PROPERTY INSURANCE REPORT

The Authority on Insuring Homes and Commercial Property

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INSIDE

THE GRAPEVINE

Swiss Re: 2019 Insured Losses Lower Than Average

The lack of large, costly U.S. hurricanes in 2019 drove down global insured losses to $60 billion, 36% lower than the $93 billion in 2018 and the 10-year annual average of $75 billion, according to the latest **Swiss Re** *Sigma* report. Worldwide economic losses declined 17% to $146 billion from $176 billion. Despite lower losses, insurers should be prepared for more costly catastrophes due to climate change. “Economic development and ever-increasing population concentration in urban centers, alongside changes in climate will continue to increase losses due to weather events in the future,” said **Edoard Schmidt**, **Swiss Re** chief underwriting officer and chairman of the **Swiss Re Institute**. PIR

Property Insurers See Pandemic Turmoil, But Bottom Line Stability

Property insurers last week watched their auto insurance cousins closely as they offered customers billions of dollars of returned premiums due to falling claims resulting from customers staying home – and off the roads – in response to the COVID-19 pandemic.

For now, property insurers are sitting on the sidelines because while the early data flowing from the first weeks of the pandemic show measurable changes from the norm, total claims costs have not changed significantly.

While auto insurance might benefit from less driving in the short term, home insurance could be more of a wash: increased home usage could result in flat-to-slightly increased claims frequency, but with a drop in claims severity, according to **Bill Martin**, president and CEO of **Plymouth Rock’s** home insurance business.

More people at home might also increase cyber risk for individuals and businesses.

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Insurers Battle for Growth In Pleasant Pennsylvania Market

Pennsylvania home insurers are sacrificing short-term profits in their push to capture a larger share of a slow-growing state described as one of the country’s healthiest markets, given its large size and limited catastrophe exposure.

In 2019, statewide homeowners premium grew 2.8% to $3.52 billion, according to preliminary data from **S&P Global Market Intelligence**. That means Pennsylvania is now the seventh-largest homeowners insurance market in the nation, as **Georgia**, with 6.6% premium growth last year, moved up to No. 6

Pennsylvania’s homeowners premium growth rate last year matched the 2.8% rise in 2018, a significant increase from 1.5% growth in 2017 and 1.0% in 2016. But as in-

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The closest corollary to the current unprecedented quarantine is likely a blizzard event, minus weather-damage claims: workers are stuck at home for an extended period of time, children are home from school and the roads are closed.

The company typically sees an uptick in minor household damage claims in those circumstances, Martin said. A toilet overflowed when a child dropped a toy in it. With children at home instead of in school, insurers might see more trampoline injury claims, especially as the weather warms.

But occupied households also result in less-serious claims – people are home to turn off the space heater, the running faucet, or the home's water shutoff valve. Nothing is guaranteed, and economic stress could alter these patterns, he said, possibly leading to a small increase in overall frequency.

> ***Fully occupied homes will see more frequency and less severity, but empty commercial properties will just see trouble.***

Burglary and theft claims should fall sharply, something already apparent in crime statistics around the country. Thieves are far less likely to break into an occupied home.

But there is a flip side to this. One insurance executive worried that many homes and apartments have been left empty as families shelter in place together. With few people out and about, thieves can watch a home, confirm it is empty, and rob it at will with no one really watching. And these empty residential properties will see more severe claims should water leaks or similar problems develop.

Policyholders experiencing economic stress might be less willing to absorb small repairs and file claims instead. There could be an increase in so-called soft fraud, where policyholders exaggerate damage or injury when an opportunity arises. With record-setting unemployment filings at the end of March and early April, household economic pain, at least short term, is certain, however, it's too early to see the impact on insurance, Martin said.

The average policyholder typically takes about two weeks to communicate all the claim information to their insurer when there is no injury or urgent repair needed, he said, meaning the company should begin to see the first signs of an emerging pattern this month. "We're watching very closely is to see what the elements of frequency and severity are," he said.

With more delivery people walking up and down sidewalks to front doors, will there be more residential slip and fall claims? Or dog bites? While plausible, there are reasons to doubt an increase in these claims. First, the number of home deliveries has been skyrocketing in recent years with the surge in online shopping, but there has been no corresponding rise in liability claims against homeowners.

