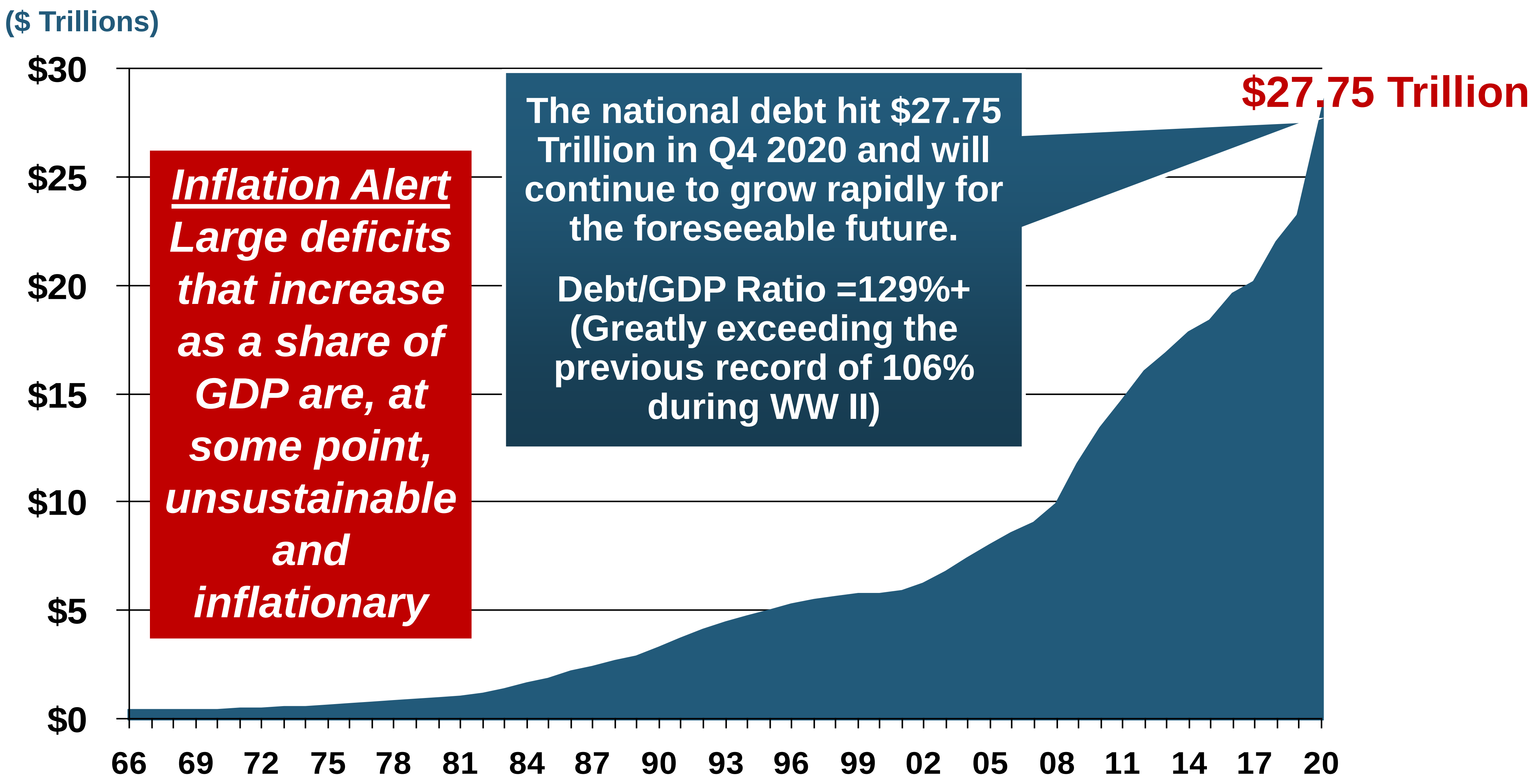


Due to persistently low interest rates, investment income remained below pre-crisis levels for a decade. Lower interest rates post-COVID will drive investment income down once again.

*2018–19 figures are distorted by provisions of the TCJA of 2017. Increase reflects such items as dividends from foreign subsidiaries.

[1] Investment gains consist primarily of interest and stock dividends. Sources: ISO; A.M. Best *Review & Preview* (Feb. 2021); University of South Carolina, Center for Risk and Uncertainty Management.

U.S. National Debt, 1966–2020: Q4



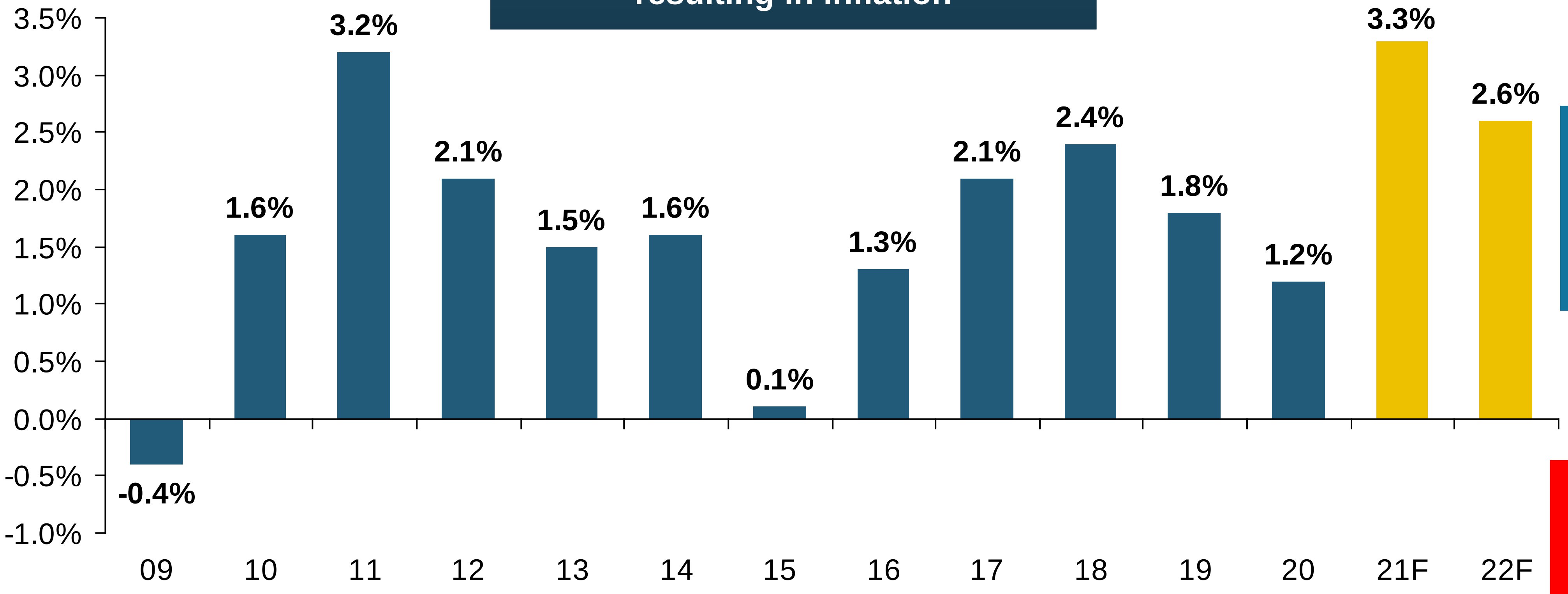
Source: Congressional Budget Office; Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/GFDEGDQ188S

U.S. Inflation Rate: 2009–2022F*

Percentage Change (%)

There's a great deal of concern that trillions of dollars of stimulus plus the post-COVID recovery could cause the economy to overheat, resulting in inflation

Inflation is expected to accelerate sharply in 2021—though diminish thereafter—making the case for a Fed rate hike more remote (Fed is looking to keep long-run inflation rate -2%)



Prices were up 4.2% in the 12 months ending in April, the biggest jump since 4.9% in Sept. 2008

Insurer Concerns <u>About Inflation</u>

Rate Inadequacy

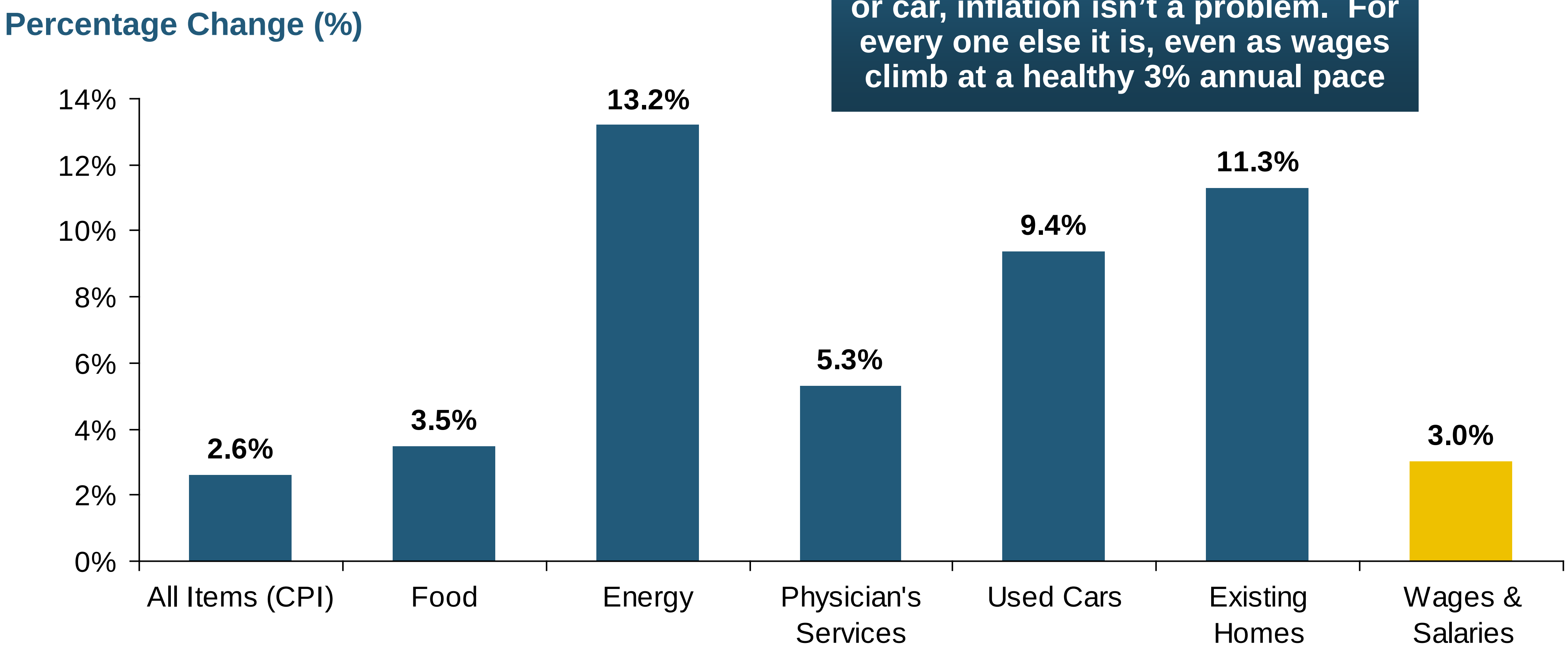
Reserve Inadequacy

*Annual change in Consumer Price Index for All Urban Consumers (CPI-U).

Sources: U.S. Bureau of Labor Statistics; Wells Fargo Securities (5/21); USC Center for Risk and Uncertainty Management.

Consumers Are Feeling Inflation Where It Hurts, Especially As They Are Eager to Spend
(% Change March 2021 vs. March 2020)

If you don't eat, drive, require medical care or need to buy a house or car, inflation isn't a problem. For every one else it is, even as wages climb at a healthy 3% annual pace



<u>Major Concern</u>

Is the inflationary surge temporary as the Fed believes or will it become entrenched?

Sources: U.S. Bureau of Labor Statistics; CoreLogic Home Price Index; USC Center for Risk and Uncertainty Management.

3 Factors that Bias the US Economy Toward Higher Inflation

1. **The Fed (and most Central Banks) Are Less Concerned About Inflation**
   - Fed has shifted to *full employment* as its primary policy goal, with price stability (inflation) as a secondary target
   - This means the Fed is willing to allow inflation to rise above its 2% target for years before raising rates (current view is that any hike before late 2023 is unlikely)

2. **Politicians Have Shifted to Spend Now, Pay (Less) Later Philosophy**
   - Neither political party has the political will or incentive to finance their spending
   - Stimulus checks are popular. Taxes and austerity are not. *End of story.*
   - Until inflation emerges as a threat, politicians see little downside to spending more
   - Ultimately, such spending is inflationary—though likely with a substantial lag
   - Popularization of *Modern Monetary Theory*, which holds that countries can spend freely to pay off debt issued to fund government expenditures; Debt Monetization

3 Factors that Bias the US Economy Toward Higher Inflation

3. Supply Chain Disruptions/Fragility As Economy Rapidly Exits "COVID Coma"

- **Short-Term:** Demand is outstripping Supply
  - Commodities
  - Energy (e.g., Colonial Gas Pipeline, Texas Freeze)
  - Motor vehicles
  - Labor (will hold back WC exposure growth)
  - *Transportation/Shipping Bottlenecks are everywhere*
- **Intermediate-Term:** Geopolitical obstacles loom larger
  - Regionalization, Balkanization (vs. Globalization)
  - Trade Barriers
  - Sabre-rattling and Armed Conflicts
  - Cyber threats and other technology risks create new vulnerabilities

Implications of Inflation for WC and P/C Insurers in General

- **Expect a Modest Uptick in Inflation**
  - **Possibility of bursts of inflation in certain sectors**
    - Already happening to property insurers (price of lumber is up 130% since start of COVID, increasing the cost of building a typical home by $24,000) and auto insurers
- **Inflationary Expectations Are Becoming More Broadly Embedded**
  - **Suggests current acceleration in price inflation is more than transitory**
  - **Will spread to other sectors of the economy**
- **Wage Inflation Will Likely Accelerate, Impacting Indemnity Severity**
- **Medical Inflation Will Also Likely Accelerate, Impacting Medical Severity**
- **Reserve and Rate Adequacy Could Be Challenged Over the Next Few Years**
  - WC, Property, Auto and numerous other lines impacted

How Have Actual P/C Results Differed from Reality?

