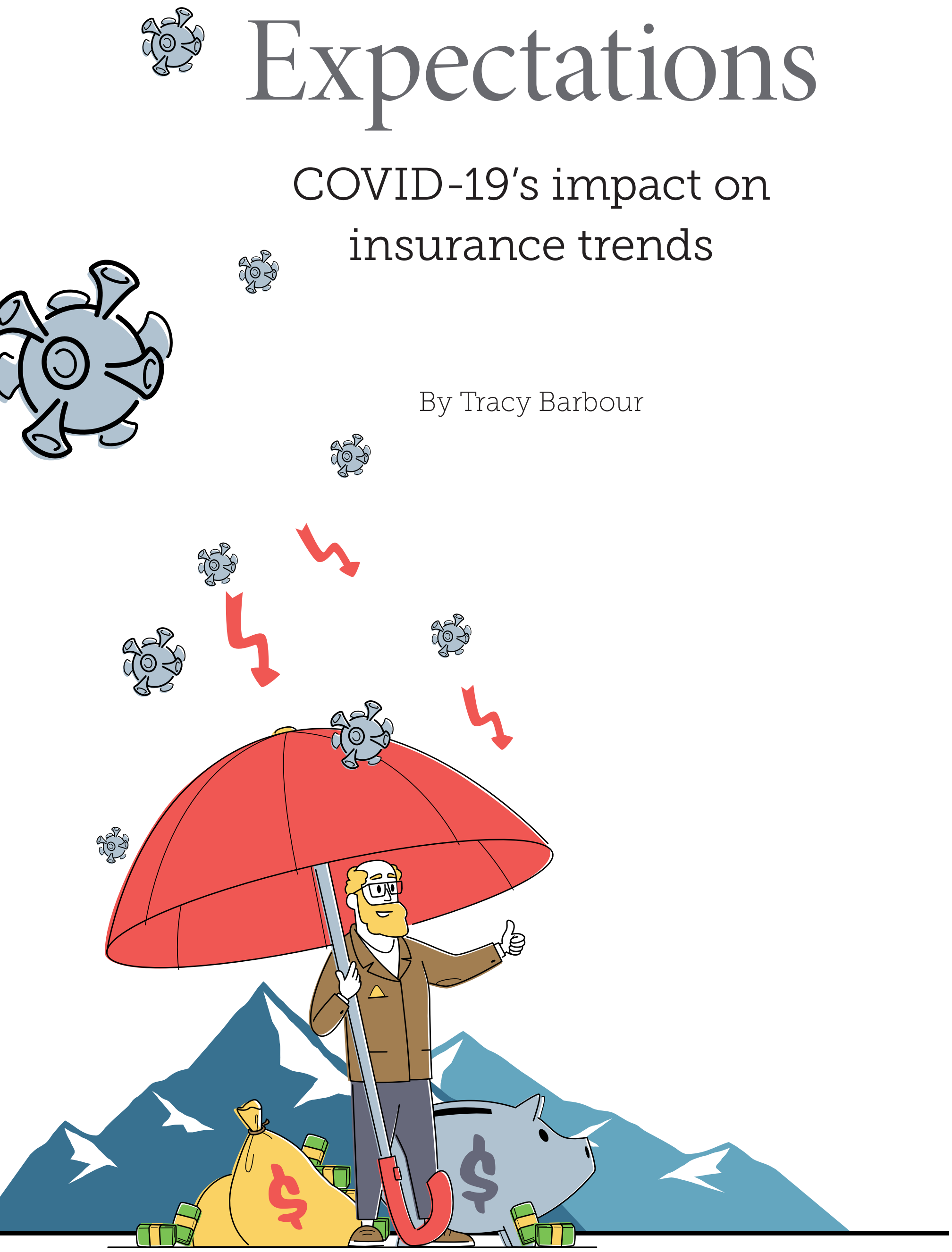
Risks, Rewards, and Expectations

COVID-19's impact on insurance trends

By Tracy Barbour



Insurance is an invaluable instrument that businesses employ to address potential risk, but how do insurance companies and brokers navigate an unprecedented event like the COVID-19 pandemic? The novel coronavirus caught the world completely off guard, is persisting much longer than anticipated, and is having unforeseen effects on the future.

Yet the future for insurance seems more certain. "I emphasize not to make light of the tragedy of the pandemic," says Bob Shake, Director of Growth for Anchorage-based RISQ Consulting, "but there are opportunities for us to grow our business by being more proactive and being out in front of our customers soliciting new business."

Perhaps ironically, the hard times for everyone else are an opportunity for insurance providers to expand their client base. It could not be otherwise, Shake says: "In any business environment, growth is not an option. If you don't have growth, you don't survive."

So insurance—sometimes considered a necessary evil—will be even more valued in the future, according to Shake. "I think from a business perspective, insurance will become a higher priority."

