



NATIONAL
MULTIFAMILY
HOUSING
COUNCIL

PANDEMIC LIABILITY, INSURANCE & RECOVERY: MULTIFAMILY & COVID-19

COVID-19 Resource Webinar

May 27, 2020

Mission Statement

NMHC is the place where the leaders of the apartment industry come together to guide their future success. With the industry's most prominent and creative leaders at the helm, NMHC provides a forum for insight, advocacy and action that enable both members and the communities they build to thrive.

WEBINAR INFORMATION

- To ensure good sound quality, all attendees will be muted during the webinar.
- To ask a question: type your question in to the **Question Box** on your control panel. NMHC staff will review and present your question to the speakers at the end of the presentation as time allows.
- Today's presentation is being recorded and the NMHC information will be posted to the website.
- For further information on the topics covered within this webinar, please visit <https://www.nmhc.org/>.

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SPEAKERS



Kevin Donnelly
NMHC
(Moderator)



Julianne Goodfellow
NMHC
(Moderator)



Jeffrey S. Alpaugh
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Jennifer Platt
International Council of Shopping
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Webinar Agenda

- **Welcome and Overview**
 - **Julianne Goodfellow, Senior Director, Government Affairs**
- **NMHC Resources, Advocacy & COVID Recovery**
 - **Kevin Donnelly, Vice President, Government Affairs**
- **Business Continuity Needs/Federal Recovery Fund**
 - Jennifer Platt, International Council of Shopping Centers
- **State of the Market, Insurance & Liability Considerations of Reopening and the need for the Pandemic Risk Insurance Act (PRIA)**
 - Jeff Alpaugh, Marsh & McLennan Companies
 - Marc Reisner, Marsh & McLennan Companies
 - Ed Atherton, Marsh & McLennan Companies
- **Moderated Q&A**

SPEAKERS



[Kevin Donnelly](#)

Vice President,
Government Affairs

NMHC



[Julianne Goodfellow](#)

Senior Director,
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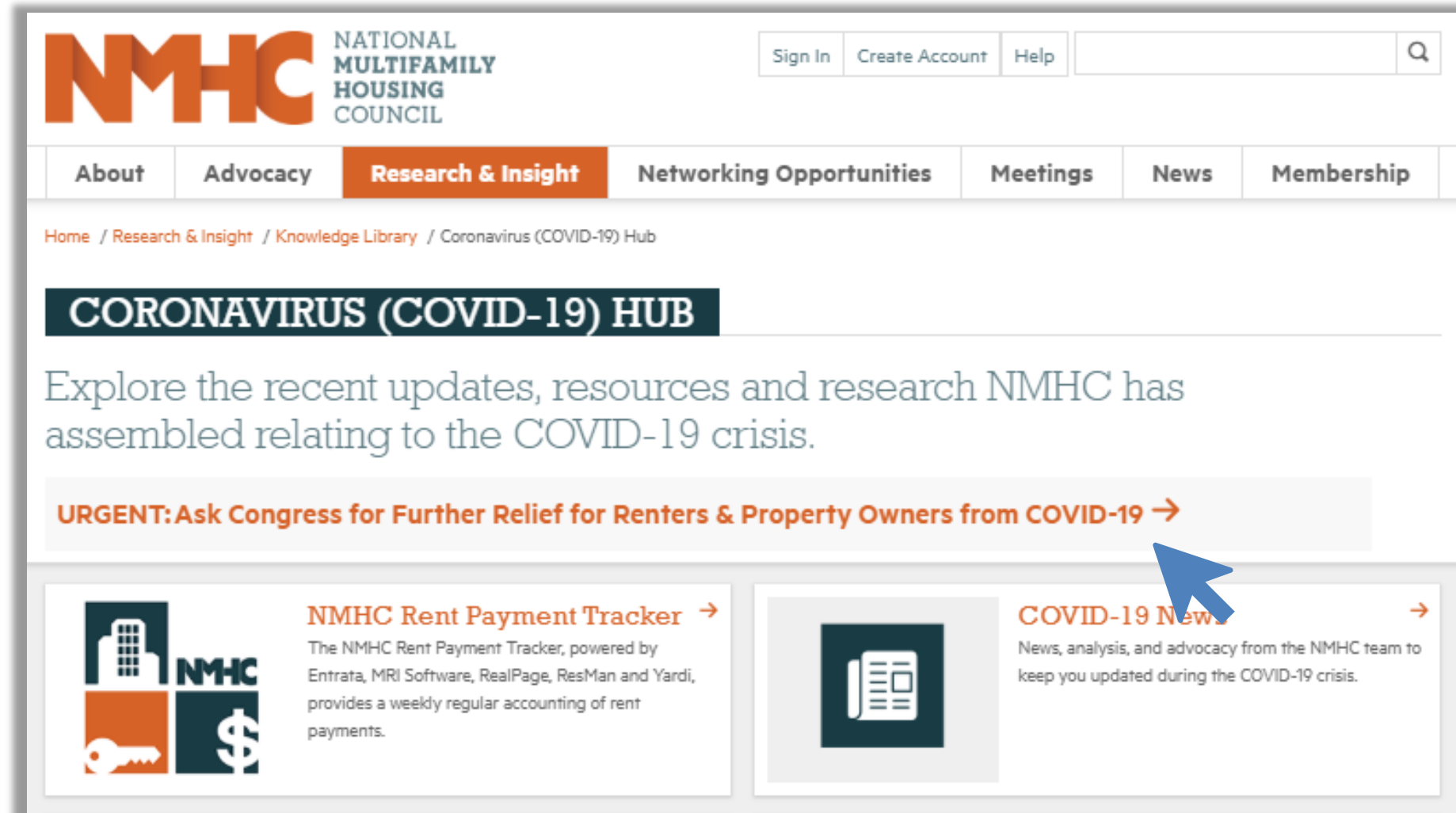
NMHC RESOURCES