Secondly, to the extent a delivery person is an employee, or something like an employee, the first course of action from an injury sustained on the job is workers compensation, where it is much easier to get paid than in a personal injury lawsuit against a random homeowner or apartment dweller.

While the increased number of people stuck at home could reduce severity in residential property claims, commercial property could be in for real trouble as many restaurants, retail establishments and other workplaces sit empty. With entire strip malls shuttered, small problems left undetected can turn into big problems, increasing claim severity. Who will notice the stain on the ceiling tile indicative of a roof or pipe leak? Landlords are no substitute for tenants when it comes to recognizing the need for basic property maintenance.

One silver lining: With fewer people walking into or across commercial property, there will

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be fewer slip-and-fall and other injury claims against commercial property owners.

Citing the hardship its small-business customers are enduring, **Farmers Insurance** announced it will provide a 20% monthly credit to more than 115,000 customers with business owner policies for the next two months. But Farmers is likely also recognizing the possibility of fewer claims against a business that is not operating.

Some in the industry expect to see a drop in insurance shopping, but Martin said he could see it going either way. During major crises in the past, consumers have shopped less because they were distracted by rapidly changing local and world events. On the other hand, consumers quarantined at home suddenly have much more time to monitor household finances and shop for alternatives to their current insurance. Because people typically buy home insurance two to four weeks in advance, new business coming in Plymouth Rock's door is from sales made 30 days ago. "So we're just beginning to see whether it will impact our new business sales," he said.

Martin thinks companies like Plymouth Rock that have made shopping easy with accurate initial quotes for customers should benefit from the increase in consumer free time and idleness.

The sudden movement home for workers and the exponential increase in virtual business has increased cyber risk. Business and individuals are transferring more information across the internet with greater frequency, using more devices, and it's already clear the cyber crime community is picking up on the increased activity, Martin said.

Most personal cyber losses are small, and insurers and vendors are getting better at reacting to and mitigating identity theft, replacing machines infected by viruses, investigating and defending claims coming from social or other media use, and responding to ransom attacks, Martin said. While the risk may impact commercial insurers more than personal property insurers, cyber experts and insurers are encouraging individual vigilance and awareness in the face of an opportunistic threat.

There has been a large increase in phishing scams and other cyber fraud looking to capitalize on the pandemic, said **Lisa Lindsay**, executive director of the **Private Risk Management Association**, a trade group for insurers focused on the high net worth market. These insurers were some of the first to offer personal lines cyber coverage, and it's now a new growing segment for standard homeowners insurance carriers.

Cyber criminals are preying on panic to trick web users into clicking on malicious links or downloading malware. They are hooking them in with phony websites promising to provide information or resources pertaining to the crisis, said **Darren McGraw**, president of **Mechelsen Private Client**, a Seattle-area insurance agency.

> ***The sudden increase in people working from home has dramatically increased cyber risk.***

Employees working from home present another opening for attack. Hackers can send emails that look like they originate from a company's IT or human resources department asking the worker to enter their credentials. Such scams can put both individuals and their employers at risk. The rise in the use of personal devices for work provides another hardware entry point for bad actors.

"People are jumping on different computers and connections that may never have been intended for business use but are probably being used for business use," McGraw said. "It gives criminals many more avenues and paths of which to follow."

He advises clients to follow at least three simple cyber hygiene habits to reduce risk. First, they should audit the permissions that they give

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Pennsylvania
Homeowners Multiperil Insurers

Groups Ranked by Total 2018 Direct Premium Written (000)

