PANDEMIC BRIEFING

General Insurance and Workers Compensation

Derived from
GI Appointed Actuaries' Forum

Discussion on the challenges of COVID-19 for the GI industry and managing through it

15 April 2020

Actuaries Institute

GI Actuarial Valuation

- COVID-19 issues for consideration
- Updated 16 April 2020

Direct Claims

CoB	Considerations
Business Interruption	Generally requires physical damage; normally has pandemic exclusion; check policy wording; may be some legal challenge about exclusions; political pressure overseas (especially US) on operation of exclusions
Consumer Credit Insurance	Will stand down trigger cover. Rise in unemployment claims.
Event Cancellation	Policy wording and exclusions important
Landlords	Policy wording important and interaction with Government response on tenancy protection
Lenders Mortgage Insurance	Temporary mortgage relief by Banks will defer impacts but higher unemployment and drop in house prices (as forecast by some) will increase frequency and claim size
Liability	Specific exposures to class actions such as cruise operators

Direct Claims

CoB	Considerations
Marine Cargo and Hull	Generally requires physical damage but extensions may have broadened cover
Surety	May take a while to come through; depends on balance sheet strength
Trade Credit	Altered risk profiles for different industry segments and businesses
Travel	Date of policy purchase, date of travel and exclusions are important
Workers Compensation	Employment as significant contributing factor
Other policies with unemployment trigger	Does stand down trigger policy cover

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Other Claim Impacts

CoB	Short Term	Medium Term
Motor	Reduced collision frequency	Supply/demand and exchange rate push up repair costs
Home	Fewer theft/burst pipe claims	Supply/demand pressure including on imported building materials
Commercial Property	Does change in use of property impact risk/policy coverage (e.g. brewers producing hand sanitiser, hotels acting as places of quarantine)	Possibility of higher level of arson linked to distressed conditions
CTP	Reduced frequency with fewer collisions	Delayed medical treatment results in poorer outcome; fewer RTW opportunities (relevant for statutory benefits)
Liability	Less trip and slip exposure; does change in use impact risk/policy coverage	New source of class action regarding duty of care (e.g. aged care, disability sectors). Higher levels of cyber claims resulting from vulnerabilities exposed by remote working

Other Claim Impacts

CoB	Short Term	Medium Term
Workers Compensation	WFH introduces different exposure	Delayed medical treatment results in poorer outcome; fewer RTW opportunities; mental health issues
PI	Less activity in some areas	More business insolvencies will increase claims against certain professions
Medical Indemnity	Less activity leads to fewer claims	Prospect of negligence if health system overwhelmed; how will ‘duty of care’ be applied in this context?
Builders Warranty	More builder insolvencies leads to more non-completion and defect claims	
D&O	Share price reductions/insolvencies lead to more class actions (e.g. post GFC claim spike). Six month relief to Directors for personal liability from trading while insolvent may be a partial mitigant	

Operational Impacts

- Slower claim reporting by individuals (e.g. car drivable)
- Slow down in claim assessment and fulfilment
- Greater difficulty in obtaining expert reports
- Less court and mediation activity
- Decline in recoveries/subrogation
- Variable premium (e.g. burners in WC, exposure-related premiums)
- Premium holidays, more cancellations and refunds will impact unearned premium and exposure
- Gratuitous payments and AFCA challenges on policy interpretation will impact claim levels

Economic Assumptions

- Lower discount rate
- Lower prospective wage inflation and CPI

- Claims inflation may not reduce in the same way as CPI/wage inflation (e.g. supply chain issues, exchange rate impacts)

Reinsurance Considerations

- Greater focus on reinsurer credit ratings and counterparty risk

Risk Margin Considerations

- Greater uncertainty about outcomes may lead to higher risk margins for both OSC and PL

Actuarial Considerations

- The past will not be a guide to the future!
- Grossing-up of data from March 2020 will likely not be appropriate
- Using loss ratio for accident periods to March 2020 for premium liability may not be appropriate; some classes will have a significantly higher PL loss ratio
- Discussion with claims managers on policy coverage issues
- Discussion with claims managers on operational impacts
- Understanding any restrictions/exclusions on policies now being written
- Understanding more granular exposures for some CoB
- Considering scenarios around duration of shutdown, length of recovery, impact on GDP/unemployment will be useful