A Review of Early Predictions of COVID's Impact on Insurers

US Results Have Generally Been Better than Predicted

Potential Impacts of COVID-19 on *Written Premium* in 2020, by Key Line

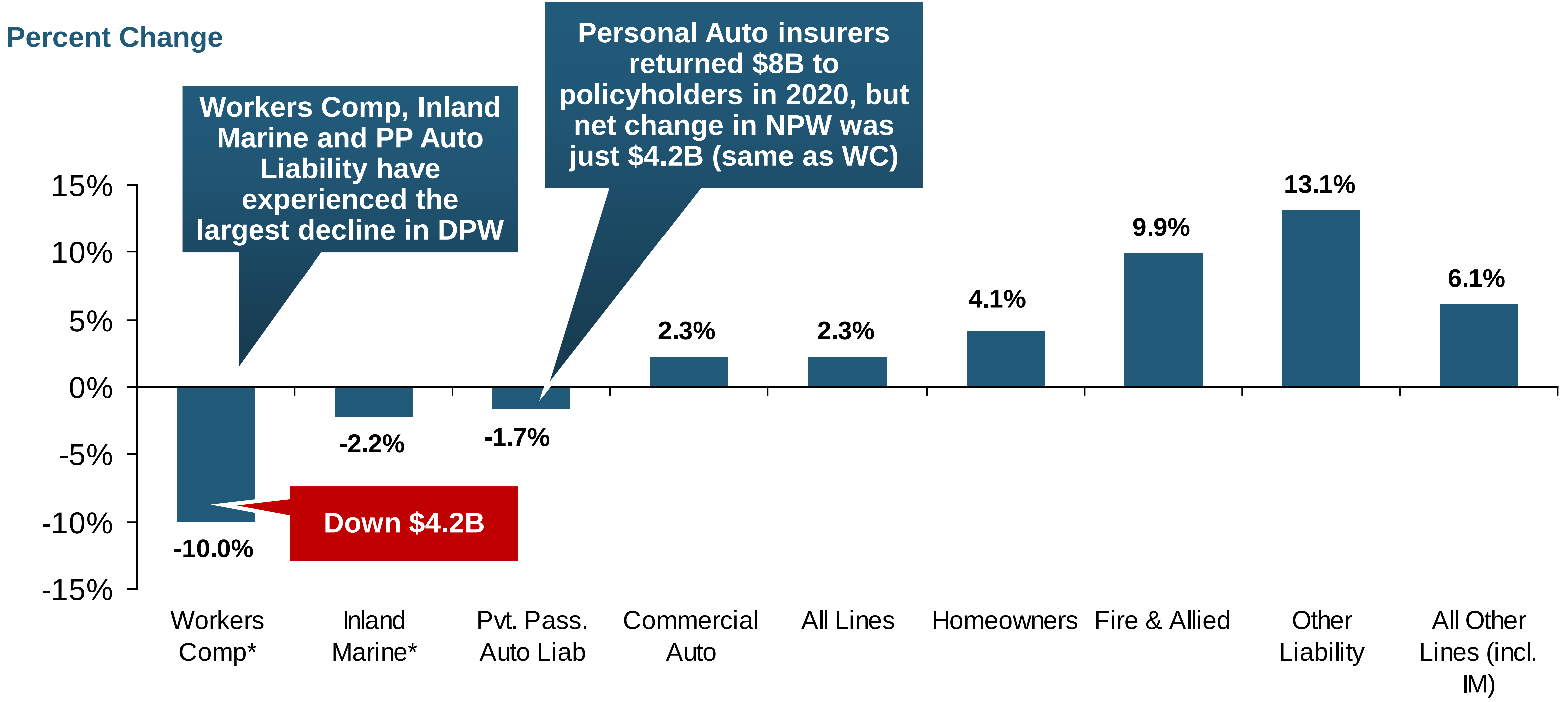
Line	Estimated Premium Impact
Workers Compensation	12.5% to 25% reduction in premium written in 2020 ***(equates to $5.9B to $11.75B DWP)***
Business Interruption & Contingency	7% to 13% reduction in premium volume (US & UK)
General Liability*	$1.5B to $6.3B premium reduction in US
Personal Auto	-$10B in refunds, rebates (equates to -4% of DWP)
Personal Travel Insurance	29% to 78% reduction in premium written (US & UK)
Personal/Comm. Motor	-10% reduction in US; 0% to 11% reduction in UK
Marine/Aviation/Transport	$0.7B–$1.5B (US); $0.6–$1.2B (UK)

APRIL/MAY 2020 ESTIMATES

*Includes nursing home professional liability.

Source: Derived from Willis Towers Watson, *Scenario Analysis of COVID-19 Pandemic* (Fig.11, 14), May 2020 and other sources; Risk and Uncertainty Management Center, University of South Carolina.

COVID's Impact on NPW Growth for Largest P/C Lines: 2020



*Inland Marine figure is DPW though first 9-months of 2020 (A.M. Best).

Sources: NAIC Annual Statement data, NCCI; Risk and Uncertainty Management Center, Univ. of South Carolina.

Potential Impacts of COVID-19 on *LOSSES* in 2020, by Key Line

Line	Estimated Loss Impact
Workers Compensation	$0.2B–$92B ***(depends on severity of pandemic and "presumption" determination)***
Business Interruption & Contingency	$2B–$22B (US); $1.1B–$13.9B (UK)
General Liability*	$0.7B to $27B loss across US & Bermuda markets
Personal/Comm. Motor	$26B–$57B reduction in personal auto and $4.2B–$9.4B commercial (US); $1–$7B overall reduction in UK
Mortgage	$0–$1.7B loss across US & Bermuda markets
D&O	$0.6–$4.0 loss across US & Bermuda markets
Marine/Aviation/Transport	$0.3B–$1.3B reduction (US); $0.6–$1.1B (UK)

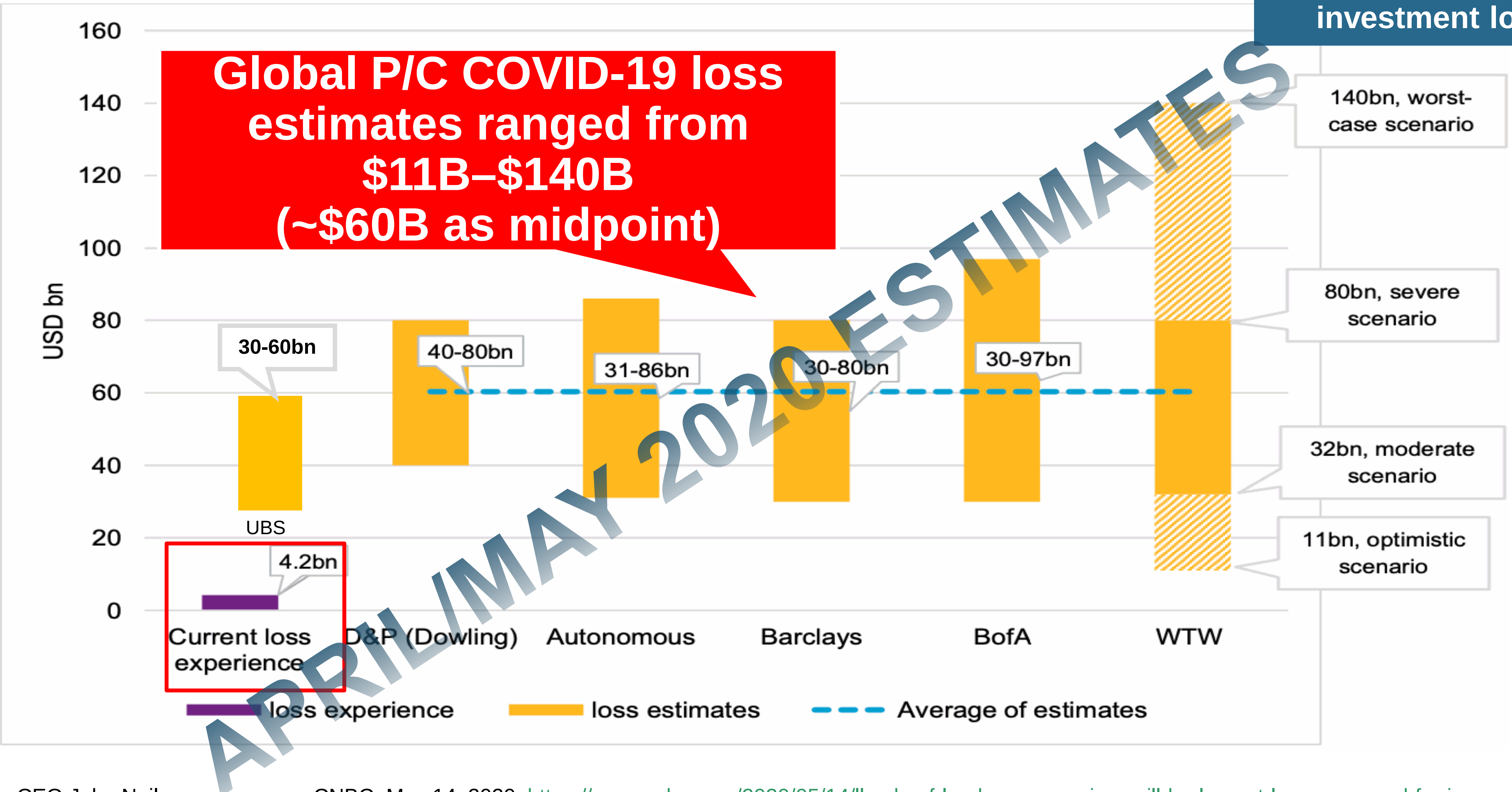
APRIL/MAY 2020 ESTIMATES

*Includes nursing home professional liability.

Source: Derived from Willis Towers Watson, *Scenario Analysis of COVID-19 Pandemic* (Fig.11, 14), May 2020 and other sources; Risk and Uncertainty Management Center, University of South Carolina.

COVID-19 Announced Losses vs. Top-Down Industry Estimates

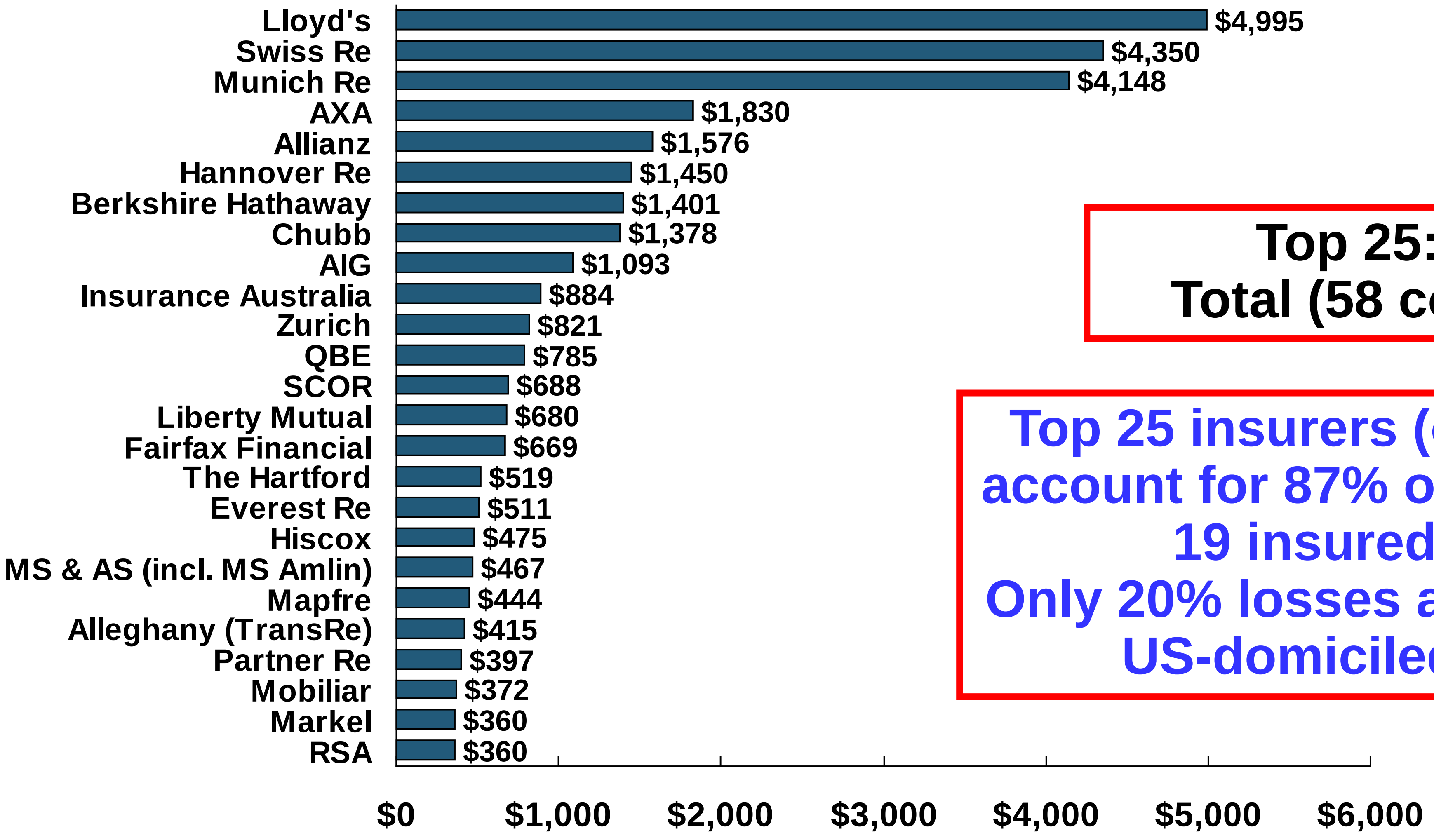
Lloyd's: Says its own p/c claims could reach $4.3B by June 30, 2020. Estimates global p/c losses at $107B; Global investment losses = $96B*



*Lloyd's CEO John Neil appearance on CNBC, May 14, 2020: https://www.cnbc.com/2020/05/14/lloyds-of-london-coronavirus-will-be-largest-loss-on-record-for-insurers.html

Sources: Company disclosures, Dowling & Partners, Barclays Research, Autonomous Research, BofA Global Research, UBS Securities, Willis Towers Watson from Artemis.bm accessed at https://www.artemis.bm/news/consensus-emerging-on-30bn-to-100bn-covid-19-industry-loss-willis-re/; Risk and Uncertainty Management Center, University of South Carolina.

