
# COVID-19:
## The Impact on the Insurer

**March, 2020**

In the wake of the COVID-19 pandemic, the insurance industry is impacted in multiple ways. The first consequences that may come to mind are increases in liabilities on an insurers balance sheet in the form of medical claims for health insurers or mortality rates for life insurers. Similarly, property/casualty (or "non-life") companies are anticipating an increasing number of event cancellation claims. Independent of the increase in claims across the industry, the asset side of all insurance balance sheets may already be under significant pressure.

Insurers, regardless of the types of risk they cover, are active participants in global financial markets. As companies collect premium from its insureds, they invest the proceeds until a claim needs to be paid. The time between the collection of premium and when it is used to pay a claim is known as "insurance float." The duration of the float depends on the types of risk they insure. Prudent management teams will adjust the "riskiness" of their investment portfolio with their anticipated future claims in a process known as "asset-liability matching" or ALM. Every management team's approach to ALM is different, but is ultimately based on many underlying actuarial assumptions as well as risk and return expectations from their investment portfolio.

When "Black Swan Events" such as the spread of the COVID-19 Coronavirus, disrupt and upset "normal" market conditions (and more importantly, the assumptions built into an ALM approach), an insurers' balance sheet can be strained. After one of the longest bull markets in history, insurers may have become comfortable with the historical risk and returns of the stock market, resulting in a greater exposure to equities in their investment portfolios.


However, these companies may now be experiencing significant, unexpected, fluctuations in these assets. Volatility on the asset side of the balance sheet can reduce the amount of excess capital available to policyholders and investors, alike. Companies who hold capital at or near regulatory minimum requirements, may also find themselves in need of long-term financing. In order to stabilize the balance sheet and meet its obligation to policyholders and minimum capital requirements set by regulators and rating agencies, management teams may look to capital providers. For insurance companies looking to manage their capital position at this stage, the private capital products provided by Cohen & Company offer a practical, economically viable solution.




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