

## **State Insurance Department Actions on Premium Forbearance**

(March 30, 2020)

ALIRT has received a number of queries regarding premium forbearance actions taken by insurance companies and state insurance regulators during the current Coronavirus crisis. These calls are driven by insured's questions/requests as well as by broker concerns around the impact any temporary forbearance might have on the financial performance of insurers.

While individual insurer actions have been difficult to gauge, and as yet do not seem widespread, ALIRT reviewed state insurance department websites to determine how regulators are handling this forbearance issue. The table in the Appendix shows those state insurance departments that have issued a bulletin/notice/memorandum on this issue, as well as what lines of business they cover and for how long.

### **Findings**

- As of March 30<sup>th</sup>, thirty-two state insurance departments issued some sort of guidance regarding the forbearance of premium payments. These were largely issued over the past two weeks.
- Almost all of these states applied their guidance to “all insurers” issuing or delivering policies in their jurisdictions, though three (CO, GA and IA) referenced either property & casualty and/or health carriers specifically in their releases. The guidance is presumed to apply to all individuals and businesses, though one state (AR) initially specified that such forbearance applied only to insureds diagnoses with or testing positive for Covid-19, though later extended this for all insureds with personal lines policies.
- The duration of the guidance around forbearance was either unstated (in 14 of the states issuing guidance), specified a fixed number of days (60 being a popular choice), provided a fixed end date, and/or is in force until the order/guidance is ended.
- The forbearance in question refers to some or all of the following:
  - Relaxation or extension of premium payment deadlines
  - Extension of grace periods
  - Moratoria on policy cancellations and non-renewals
  - Waiver of fees, penalties and other charges related to non-payment
  - Working with insureds to structure payment plans
- **Importantly**, the verbiage used in most of the bulletins/orders was *suggestive* of actions to be taken by insurers and was not of a compulsory nature. For instance, we noted widespread use of terms such as “should”, “we request”, “we encourage”, “we urge” and “we expect.”
- However, a number of states used more forceful language, either prohibiting carriers from terminating insurance contracts due to non-payment (CO, HI, GA, MO, NC, OR, WA), or issuing moratoria on the cancellation/non-renewal of insurance policies for non-payment of premiums (AR, MI, WV).
- Lastly, some states specifically state that any forbearance is not intended to change the terms of the issued policy or be considered a forgiveness of premium, though this may well be implied in all of the state directives around this issue.

## ***Impact on Insurer Financial Strength***

It is possible that insurers, by extending premium payment terms and non-cancelling policies, may end up covering losses for which premium payment was not – and may never be – received. In the case of **medical health and property & casualty insurers**, this could lead to higher loss ratios and potential underwriting/operating losses. We consider this eventuality a relatively low risk so long as the current pandemic is of relatively short duration, as insurers will continue to report premium “as if” collected for income statement purposes and simply carry the receivable as an asset on their balance sheets until such a time as the physical funds are collected. This could, of course, have some near-term impact on cash flow which should be manageable in the near term.

Should the pandemic reach into many months, however, and insurers are ultimately unable to collect some of the premium funds for current coverage, then these receivables would likely have to be written down or at least shifted to a non-admitted asset, the earned premium reversed, and higher underwriting losses reported. Cash flow issues could become more pronounced as insurers may be forced to sell assets (perhaps at depressed prices) to make claim payments and meet their own business needs.

If the latter were to occur, however, we would probably not see the impact on insurer balance sheets and income statements for several quarters. Given the uniqueness of the pandemic and broad state emergency orders, there is little precedent for how this situation might resolve itself, but ALIRT will certainly keep an eye on this issue for the balance of the year.

As for **life insurers**, for their core life insurance and annuity products there is less financial risk given that insurers could simply subtract from lump sum payments (for example life insurance proceeds or annuity payments) any outstanding premium balances. There is a long precedent for this in the case of policy loans drawn against life insurance policies. However, some life insurers also issue health insurance-like policies (e.g. long-term care, disability, supplemental health insurance plans, etc.) that could face some of the same payment/coverage and cash flow/liquidity issues discussed above.

