

# BRAD SMOOT

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STATEMENT OF BRAD SMOOT  
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SPECIAL COMMITTEE ON ECONOMIC RECOVERY  
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Madam Chair and Members:

Along with Larrie Ann Brown, I have the privilege of representing the American Property and Casualty Insurance Association (APCIA). The Association is the result of the merger of the American Insurance Association (AIA) and the Property and Casualty Insurance Association (PCI). The new Association represents hundreds of P&C companies providing commercial, workers compensation, auto, homeowners, general liability and other lines of protection for thousands of Kansas businesses and families.

## IMPACT OF COVID 19 ON P&C INSURANCE COSTS AND PRACTICES

The coronavirus is the latest in a series of infectious diseases to emerge in the US over the last 20 years, including SARS, H1N1, Ebola and Zika viruses. Yet nothing has prepared any of us for the massive impact of the disease, the government actions and the resulting business losses associated with COVID 19. APCIA expects COVID 19-related loss payments by insurers to near or exceed the greatest insured loss events in US history (Katrina). In the first Quarter of 2020, insurers sustained record losses of \$80 billion to their surpluses.

The remaining surpluses are committed to cover the roughly \$100 Trillion in risk exposure for common business and personal claims for workers compensation, auto, home, commercial and other lines of protection contracted and paid for by policyholders. After all, accidents, hurricanes, tornadoes, fires, floods and other natural disasters continue to occur, and policyholders rightfully expect the payment of covered claims. While it's too early to estimate the cost impact of recent social unrest and damage to businesses, commercial structures as well as private and public property, much of this cost will also be borne by the P&C industry as such damage is ordinarily covered by business, homeowners and comprehensive auto policies.

APCIA expects insurers to be able to handle the costs of these and other covered claims so long as new obligations are not imposed by governments that were not anticipated, priced and paid for under the insurance policies.

## INSURERS RESPOND

Americans are responding to the virus and economic impact that follows. The P&C industry is no exception. As an "essential service," the home, auto and business insurance industry has quickly transformed into a largely remote workforce in order to fulfill its contractual promises to policyholders. Insurers have already voluntarily paid out tens of billions of dollars in refunds and claims (\$14 billion in refunds and discounts for policyholders). Many individual companies have developed flexible payment solutions, suspended premium billing for small business policyholders, waived late fees, paused cancellations due to non-payment of premium, suspended personal auto exclusions for some businesses (delivery) and granted premium relief where the risk has been reduced for businesses that have closed or are suffering loss of customers.

The National Council on Compensation Insurance (NCCI), the rating organization for Workers Compensation pricing in Kansas and 37 other states, recently filed modifications to the workers comp plan. One filing excludes COVID 19 claims from experience rating and merit rating plans and the other excludes from payroll calculations the salaries for workers who are furloughed but continue to be paid. Both have been approved by the Kansas Insurance Department.

#### NEW LEGAL/LEGISLATIVE ISSUES

COVID 19 may have changed the way we live our lives, do our work or conduct business long into the future. It may also have created new challenges for P&C insurers in responding to the future needs of families and businesses. Many of these issues will undoubtedly find their way into the policy discussions for lawmakers. Below are 3 topics that you may hear about:

1. Viral Outbreaks are uninsurable risks. While insurers are paying for claims that are covered by the insurance policy, most policies do not cover viral risks. Were viral-related losses just for small businesses (100 employees or less) to be covered, the claims would wipe out the entire \$800 Billion in capital and surplus of the P&C industry. If business interruption coverage were mandated, it would exhaust the entire capital and surplus in a single month.
2. Workers Compensation generally does not cover ordinary diseases such as viruses unless the worker is engaged in employment that creates a specific risk (e.g. nurses, first responders, etc.). Some states have imposed a retroactive presumption that contraction of COVID 19 is work related and eligible for WC benefits. The National Council on Compensation Insurance (NCCI) estimates that applying such a presumption for all workers could cost \$81.5 Billion in the 38 states where NCCI is the rating organization – an amount far in excess of all other WC costs (\$32 Billion) for those same states (Kansas being one).
3. APCIA believes that a solution to coverage for pandemic losses in the future will require considerable Federal involvement and financial contribution. The size of the business losses is so large and the economy so complex, action by individual states may not be adequate. As an example, the Coronavirus Aid, Relief and Economic Security (CARES) Act is expected to cost \$1.8 Trillion. APCIA has joined with more than 100 trade groups in an effort to develop a Recovery Fund program to speed financial relief to affected businesses.

COVID 19 and our responses to it are “business interrupters” and “game changers” for all of us, including the P&C industry. We hope to be of assistance to the Kansas Legislature as it works through all the changes that will evolve as a result of this pandemic. Thank you.

