AmWINS Group, Inc.

NAVIGATING THE CASUALTY MARKET'S RESPONSE TO COVID-19

The COVID-19 crisis has created uncertainty in a myriad of industries and insurance is no exception. In this rapidly evolving climate, it's important for retailers to stay on top of market changes in order to help their insureds navigate the best risk management course. In this article, our industry specialists share overall themes in the Casualty market and take a closer look at how different market segments are being impacted by this pandemic.

OVERALL MARKET RESPONSE

While the market response to the pandemic is continuously evolving, most carriers are striving to be flexible and fair. However, few are willing to make blanket statements as to what measures they are willing to take to provide relief to their insureds. Most carriers have made commitments to extend payment terms, but exposure base reductions and policy extensions are being handled on a case-by-case basis. The most common concession carriers have made thus far is endorsing policies from a Minimum Premium perspective, which would potentially provide a return of premium to the insured upon policy expiration. As the pandemic evolves, we can expect carriers' position on such issues to remain fluid.

MARKET SEGMENT UPDATES

Within the casualty sector, segments of the marketplace are responding to the crisis differently. Keep in mind that, even before the pandemic hit, the casualty industry was already being impacted by a wide array of factors.

CONSTRUCTION

At this point, construction insurance carriers are making few changes to policy terms and conditions, and the market is actually as close to "business as usual" as can be expected. Some are issuing Communicable Disease Exclusions, and few are saying "yes" to extensions. However, many markets have stepped up to the plate to help insureds during this time, including offering a Suspension of Operations endorsement and a Resumption of Operations endorsement, particularly on project policies.

Of course, for construction accounts themselves, it is hardly business as usual. How much work an insured is able to perform varies widely depending on the state. Most states have restricted construction to "essential" projects, although that can vary from a minimal definition of critical infrastructure, healthcare, and public projects to a broad definition including new home and business construction and even remodeling. Restrictions are toughest on the coasts: in New York state, construction has essentially been shut down, matching conditions that had been in place on the West Coast since the end of March. As a result, contractors have been slashing payroll and revenue estimates for workers' compensation and general liability policies.

"We've seen clients cutting exposure estimates anywhere from 25 to 50 percent," says Jett Abramson, AmWINS Executive Vice President. "And by and large, carriers have been willing to accommodate."

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CONTACT

To learn more about how AmWINS can help you place coverage for your clients, reach out to your local AmWINS broker.

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ON YOUR TEAM.

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REAL ESTATE

Most real estate GL policies already contained a communicable disease exclusion, but some excess markets are now adding exclusions to their policies as well. Clients in this sector are bracing for the greater economic uncertainty faced by tenants. "We are all left wondering, what happens when tenants can't pay their rent?" says Corey Alison, AmWINS Executive Vice President.

At the same time the real estate market is being hit with challenges from the pandemic, insureds continue to see no letup from insurers pursuing rate increases. The rate increases were occurring well before COVID-19, but the combination of the two is creating an even more challenging landscape. "As a way to manage rising costs, especially in building excess limits, lenders will be getting more pushback from owners to lower the limits required and, in light of market conditions, compromises are being achieved." Alison says.

MANUFACTURING

The manufacturing industry is facing a fear of the unknown as "non-essential" operations wonder when they will be able to resume and, once they do, what the near-term demand for products will be. As a result, clients are requesting to reduce sales estimates, sometimes substantially. Some carriers have been willing to do so, and many are also offering lower minimum deposit premiums to help companies get through the cash-flow crunch and in expectation of lower audited sales at policy expiration.

COVID-19 has placed additional stress on manufacturers in already strained industries. "Some insureds have been forced to choose to between paying their operational bills, employees or insurance premiums," said TJ Collins, AmWINS Senior Vice President. "With the lack of contractually required insurance limits in certain industries, coverage is often the first to go. We have seen multiple policies cancelled mid-term."

There is a bright side in the sector, created by the ingenuity and adaptability of modern manufacturers. Operations have demonstrated the remarkable ability to retool their plants to create critical supplies: automotive companies and vacuum manufacturers are producing ventilators; clothing manufacturers and toy companies are making masks; distilleries are producing hand sanitizer.

"What's on the mind of many manufacturers is how can they do good for the U.S. and try to help," says Chris Pisani, AmWINS Senior Vice President. "However, if you are a small manufacturer or a startup, you probably don't have the resources to retool. Those companies are on the sidelines waiting for the stimulus bill to kick in."

