SURPLUS LINE REPORTER & INSURANCE NEWS

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NEWS IN BRIEF

PEOPLE

On the heels of announcing its expansion into three new states, LUBA Workers' Comp announced the promotion of Trent Bondy, to vice president, director of compliance and the hiring of long-time workers' compensation



Bondy

executive David Tucker as vice president and sales manager. Bondy, who has been an integral part of LUBA's sales department for over 10 years, takes on this new role as LUBA continues

to establish itself across the region, most recently expanding into Oklahoma, Tennessee, and Alabama. This expansion brings the total number of states LUBA serves to seven, including Louisiana, Texas, Arkansas and Mississippi. Among other things, Bondy will oversee LUBA's

multi-state regulatory obligations. Tucker, a Nicholls State alumnus, serves on the Better Business Bureau of South Central Louisiana Board of Directors and is involved in the Northshore Food Tucker



Bank, which is focused on feeding school age children in Covington. "David Tucker brings more than a decade of insurance industry experience with him, including agency relations, risk mitigation, operations, underwriting, and safety services," said David Bondy, founder and CEO of LUBA Workers' Comp.

AmWINS Group has announced the addition of Blaine LeBlanc to its New Orleans office as a commercial lines property and casualty underwriter.

LeBlanc has five years of experience in the insurance industry, all on the wholesale side of business. LeBlanc played football for and graduated from Southeastern Louisiana University in LeBlanc



See NEWS IN BRIEF Page 4

Ignorance, fear and intolerance are the disease See Page 3

COVID causation claim tough to prove

Under Louisiana work comp law the burden of proof is on the worker

The burden of proof in establishing causation for COVID-19 as a covered occupational disease will be difficult for claimants to meet, but COVID-19 may provide the ideal unique disease to allow employees to meet this significant burden, Trenton Oubre, Breazeale, Sachse and Wilson, said, Oubre was speaking at the Louisiana Association of Self Insured Employers' LASIE 2020 Virtual Legislative Recap held July 15 via

COVID-19 has definitely placed a strain on certain occupations, and the extraordinary exposure possibilities and stress that employees are currently experiencing may not be considered typical of normal workplace stress, Oubre added.

To help understand the potential employee compensability for COVID-19 infections under Louisiana Workers' Compensation Law, Oubre gave a history of the relevant Louisiana law.

In 1952, the Louisiana Legislature established express statutory authority for the coverage of occupational diseases under Louisiana Workers' Compensation Law. "The legislature rejected the notion of blanket coverage for all occupational diseases, and instead chose a moderate approach," Oubre said. The legislature provided compensation for contraction of occupational diseases, which were placed in two categories. One category included specifically listed diseases, namely conditions caused by exposure to X-rays or radioactive substance, asbestosis, silicosis, dermatosis and pneumoconiosis. The other category identified diseases caused by causative agents.

"It was recognized that many employment-related diseases did not fall into the two enumerated categories," Oubre said, and in 1975, the occupational disease statute was amended, setting forth a new definition of occupational disease.

The list of specific diseases for which there was coverage under workers' compensation was removed, and substituted by the following: "an occupational disease shall mean only the disease or illness which is due to causes and conditions characteristic of and peculiar to the particular trade, occupation, process, or employment in which the employee is exposed to such disease."

"Through this amendment, the legislature was signaling acceptance of a broader and more expansive definition of occupational diseases for which workers could seek compensation," Oubre said.

Through amendments, the current and applicable Louisiana Workers' Compensation

See COMP FOR COVID Page 5

The Florida property market faced challenges without landfall events

The Florida domiciled personal property market faces pressures from the COVID-19 pandemic and the 2020 hurricane season, but even before the coronavirus caused an economic downturn and a particularly active hurricane season threatened, the Florida property carriers were on the ropes, turning in an elevated combined ratio in 2019 despite no major landfall events.

Panelists at a webinar hosted July 23 by AM Best updated virtual attendees on the state of the Florida-domiciled personal property market. The panel was composed of AM Best ratings and research staffers David Blades, associate director research and analytics; Mariza Costa, associate director global reinsurance, and Chris Draghi, senior financial analyst.

The statistics presented at the webinar were based on data gathered from 51 Florida-domiciled personal property companies, some of which either do business in Louisiana or have a relationship with a company which does business in Louisiana.

Draghi led off by discussing pandemic concerns and underlying market conditions.

These companies operate in hurricane prone states and leveraged their existing

See FLORIDA PROPERTY Page 9

Surplus line premium up 10 percent

Based on information provided by the Wholesale and Specialty Insurance Association (WSIA), the 15 stamping and service offices across the U.S. processed more than \$19.7 billion in surplus lines premium for the first half of 2020. This represents a 10.33 percent increase over premium filed in the first half of 2019. None of the 15 states reported a decrease in reported premium compared with midyear 2019.

States with stamping offices accounted for 62.7 percent of U.S. premium volume in 2018, according to stamping office and AM Best reports, so stamping office reporting provides a valuable indicator of the direction of the surplus lines market overall, said WSIA in its July 22 media release.

Louisiana is among the majority of states that do not have a stamping office.

Serial binge burning,

flooding wrecks homes

See Page 14

Among the states with stamping offices, the largest dollar gains were in Texas, where premium grew by \$466.12 million. Still Texas ranked third among the 15 states with surplus lines service offices. California's reported premium grew by \$335.0 million, or 7.84 percent, while Florida's gain over midyear 2019 was \$366.17 million, or 9.65 percent.

"The stamping offices are proud of the way the wholesale, specialty and surplus lines industry has responded during the unprecedented health crisis," said Dan Maher, executive director of the Excess Line Association of New York. "This report affirms what we've believed all along, which is that the industry is well positioned to endure and even thrive now and beyond the COVID-19 emergency."

London waits for COVID court decision

See Page 17

LABI launches website with info about Louisiana judicial system

In its continuing push for greater transparency in Louisiana's judiciary, the Louisiana Association of Business and Industry launched a new website in July to give citizens access to information on Louisiana's courts. LouisianaJudiciary.com is a product of LABI's Louisiana Free Enterprise Institute, a 501(c)(4) organization. This effort comes after the formation of LABI's Judicial Program in 2019.

'Campaign signs for candidates seeking judicial seats are already popping up in communities across Louisiana, leaving residents scratching their heads as to just who their elected judges are, who is actually running against whom and how each level of court overlaps or interacts," said Lauren Chauvin, director of LABI's Judicial Program.

"This is an essential third branch of government that we feel warrants the same level of transparency and public access as our legislative and executive branches. In recent months, we've seen Louisiana's Supreme Court take steps toward sunshine and accountability, and we want to be a partner in that effort and

See LOUISIANA JUDICIARY Page 8

The P/C industry's first quarter went well See Page 22

Commissioner of insurance reissues three advisory letters

Insurance Commissioner Jim Donelon issued three advisory letters on July 28 to property and casualty insurers that issue policies covering risks in Louisiana. All three letters are revisions to advisory letters previously issued.

The three letters were revised and reissued to update the recipients on the department's contact information. The contact to get questions answered by the LDI now is the deputy commissioner for the Office of Property and Casualty, electronically at public@ldi.la.gov.

The two advisory letters dealing with repair of motor vehicles went to all property and casualty carriers "approved" to issue policies. The letter dealing with the use of mold exclusions in insurance policy forms went to all insurers "admitted or approved."

Where mold is concerned, the new ad-

visory letter updates Advisory Letter 01-02, originally issued Dec. 28, 2001, which advises that the department "will allow the use of insurance policies and/or endorsements that exclude coverage for mold that results from a covered cause of loss in certain instances, but such exclusions shall not exclude coverage for the removal of mold on the items damaged.

Advisory Letter 07-01 was originally issued on June 22, 2007, to assist insurance consumers, property and casualty insurers and collision repair facilities in reaching a "satisfactory and timely resolution with regard to vehicle repairs and payment of vehicle repair claims."

Apparently, in the past, insurance consumers often experienced unwarranted delays in the repair of their vehicles and/or the payment of the vehicle repair claims due

to disagreements between the insurers and the collision repair facilities.

The principles and practices that were previously implemented remain as an aid in resolving conflicts.

The principles and practices ask insurers and repair facilities to acknowledge that:

-Collision repair facilities should receive payment only for those repairs, procedures, parts and materials that are necessary to restore vehicles to their pre-accident condition.

-Recommendations of vehicle and paint manufacturers and industry procedure manuals should be used.

-Decisions by individual repair centers not to charge for specific repairs, procedures, parts and materials from time to time should not affect insurers paying those facilities.

-The collision repair consumer is entitled to complete industry defined quality involv-

ing repairs, procedures, parts and materials.

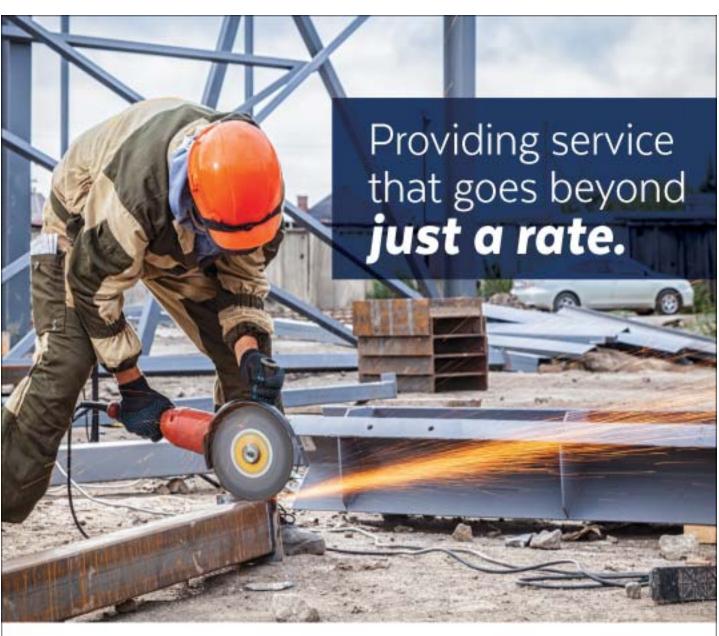
The letter asks consumers, insurers and repair facilities to work together to prevent fraud by all parties involved.

The statement of principles was developed with input from an ad hoc task force composed of members of the insurance industry and the collision repair industry.

Advisory Letter 04-02, originally issued on April 6, 2004, was amended later because of the new format and numbering scheme of the Louisiana Insurance Code that became effective Jan. 1, 2009.

Originally, Advisory Letter 04-02 was issued to remind property and casualty insurers that the use of arbitrary caps for paint and materials in the adjustment of automobile claims is not permitted.

The advisory letters in their entirety may be viewed at ldi.la.gov.



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By MICHAEL G. MANES **Manes and Associates**

Corona is a beer. It is also a virus. Beer, not just Corona, has been part of the culture of America all of my life and before. In Texas and Louisiana, it is a bigger part of our lives than in many other states. Nonetheless, in less than 5 months, Corona the virus, not the beer, has taken over the conversation, our attention, our fears, our hospitals, the economy, for many our jobs, and almost every other aspect of our lives in our country and much of the world.

That's the bad news. The good news is this is a transition phase, not the end of the world. Treatments will be found, and the condition will become controlled and eventually eradicated. To offer you a perspective from a historical standpoint - my grandfather, his two brothers, and his two sisters were all lepers (patients with Hansen's dis-

The first in our family to be diagnosed and sent to the leprosarium was Norbert. He entered the facility in 1919. His brother Albert died there in 1977. In between, Edmond, Marie and Amelia served time at the facility. Each spent most of their adult lives incarcerated at the U.S. Public Health Service Leprosarium in Carville, Louisiana. All died there.

I moved to Baton Rouge in 1973 and was able to connect with Uncle Albert. By then, patients were no longer incarcerated in Carville; they just lived there. Those in remission could come and go if they chose to do so. Uncle Albert invited Sheila (then my girlfriend, now wife) and me to join him for dinner at the original Ralph & Kacoo's Restaurant along False River in New Roads. He greeted me at the door as Sheila took a side trip to "freshen up."

Albert asked, "Does Sheila know where I am (meaning Carville, the Leprosarium)?"

I answered, "Yes," and explained that she was okay with it. He would not have imposed his presence and his condition on anyone without their blessing. The stigma was still too great.

As we were leaving that night, Sheila gave Uncle Albert a big hug and a kiss. I will go to my grave certain that Sheila held

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a special place in Albert's heart because she had kissed a leper.