Top 25 Insurers: COVID-19 Loss & Loss Reserve Estimates* ($ Millions)

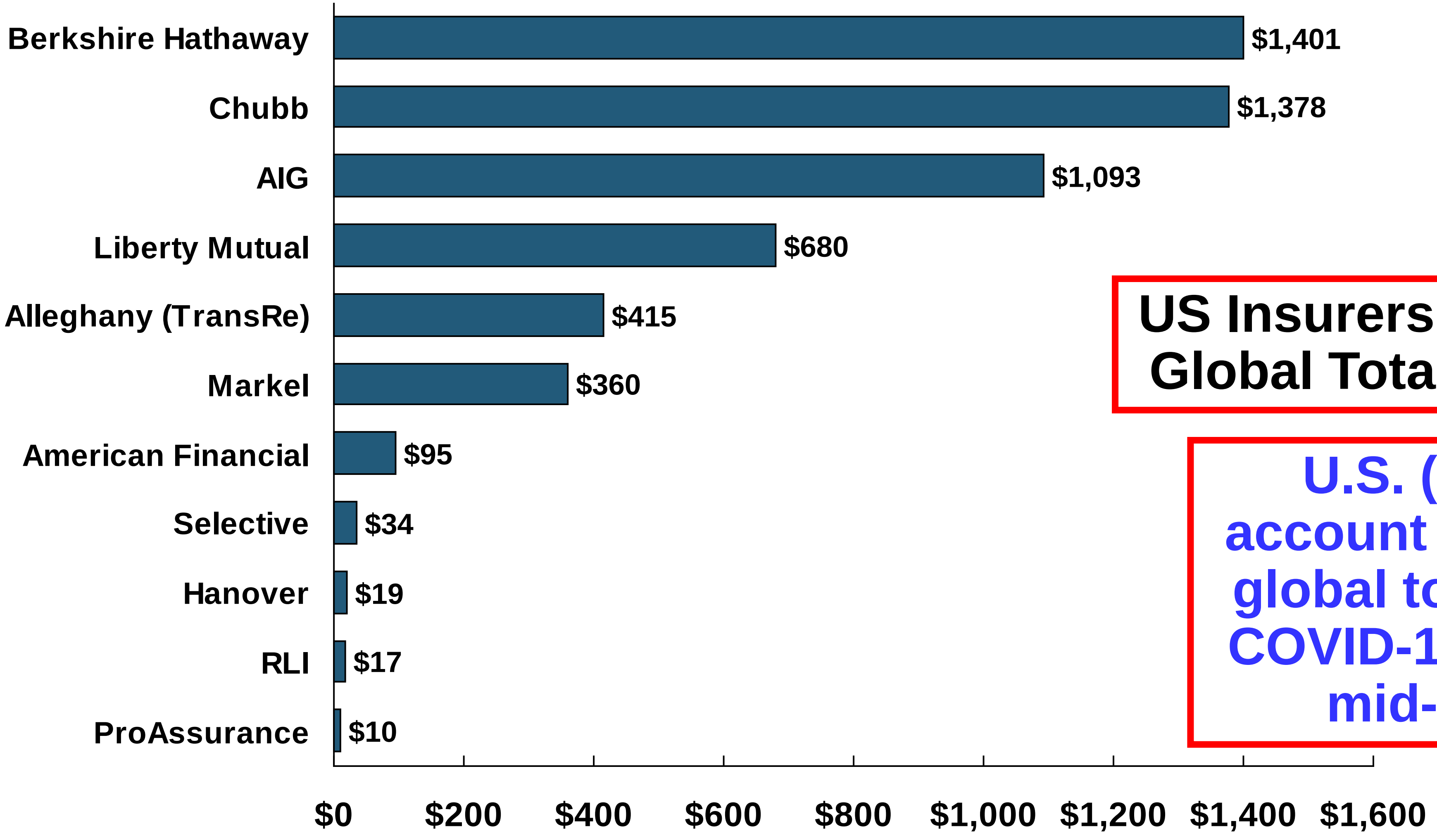


Top 25: $31.1B
Total (58 cos): $35.8B

Top 25 insurers (out of 58 total) account for 87% of global COVID-19 insured losses.
Only 20% losses are attributed to US-domiciled insurers

*As of 4/14/21. Some numbers may overlap (i.e., be redundant) as reported losses of some insurers could also be partially reflected in reinsurers' reported losses due to reinsurance arrangements.
Sources: Artemis.bm and *Reinsurance News* accessed 4/14/21 at: https://www.reinsurancene.ws/covid-19-insurer-reinsurer-loss-reports/ (includes additional footnotes and date of last report for each company); Risk and Uncertainty Management Center, University of South Carolina.

Top 11 US Insurers: COVID-19 Loss & Loss Reserve Estimates* ($ Millions)



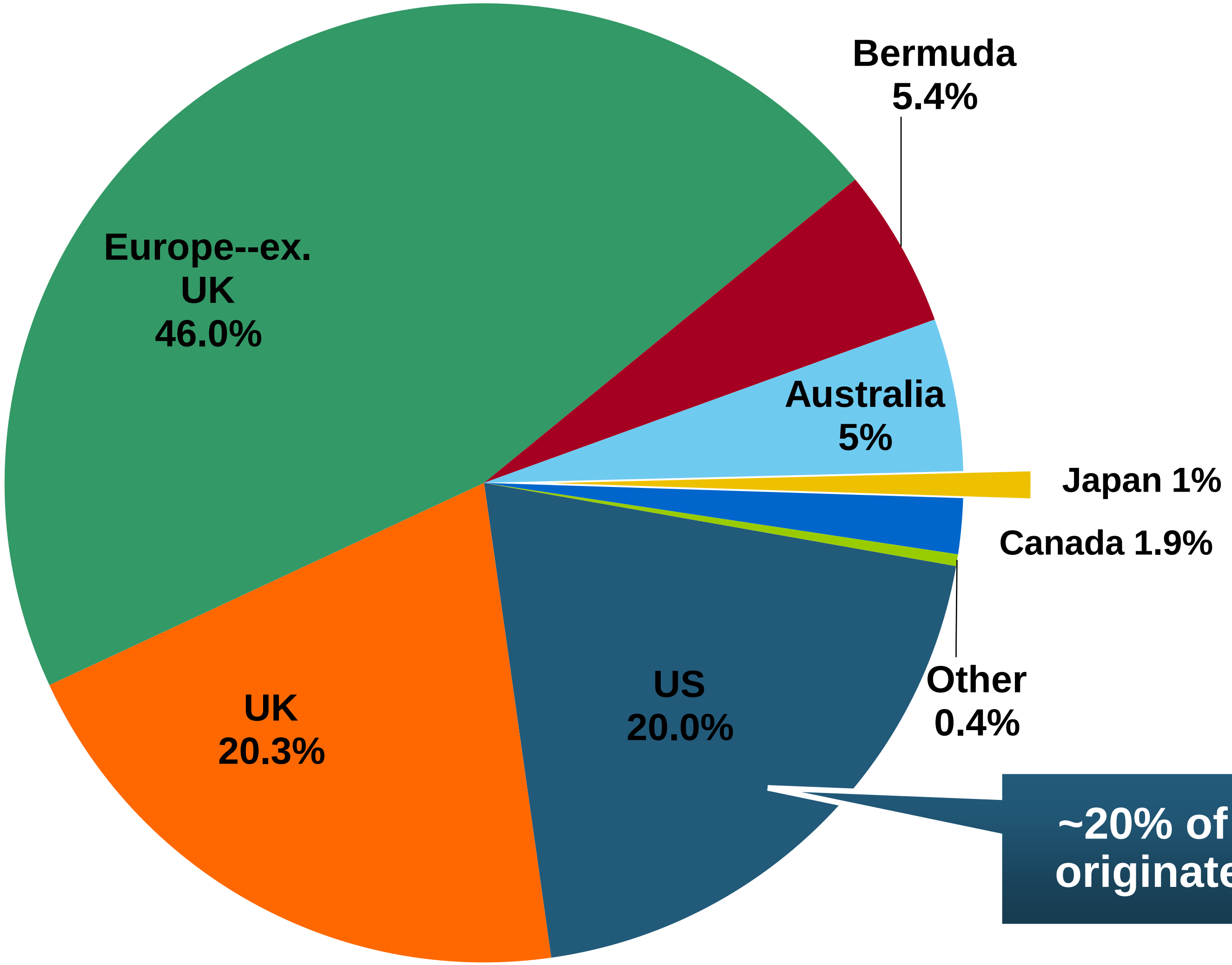
US Insurers (11 cos): $7.126B
Global Total (58 cos): $35.8B

U.S. (re)insurers account for 20% of the global total of insured COVID-19 losses as of mid-April 2021

*As of 4/14/21. Some numbers may overlap (i.e., be redundant) as reported losses of some insurers could also be partially reflected in reinsurers' reported losses due to reinsurance arrangements.
Sources: Artemis.bm and *Reinsurance News* accessed 4/14/21 at: https://www.reinsurancene.ws/covid-19-insurer-reinsurer-loss-reports/ (includes additional footnotes and date of last report for each company); Risk and Uncertainty Management Center, University of South Carolina.

COVID-19 Insured Losses: By Country/Region of Domicile

2/3 of the P/C losses globally are attributed to European (re)insurers



Global P/C Losses To-Date = ~$36B

~20% of global COVID losses originate with US (re)insurers

*As of 4/14/21. Some numbers may overlap (i.e., be redundant) as reported losses of some insurers could also be partially reflected in reinsurers' reported losses due to reinsurance arrangements.
Sources: Artemis.bm and *Reinsurance News* accessed 4/14/21 at: https://www.reinsurancene.ws/covid-19-insurer-reinsurer-loss-reports/ (includes additional footnotes and date of last report for each company); Risk and Uncertainty Management Center, University of South Carolina.

Reasons Why P/C Insurance Worst-Case COVID Scenarios Failed to Materialize (*So Far*)

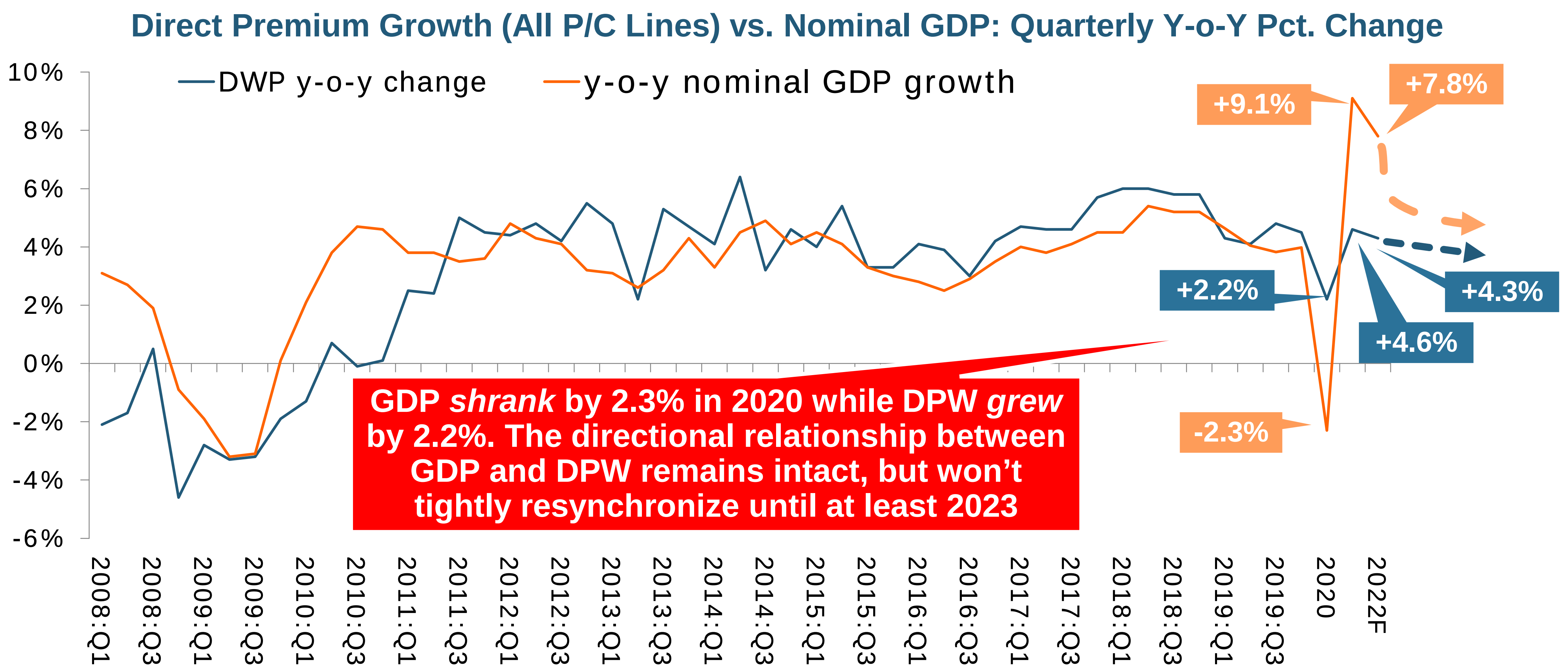
- **Economic Recovery Proceeding More Quickly than Anticipated**
- **Rapid Financial Market Recovery (*and then some…*)**
- **Massive Government Stimulus and Accommodative Fed Policy**
- **Worst-Case Epidemiological Outcome Avoided**
- **Record Pace of Vaccine Development**
- **Employers Did a Reasonably Good Job Protecting Workers from Exposure**
- **Many States Did Not Repeat Spring 2020 Lockdowns**
- **Litigation Outcomes Generally Favor Insurers**
- **WC Presumption Expansions Did Not Lead to Explosion in Claims**
- **Offsetting Exposure Reductions in Many Lines**

LABOR MARKET DISLOCATIONS

The COVID-19 Pandemic Has Produced Significant, Lasting and Worrisome Impacts on Labor Markets