www.nmhc.org/covid19

The screenshot shows the NMHC (National Multifamily Housing Council) website. At the top is the NMHC logo and navigation links: Sign In, Create Account, Help, and a search bar. Below the navigation bar is a menu with links: About, Advocacy, Research & Insight (highlighted), Networking Opportunities, Meetings, News, and Membership. The breadcrumb trail reads: Home / Research & Insight / Knowledge Library / Coronavirus (COVID-19) Hub. The main heading is "CORONAVIRUS (COVID-19) HUB". Below this is a paragraph: "Explore the recent updates, resources and research NMHC has assembled relating to the COVID-19 crisis." A prominent orange button reads "URGENT: Ask Congress for Further Relief for Renters & Property Owners from COVID-19 →". Below this are four resource cards, each with an icon and a right-pointing arrow:

- NMHC Rent Payment Tracker**: The NMHC Rent Payment Tracker, powered by Entrata, MRI Software, RealPage, ResMan and Yardi, provides a weekly regular accounting of rent payments. (Icon: Building, NMHC logo, Key, Dollar sign)
- COVID-19 News**: News, analysis, and advocacy from the NMHC team to keep you updated during the COVID-19 crisis. (Icon: Document with lines)
- COVID-19 Updates Newsletter**: Read the newsletter and sign up to receive weekly updates in your inbox on the COVID-19 crisis and its effects on the multifamily industry. (Icon: Envelope with exclamation mark)
- COVID-19 Webinars**: These on demand recorded webinars cover a variety of topics including construction impacts, policy updates, legal obligations and more. (Icon: Laptop)

NMHC MEMBER CALL TO ACTION



The screenshot shows the NMHC (National Multifamily Housing Council) website. The header includes the NMHC logo, the text "NATIONAL MULTIFAMILY HOUSING COUNCIL", and links for "Sign In", "Create Account", and "Help". A search bar is also present. The navigation menu includes "About", "Advocacy", "Research & Insight" (highlighted), "Networking Opportunities", "Meetings", "News", and "Membership". The breadcrumb trail reads: "Home / Research & Insight / Knowledge Library / Coronavirus (COVID-19) Hub". The main heading is "CORONAVIRUS (COVID-19) HUB". Below it, a paragraph states: "Explore the recent updates, resources and research NMHC has assembled relating to the COVID-19 crisis." A prominent orange link reads: "URGENT: Ask Congress for Further Relief for Renters & Property Owners from COVID-19 →". At the bottom, there are two featured cards. The left card is titled "NMHC Rent Payment Tracker →" and describes a tool powered by Entrata, MRI Software, RealPage, ResMan, and Yardi. The right card is titled "COVID-19 News →" and describes news, analysis, and advocacy from the NMHC team. A blue arrow points to the "COVID-19 News" card.