Group Name	2018 Premium	Mkt share 2018	Loss Ratio 2018	2017 Premium	Mkt share 2017	Loss Ratio 2017	2016 Premium	Mkt share 2016	Loss Ratio 2016
State Farm Mutual	$607,186	17.7%	63.4%	$592,236	17.8%	45.1%	$587,736	17.9%	42.4%
Erie Insurance Group	$532,254	15.5%	58.4%	$520,430	15.6%	43.9%	$511,197	15.6%	39.3%
Allstate Corp.	$456,561	13.3%	51.5%	$452,696	13.6%	43.3%	$458,735	14.0%	39.7%
Liberty Mutual	$285,269	8.3%	50.8%	$277,470	8.3%	38.1%	$277,272	8.4%	33.3%
Nationwide Mutual Group	$263,805	7.7%	57.8%	$274,657	8.2%	43.7%	$283,209	8.6%	38.7%
Travelers Companies Inc.	$221,389	6.5%	49.7%	$223,269	6.7%	36.3%	$218,422	6.7%	35.7%
USAA Insurance Group	$142,932	4.2%	61.3%	$134,461	4.0%	51.3%	$127,652	3.9%	42.1%
Chubb Ltd.	$105,792	3.1%	101.3%	$104,223	3.1%	36.4%	$103,389	3.2%	35.7%
Farmers Insurance Group	$95,564	2.8%	55.2%	$96,959	2.9%	41.0%	$89,350	2.7%	38.7%
Donegal Insurance Group	$68,402	2.0%	64.1%	$65,087	2.0%	59.3%	$64,828	2.0%	31.6%
Philadelphia Contributionship	$51,971	1.5%	90.4%	$43,991	1.3%	67.4%	$38,070	1.2%	59.6%
American Family Insurance Group	$48,548	1.4%	50.6%	$42,881	1.3%	37.6%	$39,125	1.2%	46.5%
Penn National Insurance	$41,698	1.2%	59.9%	$38,954	1.2%	43.9%	$37,120	1.1%	40.9%
Hartford Financial Services	$36,325	1.1%	60.4%	$37,811	1.1%	45.3%	$39,205	1.2%	53.9%
Westfield Insurance	$34,738	1.0%	55.9%	$34,117	1.0%	43.7%	$34,305	1.1%	36.5%
MetLife Inc.	$34,736	1.0%	51.4%	$31,198	0.9%	37.0%	$29,572	0.9%	49.4%
CSAA Insurance Exchange (NorCal)	$26,199	0.8%	54.8%	$25,789	0.8%	30.3%	$24,438	0.7%	33.6%
Goodville & German Mutual Group	$18,271	0.5%	69.2%	$17,455	0.5%	67.0%	$16,812	0.5%	50.2%
Amica Mutual Insurance	$16,164	0.5%	44.2%	$15,775	0.5%	42.7%	$15,043	0.5%	27.1%
Mutual Benefit	$15,599	0.5%	42.4%	$15,567	0.5%	32.9%	$15,369	0.5%	54.5%
Progressive Corp.	$15,129	0.4%	52.2%	$8,721	0.3%	56.1%	$5,930	0.2%	33.0%
Lititz Mutual	$14,826	0.4%	70.6%	$14,844	0.5%	67.5%	$14,631	0.5%	51.3%
Millville Mutual	$13,728	0.4%	67.8%	$13,230	0.4%	60.6%	$12,815	0.4%	63.4%
Selective Insurance Group Inc.	$13,172	0.4%	75.4%	$13,016	0.4%	43.0%	$12,661	0.4%	39.1%
Cincinnati Financial Corp.	$12,878	0.4%	87.1%	$11,638	0.4%	77.9%	$10,854	0.3%	54.3%
Auto Club Exchange Group (SoCal)	$12,552	0.4%	45.7%	$9,720	0.3%	40.1%	$7,125	0.2%	34.1%
Tuscarora Wayne Mutual Grp Inc	$12,112	0.4%	51.2%	$12,381	0.4%	53.5%	$12,755	0.4%	37.1%
Assurant	$11,999	0.4%	40.7%	$11,208	0.3%	34.8%	$9,453	0.3%	40.6%
Universal Insurance Holdings Inc.	$10,796	0.3%	116.3%	$7,347	0.2%	97.0%	$3,749	0.1%	86.3%
Munich Re/American Modern Ins Group	$9,977	0.3%	55.4%	$9,860	0.3%	42.5%	$9,936	0.3%	30.7%
QBE Insurance Group Ltd.	$9,612	0.3%	67.5%	$9,185	0.3%	62.8%	$8,280	0.3%	75.2%
Kemper Corp.	$8,860	0.3%	51.0%	$8,117	0.2%	42.9%	$7,962	0.2%	43.2%
American International Group	$8,483	0.3%	84.9%	$8,739	0.3%	36.4%	$9,241	0.3%	31.1%
NJM Insurance	$8,255	0.2%	56.4%	$6,631	0.2%	23.7%	$6,196	0.2%	63.6%
WT Holdings Inc.	$8,076	0.2%	87.2%	$7,742	0.2%	66.5%	$6,732	0.2%	56.1%
State Auto Insurance Companies	$7,998	0.2%	47.6%	$7,818	0.2%	56.7%	$8,188	0.3%	32.4%
Cumberland Insurance Group	$7,838	0.2%	45.7%	$8,058	0.2%	38.5%	$8,499	0.3%	54.4%
PURE Group	$7,371	0.2%	57.5%	$5,864	0.2%	52.6%	$4,674	0.1%	56.2%
Grange Insurance	$7,267	0.2%	51.8%	$7,167	0.2%	52.5%	$7,112	0.2%	42.1%
American National	$6,482	0.2%	30.6%	$6,473	0.2%	34.9%	$6,673	0.2%	69.6%
Statewide Totals	$3,424,268		59.1%	$3,331,205		43.9%	$3,281,102		40.0%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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surers worked to keep rates low in a fiercely competitive market, the increase in premium was not enough to keep up with rising losses. After a 37.4% spike in 2018, incurred losses increased 13.1% last year, to $2.25 billion, slightly higher than in 2011 (when Hurricane Irene struck) and the highest in our records dating to 1999.