Many Direct Impacts for Workers Comp

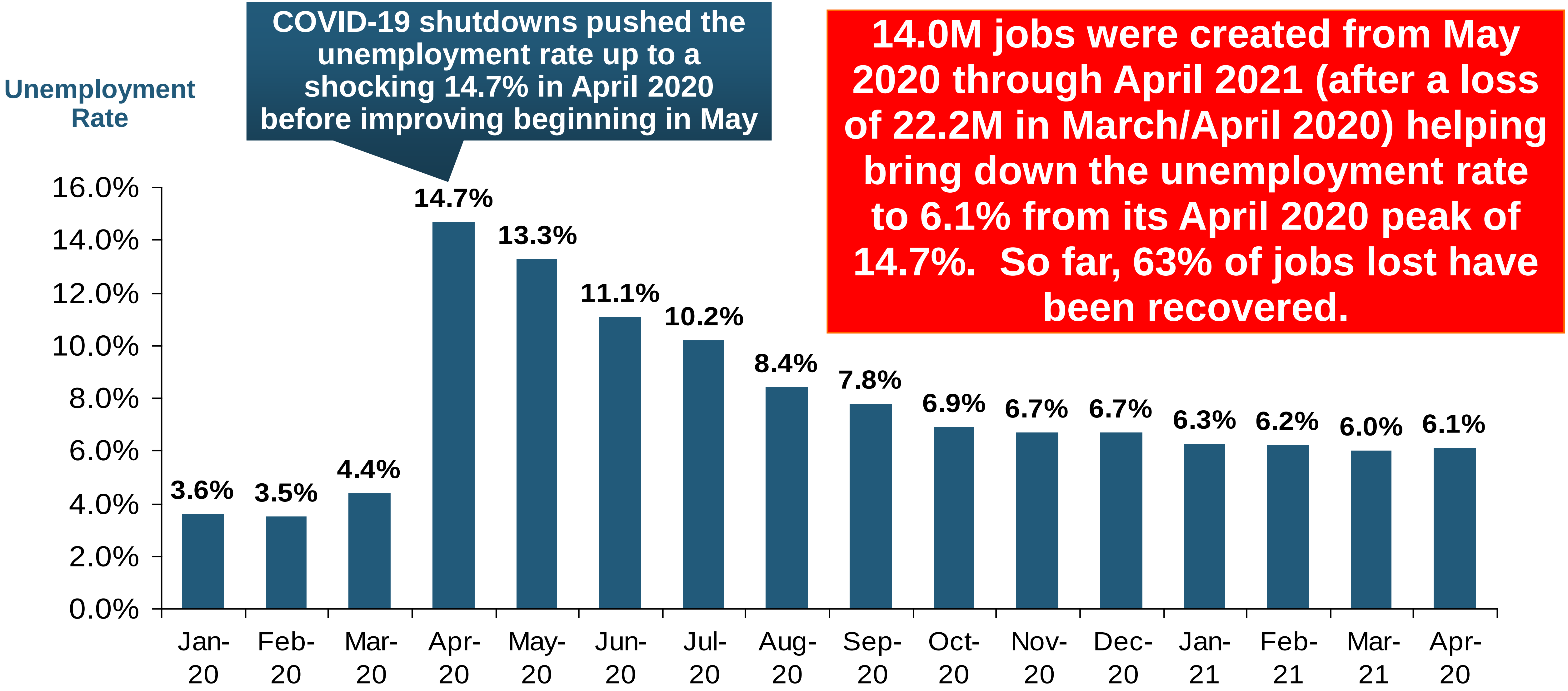
The Economy Drives P/C Insurance Industry Premiums: 2006: Q1–2022F*



Direct written premiums track nominal GDP fairly tightly over time, but suggesting the P/C insurance industry's growth prospects inextricably linked to economic performance.

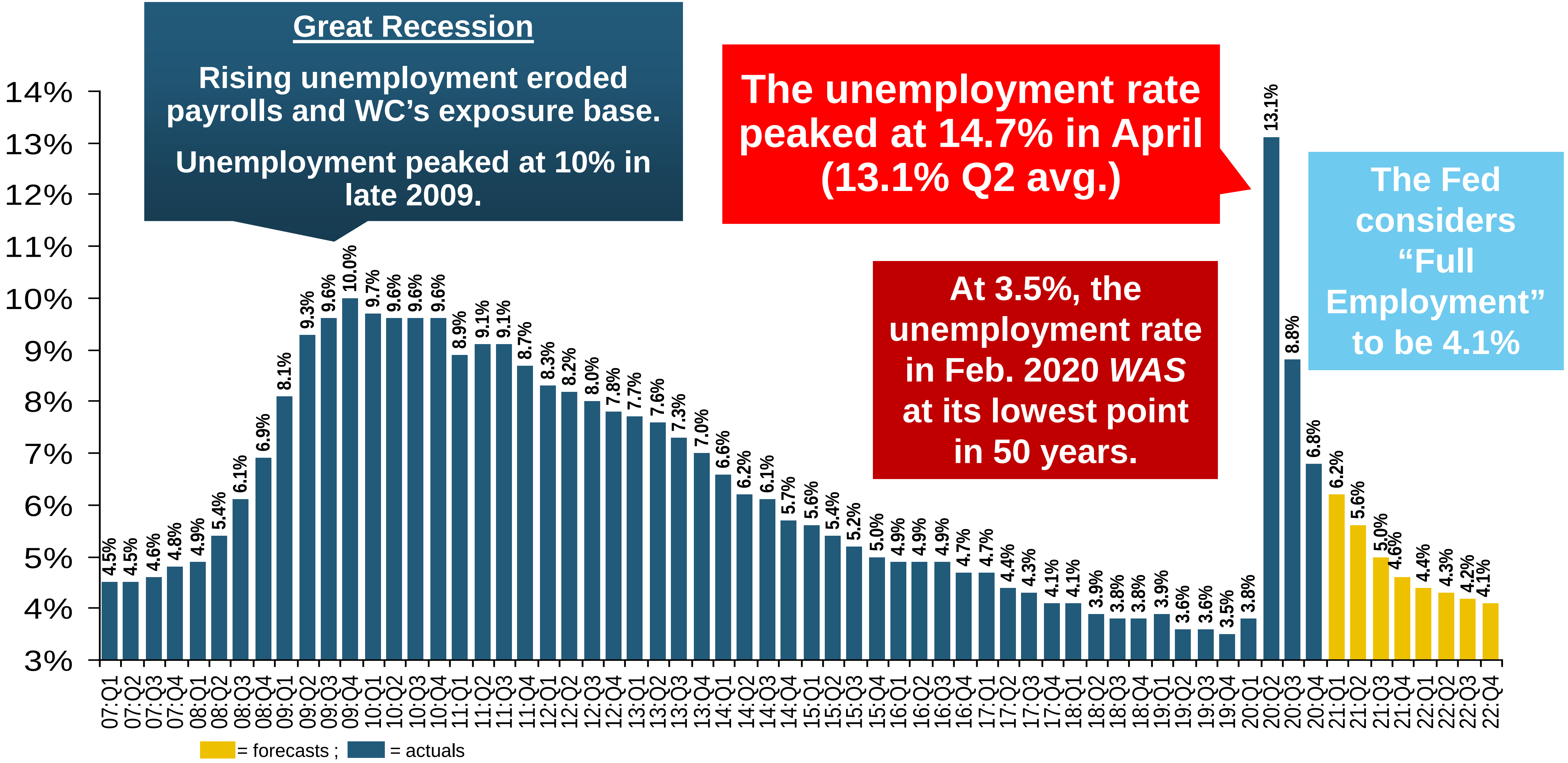
Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO; I.I.I.; A.M. Best *2021 Review and Preview*; Risk and Uncertainty Management Center, University of South Carolina.

Unemployment Rate: Jan. 2020–Apr. 2021



Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

US Unemployment Rate Forecast: 2007: Q1–2022:Q4



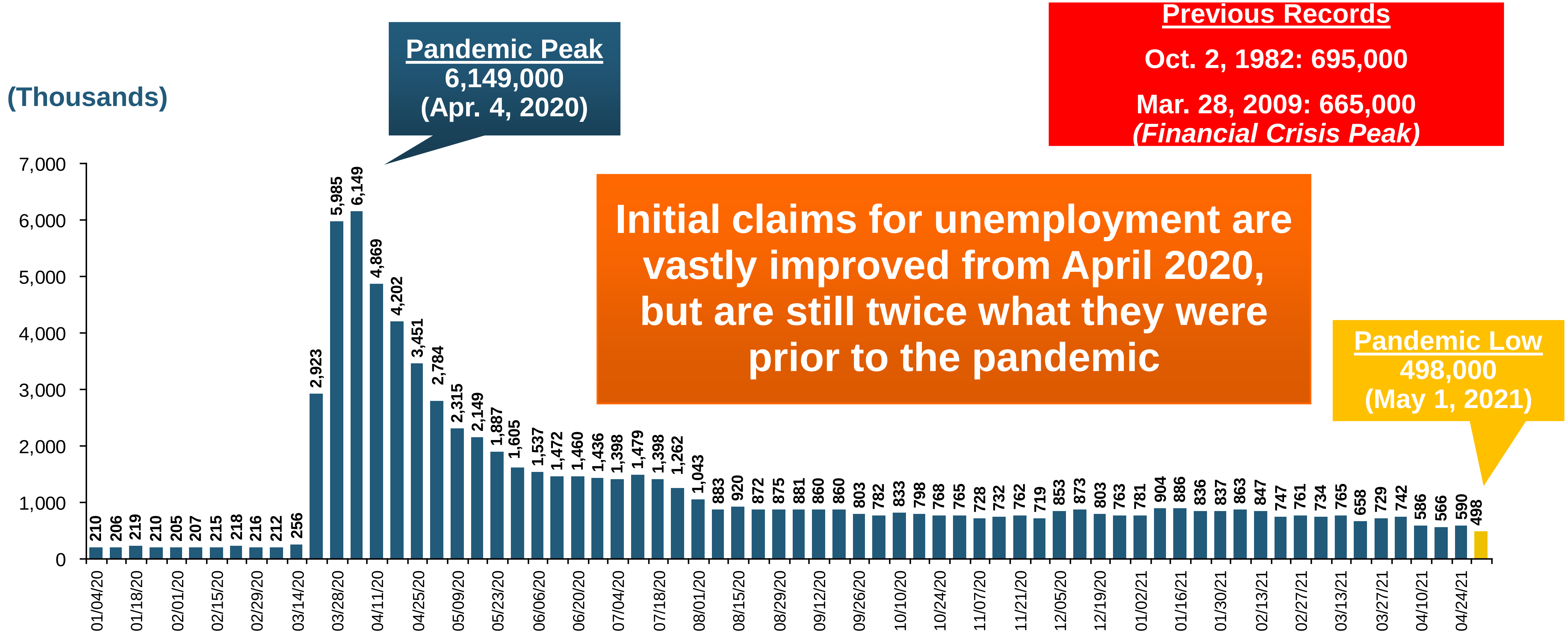
Sources: US Bureau of Labor Statistics; Wells Fargo Securities (4/21 edition); Risk and Uncertainty Management Center, University of South Carolina.

Post-Pandemic Employment Paradox

Jobs, Jobs Everywhere!

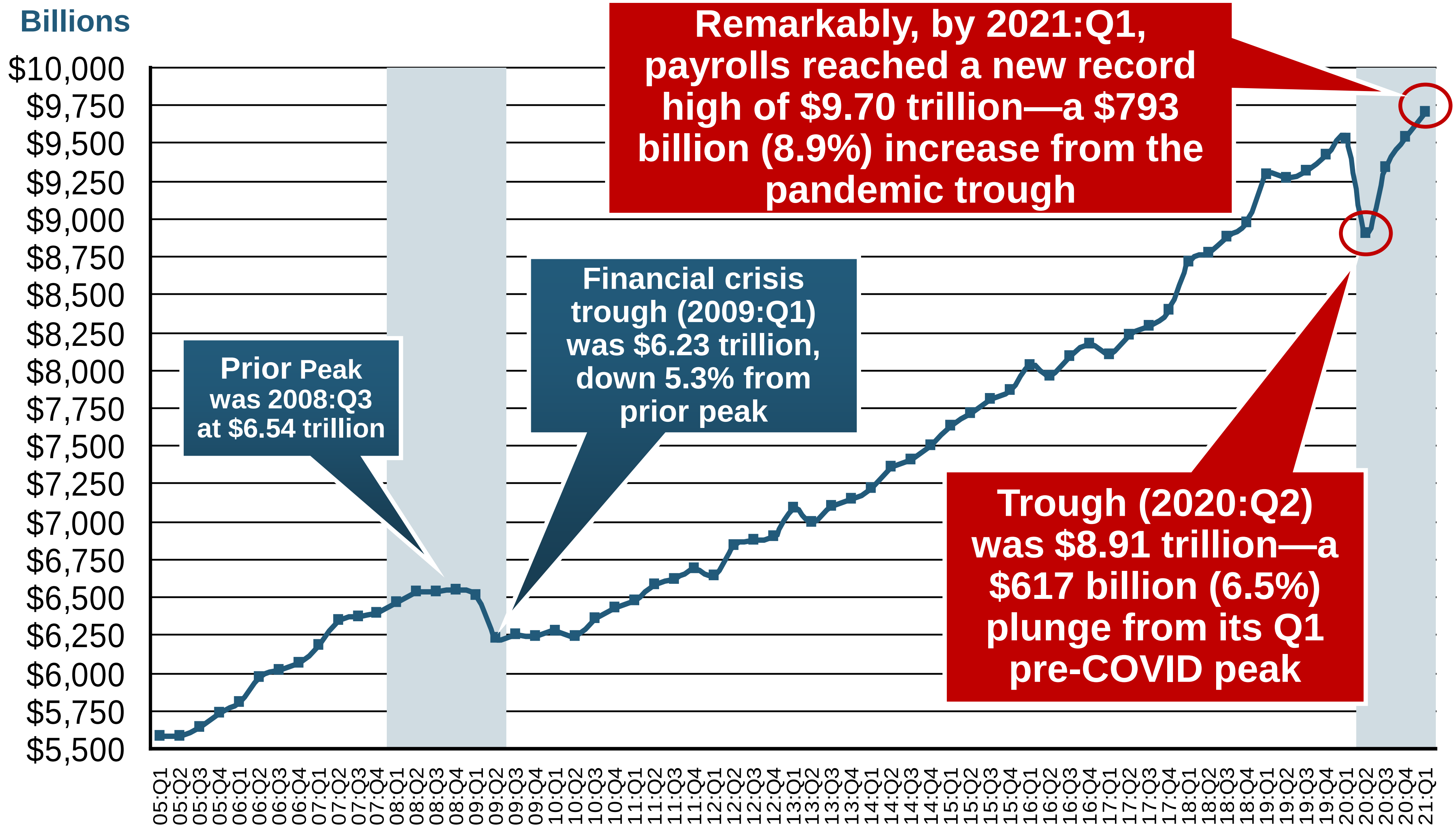
But Where Have All the Workers Gone?

