



Tonry Topics

The COVID-19 Questions: Underwriters' reactions to COVID-19 and what to expect

As we write this article, Massachusetts is in Phase 2 of its re-opening. Re-opening is scary and involves many changes. These changes will have an effect (one way or the other) on productivity, people, expectations, cost, safety, the list goes on. With all of these changes comes, guess what, an increase in **risk**. While most insurance companies have appeared to be quietly assessing the climate and showing support for their clients, don't get too comfortable – the underwriters are scared too and more underwriting information will be requested. This applies to both insurance and bonds. Underwriters are beginning to ask what I've come to term, "The COVID-19 Questions". They are great questions. The problem is that most of us do not have the answers.

Some are easy:

Did you receive a PPP loan and, if not, have you or do you plan to apply for one? That's pretty easy. If yes, how much did you receive? OK, also easy.

But then it gets a little harder...

Are you meeting the terms of forgiveness or will a portion of it become a loan? (Well, we think so, but the rules keep changing.)

How about this one:

Did you or do you plan to lay-off or furlough any employees as a result of COVID-19? (Well yes, but no, but then yes and well, it depends.) Attractive unemployment benefits, availability of childcare and insecurity returning to work are all working against us.

And another:

Is your business currently operating at less than full capacity? At what percentage is the business

operating? How long can the business remain at this capacity level? (What is full capacity now? Expectations are changing. Adequate PPE is tough to find. Social distancing impacts productivity. Implementing safety measures is costly. Again, what is full capacity?)

And harder...

As of the current date, what is the anticipated cash inflow or outflow from operations from the next three months? Does the business have access to additional liquidity through credit facilities or other sources? Is the company in compliance with debt covenants? If not, have waivers been obtained?

Please provide a current work-in-progress schedule with adjusted estimated costs and completion time as a result of COVID-19 restrictions.

And, **when** can we expect to receive the fiscal year end statement followed closely by a current interim?

Bond underwriters are not the only underwriters asking these questions. We recently received these from a major insurance company to bind coverage on a management liability policy:

Over the next six months, do you anticipate a material change in the demand for your products/services? If so, how are you addressing the impact of these changes? How do you project that your profitability will be impacted?

Do you anticipate any significant supply chain disruptions, order cancellations or near-term financial obligations that you may need to renegotiate, defer or for which you will need to find alternate suppliers? Are there contracts that you will need to terminate or renegotiate? If so, provide details.

Do you have a succession plan in place to maintain continuity among key managers and directors/officers? Also, do you have contingency plans such that employees can work remotely if necessary?

If changes in workforce have occurred or will occur, what loss mitigation steps are in place? Did the company engage outside counsel to assist with any reductions in workforce?

Have there been any changes to your communication strategies with interested parties (clients, donors, employees, the public, vendors/suppliers) or other public statements as a result of COVID-19? If so, please explain or provide sample.

What guidance is being offered to employees regarding COVID-19? Is the Company offering paid sick leave to its employees? Are employees not being paid?

How has or how will the Company responded to an employee who has tested positive with COVID-19?

The flexibility and understanding we saw during the first few months of battling COVID-19 is starting to wear off. And, rightfully so. Like you, the underwriters need to set expectations and consider worst-case scenarios. Please be prepared to answer the questions with simple and factual answers:

- This is what we've done so far.
- We are working on this.
- We are prepared to do this, if necessary.
- We meet (insert how often) to review and reevaluate.
- We will let you know of any major changes.

Please place value and trust in your relationship with your insurance agent and the companies they represent. Do your best to answer the questions and understand the reasons they are being asked. An open and collaborative partnership with your agent and underwriters will serve you best in the long run.

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