The statewide incurred loss ratio rose to 65.0% last year – from 59.1% in 2018 and 43.9% in 2017 – and it was higher than the U.S. average of 58.2%. (The preliminary data for 2019 isn't expected to vary substantially from the final figures.) Severe winter snow and ice storms early in the year contributed to Pennsylvania's higher than average losses in 2019, but the state also experienced more severe windstorms – including tornadoes – and flash flooding.

A bad year for Pennsylvania, however, is never as bad as it is for hurricane-prone coastal states or those in Tornado Alley. And over the long term, profits have been better than average. For the decade ended 2018, the state's home insurers generated an average annual profit margin of 7.9%, making it the 26th-best market for the decade when the national average was 6.9%.

The greatest pressure on insurers in Pennsylvania comes from competitors – a large number of national carriers, successful local mutuals and regional powerhouses all vying for more business in a market with a stagnant population. Pennsylvania's population grew 0.8% from 2010 to 2019, compared with 6.3% growth in the U.S.

The pressure has intensified as new players elbow their way into the Pennsylvania market.

Plymouth Rock, which entered the state in 2017, jumped from the 46th largest insurer in 2018 to No. 20 in 2019, with premiums rising to $17.2 million from $5.5 million, according to preliminary data. The company is banking on further growth with the recent launch of its digital product that lets agents and consumers buy homeowners insurance quickly, sometimes with

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Pennsylvania Property Insurance Profit Margins

10-Year Summary, % of Direct Premiums Earned, With National Averages

Line of Business	2018 Total Profit	2017 Total Profit	2016 Total Profit	2015 Total Profit	2014 Total Profit	2013 Total Profit	2012 Total Profit	2011 Total Profit	2010 Total Profit	2009 Total Profit	Avg Total Profit
State Homeowner	8.8	18.9	20.7	12.9	2.4	22.3	5.2	-12.0	-7.5	7.0	7.9
Nat'l Homeowner	-2.0	-2.6	11.8	14.0	13.9	16.5	8.1	-3.8	7.2	5.7	6.9
State Fire	20.6	28.3	23.3	-1.7	16.8	27.0	24.6	23.3	20.0	30.1	21.2
Nat'l Fire	4.8	4.7	11.0	24.2	21.4	26.9	24.7	24.8	27.6	24.5	20.2
State Comm MP	3.2	9.4	14.8	9.2	5.4	15.5	10.5	6.6	7.2	6.5	8.8
Nat'l Comm MP	4.1	0.6	9.8	14.5	12.4	14.9	9.0	4.1	13.2	11.0	9.4
State Allied	5.5	22.1	25.9	30.3	19.7	38.3	17.1	-61.6	26.1	31.1	15.4
Nat'l Allied	2.2	-37.6	10.6	19.2	15.7	6.3	-19.4	5.7	28.5	21.2	5.2

Note: Profit calculations are by *Property Insurance Report* using data from the National Association of Insurance Commissioners. Calculations are estimates, some based on national averages.