NMHC NATIONAL MULTIFAMILY HOUSING COUNCIL

Sign In Create Account Help


About Advocacy **Research & Insight** Networking Opportunities Meetings News Membership

Home / Research & Insight / Knowledge Library / Coronavirus (COVID-19) Hub

CORONAVIRUS (COVID-19) HUB


Explore the recent updates, resources and research NMHC has assembled relating to the COVID-19 crisis.

URGENT: Ask Congress for Further Relief for Renters & Property Owners from COVID-19 →



NMHC Rent Payment Tracker →

The NMHC Rent Payment Tracker, powered by Entrata, MRI Software, RealPage, ResMan and Yardi, provides a weekly regular accounting of rent payments.



COVID-19 News →

News, analysis, and advocacy from the NMHC team to keep you updated during the COVID-19 crisis.

Visit NMHC's COVID-19 Hub or find it directly at nmhc.org/housing-relief

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- **Business Continuity Needs/Federal Recovery Fund**
 - **Jennifer Platt, International Council of Shopping Centers**
- State of the Market, Insurance & Liability Considerations of Reopening and the need for the Pandemic Risk Insurance Act (PRIA)
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Speaker



Jennifer Platt

Vice President, Federal
Operations
International Council of
Shopping Centers

PROBLEMS WITH CURRENT PROGRAMS

Paycheck Protection Program

- Benefits of NMHC Membership Short term (8 weeks ending in June/now extended)
- One-time
- Restrictive use of funds (75% must go to payroll to meet forgiveness criteria)
- Small payouts (2.5x payroll, \$10 million cap)
- Exclusive (affiliation, 500 employee caps, and most real estate)
- Unintentionally competitive (limited funding, reliance on bank relationships)
- Significant uncertainty associated with continuous rule changes

The average small business spends 25-30% on payroll, PPP makes them spend 75% on payroll to make loan forgivable.

PROBLEMS WITH CURRENT PROGRAMS

Main Street Lending Program

- Still not available
- Continues many PPP exclusions
- High minimum loan limit (\$500,000)
- Restrictive debt ratios
- Significant rates and fees

U.S. businesses should not be forced to drown in debt.

WHY WE NEED THE RECOVERY FUND

Current steps that have been taken by Congress are not enough

- 78% of small business owners say more funding needs to be available
- 53% say funding should be easier to apply for and access (*Goldman Sachs Small Business Survey, 4/27/20*)
- 48% of small businesses have < 1 month cash on hand

The shutdown has lasted longer and will take more time to ramp-up

- Payroll and overhead damages of approx. \$300 billion for the month ahead
 - Assuming 50% of businesses reopen or reopen at 50% capacity, we applied a 50% “haircut” based on payroll reductions and the overhead for the upcoming month.

According to Fed Chairman Jerome Powell “The small and medium size businesses ... if they have to go through a wave of avoidable insolvencies, you've lost ... the job creation machine.”

HOW WOULD THE RECOVERY FUND WORK?

1. An eligible business would apply online and provide information regarding lost revenue and defined essential operating expenses
2. The information would be verified by the IRS or third-party contractors
3. The U.S. Treasury would issue a check for an interim amount
4. Additional funds could be considered depending on the level of need
5. Applicants would certify that funds will be used for specific purposes, including retaining and rehiring staff, rent, certain debt obligations and state and local taxes
6. Significant anti-abuse and audit provisions would also be authorized



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Speakers



Jeffrey Alpaugh

Managing Director

Marsh & McLennan Companies



Edward Atherton

Managing Director

Marsh & McLennan Companies



Marc Reisner

Managing Director

Marsh & McLennan
Companies

PROPERTY MARKET OVERVIEW - COST

10 consecutive quarters of rate increases...