Initial Claims for Unemployment, January 2020–May 1, 2021



Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2021:Q1



Growth rates

2020: 0.2%
2019: 4.9%
2018: 4.6%
2017: 4.5%
2016: 3.4%
2015: 3.2%
2014: 4.9%
2013: 5.2%
2012: 2.3%
2011: 3.9%
2010: 5.5%

Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: http://research.stlouisfed.org/fred2/series/WASCUR; National Bureau of Economic Research (recession dates).

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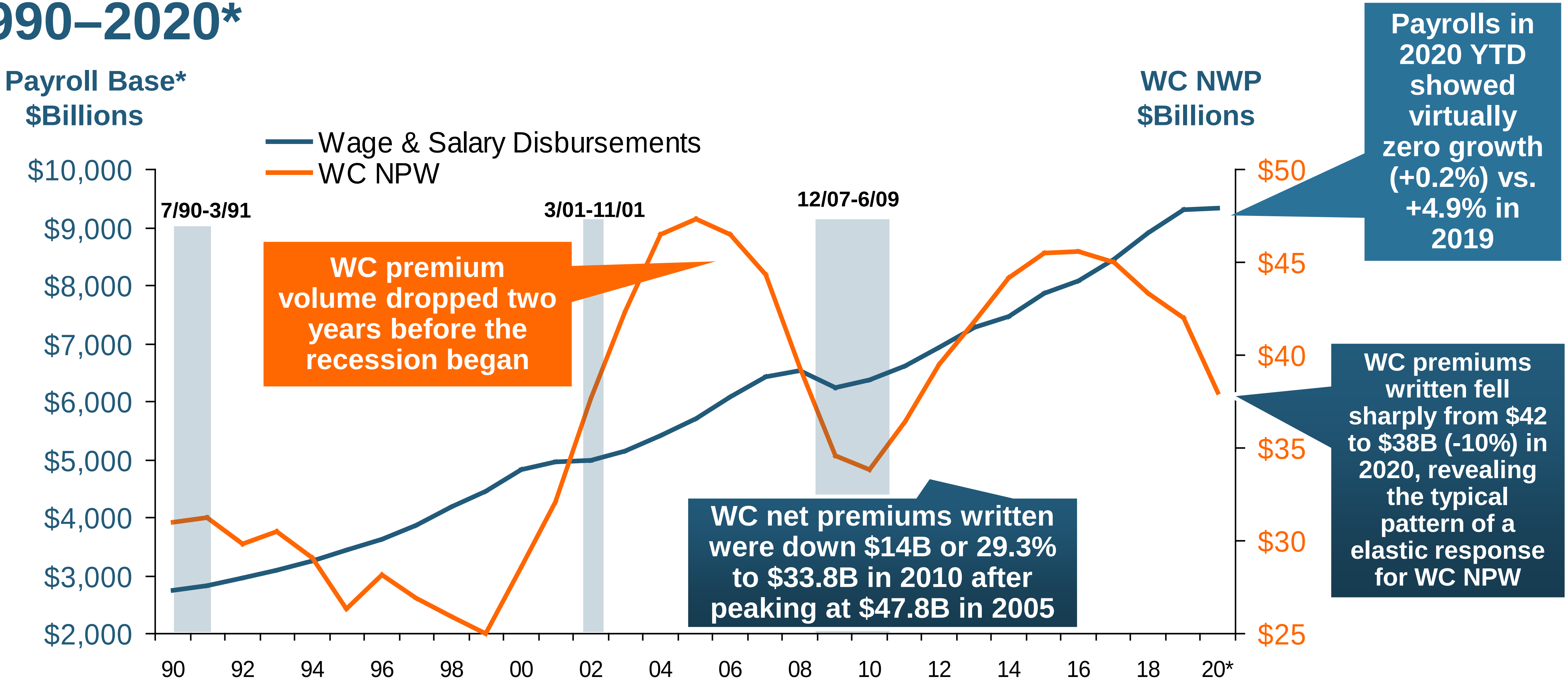
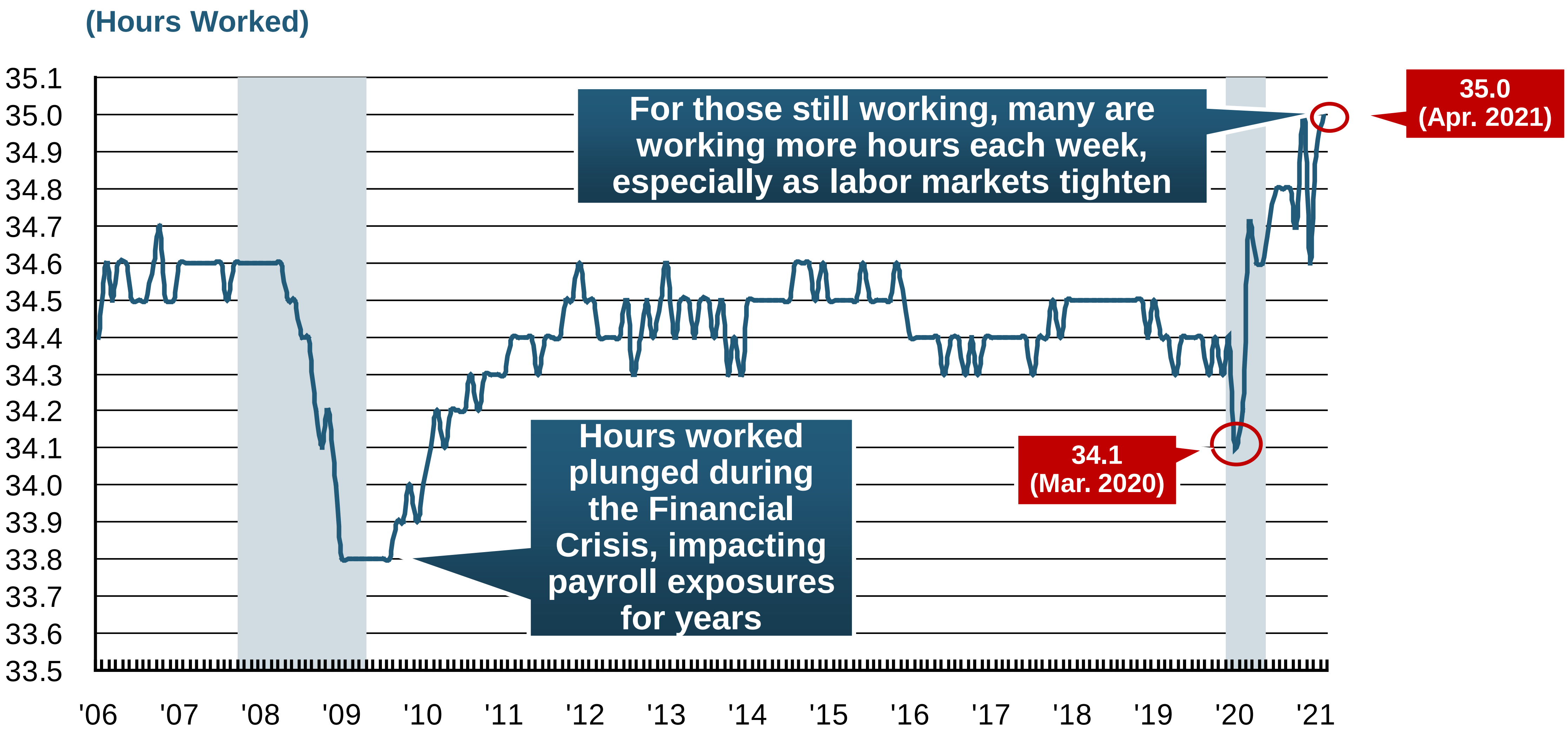
Payroll vs. Workers Comp Net Written Premiums, 1990–2020*



Continued payroll growth will benefit WC exposure growth, but falling rates will adversely impact growth in Net Written Premiums

*Private employment as of Dec. 2020; Shaded areas indicate recessions. WC premiums are from NCCI through 2020. Private carriers only.
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR;NCCI.

Average Weekly Hours of All Private Workers, March 2006–April 2021*

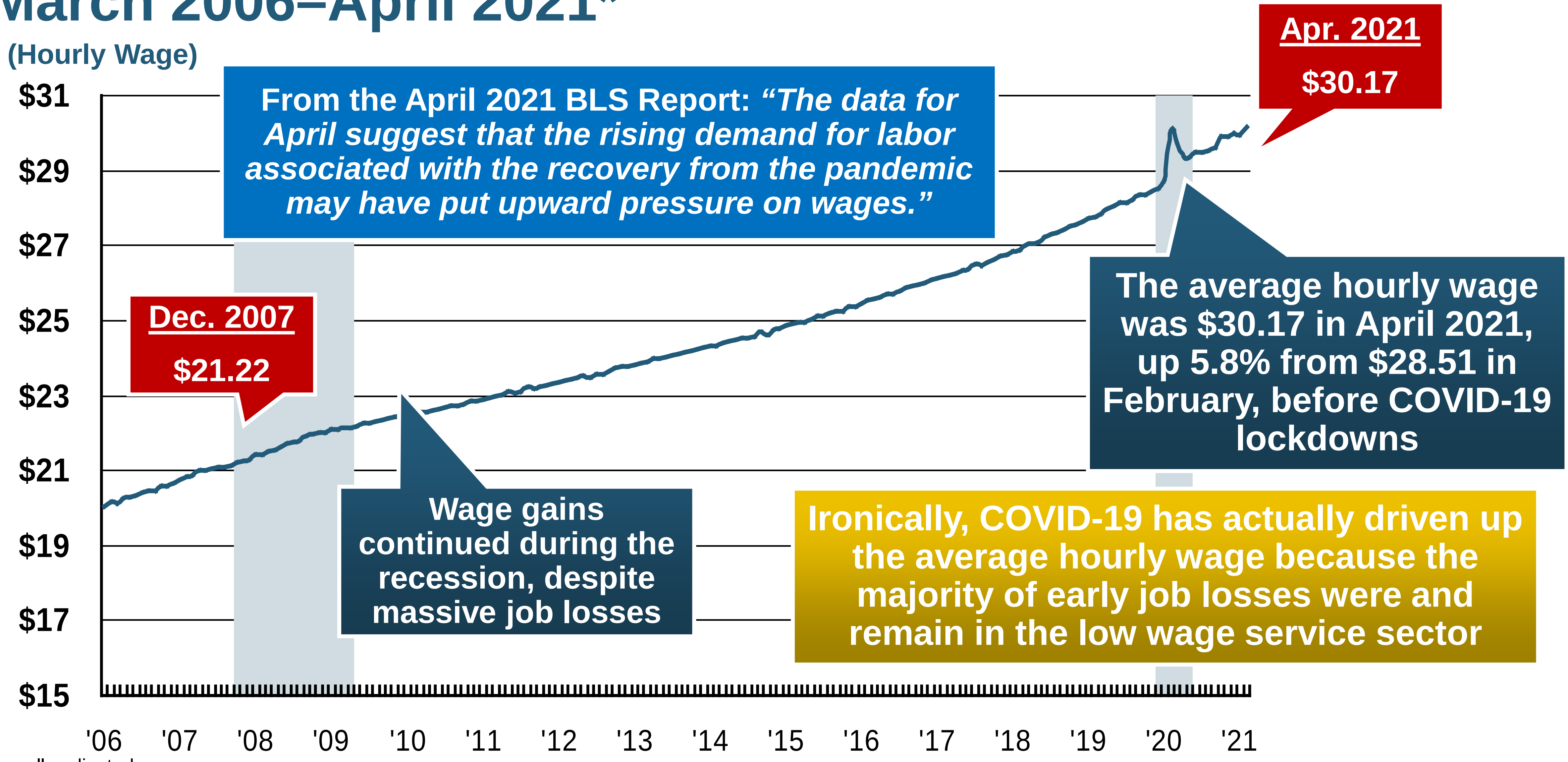


*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/#employment; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