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just an address, according to a news release.

Progressive also moved into the top 20 last year, settling at No. 18 with $22.6 million in premium, an increase of 49.7% from 2018.

While still a small player, **Berkshire Hathaway**, which entered the Pennsylvania homeowners market in 2018 with the **Guard** subsidiary acquired in 2012 by its **National Indemnity** unit, moved up from the 48th-largest home insurer to 28th in 2019, jumping from $4.9 million to $13.3 million in premium.

NJM, a New Jersey insurer started marketing personal lines products in Pennsylvania in early 2018, remains a small player, as premium grew 17.1% in 2019 to $9.7 million, according to the preliminary data.

With competition so tight, it's difficult for insurers to raise rates. **State Farm**, the leading writer with a 17.3% market, share, cut rates an average 4.3% in 2018, according to S&P's RateWatch. Its premium grew 2.5% that year and remained flat last year. The No. 2 writer, homegrown **Erie Insurance**, reduced rates less than 1% in each of the last three years, and premium grew 2.2% in 2019 and 2.3% in 2018.

Despite keeping rates flat in 2018 and 2019, No. 4 **Liberty Mutual** saw premiums rise 4.4% in 2019, following 2.8% in 2018 and anemic 0.1% growth in the previous two years.

The heated competition may also be making

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Pennsylvania
Commercial Multiperil Nonliability Insurers
Groups Ranked by 2018 Premiums Written (000)

Group Name	2018 Premiums	Mkt share	Loss Ratio
Erie Insurance Group	$149,028	13.5%	42.0%
Travelers Companies Inc.	$90,458	8.2%	104.2%
Chubb Ltd.	$68,971	6.2%	106.4%
Nationwide Mutual Group	$58,645	5.3%	48.1%
Tokio Marine	$47,863	4.3%	66.0%
Liberty Mutual	$46,468	4.2%	49.7%
The Cincinnati Insurance Cos.	$44,249	4.0%	36.8%
Millers Capital Insurance Co.	$35,173	3.2%	56.5%
Allstate Corp.	$34,720	3.1%	43.2%
Hartford Financial Services	$33,655	3.0%	33.7%
Church Mutual	$31,216	2.8%	92.6%
Donegal Insurance Group	$27,545	2.5%	53.7%
State Farm Mutual	$25,599	2.3%	56.0%
CNA Financial Corp.	$21,434	1.9%	137.9%
Munich Re	$20,990	1.9%	46.7%
Tuscarora Wayne Mutual Grp Inc	$17,499	1.6%	33.3%
Westfield Insurance	$16,782	1.5%	77.8%
Brotherhood Mutual Insurance Co.	$15,200	1.4%	81.3%
Zurich Insurance Group	$13,777	1.3%	76.2%
Utica National Insurance Group	$12,838	1.2%	117.7%
Harford Mutual	$12,559	1.1%	69.0%
American International Group	$11,919	1.1%	25.0%
AmTrust Financial Services	$11,487	1.0%	76.3%
Mutual Benefit	$11,418	1.0%	59.3%
W. R. Berkley Corp.	$11,277	1.0%	83.9%
Penn National Insurance	$11,217	1.0%	43.4%
Markel Corp.	$10,584	1.0%	57.7%
Hanover Insurance Group	$10,431	0.9%	115.9%
Selective Insurance Group Inc.	$10,425	0.9%	69.2%
Brethren Mutual Insurance Co.	$9,332	0.8%	242.6%
Statewide Totals	$1,105,765		65.3%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

Pennsylvania 2017 Insured Home Values (HO3 Policy Form)

Home Value	Pennsylvania	National Average
<$50K	0.2%	0.2%
$50-75K	0.4%	0.4%
$75-100K	0.8%	1.4%
$100-125K	2.1%	3.8%
$125-150K	5.1%	6.4%
$150-175K	9.4%	8.8%
$175-200K	11.9%	9.5%
$200-300K	38.8%	32.8%
$300-400K	17.3%	18.2%
$400-500K	6.6%	8.1%
>$500K	7.1%	9.8%
Total exposures	2,234,230	48,523,436

Source: NAIC, *Property Insurance Report*

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it harder for some longstanding carriers in the state to attract the high quality risks they once did.