In the name of enlightenment, modern day Hansen's disease is different from biblical leprosy. Unfortunately, most people learned of leprosy from the Bible where it is mentioned 55 times in the Old Testament and 13 times in the New. Over time, medical science learned that 95 percent of the population has a natural immunity to the disease. The remaining five percent are vulnerable to the disease, but it is not nearly as contagious as most feared. Today the disease can be treated with medication and without isolation. Patients aren't segregated from society and don't have to call out

This pandemic has been a game changer. Our economy came to a screeching halt. The government is spending more money than we have to protect yesterday and today until we have a chance to build tomorrow.

Ignorance, fear and intolerance are the disease -

"leper" as they walk in the street.

I share this personal story with you to encourage all of us to keep this newest pandemic in perspective. Be aware of your circumstances as they are, the safeguards you can use to protect yourself and your family from the condition, the treatments available and soon to become available, and the community that you touch daily.

Be sensitive to your own condition when you're well and if you get sick. Do not deny symptoms. If symptoms appear, seek treatment immediately. Keep a safe distance from others if you become infected. Follow your commons sense and doctors' orders. If you're so inclined, pray.

As a final thought, consider the changes

See THE DISEASE Page 4

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The disease

to the marketplace, your world, my world, our economy, and our lives that are occurring now and will continue for a while yet to come. A cure will be found, and we'll return to a new normal until the next generation of change (whether it's leprosy, AIDS, Ebola, Corona, or some disease as yet unknown) freezes us in fear. Ultimately we must confront our fears, adapt and change, and we will prevail.

This pandemic has been a game changer. Our economy came to a screeching halt. The government is spending more money than we have to protect yesterday and today until we have a chance to build tomorrow. Those comfortable with yesterday will stress over the changes; the newbies in the market will probably welcome the changes that occur.

In the future, many will be working from

home and liking it; some will miss the office. It doesn't matter. It's not a popularity contest. It is us feeling our way into a new tomorrow and the next generation of change that will occur and upset our now new comfort zone.

When one thing is different, it is change; when everything is different, it is chaos. Tomorrow may seem a world of chaos. The good news is that opportunities remain for those flexible enough and prepared for the world as it will be. Enjoy your ride; we each get only one ticket.

No Hansen's disease patients remain at the facility in Carville. The old timers have passed, and new patients with the disease can be treated at their home. The grounds at Carville remain unchanged from when it was the leprosarium. Most of the property is used as a boot camp for troubled youth.

FROM PAGE 3

One building serves as a museum to tell the Carville Leprosarium story. I encourage you to visit the facility if you have the chance. It's about 30 miles from Baton Rouge near St. Gabriel, Louisiana, and was the only leprosarium in the continental United States. Understanding the impact and history of this disease eases the burdens of the current one.

"We have nothing to fear but fear itself." FDR.

Peace.

MICHAEL G. MANES is the owner of Manes and Associates, a New Iberia-based consulting business focusing on planning, sales and operations, and change. He has over 47 years of insurance industry experience, including serving as an instructor of Risk and Insurance at Louisiana State University.

NEWS IN BRIEF FROM PAGE 1

Hammond. LeBlanc has the authority to place business in Louisiana, Mississippi, Alabama and Arkansas.

On Aug. 4, the Coalition Against Insurance Fraud announced that Arinze Ifekauche has joined the association as director of communications. He joins Jim Quiggle, senior director of communications, who retires at the end of this year. Ifekauche joins the coalition with experience in public policy, politics and communications, including working in high visibility and high pressure work environments. Ifekauche was communications director for the Maryland Democratic Party. He also worked on Capitol Hill and helped elect Marilyn Mosby as state's attorney for Baltimore City in 2014. Less than six months into the start of the Mosby administration, Ifekauche wrote the dramatic speech and planned the news conference where Mosby announced charges against the police officers involved in the death of Freddie Gray. Ifekauche was named a 2015 Rising Star by Campaign and Elections Magazine. He has coordinated communications efforts at the state, local and national levels. Ifekauche has an undergraduate degree from the University of Alabama and completed his Master's degree at Kent State University. Ifekauche can be contacted at arinze@InsuranceFraud.org.

Timothy R. Slater joined the National Insurance Crime Bureau as NICB's new chief operating officer on Aug. 3. Slater recently held the position of assistant director in charge of the FBI's Washington Field Office, responsible for providing executive and strategic leadership to 2000 personnel tasked to secure all threats against the United States, both domestically and abroad. Slater began his career in the Detroit and Miami divisions. He is a former special agent in charge of the Detroit Division, as well as the Criminal and Cyber Division of the Washington Field Office, and deputy Assistant director of the Critical Incident Response Group, the Quantico, Virginiabased division that provides expertise in crisis management, negotiations, behavioral analysis, countering explosives, aviation, and tactical operations. Slater also has held leadership positions in the headquarters-based Criminal Investigative Division, in the Oklahoma City Division as the senior supervisory resident agent and as the assistant special agent in charge of the Knoxville Division.

MEETINGS/EDUCATION

The Dallas Fort Worth Chanter of the National African American Insurance Association sponsored an online panel discussion Allyship in the Workplace on Aug. 6 to assist business leaders' understanding of the importance of recognizing and developing the talents of Black individuals in the workplace. Panelists included Margaret Redd, executive director of NAAIA National; Omari Jahi Aarons, employment engagement strategy leader at Liberty Mutual Insurance and NAAIA Boston Chapter president, and Brenda Wells, director of Risk Management and Insurance at East Carolina University. The panel was mod-

See NEWS IN BRIEF Page 8

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Comp for COVID

Occupational Disease statute is as follows:

-Every employee who is disabled because of the contraction of an occupational disease as herein defined, or the dependent of an employee whose death is caused by an occupational disease as herein defined, shall be entitled to the compensation the same as if the employee received personal injury by an accident arising out of and in the course of his employment.

-The statute defines accident as an unexpected or unforeseen actual, identifiable, precipitous event happening suddenly or violently, with or without human fault, and directly producing at the time objective findings of an injury which is more than simply a gradual deterioration or progressive degeneration.

-The statute also stipulates that an occupational disease means only that disease or illness, which is due to causes and conditions characteristic of and peculiar to the particular trade, occupation, process, or employment in which the employee is exposed to the disease.

Oubre said the most pertinent part of this section of the statute is "causes and conditions characteristic of and peculiar to the particular trade, occupation, process or employment."

In addition, the statute goes on to say that any occupational disease contracted by

an employee while performing work for a particular employer in which he has been engaged for less than 12 months shall be presumed not to have been contracted in the course of and arising out of such employment. Any occupational disease contracted within the 12-month limitation shall become compensable when the occupational disease is proved by a preponderance of the evidence to have been contracted during the course of the prior 12 months of employment.

Also, the statute requires that all claims for disability arising from an occupational disease are barred unless the employee files a claim within one year of the date that the disease manifested itself, that the employee is disabled from working as a result of the disease, and that the employee knows or has reasonable grounds to believe that the disease is occupationally related. All three elements must be met for the one year period to begin to run, Oubre told the virtual audience.

Thus, Oubre said, "when an employee becomes disabled due to an occupational disease, he or she may be entitled to workers' compensation benefits as if the employee received personal injury by accident arising out of and in the course of his employment." But, Oubre added, "The employee must show by a preponderance of the evidence, that the disease or illness is due to causes and conditions characteristic of and peculiar to the particular trade, occupation, process or employment in which the employee is exposed to such disease."

If an employee has been engaged in the particular work for an employer for less than 12 months, the disease is presumed to have not been contracted in the course or scope

of employment. However, "an employee can overcome this presumption by a preponderance of the evidence," Oubre said.

FROM PAGE 1

The statute also expressly provides a general defense to such claims where the employee willfully and falsely misrepresented that he or she did not previously suffer from the specific occupational disease when hired.

The employer is required to post, at a

The most pertinent part of this section of the statute is 'causes and conditions characteristic of and peculiar to the particular trade, occupation, process or employment.'

convenient and conspicuous point around the business, notification of the time limitation for filing any claim for an occupational disease. If the notice is not properly posted, the one-year limitation for filing a claim is extended for six months.

In interpreting the workers' compensation statute, the Louisiana Supreme Court has reasoned that the occupational disease sections of the workers' compensation act are essentially concerned with the claimant's proof that there is a relationship between the employment and the disease, such that the employer should bear the cost of the resulting disease or disability. "Thus, the Louisiana Supreme Court has found that causation is the central determinant in as-

See COMP FOR COVID Page 6

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Comp for COVID

sessing which risks are properly institutionalized as risks of employment and which risks properly remain in the tort system," Oubre said.

The causal link between an employee's occupational disease and work related duties must be established by a reasonable probability. "The claimant will fail if there is only a possibility that the employment caused the disease, or if other causes not related to the employment are just as likely to have caused the disease," Oubre said.

A broader interpretation would simply require that the claimant identify the disease as resulting from conditions and causes present in his employment and not by other causes to which the employee and the general population might have been exposed.

"Our country and state are certainly in very unfamiliar times with the global spread of COVID-19 infections, and no Louisiana court has had to address such mass calamity under the Louisiana workers' compensation system for causation purposes," Oubre said. "However, we do have some guidance from prior court decisions for analogous airborne disease claims," Oubre added.

In Creekmore v. Elco Maintenance, the claimant alleged that he contracted histoplasmosis, an airborne illness, while removing pigeon nests from a building, as part of his employment.

According to Oubre, the court rejected his claim for compensation for this occupational illness, reasoning that the "very endemic nature of histoplasmosis" in the area, with the causative spores transmitted by the wind, made it a very common disease in the area.

The Court of Appeal accepted the lower

court's interpretation, also noting that histoplasmosis spores are ubiquitous in the Mississippi valley, and the histoplasmosis disease is very endemic. Further, the court noted that it is an airborne disease. The court stated that the evidence on bird droppings may possibly permit an inference that the claimant contracted histoplasmosis while clearing the nests; however, that evidence did not invalidate the clearly permissible contrary inference that claimant's histoplasmosis was more probably contracted elsewhere in the area.

ment, company vehicles, emails, etc., and with continuous written updates to all employees, managers, supervisors and all persons on the business premises, the requirement for following all reasonable safety measures, including all CDC hygiene guidelines for hand washing, sanitation, personal protective gear, social distancing, quarantine measures, and all proper measures;

-Remove employees who test positive – or who have any family member or other relevant person who has tested positive – or who have any symptom of COVID-19

'Our country and state are certainly in very unfamiliar times with the global spread of COVID-19 infections, and no Louisiana court has had to address such mass calamity under the Louisiana workers' compensation system for causation purposes.'

Accordingly, Oubre said, "the court held that the claimant did not show his occupational disease was due to causes and conditions characteristic of and peculiar to his employment, for evidence was that histoplasmosis was a widespread, airborne disease in the area."

According to Oubre, in order to diminish and reduce any reasonable probability that COVID-19 was contracted on the job, through any employment related activity or from an infected co-employee, it is highly advisable that all proper safety measures be immediately taken to shield and protect the workforce from contraction of the disease, including but not limited to the following:

-Post throughout the place of employ-

from the workforce immediately;

-Follow all federal and state proclamations on business shutdown of operations and allowed essential business functions, and

-Notify in writing on a continuous basis all employees and persons on the business premises of the requirements to follow all measures to protect them from contraction of COVID-19.

COVID-19 has placed a strain on certain occupations, and the extraordinary exposure possibilities and the stress employees are currently experiencing may not be considered typical of normal workplace stress. Considering this, the question becomes what should employers do?

Oubre recommends that, upon notifica-

tion of any potential claim by an employee or dependent of a deceased employee al-

FROM PAGE 5

leging any potential for an occupationally contracted COVID-19 claim, it is imperative that the employer conduct an investigation immediately.

The investigatory measures he recommends are the following:

-Obtain all relevant personnel and employment file documentation, clarifying the specific job duties and requirements for evaluation of any possible unique causal exposure and the connection basis for COVID-19 contractions;

-Obtain all pertinent information regarding all recent habits, company cell phone and dispatch records verifying all locations, points of travel and activities of the employee, both on the job and off the job;

-Obtain all pertinent medical records, death certificate records and obituary information through a medical release if needed to expedite receipt of such information for evaluation of the claim and issue the relevant Louisiana Workforce Commission forms, and

-Obtain any and all pertinent social media public posts, recent travel information, other jobs held, family or friend health conditions and interactions, as well as other information which may provide probative evidence that the contraction of the COVID-19 virus was not occupationally related nor unique to the peculiar job duties of the employee.