Average Hourly Wage of All Private Workers, March 2006–April 2021*

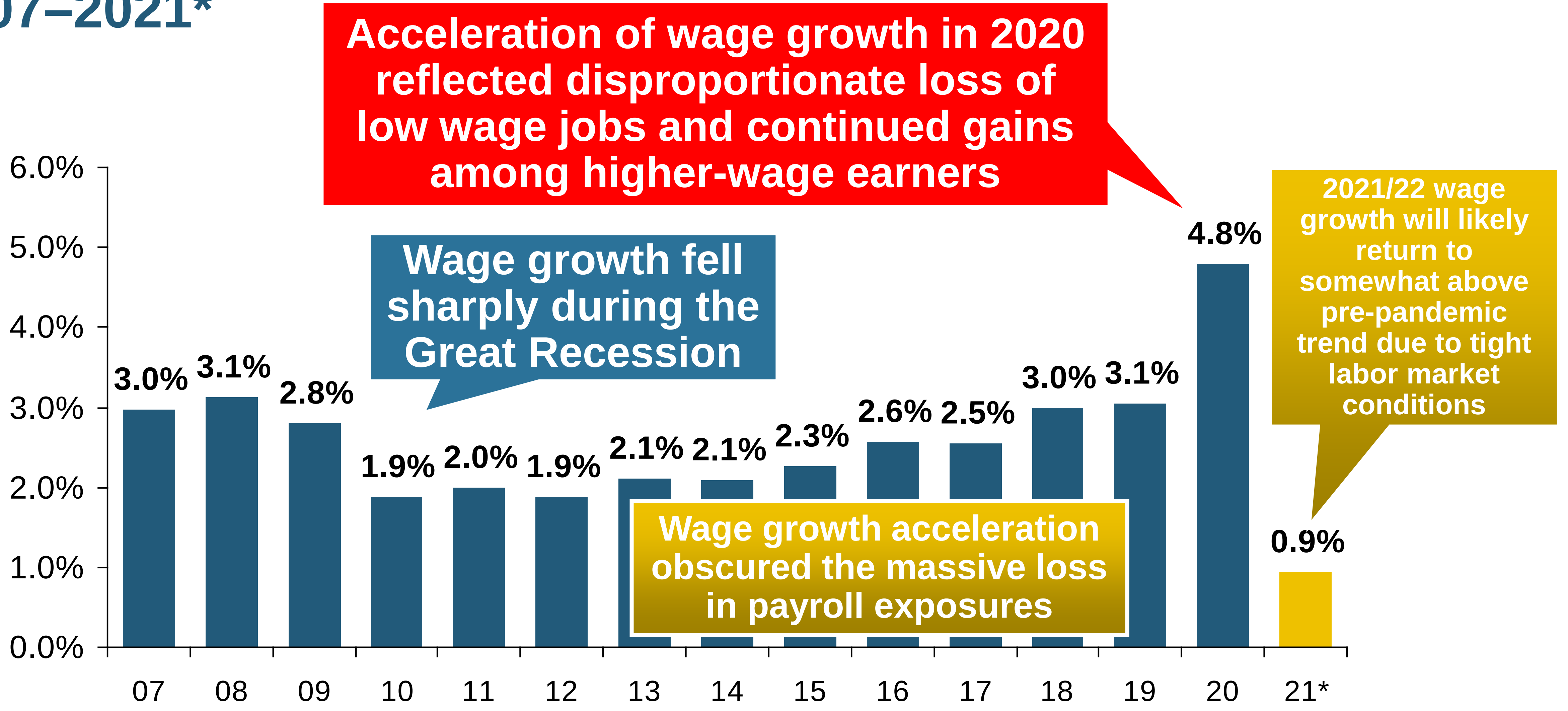


*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/#employment; National Bureau of Economic Research (recession dates);

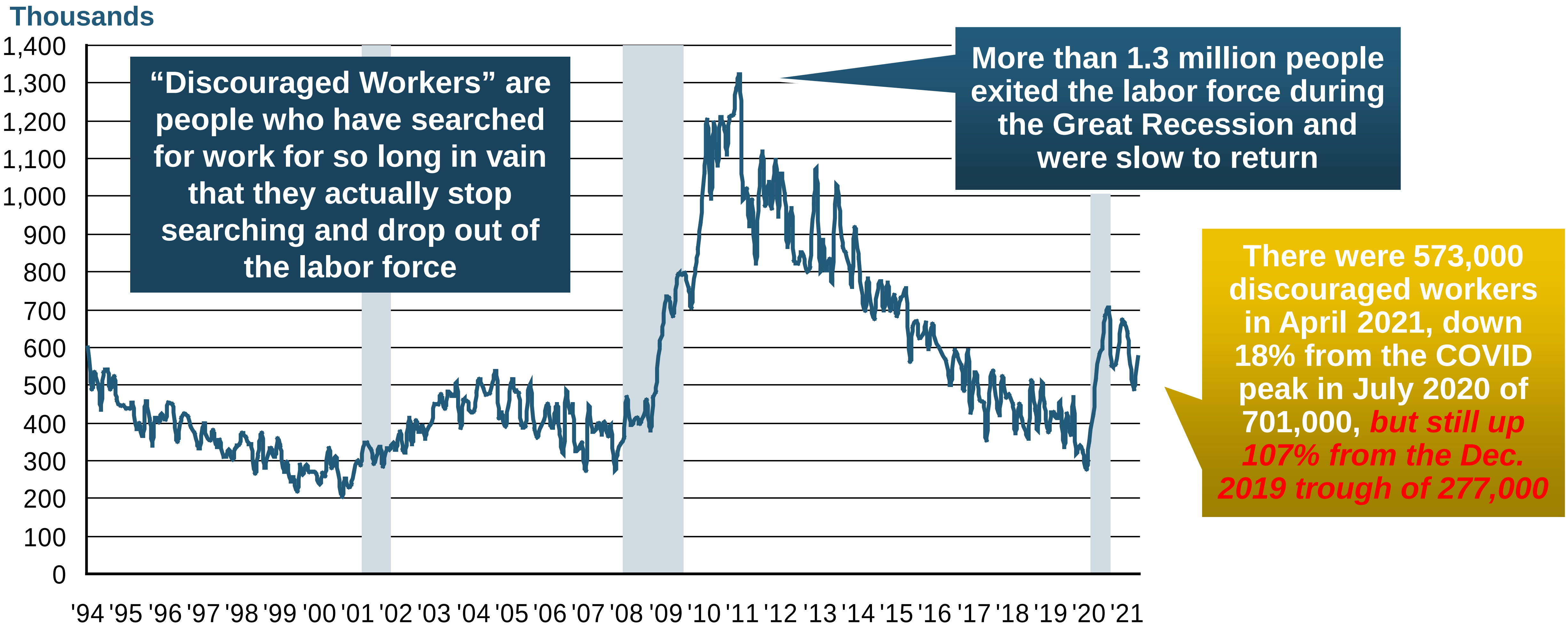
Annual Change in Average Hourly Wage, 2007–2021*



*2021 figure is year-over-year increase for Q1:2021 vs Q1:2020.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/#employment; National Bureau of Economic Research (recession dates); Risk and Uncertainty Management Center, Univ. of South Carolina.

Number of “Discouraged Workers”: Jan. 1994–Apr. 2021

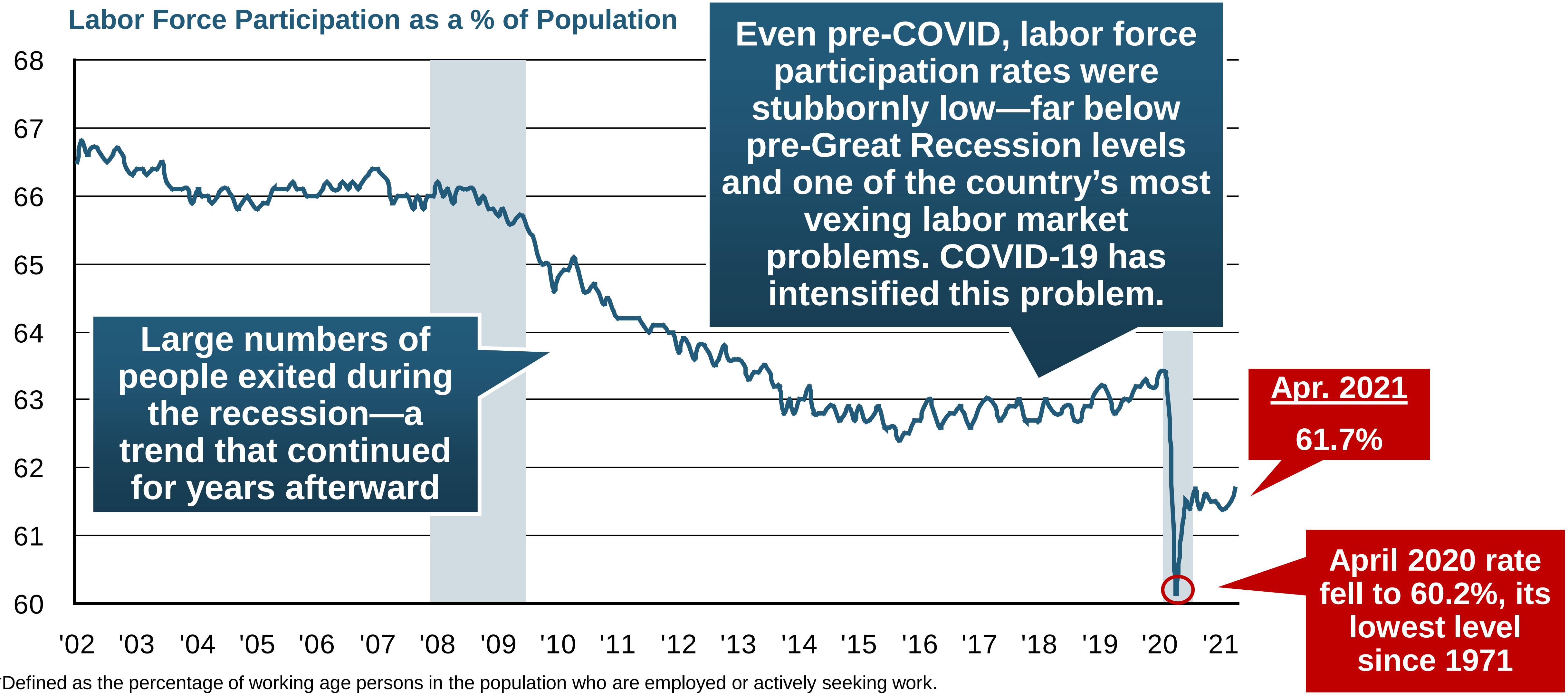


Post-COVID, workers may be categorized as discouraged for reasons apart from lack of job opportunities, including fear of contracting COVID, child care, etc.

Notes: Recessions indicated by gray shaded columns. Data are not seasonally adjusted.

Sources: Bureau of Labor Statistics http://www.bls.gov/news.release/empsit.a.htm ; NBER (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

Labor Force Participation Rate, Jan. 2002–April 2021*

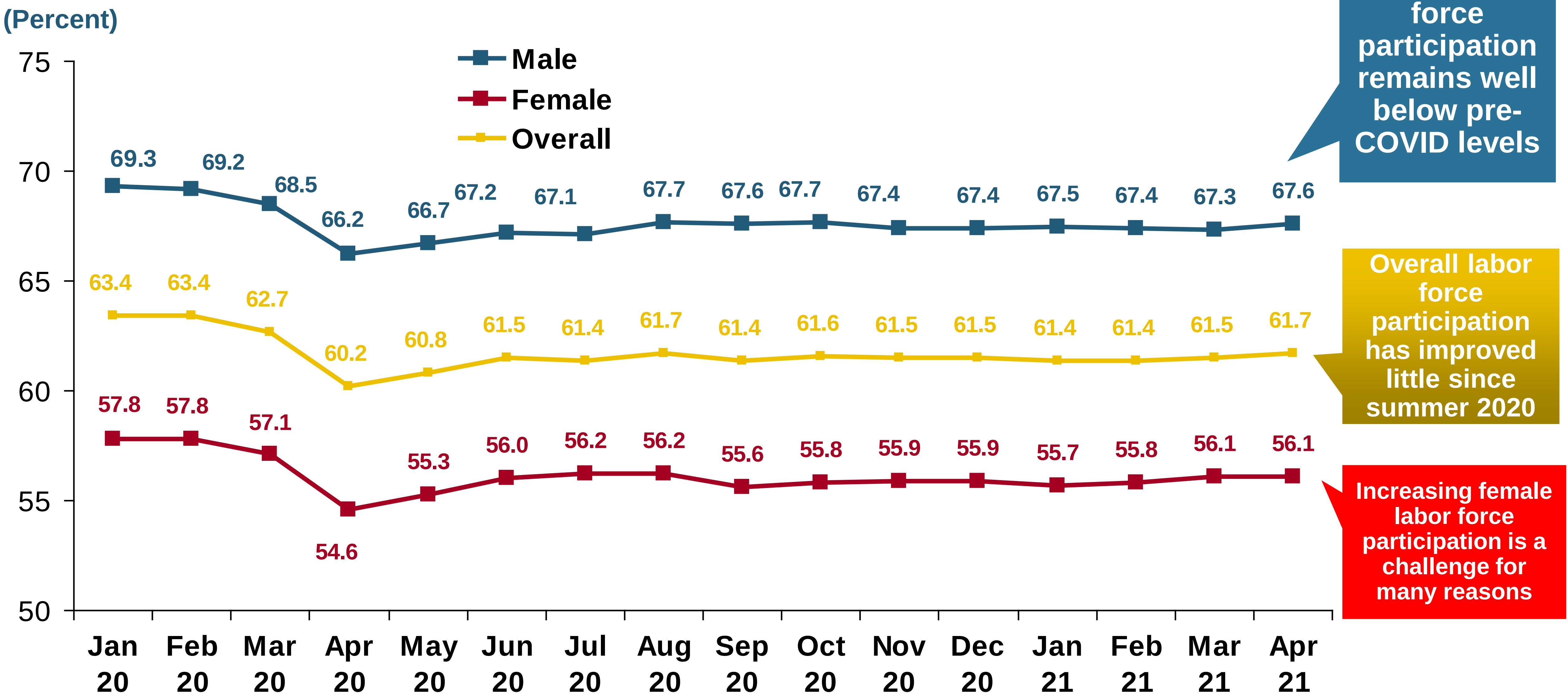


*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

Note: Recessions indicated by gray shaded columns.