No. 10 **Donegal** saw Pennsylvania homeowners insurance premium decline 0.8% in 2019, having increased rates 7.2% in 2017, 4.5% in 2018 and 2.4% in 2019. Despite the rate hikes, its loss ratio spiked to 72.2% last year, according to the preliminary data.

No. 11 **Philadelphia Contributionship**, the oldest surviving property insurance company, dating to 1752, has also struggled with homeowners losses, evidenced by its 99.0% loss ratio in 2019 and 90.4% in 2018.

The most competitive markets in Pennsylvania are traditional suburbs in affluent Montgomery and Bucks counties, not far from Philadelphia, and Lancaster County, famous for its Amish population. Insurers have far more restrictions on new business in urban areas – all those flat roofs on Philadelphia's row houses – and in Pennsylvania's rural reaches, with poor fire protection. There are pockets of growth in various parts of the state, including Cumberland County, in the Harrisburg metropolitan area, with 7.6% population growth, and Lebanon County (home to the **Hershey's** Chocolate World), at 6.1%.

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Pennsylvania
Fire Insurers
Groups Ranked by 2018 Premiums Written (000)

Group Name	2018 Premiums	Mkt share	Loss Ratio
Travelers Companies Inc.	$30,287	7.2%	31.2%
Farmers Insurance Group	$28,850	6.8%	44.1%
FM Global	$24,984	5.9%	132.8%
American International Group	$23,309	5.5%	-2.8%
Liberty Mutual	$20,552	4.9%	81.7%
Zurich Insurance Group	$20,250	4.8%	48.5%
Penn National Insurance	$17,370	4.1%	82.4%
Selective Insurance Group Inc.	$13,966	3.3%	37.1%
Berkshire Hathaway Inc.	$12,671	3.0%	38.3%
Philadelphia Contributionship	$11,315	2.7%	35.6%
Nationwide Mutual Group	$10,731	2.5%	38.9%
Assurant	$10,623	2.5%	26.8%
Erie Insurance	$10,579	2.5%	51.4%
Millville Mutual	$9,907	2.3%	22.8%
Munich Re	$9,085	2.2%	28.2%
CNA Financial Corp.	$8,961	2.1%	84.2%
AXA / XL	$8,323	2.0%	103.3%
Allianz Group	$8,126	1.9%	5.5%
Aspen Insurance Holdings Ltd.	$6,633	1.6%	184.7%
Tuscarora Wayne Mutual Grp Inc	$6,286	1.5%	25.5%
Housing & Redevelopment Ins	$5,909	1.4%	44.9%
The Cincinnati Insurance Cos.	$5,607	1.3%	25.7%
Statewide Totals	$423,077		49.1%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

Pennsylvania
Allied Lines Insurers
Groups Ranked by 2018 Premiums Written (000)

Group Name	2018 Premiums	Mkt share	Loss Ratio
FM Global	$38,210	13.2%	69.8%
Travelers Companies Inc.	$21,310	7.4%	-104.5%
Selective Insurance Group Inc.	$18,092	6.3%	79.5%
Zurich Insurance Group	$16,763	5.8%	161.0%
Assurant	$15,980	5.5%	31.8%
Liberty Mutual	$13,828	4.8%	158.8%
Farmers Insurance Group	$13,563	4.7%	2.6%
American International Group	$13,191	4.6%	120.6%
Nationwide Mutual Group	$11,501	4.0%	95.4%
USAA Insurance Group	$7,855	2.7%	57.4%
AXA / XL	$6,493	2.3%	117.3%
Philadelphia Contributionship	$5,810	2.0%	99.2%
Erie Insurance	$5,301	1.8%	69.2%
Chubb Ltd.	$4,943	1.7%	132.4%
Munich Re	$4,925	1.7%	67.2%
CNA Financial Corp.	$4,148	1.4%	4.3%
The Cincinnati Insurance Cos.	$4,020	1.4%	96.7%
Hanover Insurance Group	$3,844	1.3%	11.3%
EMC Insurance	$3,795	1.3%	26.9%
American National	$3,739	1.3%	46.3%
Sompo Holdings Inc.	$3,448	1.2%	134.9%
Fairfax Financial	$3,425	1.2%	75.8%
Statewide Totals	$288,861		71.5%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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apps to make sure they relate specifically to how they are using their app. For example, a weather app does not need to access contacts. He also recommends that his clients perform all recommended device and software updates and to always use a virtual private network (VPN) and to never turn it off.