Direct Impact of COVID on Insurance

In the COVID-19 era, insurance professionals are focusing more on advice about managing risk than they did prior to the pandemic. "They are more of a consultive advisor in regard to an insured's risk portfolio," according to Shake. "They're paying a lot more attention to risk mitigation to provide better services and avoid potential losses as the pandemic extends on."

As it happens, this shift is a perfect fit for RISQ Consulting, which provides specialized risk management, customized insurance programs, and comprehensive employer services for a wide range of industries, businesses, and individuals. "We've really focused on risk mitigation and risk management and by doing so have become more of a trusted advisor to those that we insure," Shake says.

A simple but important area where RISQ Consulting is closely advising clients is workplace safety. The firm is using its resources and experience to go into the work environment and identify areas where clients have potential risk issues. Then it offers recommendations on how the company can address those concerns. "As an agency, we are making an investment that we needed to make to take care of our insureds and make sure risk mitigation is a top priority," Shake says.

Risk management is also a priority for another Anchorage insurance firm, Parker, Smith & Feek. Keeping clients informed about regulatory changes and safety is of the utmost importance for the insurance and risk management brokerage firm, according to Account Executive Matt Thon. "Our conversations have shifted to, how does a business owner protect their business, employees, and customers through this pandemic as well as [stay] compliant with local, state, and federal mandates and laws," he says. "What we have found is not every exposure created through this pandemic is insurable, and it takes a combination of active risk management and safety to dovetail together practices that will, hopefully, mitigate any sort of financial or physical losses."

Higher insurance costs were inevitable given that for years the industry was in a "soft market" that featured lower insurance premiums compared to the total cost of risk. "It was just a function of time whereby insurance companies couldn't continue to be profitable while operating on such thin margins," Shake says. "Even prior to COVID, we saw commercial insurance premiums rising in all lines of business—with the exception of workers' compensation—which has been a benefit to insurance agencies in Alaska overall. In Alaska, we had been in a soft market for many years, which placed increased emphasis on revenue growth while also requiring that operating expenses are proactively managed."

Information and Exclusions

In addition to charging higher premiums, insurance companies are requiring insureds to provide more details now than before the pandemic. In some respects, agencies like RISQ Consulting must treat their existing clientele like they are new customers. Shake explains: "The carriers are requiring additional information while asking more and more questions. There's just more attention to detail, and while that's not a bad thing, in many cases we have relationships that have existed for decades where we have literally gone back to square one and treated as if they were brand new accounts. It forces us to be more diligent in our practice, which again is a good thing for all concerned." He

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adds, "Now what I considered to be a 'no-brainer' has become tougher to get because insurance carriers are requiring a lot more information and requiring a lot more details about your internal operations." For example, "They're looking at systems, integration, system back-up capacity, employee backgrounds, just to name a few."

Thon says carriers also are requiring "pandemic exclusion" in policies, making it clear there is no intention to cover pandemic-related claims—particularly in relation to the business interruption claims in property policies. In addition, there's more scrutiny around employment practices liability policies and the potential influx of claims related to the pandemic and working environments. "Remote work has created confusion regarding protocols for policyholders to implement to ensure employees do not experience discrimination related to preferences or requirements to be in the office—or even pressures to get vaccinated," he says.

Insurance companies are in business to analyze and price risk for a negotiated premium. And despite the unprecedented nature of the COVID-19 pandemic, they have provisions in place to deal with the ramifications of an infectious disease. "Communicable disease and virus-related exclusions have been present in insurance policies for some time," Thon says. "Throughout the pandemic, insurers have clarified their coverage forms as they relate to COVID-19 losses and in some cases rewrote policy language to eliminate any ambiguous language that could be interpreted as providing coverage for COVID-19 related claims."

Also, while insurance companies are still selling a cyber liability insurance, there are many more exclusions than in the past, and a number of carriers have stopped offering to write cyber liability coverage. Shake says cyber liability insurance used to be reasonably priced, and his job was to reinforce with the insureds the fact that they couldn't afford not to have cyber coverage. Due to the large increase in cyber-attacks, cyber liability claims, and the impacts associated with the pandemic, cyber insurance premiums have risen dramatically.

The changes to policy forms are on a "go-forward" basis, Thon says. Business interruption claims filed under property policies due to the pandemic have been vigorously defended by insurers. "This response was expected due to the absence of an actual physical loss, such as a fire," he explains. "A business interruption claim under a property policy requires a trigger from a covered cause of loss directly impacting their ability to operate. In almost all instances the shutdowns were government-ordered, or the policies contained a specific exclusion for communicable disease. In rare cases some property coverage included communicable disease response coverage, so some insureds were provided coverage, but the insured was subject to providing significant documentation as to the extent of contamination at the insured property, and the coverage provided was limited. Insurers are definitely not positioning themselves to provide coverage for pandemic-related losses; you could say they are working to limit their exposure."