Oubre concluded his remarks by saying that, with the courts shut down due to the COVID-19 pandemic, there has not been a ruling made that makes COVID-19 a compensable occupational disease.





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NEWS IN BRIEF FROM PAGE 4

erated by **Tiara Morris**, president of the Dallas-Fort Worth chapter of NAAIA. Morris works for Chubb. Replays of the 1.5 hour program are available on YouTube.com.

LDI

The Louisiana Department of Insurance has become a member of the International Association of Insurance Supervisors (IAIS) Multilateral Memorandum of Understanding (MMoU) – an international supervisory cooperation and information exchange agreement. The IAIS, headquartered in Basel, Switzerland, includes 74 signatories representing approximately 76 percent of worldwide premium volume, according to Dr. Victoria Saporta, who chairs the IAIS Executive Committee. In announcing the LDI becoming a signatory to the MMouU on Aug 5, Louisiana Commissioner of Insurance Jim Donelon said, "This agreement strengthens our ability to work cooperatively with other supervisors and monitor large cross-border insurers - cooperation that is critically important to promoting effective supervision and protecting Louisiana consumers." The MMoU is a global framework for cooperation and information exchange among insurance supervisors. It sets minimum standards to which signatories must adhere. All applicants are subject to review and approval by an independent team of IAIS Members. Through membership in the MMoU, supervisors are able to exchange relevant information with and provide assistance to other signatories, thereby promoting the financial stability and sound supervision of cross-border insurance operations for the benefit and protection of consumers.

Louisiana Insurance Commissioner Jim Donelon commended USAA on Aug. 7 for returning an additional \$270 million dividend to auto insurance policyholders across the country in August. This dividend follows an earlier announcement that USAA provided dividends nationwide totaling \$800 million earlier this year. In total, USAA will return \$1.07 billion to its policyholders. Louisiana policyholders will see a total of \$19.5 million in dividends from USAA this year. "Louisiana policyholders have seen over \$210 million in rebates or refunds since the start of the pandemic crisis as well as premium decreases from some of our largest auto insurers," said Donelon. He welcomed the decisions to provide additional dividends to policyholders in Louisiana, where citizens have experienced a significant impact from the COVID-19 virus.

FINANCIALS

CNA Financial Corporation announced Aug. 3 second quarter 2020 net income of \$151 million, or \$0.55 per share and core income of \$99 million, or \$0.36 per share. Property and Casualty Operations combined ratio for the second quarter was 112.3 percent. Underwriting results for the second quarter of 2020 include previously announced net catastrophe losses of \$301 million pretax, including \$182 million related to COVID-19,

See NEWS IN BRIEF Page 9

Louisiana judiciary

hopefully serve as a resource for our court systems. Speaking with judges last year during our judicial listening tour, they welcome the interest, and believe the courts belong to the citizens and more public knowledge will result in a better system of justice," Chauvin said.

At Louisiana Judiciary.com, citizens can use interactive maps to explore the Louisiana Supreme Court, Courts of Appeal and local judicial districts to read judges' biographies, learn when terms end and see where lines are drawn. This website is the only

'This call for transparency aligns with the genesis of legal reforms passed during our latest legislative sessions that shed more light on how cases play out in court....'

-Waguespack

resource where citizens can find all this information readily available in one place. A second phase is in development, one that will provide more detailed maps of election sections, public records, a searchable database of court records for select jurisdictions and analysis of how our courts operate, LABI said in a news release.

"This is just phase one of an effort to shed light on the judiciary. As the state's chamber of commerce, we have found this branch of government has an equally profound impact on Louisiana's business climate as our Legislature," said LABI President and CEO Stephen Waguespack.

"This call for transparency aligns with the genesis of legal reforms passed during our latest legislative sessions that shed more light on how cases play out in court, with legislation lifting gag orders, allowing more evidence to be presented and calling for citizen inclusion via lowering the threshold triggering a jury trial. In all of this, the business community has never sought specific outcomes from the court, we only seek a system that presents a level playing field to ensure equal justice, with fair and independent arbiters of the law. Transparency is the first step toward reaching that goal," Waguespack said.

FROM PAGE 1

As its name indicates, the Louisiana Free Enterprise Institute, founded by LABI, is dedicated to advocating on behalf of the principles of free enterprise and promoting public policy that fosters an environment for economic growth, leading to efficient, effective government and protecting the rights of Louisiana taxpayers. To that end, LFEI employs a number of tools, including sound policy research, issue advocacy, activist training and mobilization, as well as free enterprise issue education seminars to ensure economic growth for the Pelican





NEWS IN BRIEF

\$61 million related to civil unrest and \$58 million related primarily to severe weather related events. The underlying combined ratio of 93.4 percent reflects a 0.4 point net benefit related to COVID-19 from lower loss frequency as a result of shelter-in-place restrictions and an adverse impact from a reduction in estimated audit premiums. These items decreased the loss ratio by 0.9 points and increased the expense ratio by 0.5 points. Net investment income was \$534 million pretax for the second quarter of 2020, including \$84 million from limited partnership and common stock investments, reflecting the equity market rebound during the quarter. The U.S. P/C segments, excluding third party captives, generated gross written premium growth of 8.0 percent and net written premium growth of 4.0 percent. Excluding third party captives, gross written premiums

RATES

grew 7.0 percent and net written premi-

ums grew 3.0 percent for P/C overall.

State Farm announced it will begin lowering its insurance rates because of the coronavirus pandemic, S&P Global Market Intelligence reported July 21. The decrease in rates will apply throughout the United States and average 11 percent. The insurer says the reduction will be temporary but will "apply to all private passenger auto and motorcycle policies, except for antiques and classics, named non-owner, use of non-owned car coverage, or fleets." The announcement comes after State Farm reported a significant drop in claim volume over the first several weeks of the pandemic. Between March 29 and May 2, the company recorded a daily claim volume decrease that was 26 percent and 56 percent lower when compared to the first 14 days in March. State Farm says as lockdown rules have been eased, claim volume has increased, but claims are still expected to remain lower than before the pandemic.

THE ECONOMY

The U.S. economy contracted at a record rate in the second quarter, the Wall Street Journal reported July 30, and setbacks in the jobs market only exacerbated a slowing recovery as the na-

See **NEWS IN BRIEF** Page 13

Florida property

disaster recovery plans to smoothly transition to a remote working environment, Draghi said.

While COVID-19 has affected business lines of insurance, the core members of the study group of insurers, personal property lines writers, are relatively unaffected from a loss perspective. Although, with the economic downturn, the potential adverse impact on premium collection could affect cash flow and liquidity, according to Draghi.

The pandemic does complicate things for the hurricane season. For instance, social distancing could impact loss and loss adjustment expenses.

The COVID-19 crisis contributed to the decline in the equity markets, although most carriers in this study group are unaffected. Excluding Citizens, the property writers had \$60.9 million in unrealized capital losses in the first quarter, which represents only roughly 1.5 percent of year-end 2019 policyholders' surplus. At the same time, 61 percent of the group has no exposure in equity markets, while for nearly 10 percent of the group, the exposure to equity markets is 20 percent or more, Draghi explained.

Conservative investment portfolios partially offset the increased hurricane risk, he

said.

Leading up to the pandemic, the Florida personal property writers were already facing challenges, Draghi pointed out. First and foremost among the challenges are escalating reinsurance pricing and hurricane activity. Prior to 2016, the state experienced a long period of relatively benign weather, but in 2016 and beyond, adverse development, known as loss creep, is a significant factor in the increased reinsurance prices.

speculate that there could be a rush to file new claims relative to Irma, which walloped

FROM PAGE 1

Florida in September 2017.

While adverse loss development is predominantly passed on to reinsurers, Draghi said, the non-hurricane loss development tends do impact insurers' bottom lines.

Insurers are responding their to challenges by attempting to raise their rates and, in at least one case, non-renewing coastal policies, as well as shifting carriers' risk pro-

Insurers are responding to their challenges by attempting to raise their rates and, in at least one case, non-renewing coastal policies.

To provide some color on that adverse development, Draghi explained that, in November 2018, the Florida Office of Insurance reported an \$11.1 billion incurred cost from Hurricane Irma. Less than a year later that amount increased to \$17.4 billion, a 57 percent increase.

Other challenges Draghi pointed out are social inflation, including assignment of benefits; first party lawsuits and increasing loss adjustment expenses.

Draghi criticized the three-year statute of limitations, which he said leads one to files.

Recent rate filings Draghi mentioned are Capital Preferred, 33.5 percent; National Specialty, 28.1 percent; Edison Insurance, 21.9 percent; Security First Insurance Co., 12.8 percent and non-renewing 5,000 coastal policies; Universal Property and Casualty Ins. Co., 12.4 percent, and People's Trust Ins. Co., 10.9 percent.

A rate hearing is required for any requested rate increase above 15 percent, he

See FLORIDA PROPERTY Page 10



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Another way insurers are trying to improve their bottom lines is by increasing geographic spread, Draghi said. There is a declining trend in Florida premium as insurers diversify, he said, explaining that, in 2010, 95.0 percent of direct premium written by these companies was in Florida, by 2019 the Florida DWP was down to 78.3 percent.

Insurers are doing what they can to combat social inflation, Draghi pointed out.

They are strengthening claims processes by implementing litigation management processes, strengthening claims and inhouse litigation bench strength, leveraging technology to improve claims reporting processes and setting more conservative reserves based on recent trends.

To further improve their bottom lines,

Draghi made his point using an Insurance Information Institute bar graph, which revealed that, in 2013, there were 2,190 lawsuits filed in south Florida and 662 in the rest of the state. By 2018, the number of lawsuits had escalated by 575 percent to 12,570 in south Florida and 6,689 in the rest of the state. The fact that the majority comes from south Florida has (negatively) influenced insurers' appetites to write business in that area.

Blades on operating results

The information Blades shared with viewers is based on the aggregate results of 51 Florida personal property companies, each with more than 50 percent of its direct premium volume composed of homeowners and farmowners policies. Insurers which write predominately in Florida, but are part of a group domiciled outside of Florida,

Most companies experienced material deterioration in loss and loss adjustment expense ratios in 2019, despite a more benign hurricane season.

-Blades

companies are refining coverage descriptions and contract language to reduce leakage, setting up preferred vendor/contractor networks and consulting remediation experts.

Many feel that the way to combat social inflation is through legislation, he said.

A new law, effective in July 2019, allows insurance companies to exclude assignment of benefits. Consequently, there was a "material improvement" in the number of assignments of benefits in 2019.

were omitted from the aggregate. The aggregate includes companies with profitability tied to the Florida market.

Of the 15 companies with the most DPW, only three produced a combined ratio below 100; three are above 150, which "shows how tough it has been," Blades said. According to AM Best data, four of the companies write 100 percent of their business in Florida; eight others write more than 75 percent of their business in Florida; three write less than 75 percent of their business

in Florida.

Including Florida's Citizens Property Insurance Corp., the combined ratio for Q1-2020 is 88.7 percent; excluding Citizens, the combined ratio is 91.4 percent, Blades noted. Citizens accounted for about 10 percent of all the premium of the companies in this composite, he said.

The net income for the group, including

explained that the aggregate combined ratio was calculated by aggregating the various components of the combined ratios, then calculating the aggregate combined ratio. Taking the average of the combined ratios of the companies in the study group would produce a slightly different result, he said.

FROM PAGE 9

It is noteworthy that with Citizens

In 2013, there were 2,190 lawsuits filed in south Florida and 662 in the rest of the state. By 2018, the number of lawsuits had escalated by 575 percent to 12,570 in south Florida and 6,689 in the rest of the state.

-Draghi

Citizens, in Q1-2020 is \$164.4 million; without Citizens the net income is \$44.6 million. The policyholders' surplus with Citizens is \$10.6 billion; excluding Citizens the surplus is \$4.2 billion.

Blades presented a five-year look at combined ratio trends. For the years 2016-2019, all combined ratios were above 100, and would be slightly worse with Citizens included. The combined ratios are over 100 even without hurricanes, Blades commented.