Tim Zeilman, global product manager for cyber at **Hartford Steam Boiler Inspection and Insurance Co.** (HSB), said commercial policies will cover much of the increased cyber risk created by the collision of the pandemic and people working from home, but there are personal impacts too. Fraud in all of its forms increases anytime there is a natural disaster, he said. "We're seeing it in spades already with respect to COVID-19."

Scams run the gamut from ploys seeking personal information to flat out fraud in which scammers convince victims to donate money to fake charities, or to buy a bogus product as protection. These kinds of attacks are the biggest exposure on the personal side, Zeilman said, driven by the fact that people are afraid and anxious, or they feel generous and want to help or donate. Criminals take advantage of all of those opportunities, he said.

Zeilman pointed to research showing that people are often more susceptible to cyber crimes when using mobile devices, as they're less skeptical or critical than when working on a computer. With more people working from home, and likely working from mobile devices, cyber criminals could have a higher success rate during shelter-in-place.

HSB, an early leader in the cyber insurance

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State Market Focus: PENNSYLVANIA

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Overall, homeowners insurance in Pennsylvania is relatively affordable. The state had the 40th-highest average premium in 2017, at $931 – significantly lower than the $1,211 national average, according to the most recent data available from the **National Association of Insurance Commissioners**, ranking 40th in the country. On our HURT Index, which compares premium to income, Pennsylvania came in at a quite reasonable 35th.

While the Pennsylvania Department of Insurance is considered fair and responsive, regulators resist some approaches to rating and tiering that are accepted in other states. For example, the state's regulators have objected to filings that use the same variables in rating and tiering, even though they interact. There is also some hesitation to launch new products in Pennsylvania because of the state's strict nonrenewal laws, which make it hard to get off a risk. Pennsylvania insurance regulators demand so much detail in their filings, one insurance executive said, that "it doesn't give us flexibility to see what works and to adapt."

In her February newsletter, Insurance Commissioner **Jessica Altman** said innovation and insuretech are hot topics, and she invited insurers with cutting-edge products to reach out. "The department is excited to have conversations about how your product may respond to consumer needs and to help work with you through any potential compliance concerns," she wrote. Pennsylvania is already ahead of many states, she said, citing the example of a rebating statute that does not bar insurers from offering value-added loss control services, like water sensors.

Pennsylvania has also been a leader in promoting private flood insurance. (See PIR 11/14/16). In February 2019, Altman said the number of private market flood insurance policies in the state jumped 72% over the prior year, to just under 9,000 policies, representing nearly one in seven flood insurance policies in the state. The department did not respond to our request for more recent data. PIR

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space, received its first coronavirus-related cyber claim in mid-March, he said. A number of insurers sell its cyber product as an endorsement bundled with homeowners insurance.

HSB developed its initial cyber risk models by combining loss data from small business commercial cyber insurance, knowledge from its existing identity theft products and information from a household survey that gauged cyber security knowledge, preparedness, concerns and demand.

Now with claims data from personal lines, HSB is refreshing and updating its models. For a segment that until recently had almost no loss data or claims history to inform pricing, the COVID-19 pandemic comes at an interesting time, he said. "We are really just starting to be able to incorporate loss experience into our home cyber models, and just as were able to do this were also able to see how a hopefully unique event is impacting that loss experience."

Many cyber attacks may not be felt for a while, McGraw said, because hackers will often wait months after inserting malware before acting.

"Now is the time that we're all being – and I hate to use the analogy – infected," he said. "We're exposed to the risk right now, and we may not see the consequence of that for some time."

