

# A.M. Best is Eying Workers Comp and Business Interruption as Pandemic Response Continues

The emergence of the COVID-19 pandemic was a serious blow to the economy...but for the insurance industry, one expert believes that recovery is on the way. A.M. Best Chief Rating Officer Stefan Holzberger discussed how COVID-19 is impacting the insurance ecosystem during the Virtual Main Event.



Mr. Holzberger acknowledges that, following the pandemic, the full-year outlook prognosis for the industry is bleak, as the insurance industry has followed the rest of the economy into a downturn. Extreme market volatility has ensued since the pandemic began, with

shifting valuations in asset classes including equity, commercial loans, and alternative assets. He sees depressed valuations as investors look to safe-haven assets and quickly accumulate cash as societal and economic uncertainties continue.

For insurers, Mr. Holzberger predicts the industry will see increased defaults, rather than temporary impairments...a main pillar in terms of financial strength ratings, according to A.M. Best. The rating agency looks closely at drops in valuations and what it could mean to risk-adjusted capitalization, and uses that info to develop ratings and outlooks for carriers.

The immediate losses have focused on specialty insurance classes, including travel and event coverage. Larger, more traditional P&C coverage classes like home, mortgage and auto may be impacted as the pandemic and resulting economic uncertainty continue, affecting overall earnings and potential capital losses. Workers compensation is a coverage that will set the tone for many, as it's unknown who will be classified as an 'essential worker' and eligible

to collect compensation, and whether companies can prove workers contracted COVID-19 while at work. Mr. Holzberger cautioned that workers comp determinations will take time. He cautions companies and legislators to be thoughtful in how they approach their response as it will set a precedent for future events.

Similarly, Mr. Holzberger cited business interruption insurance as an area to watch as government intervention and resulting legislation could nullify pandemic exclusions in businessowners' policies, and provide relief for businessowners struggling to recover. He believes government financial intervention would be necessary if this occurs, saying that if all pandemic-related business interruption claims were honored, the insurance industry would not be able to pay out the massive claims cost that would ensue. A.M. Best has estimated about \$294 billion in lost revenue per month in small businesses alone in the United States through March and April. The insurance industry would be unable to respond to the resulting business claims from those months alone.

A.M. Best is working diligently to get ahead of the questions and challenges faced by the industry as the pandemic continues to evolve. A.M. Best surveyed their rated clients in early March, asking how these insurers planned to manage the newly remote working environment, and their strategy for communicating with policyholders and agents. They also asked for balance sheets to understand how prepared these insurers were to quickly pivot to a sudden change in conditions. Mr. Holzberger says most insurance companies are resilient and had robust business continuity plans in place – a bright spot in an otherwise trying time.

**For more from the VME interview with Mr. Holzberger, visit the VME Library.**