Cause

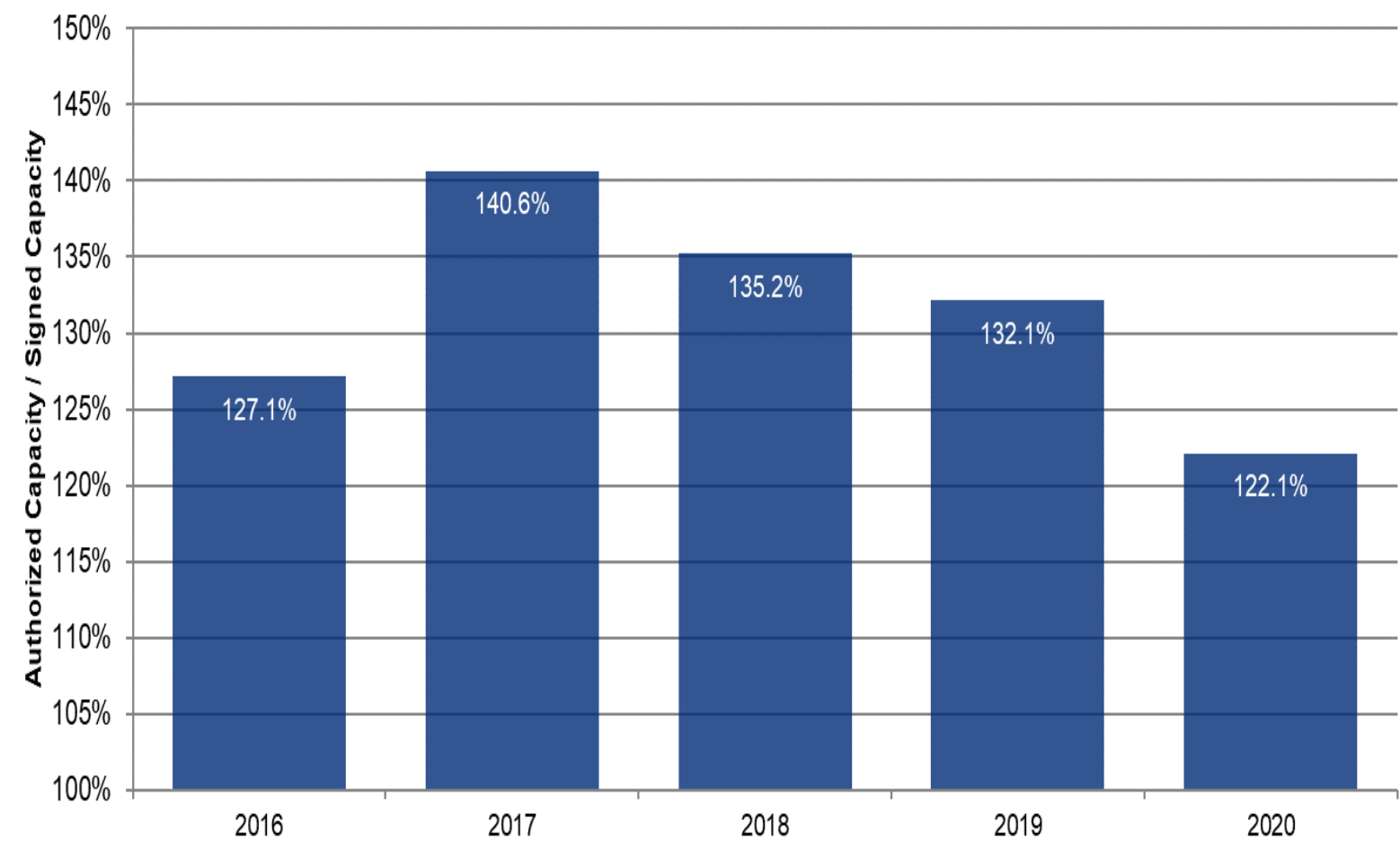
- 2017 & 2018 US hurricane losses; worst on record
 - 2018 - \$80bn
 - 2017 - \$140bn
 - For reference purposes: The 2001 (9/11 terrorism attacks) caused combined P&C loss of \$43bn
- 2019 record year for tropical cyclones
- 2019 US Hurricanes \$52.5bn
- Attritional losses further eroded carrier profitability
- No longer a commodity
- Rates diverge 1/1/20; loss free vs attritional
- Diminished capacity
- Loss free increased as much as 10%
- Loss hit accounts increased by as much as 50%+
- Retro Market - Insurance-Linked Securities (ILS), such as catastrophe bonds, remained trapped as earmarked for developing losses; rates up 20%
- ILS represents 20% of the reinsurance market