Thon recommends taking advantage of the numerous resources that are available. "We are obviously in unprecedented times, and we're all learning together," he says. "Keep yourself informed regarding CDC guidelines; focus on keeping your employees and customers safe, and keep yourself informed on insurance industry trends. Your insurance broker likely has tools, such as on-line training, courses, monthly newsletters, et cetera to help you. Don't feel like you have to go at it alone; utilize your business partners around you and don't be afraid to ask questions."

Trends Around Voluntary Benefits

Related to insurance is the area of voluntary benefits, also called supplemental insurance or employee-paid benefits. Voluntary benefits are typically offered by the employer through the workplace, and employees can choose to buy them in addition to any core benefits they might receive. These benefits can be fully funded by the employee or split between the employee and employer. The most common types of voluntary benefits are disability insurance, accident insurance, and dental insurance, but workers also can choose soft benefits like retail discounts, professional advice, and personal perks.

Voluntary benefits can address some of the specific needs employees have as they deal with financial, health-related, and other challenges of the pandemic, according to Pamela Whitfield, the owner of Elite-VB. "The studies are in, and it's clear just how overwhelmed employees are now in navigating increasing financial pressure," says Whitfield, who works as a broker in the Alaska and Hawaii markets and has more than twenty-five years of experience with voluntary sales and agency ownership. "BenefitsPRO teamed up with Lively [health savings account provider] in mid-September of this year and revealed some sobering statistics: Only 55 percent of employees feel in control of their financial health; 75 percent of employees want their workplace to provide more resources to help with financial wellbeing; 33 percent of Americans are worried about short-term healthcare costs; and, sadly, 40 percent of Americans

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expect to spend 40 percent of their savings on healthcare."

Voluntary benefits are also key to hiring, retaining, and engaging talent. *The Corestream 2021 State of Voluntary Benefits Report* indicates that three in four employees consider voluntary benefits to be a deciding factor for whether they work for and stay with an employer. "SHRM [the Society for Human Resource Management] calls it the 'turnover tsunami,'" Whitfield says, "and voluntary benefits can play a big part in employees working for and staying with a company. In Corestream's findings, not only does it say that voluntary benefit offerings will retain employees (83 percent) and engage employees (72 percent), but also aid in attracting new talent (72 percent)."

She continues: "The survey also said that a more robust voluntary offering will save employees money (63 percent) and increase productivity (63 percent). With all that HR and employers have to deal with now, such an easy 'no-cost' solution that delivers this kind of bang for the buck is too valuable to ignore."

Still, Whitfield says she finds there are employers that discount the value of employee-paid benefits programs (especially in Hawaii). Whitfield's hope is that employers will shed their limiting beliefs and embrace how important voluntary benefits are in recruiting talent and making a difference in their employees' lives to financially survive an injury, illness, COVID diagnosis, and other difficulties.

"All carriers now provide 100 percent 'guarantee issue', which is great as most people's health has waned during this period and many missed their preventative visits in 2020," says Whitfield, who previously served as president of the Alaska Association of Health Underwriters. "Industry officials believe this will result in higher claims in 2022."

Whitfield advises employers to value their voluntary benefits program. And if they don't already have such a program, they should get one in place—now. "No one knows how long the pandemic will continue, and disability, critical illness, life, hospital, and even ID theft plans make a difference in people's lives," she says.

She also urges employers to find an expert who knows how to blend products, benefits communication, enrollment tools, and an on-going service model to achieve success. "New benefits will continue to emerge, and you can keep your voluntary offering fresh by working with an expert who specifically knows voluntary benefits as a benefit broker/banker may not have the skill set."

In the Same Boat

Some changes to the insurance industry wrought by the pandemic are the same as those in other professional workplaces. For instance, like any other office, RISQ Consulting had to pivot to remote work. Thankfully, Shake says, productivity levels for the firm's employees, many of whom are located outside of Alaska, have remained consistent during the pandemic.

Parker, Smith & Feek is also experiencing the direct impact of COVID. Accommodating remote work, Thon says, has in some ways "broadened the insurance industry's hiring pool, making it possible to recruit talent in other areas when before this wasn't considered," he says. "I actually benefited from this, being hired as an Associate Claims Executive for the Alaska office, but I live in Texas."

To say the least, the pandemic has been challenging for many business sectors, and the insurance industry has had to be extremely sensitive toward the impact this event has had on its clients. While businesses face rising insurance premiums, exclusions, and other changes to their coverage, Shake says RISQ Consulting is diligent about reaching out to keep clients informed. "The last thing our insureds want to hear is that their premiums are going up," Shake says. "We're doing a better job at getting out in front of our clients to engage them with honest, open, and frequent communication."

Shake—whose professional success has been driven by relationships—encourages businesses to get back to basics and connect face to face with clients as much as possible. "I think sometimes in business we make things more complicated than they need to be," he says. "We need to get back out in front of our clients." AB