Allstate has offered its identity protection product for free until the end of the year to anyone who asks. **Glenn Shapiro**, Allstate's president of personal property-liability, said in an interview that the company was not using the opportunity to push sales. If someone wants to buy the product after January, fine; if not, they can just walk away having used the protection for almost nine months. PIR

Disaster Experts, Insurers Manage Pandemic Challenges

The COVID-19 pandemic has disrupted all aspects of life, including the way insurance companies do business. Investments and assets have taken a hit in the market, and important reinsurance renewal meetings will be done virtually – a first for many.

Insurers are risk managers by nature, and the industry is well suited to deal with the economic downturn, even as the capital base for many companies has shrunk with the contraction of financial markets. But the companies themselves are dealing with this like every other business. They're worried about employees and operational abilities for remote working, said **Neil Alldredge**, senior vice president of corporate affairs for the **National Association of Mutual Insurance Companies**.

"It's absolutely stressful," said **Bill Martin**, president and CEO of **Plymouth Rock's** home insurance business. "And to our individual employees, it's stressful. They've all had to set up home offices and have to deal with whatever else is happening in their households, whether it's sickness or children at home, or elder care.

"So we've had the same impacts as everybody else, plus this huge financial pool that's being hurt by what is happening in the markets."

Fortunately that risk management mindset means many insurers have remote-working contingency plans in place – often developed to continue operations through natural disasters.

Rating agency **A.M. Best Co.** believes the industry is "reasonably well-prepared for the financial market turmoil experienced over the past few weeks," according to **Stefan Holzberger**, chief rating officer. "Risk-adjusted capitalization is at a strong level, and asset and liquidity risk is well-managed."

Many insurers learned valuable lessons from the financial crisis of 2008-2009, and they have improved their capital and liquidity positions,

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he said. The bigger unknown is how deep the recession will be. A prolonged contraction with "bankruptcies and investment write-downs and write-offs could leave some weaker insurers short on cash and capital," he said.

Duration is a big question for insurance companies that are waiving late fees and vowing not to cancel or nonrenew policies because of unpaid premiums, either voluntarily or by regulatory edict. It's bearable for the short term but untenable after a several months. Insurance companies forced to cover risks without collecting premium could see their capital erode, Alldredge said.

At Plymouth Rock, Martin is one of a skeleton crew of employees still at the physical office. He said about 98% of employees are now working from home, dialing into company systems via virtual private connections and other systems that allow the company to maintain operations as usual, or at least close to usual. **Glenn Shapiro**, president of personal property-liability at Allstate, said about 96% of employees are remote, with the only people in the office engaged in things that just can't be avoided, like opening the mail and dealing with physical checks.

Personal lines insurers don't anticipate massive disruption or unexpected risks to result from the pandemic. But the new virtual workspace will disrupt in-person negotiations. Insurers introduce their catastrophe programs to reinsurers in April and May leading up to the June 1 renewals. Meetings with reinsurance underwriters that typically take place in New York, London, Munich or Bermuda will now happen over the phone or over video conference.

"You might argue that the meetings aren't that important, but when you are delivering tough news, that you're getting a big rate increase or coming off a program, it's a little bit harder to do by phone, too," Martin said.

Companies wanting to show reinsurers how they've improved catastrophe programs to deliver better performance than they experienced in Hurricanes Irma or Harvey, for example, "are going to have a harder time gaining that personal trust," Martin said. "At the end of the day there is a negotiating step where it is entirely the reinsurer's belief that X is a better operator than Y."

This is a sensitive year for catastrophe reinsurance, he said, with prices increasing dramatically in Asia. **Willis Re**, the reinsurance division of **Willis Towers Watson**, reported April 1 that the "global reinsurance sector smoothly moved to the new working-from-home model following the COVID-19 outbreak and was able to provide uninterrupted service."

Because reinsurance programs are key to the capital security and strength of a primary insurer, ratings agencies like A.M. Best often meet with the primary insurers following the reinsurance treaty renewals to assess their claims-paying ability. Like the meetings with reinsurers, these will happen virtually. According to a video post with A.M. Best COO **James Gillard**, the ratings agency has moved many of its meetings to video conference and conference calls. PIR

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