Effect

- Q1 2020 - Marsh portfolio 21.1% average increase
- Q1 2020 - Real Estate & Hospitality 20.7% average increase
- Flight to risk quality
- Unswerving underwriting discipline throughout global market

PROPERTY MARKET OVERVIEW - REINSURANCE

January 1 - April 1, 2020 (YTD) Property Catastrophe Capacity
Excess Capacity



Based on data represented in GC MarketPlace as of 4/13/2020
All years include placements with inception dates January 1 through April 1

2020
authorizations
down 10%
compared to 2019

PROPERTY MARKET OVERVIEW - MULTIFAMILY

Multifamily Trends

Cause

- Attritional losses primarily driven by lender requirements
- Wood frame construction highly susceptible to loss (i.e., fire, water, wind)
- US moving migration patterns; coastal states exposed to earthquakes and hurricanes

Commercial Real Estate Property Trends

- Lower attritional losses and better construction
- 16.1% average rate increase 2019 YTD for Real Estate and Hospitality

Effect

- Several Property markets have exited the class of business entirely
- Lloyds business review reduced availability of capacity for the class
- Implementation of Severe Convective Storm modeling
- Underwriting discipline has increased
- Rates are up 20 to 100%+
- Insured retentions have increased dramatically
- Non-Physical Damage coverages are being heavily scrutinized

PROPERTY OVERVIEW – as of MAY 2020

Pandemics & Property Insurance

Marsh and COVID19 Claims Data

- 3155 claims reported year-to-date
 - 30.24% (or 954) HealthCare industry
 - 11.79% (or 372) Real Estate industry
 - 57.97% (or 1,829) All other industries
- 41.05% of all claims are Property related predominantly claiming Business Interruption loss and Extra Expenses

Coverage Availability

(Marsh Proprietary Coverage – *PathogenRX*)

- Covers Outbreaks, Epidemics, and Pandemics
- Can be tailored to *metrics* triggers
- Loss of gross profits, revenue and extra expenses
- Tailored to provide coverage for specific expenses, geographies, types of disease, or portions of a calendar year
- Risk modeling capabilities by Metabiota

Beware of Exclusions

- NMA 5393 (Lloyds of London); absolute communicable disease exclusion
- Anti-concurrent causation language

Future Issues

- COVID19 claims will continue to erode market capital and place greater burden on underwriters to write profitable business
- Reduced premium volume due to reduced exposures will a similar effect

Casualty Insurance

Insurance Marketplace and Pandemic Discussion

CASUALTY INSURANCE MARKETPLACE - MULTIFAMILY

Primary Liability

- Habitational continues to be the most challenging occupancy with average rates increasing faster than any other RE segment.
- Clients are experiencing a wide range of results depending on individual risk characteristics.
- There is a very narrow market for admitted Guaranteed Cost solutions. Accounts with excellent loss experience, adequate retentions, and good controls are seeing mid to high single digit rate increases.
- Accounts with challenging losses and/or inadequate retentions may see much higher rate and retention increases.

Excess Liability

- Facilities designed for small portfolios offering significant blocks of capacity have struggled to fill out programs and are seeking significant rate increases
- Lead umbrella insurers have largely reduced capacity to \$10M.
- Higher minimum attachment points (\$2M) are now being mandated by many major lead umbrella insurers
- Carriers in excess layers are also increasing premium making towers expensive to fill out.
- Significant premium increases are expected to continue: 25% to 100% plus.

CASUALTY INSURANCE – PANDEMIC ISSUES

- Uncertainty will continue to pressure rates;
- Introduction of Communicable Disease Exclusions (Current policies silent and carrier interpretation of terms and condition varies);
- Current claim activity not significant – mainly notice only;
- Future Claim activity – Potential exists for increased litigation:
 - WC – many states have legislated coverage to take effect;
 - Liability – states not currently limiting liability;
- Risk Mitigation techniques:
 - CDC Guidelines, OSHA standards, waivers.

Casualty Insurance

Pandemic Risk Solution Discussion

CREATING RISK MANAGEMENT TOOLS TO MANAGE PANDEMICS





Businesses need access to a risk transfer mechanism that mitigates BI related issues resulting from pandemics.

