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COVID -19 Non-Standard Auto Implications

“Shelter in place” orders and the closure of businesses deemed “non-essential” by local and state governments following the outbreak of COVID-19 have caused unemployment to skyrocket. This is evidenced by the number of individuals filing for unemployment the last two weeks, and, it is expected that a large number of the individuals laid off at the outset of the virus would fall into the non-standard insured category. The BMS Wheels Specialty Practice Group has reached out to a variety of program carriers, managing general agents (MGAs), and reinsurers with a focus on non-standard automobile insurance to discuss the potential implications of COVID-19.

Everyone BMS spoke to stated that it is too early to tell what the overall impact on the MGA private passenger automobile market will ultimately be, and all the respondents agree that it will come down to how long the “shelter in place” order lasts. However, despite not knowing what to expect regarding severity of this impact, discussions centered around the negative impacts stemming from state mandates, decreases in policy count and premium, the effect on profits, and the potential for fraud. Participants agreed that, depending on how long the COVID-19 “shelter in place” orders remain, these negative implications could be offset by the decrease in the frequency and severity of automobile accidents.

State Mandates for Policy Non-Cancellation

The biggest common concern carriers, MGAs, and reinsurers have are states putting a moratorium on the cancellation of policies for non-payment. Georgia, Washington, and Mississippi have already mandated non-cancellations, and Arkansas has mandated non-cancellation specifically for insureds who contract COVID-19; although, with HIPAA protections, proof will likely not be required to be obtained. Other states, like Texas and Florida, have encouraged carriers and MGAs to work with insureds, but have not formally issued any orders. Both Oklahoma and California have instructed carriers and programs to work with insureds and send out letters with notification of a 60 day grace period. The number of states suggesting or mandating a 60 day grace period changes by the day.

The potential of extension of coverage and grace periods of non-payment raise the following concerns:

For states suggesting this, carriers need to consider responses to MGAs as ultimately the liability or pushback from the Department of Insurance will fall back on the carriers.

Programs will essentially be offering coverage for free. This will lead to policies affording coverage that are out of equity for those insureds who utilize the option to delay premium payments.

If payments are not collected in the future after the grace period ends, it will lead to bad debt as many programs are ceded on written premium, but ceding commissions are paid on collected. As true up provisions on these reinsurance contracts occur, a number of MGAs could find themselves upside down.

Premium and Policy Count

In discussing with various MGAs and carriers, the best estimate on the impact on premium tends to be in the 10% - 25% range. Additionally, over the last few weeks, there has been a decrease in quoting traffic on the comparative raters. However, a number of respondents stated that it is difficult to determine if that trend is due to COVID-19 or just a slowdown from the normal busy season in late February and early March, which revolves around tax refund season. As April progresses, activity on the comparative raters will be one indicator that determines the further impact on the non-standard automobile insurance space.

Bottom Line

The reduction in policy count and premium along with the extension of payment terms will have a direct impact on MGAs' bottom lines. MGAs will not only experience a reduction in premium, but also a reduction in fee income as respects policy fees, installment fees, reinstatement fees, and late payment fees. Depending on how long COVID-19 impacts the nation's economy, this reduction in revenue could lead to a number of smaller MGAs fighting for survival. These same concerns also flow all the way down to the retail agency level.

Potential for Rise in Fraud

Another important factor to consider is the potential rise in both frequency and severity of fraud. As the buyers of non-standard automobile insurance will likely be one of the harder hit demographic segments in this economic crisis, those insureds may seek alternative forms of funds when money is needed in order to make ends meet.

Some Good News

Despite all the concerns, there are a few positive impacts of the "shelter in place" orders stemming from the outbreak of COVID-19. With more people staying at home, there is an anticipated decrease in the frequency of claims, which will have a positive impact on loss ratios. Additionally, there could be a decrease in severity as insureds will look to have claims settled quicker in order to have the funds in hand sooner. The question remains whether the decrease in frequency and possibly severity will outpace the decrease in written and collected premium.

Additionally, reinsurers who support the MGA non-standard automobile arena continue to operate efficiently. BMS has not seen a decrease in the underwriting efforts from any market BMS works with. In fact, BMS has at times seen quicker responses from the underwriters who are working from home as 4/1 and 5/1 renewals continue to move forward. None of the markets that BMS has spoken with have had a change from pre-COVID-19 appetites, and BMS does not expect this to change going forward.

Looking Ahead

As the COVID-19 situation continues to develop, the BMS Wheels Specialty Practice Group will continue to monitor the impact to the overall market and assist clients with the management of risks associated with COVID 19 during these uncertain times.

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