Should Property Insurers Rebate Premium?

With most of the world working from home and travel at a minimum, premium discounts are being requested in some jurisdictions and offered, perhaps preemptively, on some lines of business. The conversation thus far has largely centered on the auto and workers' compensation lines of business, where a change in exposure and thus loss cost is more readily apparent. There are numerous ancillary issues that must be weighed for these lines of business, but those are for others to debate.

The members of the BMS Property Specialty Practice contemplated the question of whether or not property exposure has changed during the past 6 weeks and for the foreseeable future, and if so, how? This prompted a healthy internal debate followed by several calls to underwriters for their opinions. Once again we swore people to anonymity to ensure we were getting honest feedback. We put the issue of BI exposure to the side during our conversations as there are enough people writing about that particular topic and this clearly is an area where increased uncertainty lies, as noted by our prior survey where 75% of respondents indicated a heightened level of concern. Instead, we focused on topics such as "the conveyer belt isn't running but the factory is now a vacant property, does that constitute a lower loss cost?"

The general take away from our conversations is everything is complicated now. Peer review meetings are gobbling up hours as evolving and emerging exposures are discussed and new policy warrants are drafted and debated with brokers. Underwriters are forced to think about risks in today's world, and what a partially reopened world might look like for their insured(s). Below is a sampling of the topics that arose during these conversations.

Below are issues to consider when thinking about how property exposure has changed in today's world and is absolutely not meant to be relied upon in any way when contemplating voluntary or mandatory premium rebates.

- Some policies contain vacant property clauses that allow a policy to be cancelled or re-underwritten if business at the location shuts down for more than 60 or 90 days. This is especially prevalent in the manufacturing sector. "Is idle the same as vacant" is one question batted around in peer review. When reading the prior sentence it sounds like an insurance-geek conversation, but it was truly a sincere debate about balancing accommodations to clients in a time of need versus obligations to your firm and shareholders, proving underwriters do have hearts.
- For most classes of small businesses, underwriters agreed that properties that are vacant carry a higher loss cost than whatever purpose the building was used for prior. If you consider the exposure as being vacant, there is some cause for concern given the large disparity between companies that underwrite vacant properties successfully and those who have lost a lot of money attempting to write this class. The successful ones use policy warranties and their own secret underwriting sauce, which can't be applied mid-term to a business that simply turned the lights out and flipped the sign from open to closed. For a renewal account, do you price the business as being vacant for one or two months and then as normally functioning thereafter? Whatever your stance on this issue, the majority of cases lead you to the conclusion that the loss cost is neutral at best, and in many cases amplified.
- For the hospitality sector, underwriters could argue both sides of whether a vacant hotel that maintains heat/AC and security is a lower or higher risk than a fully operational hotel. However, what happens if they donate their rooms to first responders, or even as an overflow for ill patients? While commendable, could this lead to insurable clean up charges and/or marketing costs to entice customers to enter their building again when this is all over? Do you want to be known as the insurance company that denied that claim?

- The economy is facing a downturn and new unemployment figures are staggering. We wanted to insert an alarming statistic here about how property crimes increase during recessions but, somewhat counter-intuitively, the research we found couldn't support this theory. We read one article after another from economists trying to establish correlation, but there proved to be too many contributing variables to isolate a recession as true causation.
- The above point notwithstanding, underwriter spider-sense tells us more people out of work + more vacant properties = more theft and vandalism. Think of someone already laden with questionable morals; the copper piping in the newly vacant building in the back of town looks more attractive when you aren't getting a paycheck and your family is hungry.
- Another macro-economic factor often mentioned was increased moral hazard. Circling back to a prior point, the research that came closest to finding a correlation between property crime and economic downturns also mentioned government stimulus was found to prove effective in offsetting some of the increase in property crime. Think of it as lessening desperation.
- We could easily envision struggling businesses cutting costs on utilities. With cold streaks hitting the north and moisture hitting the south this time of year, we think about pipes bursting and mold growing (coverage may be excluded for mold but the AC being off still leads to long term problems).
- With municipal workers largely working remotely, who is inspecting/servicing the mechanicals of buildings, including boilers, elevators, sprinkler systems, etc?
- Residents of major cities have largely scurried away to suburban accommodations with lower population density. Less cooking, showering, etc. in apartment buildings lowers the frequency of claims but could increase the severity if it takes longer to identify issues such as a water leak.
- Job sights are largely shut down, but has all the equipment and building material been secured? How long would it take to even notice something missing?
- The approach of hurricane season further complicates the issue. The Outer Banks in NC won't even allow homeowners onto the island if it is a second home and their primary residence is out of state, so who is going to batten down the hatches? Will lack of pre-season maintenance lead to claims inflation? Is there enough PPE equipment for field adjusters and how will a claim actually be settled if an adjuster cannot get into the house due to the possibility of insureds not letting them in? If hotels are not operating, where do people go, where do adjusters stay and could this expedite the investment in drones, satellite imagery and much needed insuretech solutions that would benefit the industry in the long run? Any way you slice it, exposure appears to be heightened.

For the most part, every time we proposed an intuitive reduction in hazard, a bona-fide offsetting factor was readily available

Our conclusion is property exposure has absolutely changed due to stay at home orders, however, we view this as a shift in hazards and don't believe there is an obvious, universal argument for premium rebates.

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