## ***Conclusion***

Governments on both the federal and state levels have taken forceful action to mitigate the impact of the Coronavirus epidemic, which has led to a disruption of large segments of the economy over the past month. Broadly speaking, governments have sought to build a “liquidity bridge” that will span this period of crisis and allow un- or under-employed individuals and businesses to stave off financial distress, including bankruptcy, while maintaining essential protections, which includes insurance coverage. As part of this effort, it has requested or mandated forbearance on different forms of debt payments (e.g. mortgages, bank loans, student loans, etc.), rent payments, and now, at least in most states, the payment of insurance premiums.

The spirit of these actions is captured in New Jersey’s bulletin 20-04 which encourages all insurers to “*exercise judicious efforts to assist affected policyholders and work with them to make sure that their insurance policies do not lapse.*” So long as the pandemic is of relatively short duration, the forbearance of premium payments and associated fees should not have a significant impact on the financial wherewithal of insurance companies. Insurance coverage could remain in force, immediate claims met, and overdue premiums collected after a period of months. As discussed, however, should this crisis and economic shut-down persist for an extended period, insurer forbearance could more materially impact insurer income statements and perhaps even capitalization.

**Appendix: State Department of Insurance Bulletins/Notices Regarding Forbearance of Premium Payments**

State	State of Emergency Declared	DOI Bulletin/ Notice Issued	Lines Of Business	Period In Force	Notes	
1	AL	3/13				
2	AK	3/11	3/18	All	Until 6/1	
3	AZ	3/11				
4	AR	3/11	3/20, 3/30	All	60 Days	Only applies to insureds diagnosed with/testing positive for Covid-19; for personal lines, all insureds
5	CA	3/4	3/18	All	60 Days	
6	CO	3/10	3/27	P&C,	Until Withdrawn	
7	CT	3/10	3/24	All	60 Days	
8	DC	3/11				
9	DE	3/13	3/20	All	Until Withdrawn	
10	FL	3/9	3/25	All	N/A	
11	GA	3/14	3/20	P&C, Health	60 Days	
12	HI	3/4	3/27	All	See Note	Valid for "60 days after this health emergency has passed, or as long as reasonably practical."
13	ID	3/13				
14	IL	3/9				
15	IN	3/6	3/26	All	60 Days	
16	IA	3/17	3/19	Health	60 Days	
17	KS	3/12				
18	KY	3/6				
19	LA	3/11				
20	ME	3/12	3/12	All	N/A	
21	MD	3/5	3/20	All	N/A	
22	MA	3/10	3/23	All	N/A	
23	MI	3/10				
24	MN	3/13				
25	MS	3/14	3/25	All	60 Days	
26	MO	3/13	3/21	All	See Note	Valid for 60 Days for Health Insurers; Until Executive Order is ended for all other insurers
27	MT	3/12				
28	NE	3/13	3/27	N/A	N/A	Insurers asking if it is permissible to relax certain requirements
29	NV	3/12				
30	NH	3/13				
31	NJ	3/9	3/19	All	N/A	
32	NM	3/11	3/20	All	See Note	Valid during extent of health crisis and for 30 days after emergency is declared over
33	NY	3/7	3/19	All	N/A	
34	NC	3/10	3/27	All	N/A	
35	ND	3/13	3/30	All	N/A	
36	OH	3/9				
37	OK	3/15				
38	OR	3/8	3/25	All	Note	"Ending no earlier than the date this Order is no longer in effect"
39	PA	3/6	3/19	All	N/A	
40	RI	3/9	3/25	All	N/A	
41	SC	3/13	3/25	All	N/A	
42	SD	3/13				
43	TN	3/12	3/24	All	N/A	
44	TX	3/13	3/20	All	N/A	
45	UT	3/6				
46	VT	3/13				
47	VA	3/12				
48	WA	2/29	3/25	All	Until 5/9	
49	WV	3/16	3/18	All	Until Further Notice	
50	WI	3/12				
51	WY	3/13				

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ALIRT Insurance Research, 200 Day Hill Road, Ste. 220, Windsor, CT 06095

Phone: (860) 683-2070 Fax: (860) 683-4020 Email: [info@alirtresearch.com](mailto:info@alirtresearch.com) Website: [www.alirtresearch.com](http://www.alirtresearch.com)