While manufacturers are adapting and doing their part to battle the disease, there are underwriting concerns regarding potential products liability claims resulting from defects and rushed production. In these instances, as well as for overseas importers, carriers are asking additional questions including if the insured has experience making this type of product and what quality controls or inspections are in place. "Many go-to carriers in the manufacturing space are not willing to provide coverage solutions because of product quality concerns," Collins added.

PRODUCT RECALL

The food manufacturing industry is one of the few areas that has not had a major impact to its revenue stream during the pandemic. However, the typical supply chain for these manufacturers has been significantly disrupted, resulting in companies having to find new ways to obtain needed ingredients and other supplies. Purchasing ingredients from new suppliers presents many unforeseen issues including the potential to receive contaminated product, in which case the manufacturer could be responsible for the loss. "This is a risk all manufacturers face daily," said Robert Balogh, AmWINS Senior Vice President. "As companies are forced to act quickly and make decisions to keep their plants running, more variables than ever factor into a company's exposure." Other perilous challenges facing food manufacturers include maintaining healthy workforces and keeping a focus on quality and food safety.

"We are seeing carriers work to make renewals as smooth as possible given the state of the world," added Balogh. "However, some markets are taking a firm position regarding COVID-19." Product Recall markets in London have started to add mandatory COVID-19 exclusions on all new business and renewals. These mandatory exclusions have not yet transitioned over to domestic markets.

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"Submission flow has remained steady so far, but we expect new business to diminish in the near future as a result of COVID-19." said Matt Carpenter, AmWINS Executive Vice President. Underwriters are already feeling affects from this change and are aggressively seeking new opportunities, which perpetuates a slightly softening market.

TRANSPORTATION

It has been the transportation industry's time to shine during this crisis. "It has been nice to see an industry that often gets a bad rap getting positive publicity, as truck drivers are recognized for their efforts in delivering needed supplies. A significant impact we're seeing from COVID-19 is that many segments of transportation are still necessary and, in fact, critical right now, including truckers hauling food, medical supplies, paper products, and more," says Andrea Dickinson, AmWINS Transportation Practice Leader.

Conversely, other motor carriers are negatively impacted because their key shippers are closing down or have greatly slowing down, and thus, revenues are shrinking significantly and rapidly. Charter bus and leisure transportation units are being parked, as are units owned by carriers who haul for industries currently not producing new inventory, such as automotive manufacturing. For others, there is limited to no freight to be hauled, especially in intermodal operations that work ports for imported goods.

Primary auto markets have been more flexible around removing units from policies on a temporarily out-of-service status without providing the normally required documentation. Some are willing to lower minimums and deposits on policies. Some excess carriers are also following the lead of primary carriers in allowing these deletions.

When requesting changes to policies, retailers should provide as much information as possible. How many units are parked? Can the customer provide a detailed unit list with year/make/model/VIN? What percentage of a customer's shippers are closed or at limited operating capacity? What change in annual projected miles and revenue are expected now? The more details that can be provided to underwriters, the more likely it is that accommodations can be made.

From a claims perspective, many transportation clients are reporting their best month in the history of their company from a frequency standpoint because roads are mostly empty. This has freed up nationwide bottlenecks and allowed those trucking companies that are moving essential goods to get to where they need to go faster and more safely. Likewise, insurance companies are already reporting a significant reduction in claims frequency.

ENERGY

Although the energy sector is not as affected from a coverage standpoint as other industries, some carriers are introducing an endorsement more specific to communicable diseases. "We are seeing some attempting to add a catch-all phrase for communicable disease on policies effective May 1," says Heath Cunningham, AmWINS Executive Vice President. "Once the marketplace starts seeing this language being accepted, everybody is going to jump on the bandwagon."

The price of oil and lack of oil production has impacted the Energy space in parallel to the world battling the COVID-19 pandemic. In response to this, energy contractors and businesses that provide products and services which support the energy sector are seeking to adjust their exposure if their renewal is imminent or cut back on their limits midterm as a cost saving measure. Some carriers are willing to work with the insured but are asking for documentation to support the adjustments.

MOVING FORWARD

During this pandemic, AmWINS is working closely with our carrier partners to understand their changes in operations and protocols, advocate for flexible payment terms, exposure basis relief and policy extensions when possible, and ensure as little disruption as possible with regards to servicing, claims, binders, endorsements, and renewals. We will keep our clients advised of any new market changes, renewal challenges and regulatory proposals that may impact our business.