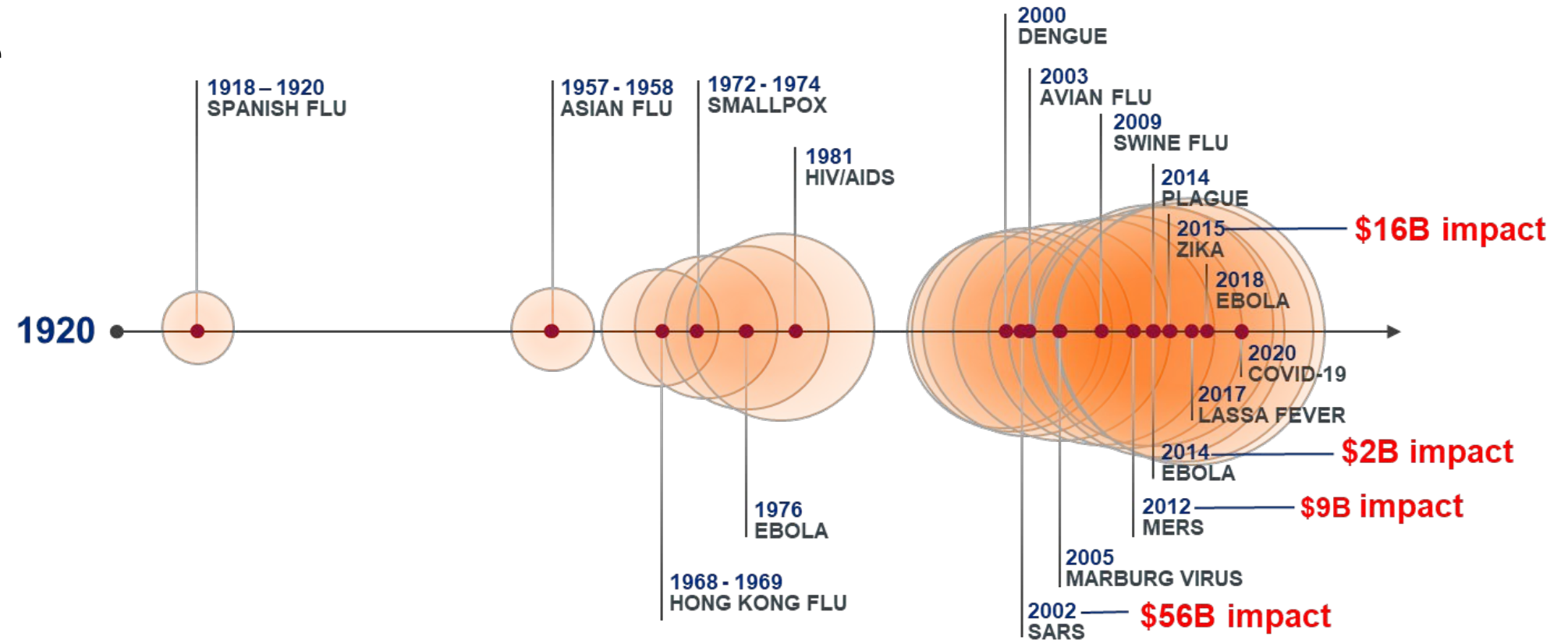
- We are seeing strong demand from clients to address pandemic risks.
- Marsh & McLennan has engaged with White House, US Treasury, Congress and relevant trade, business and industry associations on a potential pandemic risk solution.
- Discussions with top commercial lines carriers in US.

GLOBAL EPIDEMIC THREATS: DEADLY, COSTLY, INCREASINGLY FREQUENT

In just the last two decades, more than 400 human disease outbreaks have been recorded, including at least seven events that cost \$1 billion or more, according to Metabiota.

Several intensifying trends have increased the likelihood of pandemics, including:

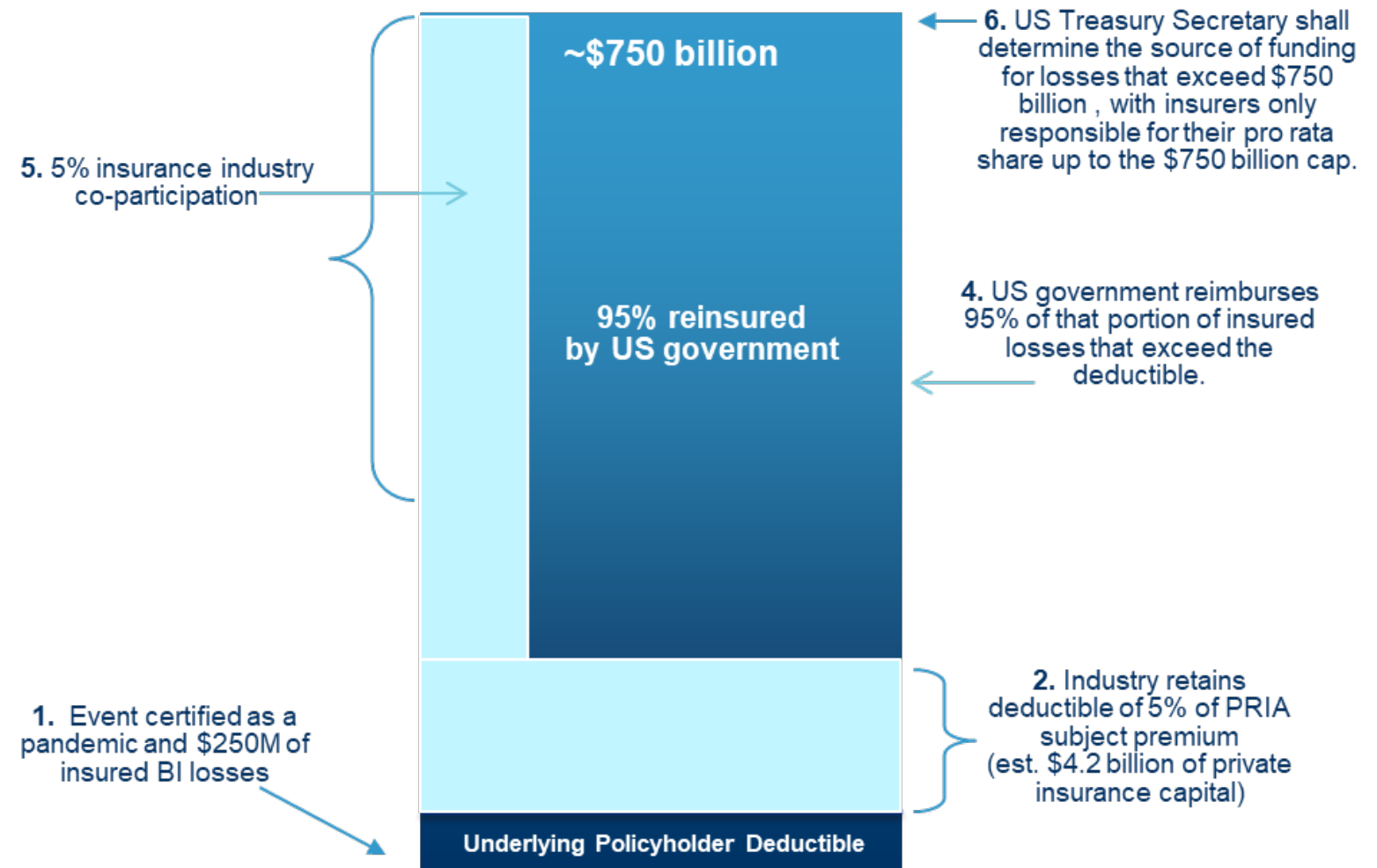
-  Global travel & connectivity
-  Urbanization
-  Land use changes
-  Incursion into the natural environment



POTENTIAL SOLUTION MODELED AFTER TRIA

- **Term:** Minimum – 10 years
- **Trigger:** (1) Declared pandemic by the US CDC.
- **Policyholder Coverage:** Stand-alone product that would include ~3-6 Months of Business Interruption (BI), which includes wage continuance coverage that responds in event of pandemic.
- **Policyholder Deductible:** 15 days of Business Interruption
- **Insurance Company Deductible:** An insurer's deductible is proportionate to its size, equaling 5% of an insurer's annual direct earned premiums for the commercial property of insurance specified in program.
- **Federal Reinsurance Program:** Once the 5% deductible have been met, the federal government would cover 95% of each insurer's losses above it's deductible until the amount of aggregate losses to the facility total \$750 billion, the program maximum liability.
- **Maximum Program Liability:** After \$750bn in aggregate losses, there is no federal government coverage and no requirement that insurers provide coverage.