In 2015, the combined ratio for the group was 85.8 percent. Among other challenges, hurricanes impacted the results in 2016 through 2018, when combined ratios were 101.9 in 2016; 107.7 in 2017; 108.0 in 2018. Results remained elevated in 2019 (combined ratio 107.7) despite no major landfall events, which indicates there are other issues at play, Blades pointed out. He

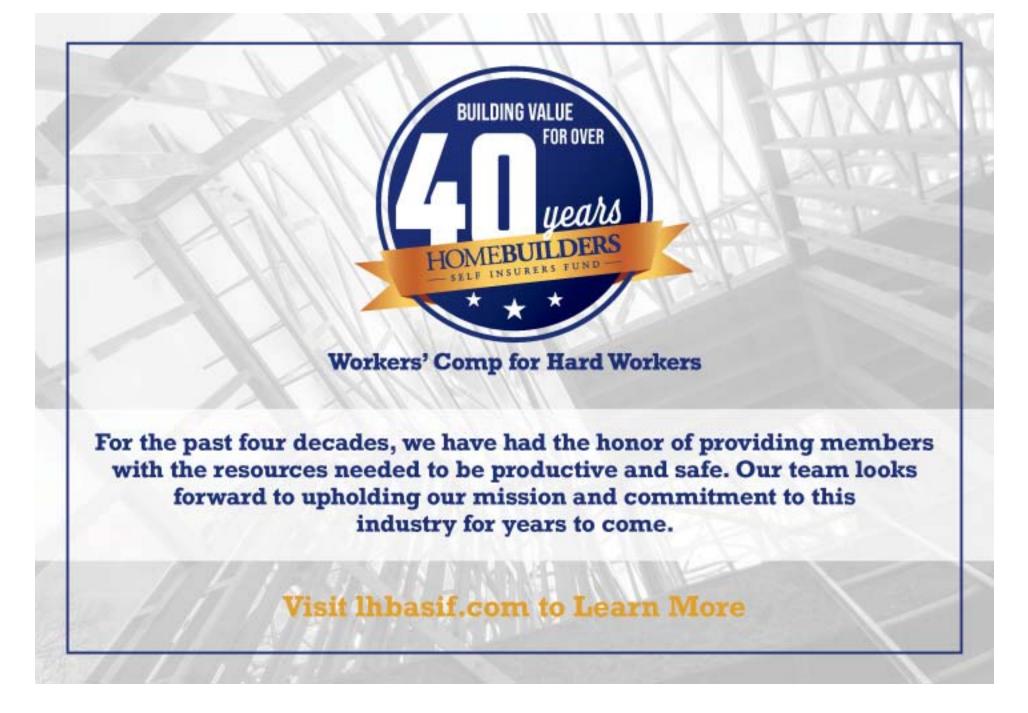
thrown into the mix, the worst year was 2017 when the combined ratio was 126.7 percent, according to his presentation.

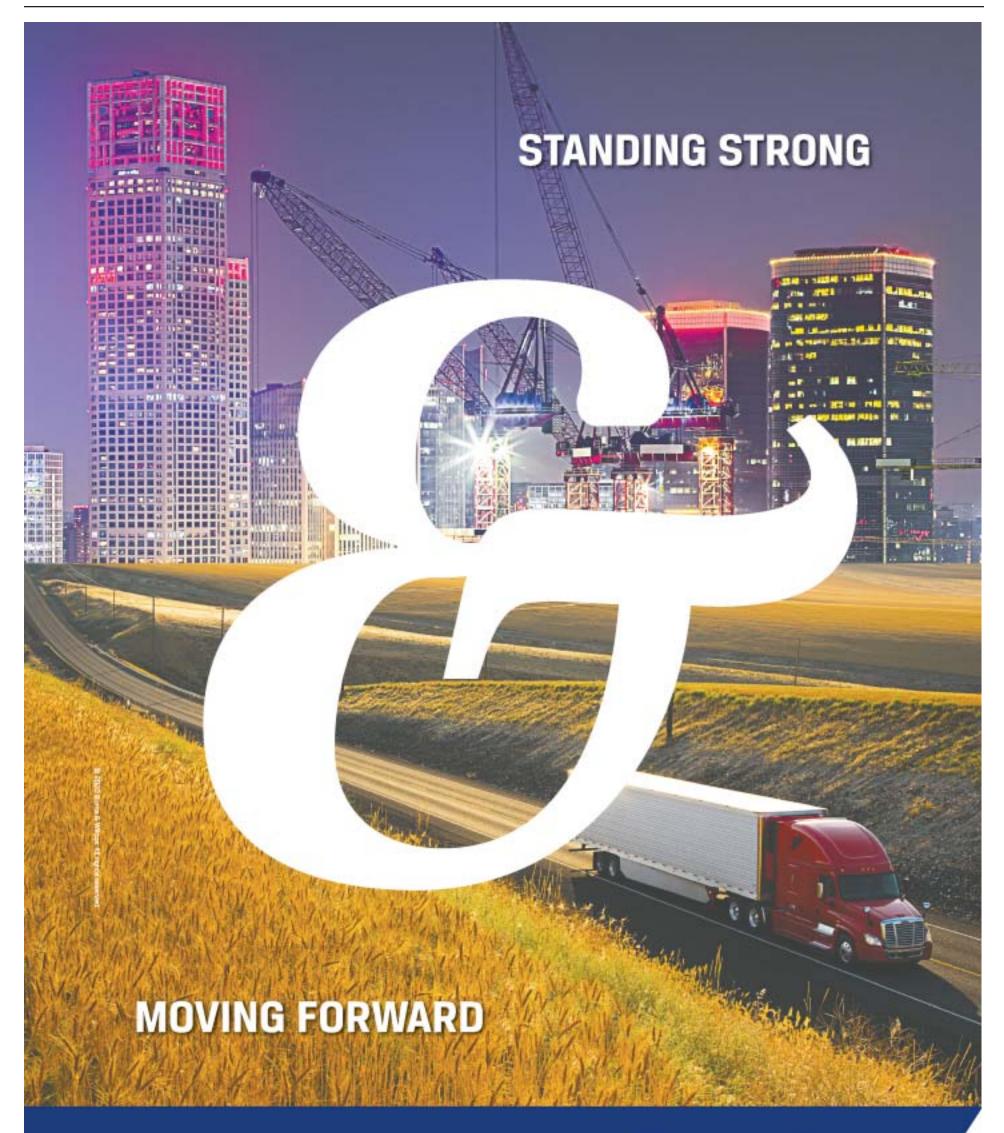
Most companies experienced material deterioration in loss and loss adjustment expense ratios in 2019, despite a more benign hurricane season. For one company, the change from 2018 to 2019 was a 727.3 percent increase. All of which underscores the inherent volatility companies deal with, Blades said.

Deterioration in results from 2018 to 2019 is pretty unique to the Florida marketplace, according to Blades.

He explained that the significant reduction in the performance of companies in the study group beginning in 2016 is reflective of catastrophes and assignment of benefits litigation.

See FLORIDA PROPERTY Page 12





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According to the graph Blades presented, operating results took a dive to negative territory between 2015 and 2017 and remained below the zero line through 2019, while increasing some.

Since there is modest investment income growth, he attributes the poor performance to underwriting results.

Although not stark, Blades said, the upward trend in the policyholders' surplus of 2009-2016, flattened out, but did not dete-

lion in contributions, he said.

Of the 15 companies receiving the most capital contributions, some benefited from being part of larger corporations with access to the related corporation's capital. For four of the companies, surplus declined from 2015 to 2019 even with capital contributions ranging between \$33.3 million to \$61.5 million.

Two of the three companies on the list that are not part of major corporations have

Low Investment returns will not offset underwriting losses for the near term, making the pain more visible and the need for improvement more imperative.

-Costa

riorate dramatically in years with significant hurricane losses. According to Blades, that is reflective of the degree of losses assumed by reinsurers and the offsetting impact of capital contributions, which helped keep aggregate surplus relatively level. In order to provide some balance sheet protection, insurers retained a lower level of premium, and thereby losses, insulating their balance sheet somewhat from those storm losses.

Despite a cumulative \$783.7 million in contributed capital over the past three years, he said, surplus declined by \$279.6 million. This demonstrates that capital contributions have not been able to offset the volatility to Florida property writers, Blades observed, even though contributions still had a meaningful impact by mitigating overall deterioration in surplus. In the last five years the composite has received more than \$1.1 bil-

announced that they will be acquired. In January, it was announced that Anchor Property and Casualty would be acquired by HCI Group, and in March, Prepared Insurance Company announced its acquisition by Louisiana-based Lighthouse Insurance Corp. Both of those announcements reflect the difficulties that some companies have encountered in this challenging market, Blades asserted.

Adverse development took a significant turn for the worse in 2018, partly due to Hurricane Irma in 2017 when loss estimates proved to be woefully inadequate due to loss creep, Blades said. Because of the magnitude of losses, he said, many carriers blew through retention levels and as a result reinsurers absorbed much of that catastrophe loss, as did the Florida Hurricane Catastrophe Fund.

With adverse results continuing,

reinsurers are pushing for rate increases. The adverse development in earlier years illustrates the impact of assignment of benefits and water litigation trends. In later years, hurricanes exacerbated the dynamic, creating larger deficiencies. As Blades explained, from 2015 to 2017, including Citizens, development ranged between \$49.6 million and \$90.6 million. In 2018 and 2019 development exceeded \$384 million each year, an increase of more than 300 percent.

Costa on Reinsurance

The favorable reserve development and reserve cushion for many companies has been depleted and will do little to support current earnings, which amplifies the need for prudent current accident year pricing, Costa said.

FROM PAGE 10

Some companies will experience pockets of unfavorable reserve development on top of COVID-19 losses needing to be addressed. Low Investment returns will not offset underwriting losses for the near term, making the pain more visible and the need for improvement more imperative, Costa explained.

The dynamic of three consecutive years of losses, four including COVID this year, have led to the demand for price improve-

See FLORIDA PROPERTY Page 13



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Florida property

ment and tighter terms and conditions, according to Costa.

Reinsurance and retro pricing have been on an upward trajectory for a few quarters, but not as much as needed, she observed. Prices for June/July 1 renewals were up 25 percent on average, with some programs having significantly higher increases and some lower, Costa said.

According to Costa, some third-party insurance linked securities retracted their capital from Florida renewals, and some of those programs had provided significant support to insurers. This gave some reinsurance companies the opportunity to get price increases for this protection. Dislocation in the market from third-party capital is bringing back players such as Berkshire Hathaway and DE Shaw.

Costa cited some noteworthy market dis-

ruptions, including the fact that some of the programs failed to be filled completely as reinsurance and retro became more expensive. Citizens withdrew one of its Everglades catastrophe bond tranches due to lack of investor appetite. The Florida Hurricane Cat Fund chose not to renew its privately placed cover which is about \$1 billion, saying it is comfortable with current liquidity of \$12.5 billion "so will roll the dice and see what happens."

Depending on loss experience and type of risk, Costa said, some companies opted to retain more risk, while some still need coverage to protect their own balance sheets

Going forward, she expects that reinsurers' price improvement will continue; the extent is unknown. If there is a hurricane this year, the pricing next year will

be different, she remarked.

In addition to three or four consecutive years of catastrophe losses and the capacity squeeze from ILS, she expects price increases because the continued demand from traditional capital for improved rates, and terms and conditions is getting louder and louder. Also, there is a flight to quality by primary carriers and a need for strong underwriting performance as investment returns remain volatile, interest rates remain close to zero for the foreseeable future, and reserve development has been depleted.

Draghi on reinsurance and rating

A hardening reinsurance market has made coverage more expensive, forcing difficult risk management decisions. Primary carriers' capital is more at risk in cases where less coverage is purchased, he said.

Growing reinsurance dependency illus-

trates greater reliance on third parties to protect capital positions, leading to increased credit risk and heightened concern over increased pricing. Given elevated hurricane risk, Draghi expects Florida insur-

ers to have more need for reinsurance.

FROM PAGE 12

To date, rating action largely has been in response to pressure on operating performance, Draghi explained. Reinsurance programs have performed as intended, insulating balance sheets from significant deterioration. Nonetheless, concern exists that the many challenges may overflow into pressure on overall balance sheet strength.

As it stands, the Florida companies in the statistical group are expected to continue developing risk management practices and incorporating sophisticated modeling and mitigation strategies for current and emerging risks, Draghi concluded.