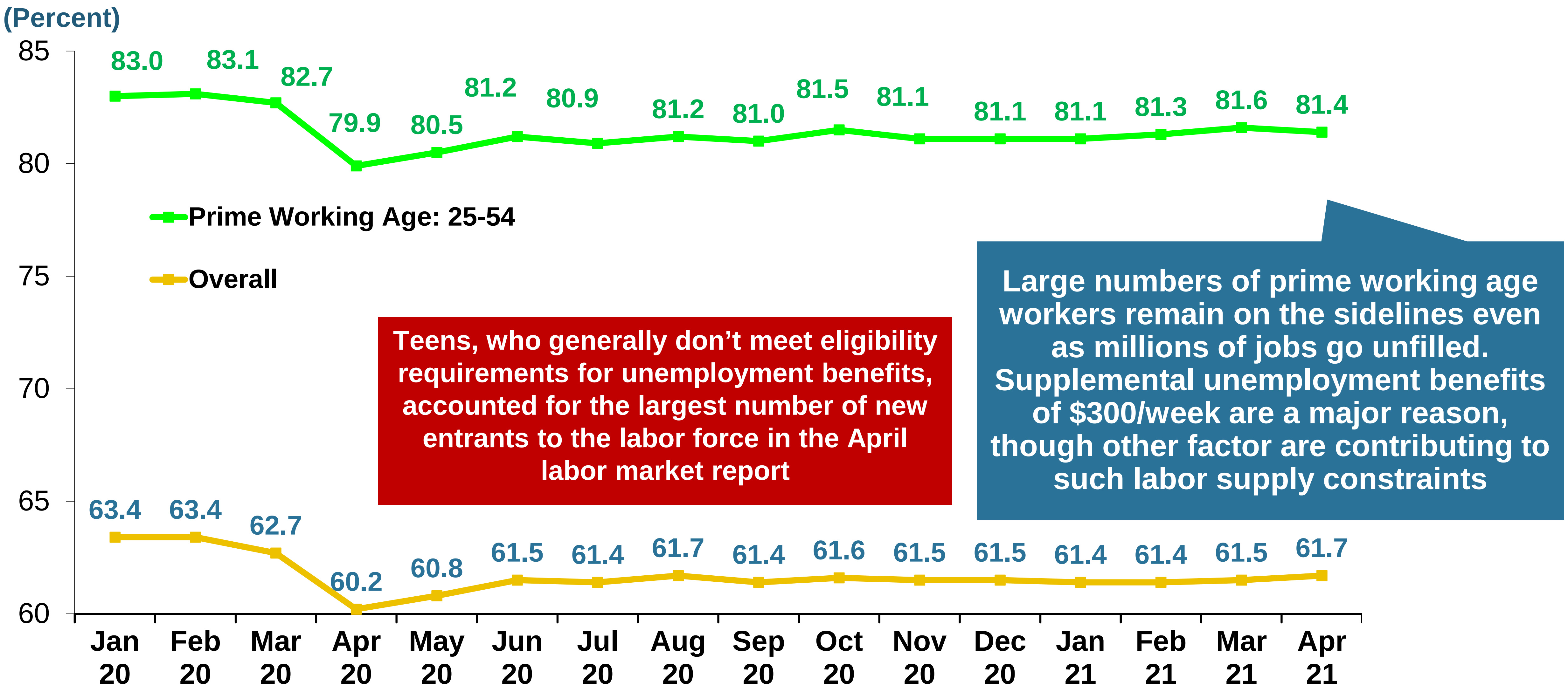
Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

Labor Force Participation Rates by Sex, Jan. 2020–Apr. 2021



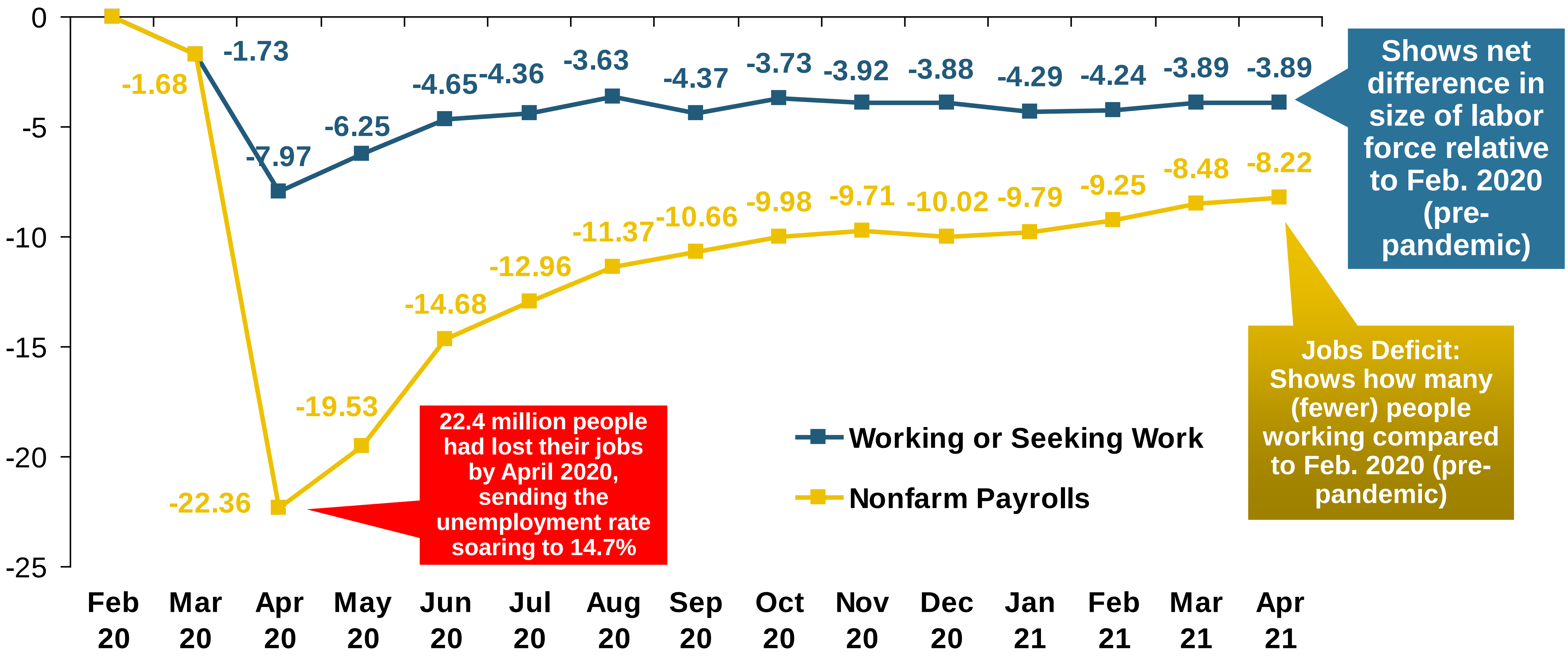
Source: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Labor Force Participation Rates for Prime Working Age Workers (Age 25–54), Jan. 2020–Apr. 2021



Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Change in Persons Working/Seeking Work vs. Nonfarm Payrolls, *Change from Feb. 2020 (Pre-Pandemic)*



Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center; *Wall Street Journal*.

Number of Unemployed Persons per Job Opening, Feb. 2003–Mar. 2021* (Most Recent Available)

*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics JOLTS survey: at http://www.bls.gov/jlt/; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

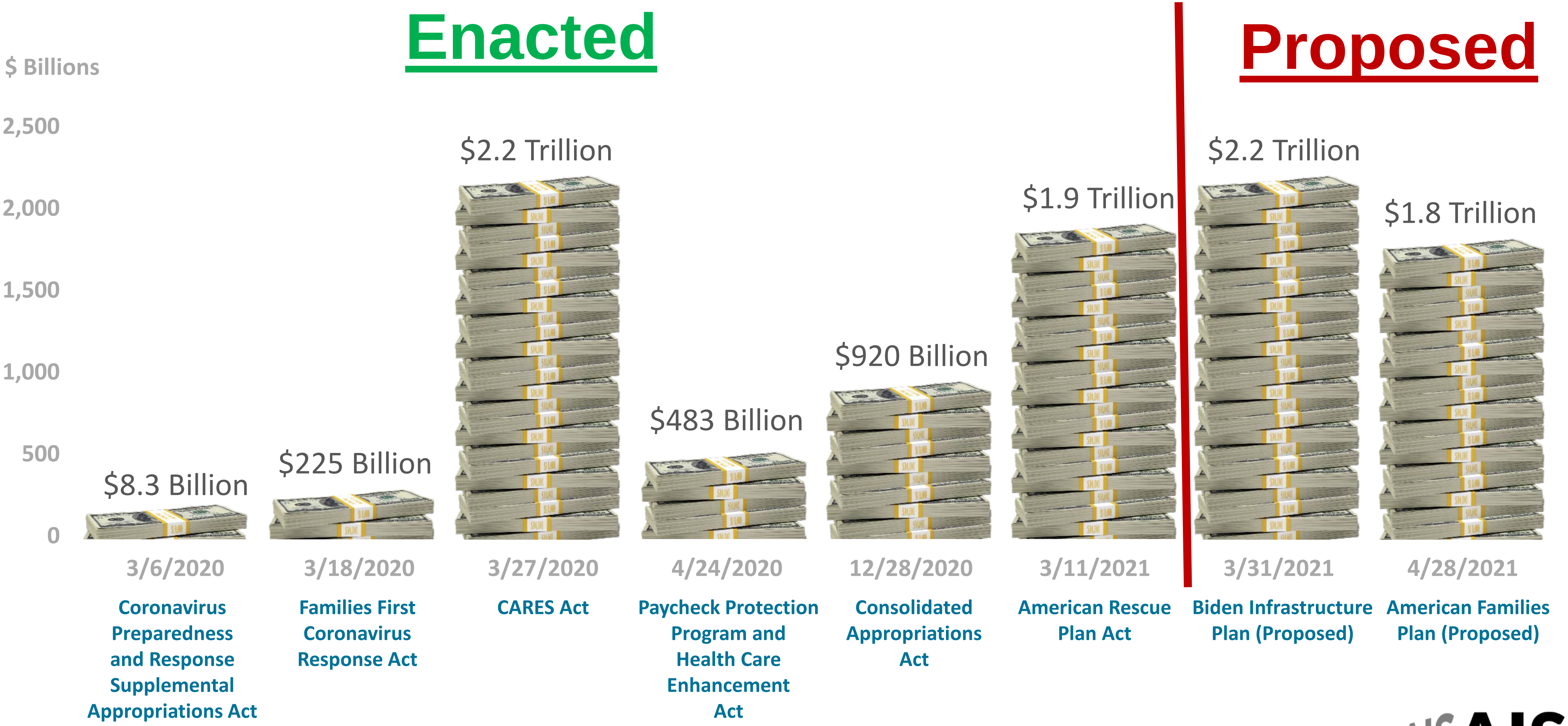
Post-Pandemic Employment Paradox—EXPLAINED!

- **Supply Constraints: US economy is being held back by supply constraints**
  - Many businesses (e.g., auto manufacturers) cannot fully reopen due to lack of key components, keeping some workers sidelined
- **COVID Concerns: Lingering Fears**
  - Some workers are still fearful of returning to the workplace
- **Childcare Issues**
  - Only 60% of schools were open in late April 2021, keeping some parents at home (especially mothers)
- **Financial Disincentives: Couch Cash**
  - Approximately 50% of workers on unemployment today make more than if working
  - $300/week supplemental unemployment benefit is scheduled to run into September

Federal Stimulus Programs

A Multitude of Stimulus Programs Impacted Numerous P/C Lines, Including Workers Comp

Federal Stimulus Plans, March 2020–Present



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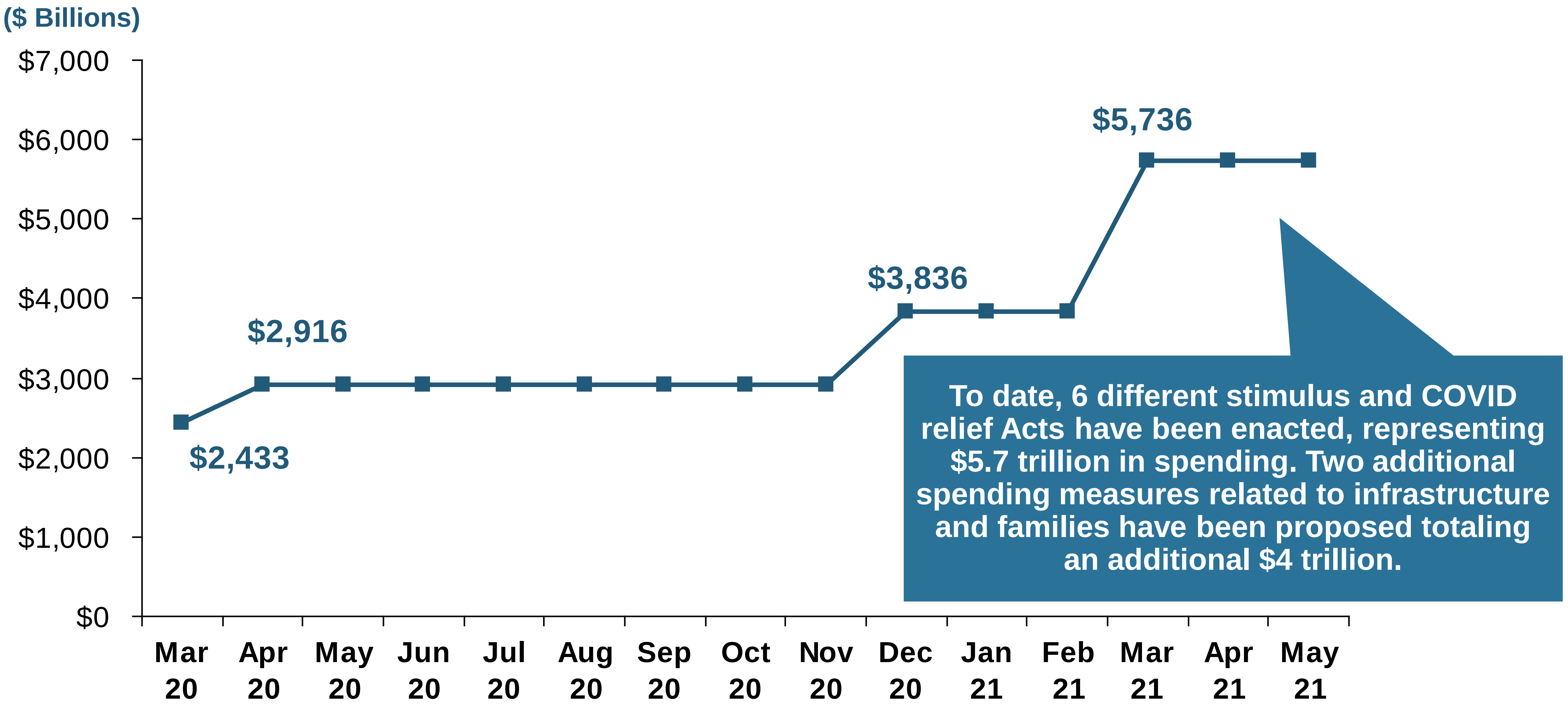
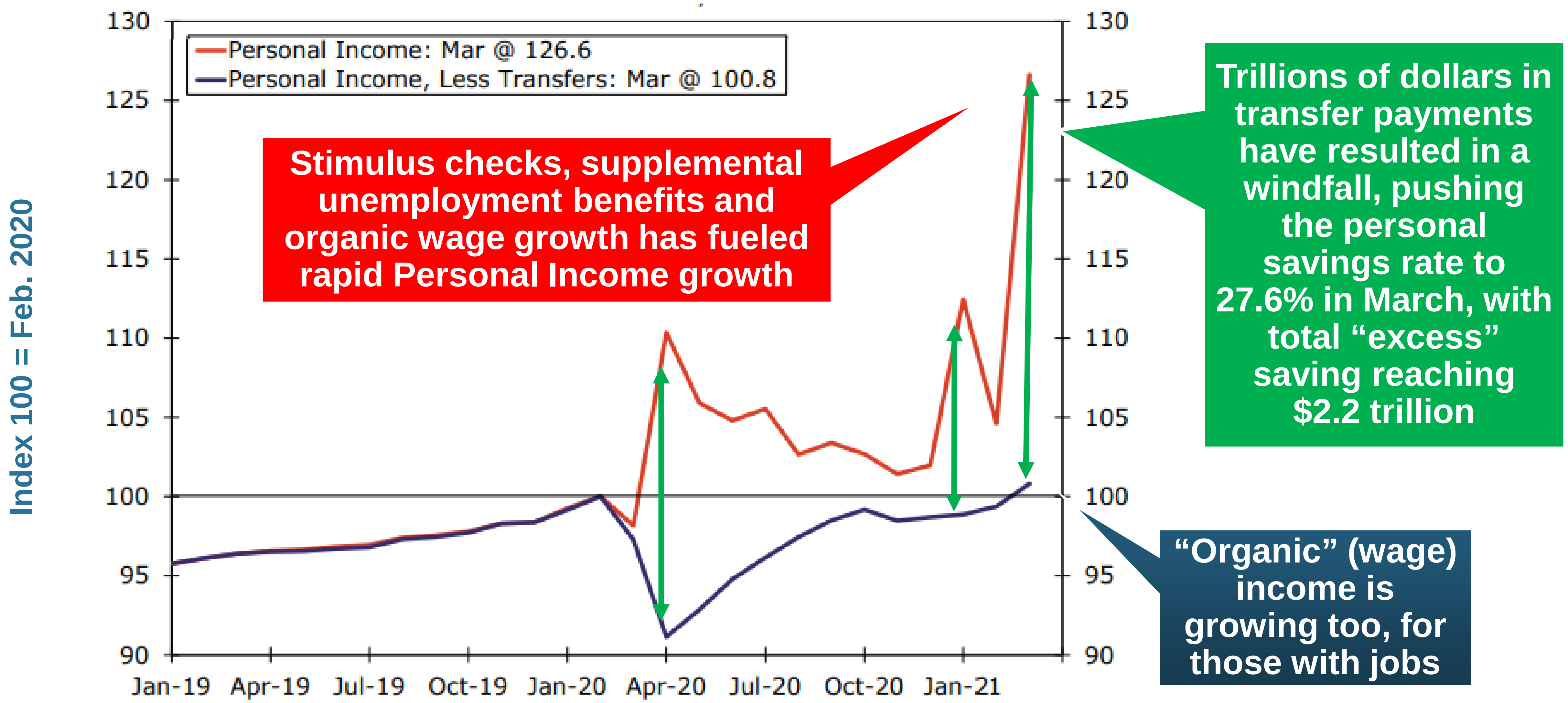
Cumulative Cost of Enacted Federal COVID Stimulus Programs, Mar. 2020–May 2021



Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Stimulus Payments Have Sent Personal Income Soaring, but Organic Income Growth Is Recovering Too!



Sources: US Department of Commerce and Wells Fargo Securities (April 30, 2021).

Pandemic Risk Insurance Programs

What Role Should Private Insurers Play During a Pandemic?

Should WC Be Included in Such a Program?

Six Issues a Pandemic Risk Insurance Program Must Address

1. **How much risk should the private insurance sector bear, if any?**

2. **How much protection should the program provide?**

3. **Should the government charge a premium for the risk it bears?**

4. **Should purchase of coverage by businesses be compulsory?**

5. **Should offer of coverage be mandatory?**

6. **Should the program be bifurcated by firm size?**

7. **Should workers comp and general liability be included?**

Summary of Major Pandemic Risk Insurance Proposals

Proposal	Summary
Business Continuity Protection Program (BCPP)	Business income (BI) reimbursement program. No industry retention→therefore not actually insurance, but utilizes existing insurer claims paying infrastructure. Would pay 80% of business expenses for up to 3 months. Voluntary insurer and policyholder participation. No WC or Liability
Pandemic Risk Insurance Act (PRIA)	BI + Event Cancellation + non-property Contingent BI. Industry retention = ~$50B; No mandatory offer or purchase; No WC or Liability
Specific Carrier Proposal	BI coverage added to existing policies for biz with < 500 employees. For biz with 500+ employees, govt. reinsured BI (Pandemic Re); Mandatory offer but not purchase; $15B+ industry retention.

Source: Adapted from: RAND, “Key Questions to Ask in Designing a Pandemic Risk Insurance Program,” Presentation to the Federal Advisory Committee on Insurance, Sept. 29, 2020; Risk and Uncertainty Management Center, University of South Carolina.

Where Are These Proposals Going?

- **Likely these proposals will go nowhere**

- **Increasingly there is a view within the industry that the issues arising from pandemics are fundamentally economic in nature and are of a magnitude that can be addressed only by massive *government* intervention**

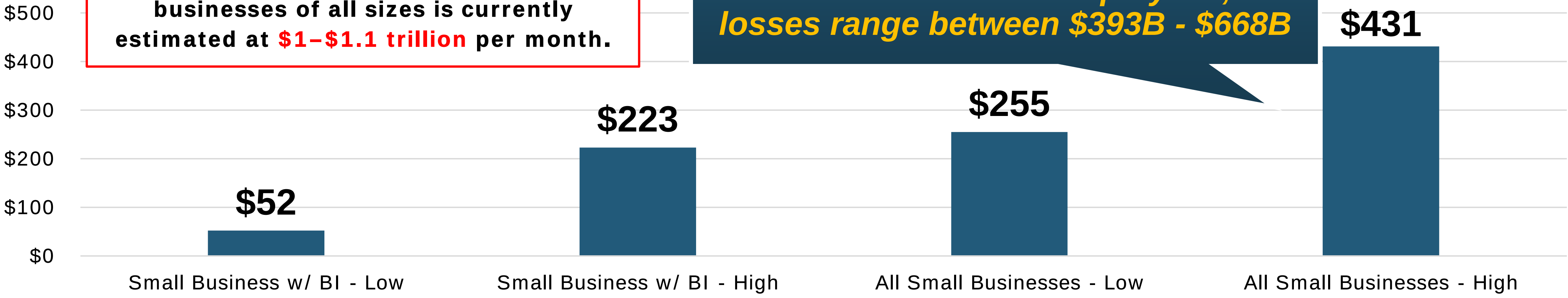
- **Government response to COVID includes trillions in fiscal and monetary stimulus, targeted programs and the marshalling of govt. resources; No amount of private insurance funds will have any meaningful impact on economic outcomes in the aggregate**

- **Insurers will best serve the interests of the country if they focus on managing insurable risks, preserving their financial strength**

Estimated Monthly U.S. Business Interruption Coronavirus Losses for Small Business—Potential Range (<100 Employees; $Bill)

Monthly BI losses for small business vary widely depending on underlying assumptions but expansive legislation would result in higher estimates; *For all businesses <500 employees, BI losses range between $393B - $668B*

The potential for such losses for all businesses of all sizes is currently estimated at $1–$1.1 trillion per month.



60% Businesses impacted*
10% of Payroll for additional expenses
33.3% Have BI coverage
50% Have BI payroll/benefits coverage

90% Businesses impacted*
30% of Payroll for additional expenses
60% Have BI coverage
80% Have BI payroll/benefits coverage

60% Businesses Impacted*
10% of Payroll for additional expenses

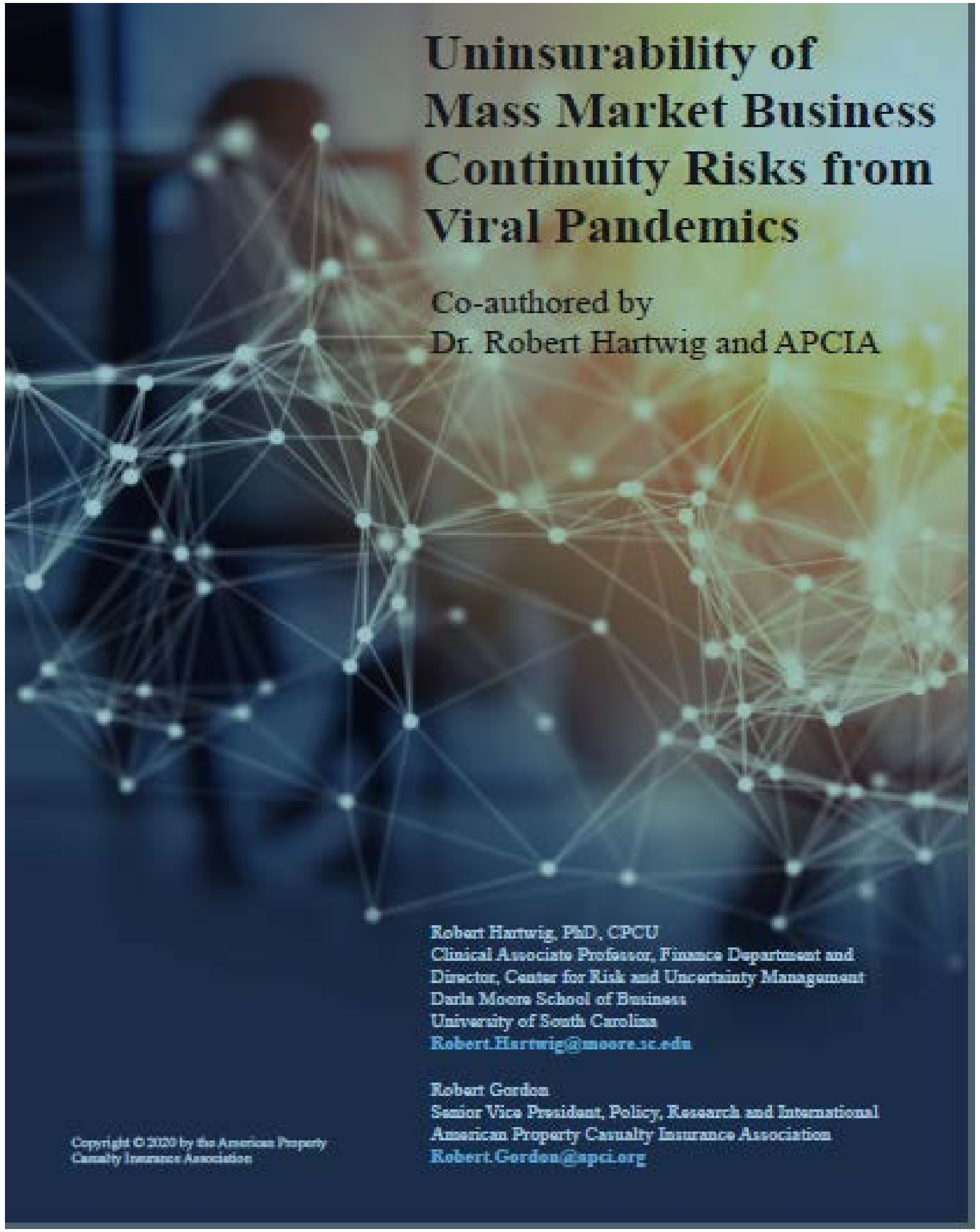
90% Businesses impacted*
30% of Payroll for additional expenses

* Businesses impacted: Proportion of businesses completely or substantially closed related to coronavirus
Assumptions: Losses if standard insurance policy exclusions for viruses/pandemics are voided and physical loss/damage requirement is stricken; three main coverages - profit lost, payroll/benefits, additional expenses; average annual $2m revenue and 7% profit margin; non-wage benefits of small businesses are 25% less than that for average US businesses

Source: APCIA, April 2020.

Paper on Insurability of Pandemic Risk

- Large scale business continuity risks from pandemics are generally not insurable in the private sector
- Business continuity risks are largely undiversifiable within private insurance markets and are highly correlated with other risks (e.g., investment risks)
- Large scale business continuity losses pose a potentially systemic risk to the industry and overall economy
- Important role for government



Download at: https://www.uscriskcenter.com/wp-content/uploads/2020/05/Uninsurability-of-Pandemic-Risk-White-Paper-Hartwig-APCIA-FINAL-WORD.pdf

Risk Management Best Practices

What Has COVID Taught Us?

COVID-19: Personal Risk Management Practices

Face Coverings

Disinfecting

Social Distancing

Hand Washing

We've all been told thousands of times what we needed to do to stay safe in the midst of the pandemic

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COVID-19: Successful Employer Risk Management Practices Most Popular with Workers

- Higher Wages
- Increased Paid Time Off
- COVID-19 Recovery Pay
- Quarantine Pay
- Remote Work
- Health & Wellness
- Childcare Benefits
- Vaccine Pay & Assistance

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Risk Management and COVID-19

- **Risk management lessons from COVID are beginning to emerge**
- **Many companies with sound RM programs rapidly and successfully adjusted to the challenges of operating during a pandemic, setting the stage for a rapid economic recovery**
- **All things considered, businesses in “essential” industries generally did an excellent job of protecting workers amid unprecedented circumstances**
- **Government’s approach to risk management will be hotly debated**
- **Will the lessons of COVID be learned?** ***Time will tell…***

SUMMARY

- The P/C Insurance Industry Remains Strong, Stable, Sound and Secure
- WC Has Avoided the Worst-Case COVID Scenario
- The Rapid Economic Expansion and Supply Chain Disruptions Are Contributing to a Surge in Inflation
- Asset Price Volatility/Bubbles Will Persist and Relatively Low Interest Rates Will Pressure Investment Earnings for Years
- Industrywide COVID-19 Exposures Are Material but Are Manageable, Despite Ongoing Business Interruption Litigation

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Thank you for your time and your attention!

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