Reliances and Limitations

- This presentation has been compiled to encourage debate and discussion by Appointed Actuaries on the challenges of undertaking valuations at the current time
- The presentation highlights some areas for consideration generally and for specific classes of business but is not intended to be a complete documentation of all issues for all classes and companies
- Individual actuaries need to ensure compliance with PS302 in undertaking any valuation of general insurance claims; Appointed Actuaries need to ensure that valuations comply with CPS320

GI Financial Condition Reports

Business Overview

Includes background, structure, strategy and operations

- Any impact of COVID-19 on strategy
  - With potential breakdown into short- and long-term impacts
- Operational impacts of COVID-19
- Impact on distribution channels. E.g. motor distributed through motor vehicle dealers
- Impact on outsourced service providers
- Activation of BCP

Actuarial Valuation Report

Key results of AVR

- Impact of COVID-19 on uncertainty of valuation results - gross and recoveries

Pricing

Adequacy of prices

- Pressure on making price increases, or indeed reductions for some CoBs
- Impact of higher claims environment on adequacy (for specific classes)
- Impact of ex gratia payments on price adequacy (short term impact only?)
- Premium refunds for particular classes

Reinsurance

Includes reinsurance strategy

- Any implications for reinsurance capacity and credit ratings

Investments

Includes investment strategy

- Losses due to mark to market
- Credit rating of corporate bonds
- More careful consideration of liquidity than usual if premium revenue issues
- Any impact of changes of uncertainty in capital position on investment strategy
- Liquidity considerations if not matched

Risk Management

- Results of insurer risk assessment of COVID-19
- Increases to risk measures as result of COVID-19
- Correspondence with regulators / guidance
- Adequacy of BCP plans
- Ability to ramp up for a Nat Cat during lockdown?

Business Plans & Profitability

- COVID-19 impacts on business plan/profitability
  - Including impact on future policy volumes (new business and lapse rates), average premiums, claims and expenses. Impact will vary by CoB and organisation.
- Specific scenario testing around this, given uncertainties
- Impact or otherwise of new consumer legislation
  - DDO, Unfair Contract Terms, etc

Capital Management

- Careful consideration of each item in the PCA calculation & liaison with acountants
- COVID-19 impacts on CAM
  - Including reconsideration of stress tests in the ICAAP
  - Layering of stresses on top of uncertain pandemic ‘base’ scenario
- Dividend policy implications
- Impact of COVID-19 on ability to raise additional capital if required. E.g. ability of parent to support branch operations
- Increased monitoring and reporting frequency, engagement with the Board

Conclusions on Financial Condition

- Will need to include a comment on COVID-19 and how this impacts conclusion

Reliances and Limitations

- This presentation has been compiled to encourage debate and discussion by Appointed Actuaries on the challenges of assessing the financial condition of insurers at the current time
- The presentation highlights some areas for consideration generally but is not intended to be a complete documentation of all issues for all companies
- Individual actuaries need to ensure compliance with PS305 in producing an FCR for any general insurer; Appointed Actuaries need to ensure that assessments of financial condition comply with CPS320

What support would you find useful?

What support would you find useful?

- Some examples
  - get together specialist groups for ‘deep dive’ into particular classes
  - Host and share information on professional issues
  - Liaison with APRA on GI specific issues
  - Institute-considered ‘realistic’ scenarios for COVID outcomes, specific to GI, which may be used in FCR to illustrate potential outcomes
  - Conduit for escalating concerns for individual practitioners
  - Please contact actuaries@actuaries.asn.au to provide further feedback

Members' Sounding Board

- The Institute facilitates contact between actuaries and senior members of the profession to provide an avenue for confidential discussion of sensitive or ethical issues.
- The 'sounding boards' do not provide advice but listen to the member's issue and canvas matters to consider. Any subsequent decisions or actions are the responsibility of the enquirer.
- If you would like to avail yourself of this assistance you can get in touch with the President or the CEO and they will provide some names on a confidential basis, to assist you.