NEWS IN BRIEF FROM PAGE 9

tion faces a summer surge in COVID-19 infections. The U.S. Commerce Department said gross domestic product fell at a seasonally and inflation adjusted 32.9 percent annual rate from April through June. The figures were the steepest declines in more than 70 years of recordkeeping. Meanwhile, the U.S. Labor Department's latest figures on unemployment benefits suggested the jobs market was faltering. The number of American workers applying for initial unemployment benefits increased for the second consecutive week after almost four months of decreases following a late-March peak. The second-quarter economic contraction came as states imposed lockdowns in March and April to contain the coronavirus pandemic triggering a steep drop in output — and then lifted restrictions in May and June — allowing growth to resume. Economists expect the third quarter to show growth, though the summer rise in infections is likely to temper gains.

The pandemic has intensified the financial struggles of numerous U.S. retailers, and some are turning to Chapter 11 bankruptcy filings to quickly get out of costly, long-term leases and shutter thousands of stores, Bloomberg reported Aug. 6. "This is now black-letter law - a debtor can cram down a landlord," Melanie Cyganowski, a former bankruptcy judge, told Bloomberg. "It's going to trigger another part of the sea change - the mortgages held by the landlords." About 16 percent of retail property loans bundled into CMBS were delinquent in July, according to research firm Trepp. At least 25 major retailers have filed for bankruptcy this year. As many as 25 000 stores are expected to close in the United States in 2020, mostly in shopping malls, according to Coresight Research. These include Ann Taylor, Men's Warehouse, Neiman Marcus, J Crew, JC Penney, Brooks Brothers, Jos. A Banks, Lord & Taylor, GNC, Chuck E Cheese, and Saks.

BIG DATA

There are a number of specialized technology companies that use personal data to create "surveillance scores" of users that predict future behaviors, and they sell their scoring ser-

See NEWS IN BRIEF Page 14



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Serial binge burning, flooding wrecks homes

Ringleader buys rickety homes, over-insures them and inhales insurance money

By JIM QUIGGLE Coalition Against Insurance Fraud

If serial home arson is an addiction, Patrick Wayne Bronnon belongs in a sober home. Instead, he'll stew for 78 years over his \$1.7 million billing bender of torched and flooded homes he unleashed all around southeast Texas.

The Port Arthur man led the three-year fraud parade. His gang bought rickety, low-priced homes for as little as \$25,000 and installed straw buyers. They took out expensive insurance policies that covered a new, up-to-code structure – and pricey contents that often didn't exist. The policies guaranteed a healthy windfall whenever Bronnon's gang wrecked a house.

A large posse of 40 cronies wanted part of his insurance action. They wrecked a dozen homes before the scheme came crashing down. In the process, Bronnon endangered the fire fighters who rushed to quell the arson blazes.

Ring fronts payments

Bronnon often fronted the down payment and first insurance premiums. Then he or ring members burned or flooded the houses within just weeks of buying the policies.

Bronnon broke the water pipe of one

home, flooding the place. His straw home owner claimed the pipe accidentally burst. Next Bronnon lied that thieves stole more than \$29,000 of possessions while the water-soaked house was being repaired. Furniture, construction materials, tools, an air conditioner unit, appliances, cabinets and personal items were falsely claimed as stolen.

Bronnon burned yet another home. The straw owner said she was frying pork chops, then had chest pain, went to the hospital and forgot about the pork chops. The frying meat ignited and finished off the home, she claimed.

Foil-wrapped chicken cooking in a microwave supposedly ignited when the owner left and forgot about the chicken. A faulty hotplate purportedly caused yet another fire. The City of Port Arthur took the fall for a flood claim. A faucet was left in the open position when the city began water service, causing the home

Arsonist guilty of 40 charges

According to a news release from the U.S. Attorneys Office in the Eastern District of Texas, Patrick Wayne Bronnon was found guilty Oct. 21, 2019, of 40 charges, including conspiracy to commit mail fraud and use of a fire in commission of a felony.

The breakdown of the charge: 16 counts of mail fraud and conspiracy to commit mail fraud and three counts of use of fire in commission of mail fraud.

The case was investigated by the U.S. Postal Inspection Service and NICB.

to flood, the owner claimed. Claimed phantom burglaries

Bronnon added icing by claiming hefty losses for burglaries that never happened. Someone entered a home through the garage while he was out, Bronnon's "owner" told his insurer. The burglar stole numerous items worth more than \$80,000, including high-end clothes and electronics. Many possessions were the same goods that ring members claimed in other setup burglaries.

Insurance money piled in through a kind of side door. Many firms the so-called owners hired to repair the fire and water damage were owned by Bronnon or his cronies.

His gang also branched into staged vehicle crashes. A crony said he was driving his 1990 Lincoln Town Car on Highway 73 near Port Arthur. He tried to switch lanes. An H2 Hummer driven by a woman was in his blind spot and they collided, the crony driver said. The Hummer veered off the road and collided with a sign.

In fact, the Town Car driver deliberately ploughed into her Hummer, and the Hummer driver rammed the sign on purpose. On top of that, Bronnon drove the Hummer, not his female ring member, so he could better control all the crash details.

"This sentence is deserved not only because of the tremendous loss to insurance companies, but also in light of the danger Bronnon imposed on our first responders every time he set a fire," said U.S. Attorney Stephen J. Cox. "That he put his own greed ahead of the lives of others has cost him his freedom for a long time."

JIM QUIGGLE is senior director of communications for the Coalition Against Insurance Fraud.

NEWS IN BRIEF

vices to major businesses across the U.S. economy, the Washington Post said July 30 in a piece by **Harvey Rosenfield** and Laura Antonini. Auto insurers, for example, raise premiums based on scores calculated using information from smartphone apps that track driving styles. Antonini and Rosenfield contend the mostly unregulated collection of data from smartphones, cars, and other devices has enabled these firms to collect significant amounts of data on Americans. They said, "This has resulted in automated decisions, based on each consumer's unique score, that are, as a practical matter, irreversible. That's because the entire process — the scores themselves, as well as the data upon which they are based is concealed from us. It is mostly impossible to know when one has become the casualty of a score, let alone whether a score is inaccurate, outdated, or the product of biased or discriminatory code programed by a faceless software engineer. There is no appeal." Technology companies say the data helps improve lives, but Antonini and Rosenfield object, stating, "Surveillance scoring enables companies to cloak old-school discrimination in an aura of technological infallibility and wonder."

HURRICANE LOSSES

Hurricane Isaias, which impacted the Caribbean, made landfall in the Ba-See NEWS IN BRIEF Page 18



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London waits for COVID-19 court decision on BI coverage

London Views By LEN WILKINS London correspondent

Usually in August London insurers are on the beach enjoying a break in the sun. This year, the COVID-19 crisis stopped the beach break in two ways – first it's difficult to travel abroad, and second London's attention has been focused on the U.K.'s High Court. The landmark court case between the Financial Conduct Authority and eight insurers over disputed U.K. business interruption losses caused by the coronavirus pandemic concluded recently. A draft decision is expected in mid-September. The result will be binding on the eight insurers, but it will have implications for scores of other insurers and 370,000-plus policyholders.

An FCA win will be a disaster for insurers. In some ways it would be a Pyrrhic victory for the policyholders in that some insurers would face bankruptcy, and premiums charged by the remaining market would be sky-high.

The London market followed the arguments with great interest and some trepidation.

Lawyers for the FCA claim that the measures implemented by the U.K. government in response to the coronavirus was a nationwide action. They rebuked the defendants' lawyers for the volume of documents (850 pages plus) submitted to the court. FCA lawyers claim the insurers' defenses have a common thread in that they argue COVID-19 was not the insured peril that

caused the losses. Insurers claim, said the FCA, that the proximate cause of the losses, the government action, (using the "but for" test of causation) was not insured. The FCA lawyers argue that there is no connection between the government action and the losses to the policyholders' businesses and that their claims should be paid.

Insurers' lawyers argued that the FCA's case blatantly ignores the facts and contract law in order to build a spurious case. One

Generali, considered the New Orleans hotel's business interruption loss following the hurricane. The insurer paid the hotel's prevention of access and loss of attraction claims but denied the business interruption claim on the grounds that, even if the physical damage had not occurred, the hotel would have suffered the same interruption to its business because the surrounding area had been closed off.

In other words, the insured could not

Ironically, Hurricane Katrina may help the judges in their decision. The case, Orient Express Hotels v. Generali, considered the New Orleans hotel's business interruption loss following the hurricane.

of the insurer's lawyers claimed that the FCA is "forcing a square peg into a round hole." Insurers' lawyers allege the FCA has failed to show a causal connection between government action and the disturbance to the insured businesses. Insurers' lawyers contend that there is a vicinity requirement for a successful claim in that there must be danger or disturbance occurring in the locality of the premises and the civil authority action, which prevents access to the premises, but the U.K. government's national lockdown was nationwide and not local.

Whatever the decision, the losing side will appeal, and ironically, Hurricane Katrina may help the judges in their decision. The case, Orient Express Hotels v.

show that, "but for" the damage to the hotel, the business interruption losses would not have occurred.

The dispute went to arbitration, where the tribunal agreed that the "but for" test of causation applied and had not been satisfied.

The insured appealed, arguing that the business interruption was concurrently caused by damage to the hotel and damage to the surrounding area, and the judge upheld the tribunal's decision, according to several law firms with offices in London.

Meanwhile, one of the eight insurers involved in the U.K. case, Hiscox, said it now expects its COVID-19 losses to reach \$232 million. The view in the London market is that policies issued using a broker's own

wording may provide wider cover than that issued by insurers, which could lead to howls of protest from policyholders if the courts decide that losses using brokers' wordings are covered, while losses from insurers' own wordings are not.

Syndicates told improve or else

The worst-performing syndicates at Lloyd's have two years to return to sustainable profitability or leave the market. If they fail to improve, Lloyd's CEO John Neal told them, their future business plans would be rejected.

Outlining the market's 2021 business and capital planning process to journalists, Neal said half of Lloyd's syndicates were "pretty much where we want them to be" on underwriting performance and hitting their planned combined ratios. The top quartile of syndicates hit their planned combined ratio two or three times in the 2017 to 2019 period, reporting combined ratios below 100 percent.

The problem is the other half of the Lloyd's market, which is underperforming according to Lloyd's criteria. Although the top quartile, with a combined ratio of 93 percent, is "performing in line with the very best in the world," Neal said, the bottom quartile is "the worst," compared with the peer group of insurers against which Lloyd's measures its performance. Although there is "quite a range of performance" in the bottom half overall, Neal said, the bottom quartile is producing combined

See LONDON VIEWS Page 18

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FROM PAGE 17

ratios above 120 percent, "so they are really a long way from where they need to be."

London views

Neal also commented on market growth. There is a big demand for Lloyd's to increase individual syndicates' premium income as prices improve in many lines. Apparently, Lloyd's received requests from syndicates to write new business that is 60 percent higher than in 2020. Neal said it is too early to say how much of the business would be approved, but there would be more new business in 2021 than was seen between 2018 and 2020. Neal would not give a figure but expects the increase will be greater than \$10 billion.

Lloyd's rules must be met soon

Lloyd's has changed its approach for syndicates' business and capital planning for next year. It may seem a little early to mention this, but Lloyd's syndicates have to get a business plan passed by the council three months before the start of a new underwriting year. So plans for next year will have to be ready in about six weeks, and since July, each syndicate managing agent has met with Lloyd's oversight managers to discuss plans, which must be passed by the CEO and the chair of the managing timetable for business plans and capital submissions. Each syndicate will be given a specified submission date based on capital structure and Lloyd's risk-based approach. The "coming into line" deadline is Nov. 30. Syndicates will follow one of four submission phases which begin on Sept. 1 and end on Oct. 1.

The creation of a public-private syndicate to address a global health emergency is the first in Lloyd's 330-year history.

agent and must meet the challenges of COVID-19. The plans must assume that no changes will be made to the business plan once approved by Lloyd's.

For 2020, Lloyd's introduced a phased

At least the new system for business and capital planning has been streamlined so things should be easier to process. The aim is to protect the best performing syndicates while keeping a careful watch on the worst

performers in the Lloyd's stable. Syndicates will be designated as light or high touch. Light touch syndicates are Lloyd's strongest performers and will be given a file and use approach to their planning. High touch syndicates will have their plans reviewed in full, and they must be approved by Lloyd's Capital and Planning Group,(CPG).

Like the light touch syndicates, those in the middle start off with a file and use approach to their planning, but these plans must meet defined key performance indicators set out by Lloyd's. If these are not met, then the syndicate will join the high touch syndicates and must get its plans approved by the CPG.

