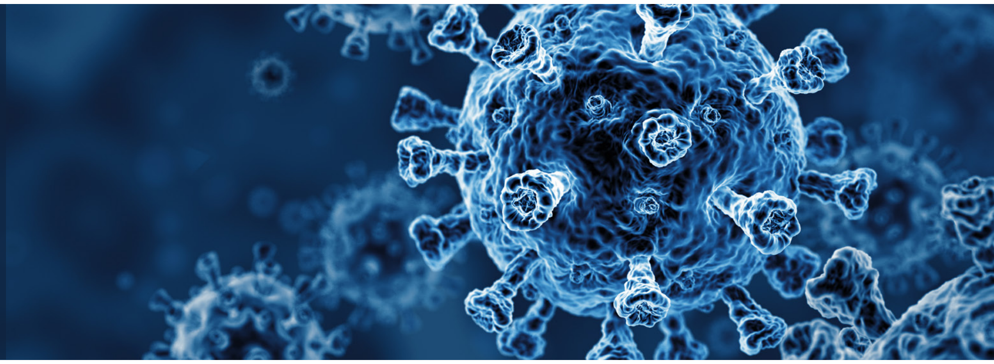
COVID-19 Insurer Solvency



Property and casualty insurance companies continue to challenge rating agencies as to the accuracy of the current ratings in light of the pandemic and shock to the US economy. This merits some need for re-evaluation of key solvency metrics (at this point, more from deterioration in the credit quality of insurer's fixed income portfolios, along with the drop in equities), but continues to suggest:

- P&C insurers are well capitalized and able to withstand investment volatility
- P&C insurance serves all major sectors of the economy, and premiums track closely with GDP
- For claim costs, the coronavirus will have mixed effects, with lower frequencies for personal and commercial auto but higher claims for health care workers' compensation*

We anticipate the economic shock from the pandemic will cause an obvious decline in premiums, somewhat elevated claims costs and continued volatility in investment results. Any calculation as to insured losses arising from COVID-19 is premature given the number of lines that could (or could not) be effected, as well as the likelihood that property insurers will be nonresponsive to property and business interruption claims.

Emerging state legislation attempting to effectively rewrite property insurance to be responsive retroactively to the pandemic for some subset of insureds, along with conversations at a federal level to participate as a backstop for insurers, are complete unknowns as to their respective probabilities of success as well as impact on the solvency of insurers. A second unknown is the addition of one or more insured catastrophes (we're about to enter the windy season) suffered by the P&C insurers that could further stress the solvency of the insurance community.

Rating Company Perspectives

Moody's Investor Services

"For US property & casualty (P&C) insurers, the economic shock from the coronavirus pandemic will cause a decline in premiums, higher claim costs in certain business lines, lower claim frequencies in others, more volatile investment results, and a deterioration in capital from the high year-end 2019 levels, Moody's Investors Service says in a new report. However, insurers can weather the downturn based on strong starting capital and liquidity. P&C insurers maintain high-quality, liquid investment portfolios and they produce healthy cash flows, which will help them withstand coronavirus-related volatility in the stock and bond markets."

Standard & Poor's (S&P)

"Robust Capitalization Makes the COVID-19 Fallout Manageable for North American Property/Casualty Insurers and Reinsurers. We believe the North American reinsurers entered 2020 in general with robust capitalization and relatively disciplined underwriting so far, supported by well-developed enterprise risk management and hardening re/insurance pricing. In the aggregate, this should help the sector mitigate some of the risks and uncertainty arising from COVID-19."

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*Moody's Investor Services