The fast track for capital involves getting the syndicate's model right before sub-

See LONDON VIEWS Page 19

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NEWS IN BRIEF FROM PAGE 14

hamas, then raked the Florida coast and made landfall in southern North Carolina Aug. 3, and went on to impact the U.S. northeast. It is expected to cause insured losses of more than \$1 billion, according to Aon's catastrophe risk analysis and meteorology division. Karen Clark and Company in its KCC Flash Estimate Aug. 7 predicted that the insured losses from Isaias will be around \$4 billion in the U.S. and \$200 million in the Caribbean. The long-tracked storm's impacts are particularly widespread, indicating that its insurance and reinsurance market loss will be the highest of the 2020 hurricane season so far. Industry observers expect the impact in the reinsurance market to be relatively low, with the majority of the losses from Isaias retained in the primary insurance market. Hurricane Isaias lost its intensity when approaching Florida, but regained strength prior to landfall in North Carolina, with winds reaching 85 mph. The extremely warm waters along the eastern seaboard suggest this risk of close-in intensification could be a feature of this year's hurricane season, which is predicted to be very active. Aon warned of the possibility of a longerthan-normal period of loss development because the COVID-19 pandemic could exacerbate damage surveys and the claims process.

Risk Management Solutions Inc. has estimated that insurance losses in the United States from Hurricane Hanna will not exceed \$400 million, including insured losses for wind and storm surge and flood losses from the National Flood Insurance Program (NFIP). Hanna made landfall with 90 mph maximum sustained winds on Padre Island, Texas, July 25, according to Karen Clark and Company. Based on the KCC hurricane model, KCC estimated that the insured loss from Hanna will be close to \$350 million. The KCC estimate includes privately insured wind and storm surge damage to residential, commercial and industrial properties and automobiles. It does not include NFIP losses. "The storm made landfall . . . with stronger winds than expected. However, the impacted region is an area with low industry exposure," said **Jeff Waters**, senior product manager, RMS North Atlantic Hurricane Models. Losses associated

See NEWS IN BRIEF Page 19

London views

mission. The amount of capital required will depend on the syndicate's catastrophe risk appetite, prospective loss ratios and opening balance sheet reserves.

Best affirms Lloyd's rating

AM Best has affirmed Lloyd's financial strength rating of A (Excellent). Lloyd's risk-adjusted capitalization is at the strongest level measured by Best's Capital Adequacy Ratio. The market's capital adequacy is supported by Lloyd's robust risk-based approach to setting member-level capital and a strong central fund and is enhanced by the diversity of Lloyd's capital providers.

Best took into account its expectation that Lloyd's will produce a strong technical performance over the underwriting cycle and that capital will continue to be attracted to the market. The strong position of Lloyd's in its core markets, reinsurance and specialty property/casualty insurance, which are currently experiencing improving market conditions, helped Lloyd's rating.

On the negative side, Best commented that Lloyd's expense ratio continues to be higher than that of its peers. Best recognizes that actions currently are being taken through the Future at Lloyd's initiative to reduce the cost of placing business at Lloyd's, the benefits of which should start to be realized in the short-term.

Syndicate to insure vaccine

Lloyd's has always been at the forefront of insurance innovation. Its latest development involves the creation and, in principle, the approval of its newest syndicate in a box. Syndicate 1796 has received approval from Lloyd's Council, but the decision to grant permission for the syndicate to un-

derwrite is contingent on completion of a number of relevant operational workstreams. The move is part of Lloyd's response to the far-reaching impacts of the COVID-19 pandemic. (A bonus point to anyone who knew that 1796 was the year Edward Jenner carried out his initial experiments on the smallpox vaccine.)

Syndicate 1796 was developed by Parsyl, an insurance technology company and Lloyd's Lab alumnus, in close partnership with Lloyd's managing agents Ascot and in cooperation with AXAXL, McGill and Partners, and Gavi, the Vaccine Alliance. Syndicate 1796 will form the foundation of the new Global Health Risk Facility at Lloyd's (GHRF), which aims to provide comprehensive insurance and risk mitigation services to support the manufacturing and distribution of COVID-19 vaccine development efforts.

It aims to start writing business Oct. 1.

Syndicate 1796 will be backed by development finance capital, allowing it to share risks with leading cargo syndicates, making better, fairly priced cargo coverage available. The GHRF will offer all risk cargo coverage for transit and storage risks on all global health products related to COVID-19 and any other infectious disease control and prevention programs.

FROM PAGE 18

The creation of a public-private syndicate to address a global health emergency is the first in Lloyd's 330-year history.

The delivery of vaccine can be expensive to insure because underwriters are concerned about the risk of medicines being spoiled by excessive heat or cold and the need for special packaging to

See LONDON VIEWS Page 20

NEWS IN BRIEF FROM PAGE 18

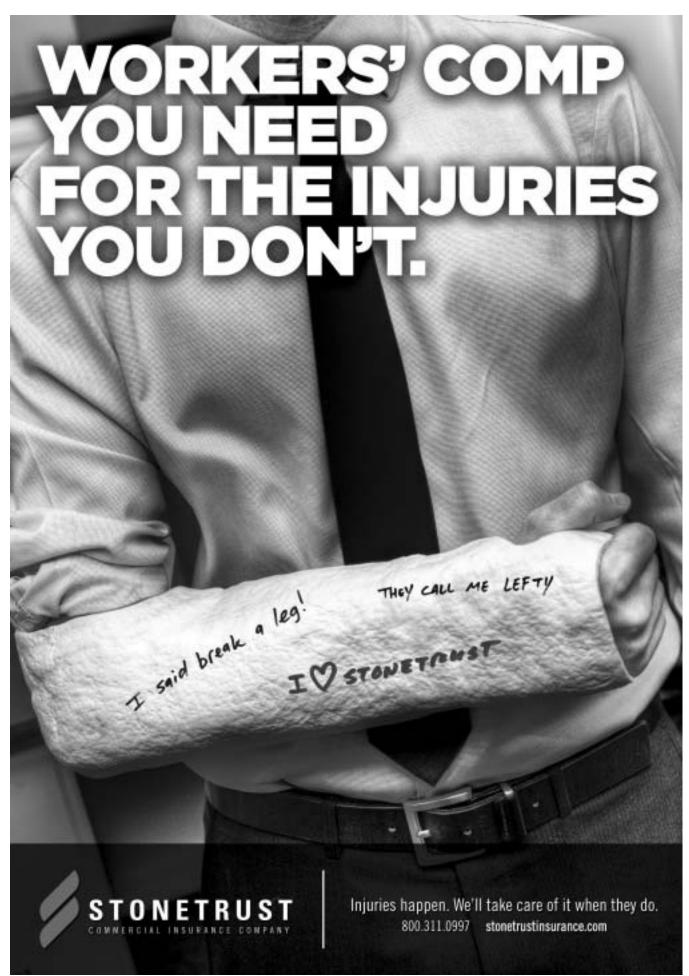
with inland flooding are expected to be negligible because the storm maintained its forward motion after landfall and only caused high rainfall totals in isolated areas, according to RMS. NFIP losses were estimated at about \$100 million or less. Even so, Corpus Christi, Port Mansfield, McAllen and other coastal towns all experienced storm surge flooding to residential and commercial buildings, KCC reported.

The 2020 Atlantic hurricane season may be nearly one-third over, but Colorado State University forecasters released an updated prediction Aug. 5 for how many storms will form in this season. To date, the season is about two weeks ahead of record pace, and CSU is now predicting 24 named storms, including 12 hurricanes, five of which are major hurricanes — each figure about double that of a normal season. Researchers increased their forecast citing very warm sea surface temperatures and very low wind shear in the tropical Atlantic. If the forecast proves accurate, 2020 would be the second most active Atlantic hurricane season, behind only the record-shattering 2005 season which brought hurricanes Katrina and Wilma and 28 named storms. CSU also forecasts a 75 percent chance that the U.S. coast will be struck by a major hurricane - Category 3 or greater — during the 2020 season. The team based this forecast on a statistical model that uses approximately 40 years of historical data.

NATURAL DISASTERS

In the first half of the year, natural disasters resulted in overall economic losses of approximately \$68 billion, of which just over 18 percent, or \$27 billion, was covered by re/insurance protection, Munich Re reported July 23. Globally, economic losses of \$68 billion in first half of 2020 are below the 30year average of \$74 billion, while insured losses, at \$27 billion, were actually up on the \$20 billion average as a result of the large proportion of weather losses in North America, Munich Re said. The weather losses in North America included "very high" losses from severe thunderstorms with tornadoes, flash floods and hail; there were eight events with billion-dollar insured

See NEWS IN BRIEF Page 20



London views

keep the vaccines safe and sterile.

Neal said, "There is broad consensus that life can only return to normality after a vaccine is developed, distributed and administered around the world. Lloyd's has an important role to play in insuring the many risks associated with this global medical response, and we are delighted to approve a new innovative syndicate that will provide effective cover for local vaccine distribution supply chains. This unique partnership is a real demonstration of the value and ingenuity the Lloyd's market can bring to help address a global health emergency, as we share the risk to support the brave efforts of those racing to develop and distribute a COVID-19 vaccine."

Andrew Brooks, CEO, Ascot Group, said, "The GHRF is an excellent example of how the insurance industry is addressing previously uninsured risks. Ascot and the

wider insurance market has the underwriting expertise, but to put together a facility such as this requires syndication, infrastructure and market collaboration which Lloyd's is uniquely placed to deliver. Such a facility is enabled by high quality new entrants such as Parsyl who have the ideas, technology and data to deliver this positive humanitarian solution."

Lloyd's Brussels needs capital

With the U.K. leaving the EU on Dec. 31 and trade talks still ongoing, this is not the time to have a row with the European bureaucrats. This leaves Lloyd's with a problem because it needs to produce increased capital for its European operation, Lloyd's Insurance Company Brussels.

The problem relates to Lloyd's underwriters still having liabilities on current EU policies, which must be transferred to Lloyd's Brussels before year-end. Unfor-

tunately, this would affect the company's capital requirements, and Lloyd's will need to stump up a lot of euros to meet solvency requirements.

FROM PAGE 19

To solve this problem Lloyd's is planning to fund its Belgium subsidiary with a combination of capital injected from the Society and its Tier 2 capital. Using Tier 2 capital would enable Lloyd's to have a more flexible and efficient capital structure. All this needs regulatory approval from the Belgian financial regulator. The problem worrying Lloyd's is that, if the regulators refuse the use of Tier 2 capital, Lloyd's would have to fund the entirety of the capital requirement via capital injected from the Society. That is likely to happen by a tranche of syndicate loans, which should raise some \$250 million. Once the regulators and Lloyd's have finished their discussion, the market will be told what to expect.

NAIC

NEWS IN BRIEF

FROM PAGE 19

losses. In total, the North America re-

gion accounted for 47 percent of eco-

nomic losses and 82 percent of insured

losses, while the respective long-term

averages are 35 percent and 60 percent.

In contrast, natural catastrophe losses in

Europe and the Asia-Pacific regions pro-

duced lower losses in the period. The

statistics point to two things, said

Torsten Jeworrek, member of the

Board of Management at Munich Re. The

first is the need to strengthen building re-

silience to mitigate losses, and the second

is that climate change is likely to play a

role in increasing the thunderstorm risk

in North America in the long term.

The National Association of Insurance Commissioners (NAIC) Executive Committee announced July 23 the formation of a special committee focused on race and insurance. The special committee will be co-chaired by Ray Farmer, NAIC president and director of the South Carolina Department of Insurance, and David Altmaier, NAIC president-elect and commissioner of the Florida Office of Insurance Regulation. Dean Cameron, NAIC vice president and director of the Idaho Department of Insurance, and Chlora Lindley-Myers, NAIC secretary-treasurer and director of the Missouri Department of Commerce and Insurance will serve as co-vice chairs for the committee.

Pandemic deals wild card to private passenger auto insurers

U.S. automobile insurers experienced improved underwriting results in recent years and have reacted quickly to dramatic swings in driving patterns caused by pandemic-related shutdowns.

That was the overview presented by David Blades, associate director, and Maxwell Gilberg, associate analyst, both of AM Best. The two were speaking during an episode of BestTV on July 23.

"In 2018 and 2019, U.S. property/casualty private passenger insurers generated decidedly improved results in comparison with the prior eight years," said Blades. "During that longer period, the industry's combined ratio was never lower than 101 (representing an underwriting loss). Com-

ing into 2020, the market was on an upswing, having produced combined ratios of approximately 97 and 98 in 2018 and 2019, respectively. ... As a result, the industry generated a combined total of more than \$7 billion in underwriting earnings during the last two calendar years," he continued.

According to Blades, more refined and effective use of technology and data analytics in particular has benefited personal auto insurers, as have targeted rate increases. He said that these were a couple of the keys that helped property/casualty auto insurers address some of their underwriting issues that needed to be dealt with in terms of improving the performance of that 2010 to 2017 period.

Initiatives implemented to improve claim handling, in terms of greater efficiency and in terms of better settlement outcomes, also contributed to the personal auto insurers' improved results.

The COVID-19 pandemic caused the number of miles driven by motorists to plummet in the first half of 2020, prompting many insurers to accommodate policyholders through rebates or refunds. Gilberg addressed whether these rebates or refunds will become a permanent part of the industry.

"Insurers are for-profit entities, unless there is a reason for extraordinary refunds or rebates. Generally, automobile insurers only apply discounts to drivers applying safe-driving habits."



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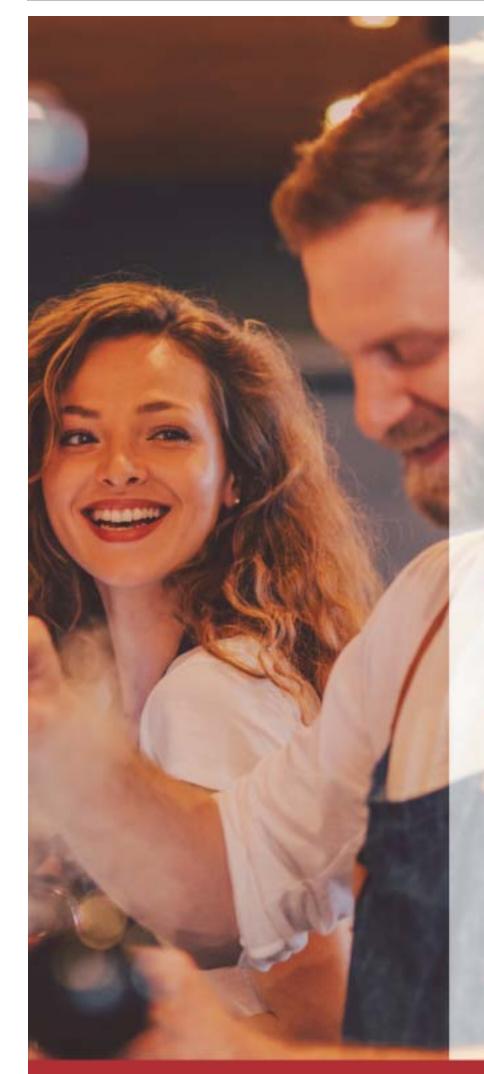


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Triple I: P/C industry's first quarter 2020 went well

First quarter gave no hint of shock in second quarter

The first quarter 2020 data, in comparison to both the previous quarter and the first quarters of prior years, gave little hint of the shock that was to follow in 2020's second quarter. Indeed, for the property/casualty insurance industry, the first quarter of 2020 generally went well.

Although there were some bumps in the road – policyholders' surplus fell by \$75.9 billion, or 9.0 percent, from the 2019 year-end level – most measures of financial results (premiums, underwriting results, investments, surplus level in relation to new written premiums and profitability) were positive.

That is the broad view of the U.S. P/C industry's first quarter results expressed by the Information Insurance Institute in its discussion of the key drivers of the 2020 first quarter's performance. The Triple I's commentary was released July 28, the same day that the industry results were released

by ISO, a Verisk Analytics company, and the American Property Casualty Insurance Association (APCIA). The industry's results were reported by Neil Spector, president, ISO, and Robert Gordon, senior vice president, Policy, Research and International, APCIA.

Premiums

Property casualty insurers measure premium income in three ways, each of which gives a different insight into industry activity, according to Triple I's commentary. Direct premiums written reflect the amount that policyholders pay for insurance. This is a basic gauge of retail activity. Net premiums written are calculated by subtracting the amount insurers pay for reinsurance from direct premiums and are, therefore, a simple gauge of the net amount of risk that insurers plan to assume. Net premiums earned are derived by adjusting NPW to reflect the insurance that was provided. Direct premiums written and NPW are forward-looking measures, while net premiums earned are a backward-looking concept.

-Direct premiums. Most personal direct premiums and some commercial direct premiums are required by law or by terms of commerce (such as homeowners insurance to protect a lender's mortgage). Therefore, as a rule, direct premiums follow the changes in the number of drivers, homes and businesses – essentially a measure of growth of the U.S. economy, the Triple I explained. This is a loose relationship; it is more a year-by-year than a quarter-by-quarter correlation.

The U.S. economy in the first quarter of 2020 – up to the middle of March – was surprisingly strong, considering that it ex-

GDP didn't match the rise in DPW.

-Net premiums written. As Triple I and others have written before, one significant effect of the Tax Cuts and Jobs Act of 2017 for the P/C insurance industry was to boost calculated NPW by incentivizing insurers to reduce their reinsurance with non-U.S. reinsurers. Thus the 2018 first quarter net premium written growth was unusually high (15.7 percent). In contrast, because it was

For insurers writing mainly commercial lines (excluding mortgage and financial guaranty insurers) premiums spiked by 12.1 percentage points, compared to a decline of 9.3 percent in Q1-2019.

tended the longest expansion (since the end of the Great Recession in June 2009) in modern U.S. economic history. But the recognition of the spread of the COVID-19 pandemic brought the expansion to a screeching halt, Triple I said, plunging the U.S. economy into one of the steepest recessions it has ever seen. The result was a drop in real GDP at a 5.0 percent annual rate.

Nominal (i.e., not inflation-adjusted)

GDP shrank in the first quarter of 2020 by 3.6 percent. ISO estimates that direct premiums for all lines of P/C business grew at 4.6 percent in the first quarter of 2020, slightly faster growth than the 4.4 percent in the first quarter of 2019. Premium rates and exposure levels were set long before the 2020 recession struck, so it is no surprise to Triple I that the drop in nominal

See Q1 2020 RESULTS Page 23

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compared with an unusually high prior quarter, the first quarter 2019 net premium written change was a decrease of 1.1 percent. But as an indicator of industry revenues, the Triple I finds that this negative net premium written growth rate is misleading; ISO suggests that, if one takes the base for growth as the 2017 first quarter level, the average annual net premium written growth over the two years is 6.9 percent per year. Using that average as a baseline, the NPW growth for the first quarter of 2020 was 6.2 percent — essentially on trend, Triple I wrote.

NPW growth for the major subsectors of the industry moved in the same direc-

tion, but to different degrees. For insurers writing predominately personal lines, premiums rose by 3.0 percentage points, compared to a growth rate of 4.5 percent in the same quarter of the prior year. For those writing mainly commercial lines (excluding mortgage and financial guaranty insurers) premiums spiked by 12.1 percentage points, compared to a decline of 9.3 percent in 2019's first quarter. And those writing balanced books of business posted net premium written growth 3.2 percent higher than the year-earlier quarter.

To assess premium growth, ISO compiled premiums for a large cohort of insurers whose first quarter data was available for 2018, 2019 and 2020, which represents more than 95 percent of the total net written premiums for the industry, Spector and Gordon reported.

-Net premiums earned. NPE for insurance that was provided in the first quarter of 2020 was \$157.7 billion, up 5.4 percent over the first quarter of 2019. Triple I described this as a solid increase, surpassing

previously set aside for prior claims, but after re-evaluation, were not needed for that purpose.

FROM PAGE 22

To put Q1-2020 reserve releases in recent historical perspective, Triple I noted that for the first quarter of 2019, the industry reported releases of prior-year claims reserves totaling \$4.5 billion; compared to \$7.4 billion in Q1-2018, \$5.5 billion in Q1-

For insurers writing predominately personal lines, premiums rose by 3.0 percentage points, compared to a growth rate of 4.5 percent in the same quarter of the prior year.

the 4.6 percent growth in the first quarter of 2019. However, Triple I noted that ISO reported the average annual growth in NPE over the two years from the Q1-2017 to Q1-2019 as 7.0 percent.

LLAE and Expenses

There are two main drivers of underwriting performance, Triple I explained, losses and loss adjustment expenses (LLAE) and other expenses for marketing, underwriting and general administration.

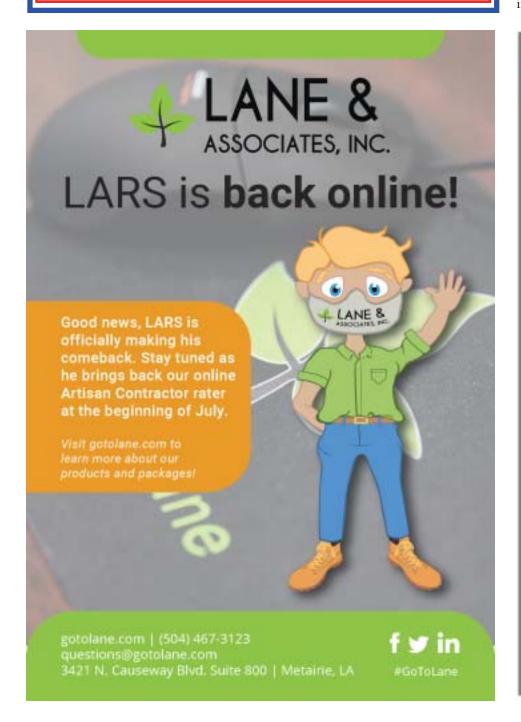
LLAE in the first quarter of 2020 totaled \$105.4 billion, net of reinsurance recoveries, up by 3.5 percent over the \$101.8 billion in the first quarter of 2019. Commonly LLAE includes the effect of changes in reserves for future payment of previous claims that are still not finalized – that is, current-year effects of prior-year claims, Triple I said. In the first quarter of 2020, insurers released \$3.7 billion from reserves

2017 and \$4.4 billion in Q1-2016. Reserve releases contribute to underwriting profit, Triple I commented, and reserve strengthening would subtract from profit.

In Triple I's view, it can be useful to subdivide LLAE into claims that result from catastrophes and those that do not. In the first quarter of 2020, catastrophe-related claims were \$5.8 billion, up \$1.0 billion from Q1-2019. The first quarter is not normally a high-catastrophe-loss period, but in commenting on the Q1-2017 catastrophe claims (\$77 billion), according to Triple I, ISO/ACPIA noted that, except for the Northridge Earthquake claims in Q1-1994, for the prior 68 years (from 1950 through 2017), the only other time that catastrophe losses topped \$4.0 billion in the first calendar quarter was Q1-2016, at \$5.0 billion.

See Q1 2020 RESULTS Page 24







Q1 2020 results

Now, it seems to Triple I that a new first-quarter CAT-loss trend is emerging with five consecutive years of first-quarter catastrophe LLAE of \$4.8 billion or more.

In their report for ISO/APCIA, Spector and Gordon pointed out that private U.S. insurers' net LLAE includes both their domestic and foreign catastrophe losses. However, U.S. insurers' \$5.8 billion in net LLAE from catastrophes in first quarter 2020 is primarily attributable to catastrophes that struck the United States.

Net losses for non-catastrophe claims increased by \$2.6 billion, to \$99.7 billion from \$97.1 billion in Q1-2019 – rising by 2.7 percent. In the absence of other forces at work, Triple I said, one would expect non-catastrophe LLAE to rise at the same rate as the extent of protection provided – as measured by net premiums earned. How-

However, this string followed four years of equally large first quarter underwriting losses, Triple I said.

A widely used industry metric for gauging overall insurance operations is the combined ratio, Triple I wrote. This ratio is the sum of three percentages: loss and loss adjustment expenses as a percent of NPE, policyholder dividends as a percent of NPE and other expenses as a percent of NPW. In Q1-2020, this ratio was 94.9 percent, improving slightly from 95.6 percent in Q1-2019

Combined ratios for the major subsectors of the industry moved in the same direction, but to different degrees. For insurers writing predominantly personal lines, the combined ratio improved by 2.7 percentage points, to 92.2 percent. For those writing mainly commercial lines (exclud-

For insurers writing predominantly personal lines, the combined ratio improved to 92.2 percent. For those writing mainly commercial lines the combined ratio rose to 97.7 percent. And those writing balanced books of business posted a combined ratio of 95.8 percent.

ever, in Q1-2020, NPE rose by a larger percentage, 5.4 percent, over the year earlier quarter.

General expenses grew by 10.0 percent to \$46.0 billion, compared to \$41.8 billion spent in the first quarter of 2019. Triple I speculated that the size of this increase could be a timing matter in that the change from Q1-2018 to Q1-2019 was a drop of 0.5 percent. To put expenses into context, Triple I compared them to net premiums earned, which yields 29.1 percent in Q1-2019 and 29.4 percent in Q1-2018.

Insurance Operations

Overall, insurance operations performance (excluding investment performance) is the difference between NPE and the sum of incurred losses, expenses and dividends to policyholders. The first quarter of 2020 produced a net underwriting gain of \$6.3 billion on NPE of \$157.7 billion. This means that seven out of the last eight years registered first quarter underwriting gains.

ing mortgage and financial guaranty insurers), the combined ratio rose by 1.3 percentage points, to 97.7 percent. And those writing balanced books of business posted a combined ratio of 95.8 percent, 1.3 percentage points better than in the year-earlier period.

Investment Performance

For the first quarter of 2020, net investment gains were \$14.3 billion, down \$0.5 billion from Q1-2019. In measuring insurance company net investment gains, accounting rules recognize two components: net investment income and realized capital gains or losses. Unrealized capital gains or losses are not considered income and affect only surplus on the balance sheet. According to Triple I's bar graph, net investment income has held steady for the first quarter over the past 12 years, but realized capital gains are smaller and more erratic, amounting to a loss of \$7.9 billion in 2009, moving up to an \$8.1 billion gain in 2013

and back down to a \$1.1 billion gain in the first quarter of 2020.

Net investment income itself has basically two elements: interest payments from bonds and dividends from stock. The industry's net investment income for the first quarter of 2020 was \$13.2 billion, pretty much flat, up by \$0.02 billion from Q1-2019, the Triple I said. Most of this income comes from the industry's bond investments, which are mainly high-quality corporate bonds and municipal bonds, ac-

cording to Triple I.

As captured by the Bank of America Corporate AA-rated seasoned bond index, corporate bond market yields fell in the first quarter of 2020, averaging 2.0 percent in the first three months of 2020, down more than a full percentage point from the first quarter of 2019. The yields in 2020 continued to shave income off the industry's bond portfolio despite its growing size. This is

See Q1 2020 RESULTS Page 25

FROM PAGE 23



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Q1 2020 results

because most bonds that are maturing now and being reinvested command lower yields than the bonds they replace. Triple I offers an example: 10-year AA bonds bought in the first quarter of 2010 averaged 3.6 percent yields.

Besides bond yields, the other significant source of net investment income is stock dividends. Seasonally adjusted, net dividends in the first quarter of 2020 (of nonfinancial domestic corporate business) plunged from \$499.0 billion in Q1-2019 to \$288.0 billion in Q1-2020. In general, stock holdings roughly represent about one-fifth of the industry's invested assets.

On the income statement, the other sig-

nificant source of net investment gains is realized capital gains. The broad stock market, as measured by the S&P 500, fell by 20.0 percent in the first quarter of 2020, although virtually all of that occurred in the last two weeks of the quarter, providing little opportunity for cashing gains. Despite this, Triple I said, the industry realized \$1.1 billion in realized capital gains in Q1-2020, compared to \$1.6 billion in the first quarter of 2019.

Profits

The P/C industry has posted positive net income after taxes in each first quarter of the past 11 years. First-quarter profits have varied from year to year, averaging \$15.3

billion per year over that span. The main source of that variation is underwriting gains or losses. Overall profit in Q1-2020, was above average, at \$17.9 billion, Triple I said, thanks to the strongest first-quarter underwriting gains in the past decade.

Policyholders' surplus

Policyholders' surplus is the excess of

billion in the first quarter of 2019. The net result of aggregated miscellaneous credits to surplus and charges against surplus was a \$3.4 billion charge in first quarter 2020 and a \$0.2 billion charge in the first quarter of 2019.

FROM PAGE 24

One commonly used measure of capital adequacy for insurers, the ratio of NPW to

Insurers' \$83.8 billion in unrealized capital losses in the first quarter of 2020 represent a \$109.5 billion swing from \$25.6 billion in unrealized capital gains a year earlier.

-Spector and Gordon

assets over liabilities – what in other industries is called "net worth." Both in dollar terms and in relation to insurance activity, Triple I pointed out, it is a valuable indicator of the strength and capacity of the industry to handle the risk it has accepted. Policyholders' surplus as of March 31, 2020, fell \$75.9 billion to \$771.9 billion, from the end of 2019. Most of the fall in surplus in the first quarter could be attributed to unrealized capital gains.

According to Spector and Gordon, insurers' \$83.8 billion in unrealized capital losses in the first quarter of 2020 represent a \$109.5 billion swing from \$25.6 billion in unrealized capital gains a year earlier. Again, unrealized capital gains/losses are not included in net income.

Spector and Gordon also pointed out that dividends to shareholders increased to \$6.8 billion in the first quarter of 2020 from \$5.5

surplus, currently stands at 0.83, a very strong position (the lower the ratio, the greater the capacity). According to Triple I, the industry is extremely well capitalized, and if necessary, financially prepared to pay very large-scale losses in 2020 and beyond.

Despite increasing from 0.78 as of March 31, 2019, Spector and Gordon reported that the ratios remain low compared with their historical levels. For example, over the 20 years ending 2019, the average premium-to-surplus ratio was 0.89 and the LLAE reserves-to-surplus ratio was 1.03.

Triple I's Summary

The P/C insurance industry turned in a profitable performance in the first quarter of 2020, buoyed by continued premium growth and favorable investment results. Policyholders' surplus fell but remains at a high level. Fundamentally, the P/C insurance industry remains quite strong financially.



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Insurers face multiple challenges as COVID-19 impact unfolds

Even though the surplus for the private U.S. property/casualty insurance industry dropped by \$75.9 billion in the first quarter of 2020—its largest-ever quarterly decline—as the stock market suffered a major downturn, other industry results for the first quarter remained steady or improved from a year earlier, according Verisk, a data analytics provider, and the American Property Casualty Insurance Association.

Since the end of the first quarter of 2020, the COVID-19 pandemic has continued to affect many insurers and will likely impact underwriting results for the second quarter and the remainder of the year, APCIA said in a news release July 28 announcing the

first quarter results for 2020.

The surplus fell to \$771.9 billion as of March 31, 2020, from the record-high \$847.8 billion at the end of 2019. This drop was mostly driven by a decline in valuations of insurers' investments. While the decline set surplus back to mid-2018 levels, traditional leverage ratios remained below their long-term averages.

Other industry results for this year's first quarter include net income after taxes, which was \$17.9 billion, essentially the same as in first-quarter 2019, APCIA said. The net underwriting gain in the first quarter was \$6.3 billion, a 19.9 percent increase from a year earlier. Net written premiums

increased to \$164.4 billion from \$154.7 billion in first-quarter 2019, a 6.2 percent increase.

While having no apparent effect on first-quarter underwriting results, the COVID-19 pandemic and associated economic disruptions have affected many insurers, and the impact goes beyond the investment losses reported in the first quarter. Based on what is already known about the first half of 2020 and on available forecasts, APCIA expects significant changes in insured exposures as well as in the amount and mix of claims.

Verisk research estimates that personal auto insurers have offered more than \$13

billion in policyholder rebates and credits.

MarketStance, a Verisk solution, estimates that at least one million insured businesses in the United States will fail in 2020, and direct written premiums in commercial lines will decrease 2.8 percent.

"The historic drop in industry surplus in the first quarter was concerning for many insurers, as it began to show the impact of COVID-19 on their results," said Neil Spector, president of ISO, a Verisk business.

"But the impact of COVID-19 on the industry is just beginning to unfold," Spector said, asking, "Will personal auto

See COVID-19 IMPACT Page 27

First Quarter 2020 and 2019 Operating Results

(\$ billions)		
	2020	2019
Net Written Premiums	\$164.4	\$154.7
Net Earned Premiums	157.7	149.6
Incurred Losses and Loss Adjustment Expenses and Reserve Adjustments	105.4	101.8
Expenses	46.0	41.8
Policyholder Dividends	0.8	8.0
Net Underwriting Gain	6.3	5.2
Pretax Operating Income	19.4	19.0
Net Investment Income	13.2	13.2
Realized Capital Gains	1.1	1.6
Net Investment Gains	14.3	14.8
Pretax Income	20.6	20.6
Taxes	3.0	2.7
Net After-Tax Income	17.9	17.9
Surplus (end of period)	771.9	779.6
LLAE Reserves	655.0	633.4
Combined Ratio	94.9	95.6

Figures may not add to totals due to rounding. Calculations in text based on unrounded figures.

Sources: ISO and Insurance Information Institute

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Insured losses from the Beirut explosion could be \$3 billion

Insurance industry experts say losses from the Beirut, Lebanon, ammonium nitrate explosion at the port will likely total \$3 billion, Reuters reported Aug. 7.

The explosion, which occurred Aug. 4, was the largest non-nuclear explosion in history and resulted in at least 171 deaths and precipitated the collapse of Lebanon's government. The incident also destroyed a large section of the city.

Officials estimate the explosion may have caused economic losses totaling \$15 billion. The Institute of International Finance speculated that property damage alone could exceed \$7 billion, Bloomberg reported on Aug. 13.

According to Mena Commodities, approximately 85 percent of the country's cereals are stored in the port's grain silos, which sustained major damage, Morocco World News reported Aug. 13. The destruction of the grain supply exacerbates a pre-existing food security issue and has sparked food shortage fears among the population.

Meanwhile, business interruption losses could cost hundreds of millions of dollars. Currently, there is no speculation on what that number could be.

In addition to the grain silos, the explosion destroyed residential properties, hotels, restaurants, and other commercial properties. Insiders say the blast has similarities

to the warehouse explosion in Tianjin, China, that killed 116 people and cost between \$2.5 billion and \$3.5 billion.

Munich Re, AXA, Hannover Re and Allianz said they will incur costs because of the explosion. Munich Re has said it assumes the loss will be "major" but could not provide estimates. Munich Re classifies a loss of more than 10 million euros (\$11.8 million) as "major." Insured losses at the port and nearby vessels and cargoes could reach \$250 million, according to Guy Carpenter and Company.

In commenting on the explosion on Aug. 5, AM Best said that insurance penetration rates in Lebanon generally are low, and property insurance represents only a small fraction of the Lebanese insurance industry, Best said, explaining that the insurance industry in Lebanon is dominated by three segments: life, medical and motor. Based on the latest

available data, Best concludes property insurance accounted for six percent of Lebanon's 2018 gross written premium.

However, property insurance has been a growing line as "insurers have leveraged their relationships with policyholders to offset weaker motor business by cross-selling more profitable products," Best said. "Given the extent of the damage in one of the busiest, wealthiest areas of the country," Best is cognizant of the fact that "the incident will weigh on Lebanon's already challenged insurance sector."

In a Best's Market Segment Report titled, Lebanese Insurance Market Faces Mounting Uncertainty, published in March 2020, Best noted that "civil unrest and a ballooning public debt had increased the level of economic uncertainty, negatively impacting the credit quality of Lebanon's insurance market.

COVID-19 impact

insurers see the reduction in losses matching the policyholder rebates and credits offered this spring? To what extent will commercial lines premiums be affected by the challenges facing the economy? How will insurers adapt and continue to serve their customers efficiently in our new normal?"

Verisk recently created an online resource page at verisk.com/insurance/covid-19/ to help insurers learn about new regulations, read about critical insights, and discover new products being created to address the effects of COVID-19. Verisk also recently launched a web page that provides strategies for personal lines insurers in the new normal; verisk.com/newnormal.

FROM PAGE 26

"Property/casualty insurers started the year with solid net written premium growth, but that was the calm before the storm," said Robert Gordon, senior vice president for policy, research and international at APCIA.

"By the end of the first quarter, insurers experienced their largest-ever quarterly surplus decline as the stock market suffered its largest drop since 1987 and interest rates reached a record low, Gordon said. "While the industry remains safely capitalized, many individual insurers face potentially significant unknown coronavirus liability exposures, as well as political and regulatory threats of mandated retroactive and prospective COVID-19 coverage."



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