Potential Structure



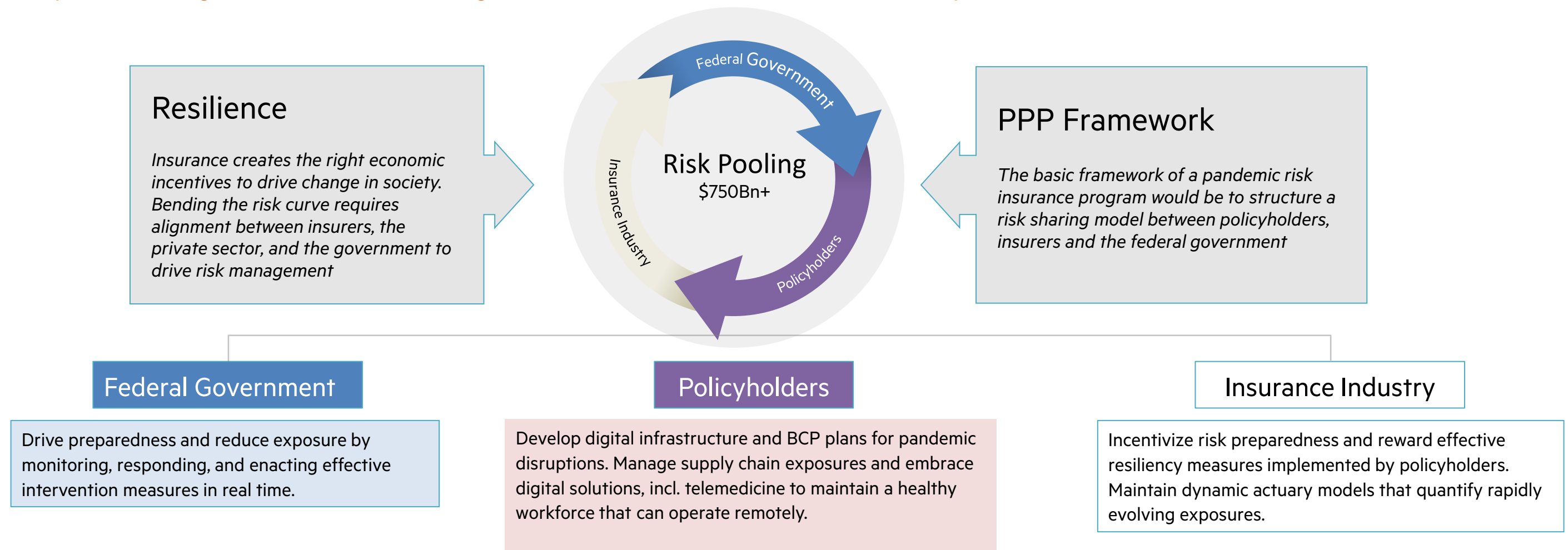
PANDEMIC RISK INSURANCE PROGRAM – WHY NOW?

A pandemic risk insurance program will serve vital national interests:

- 1 Accelerate Recovery by Reducing Uncertainty**
 - Moving forward, lenders and equity markets will seek assurance that companies have protection against prospective pandemic risk.
 - The pace of recovery will depend on the nature and degree of confidence in the marketplace.
- 2 Financial Protection Against Future Pandemics**
 - A pandemic risk insurance facility will absorb some of the initial financial shock of a pandemic
 - Insurance coverage enables businesses to retain employees and meet financial obligations through the peak of uncertainty.
- 3 Bend the Risk Curve**
 - Insurance creates the right economic incentives to drive change in society.
 - It is critical that we act now to harness risk management to build a more resilient US economy.

EXAMPLES OF STAKEHOLDER ACTIONS TO BEND THE RISK CURVE

The path to recovery hinges not only on our ability to get the current coronavirus under control, but also requires safeguards and risk mitigation measures to combat future pandemics.



SUMMARY

- COVID-19 is having devastating social and financial consequences across the United States, highlighting significant vulnerabilities in the health and financial security of our country.
- Businesses of all sizes and in all sectors are impacted by the current crisis; the frequency of disease outbreaks is on the rise; and there is no current or possible private insurance solution.
- Development of a public-private partnership with the right incentives for all parties is the only option to mitigate future economic impact of pandemics and accelerate economic recovery from COVID-19.
- Immediate action from government, insurance carriers and policyholders is required to secure a pandemic solution.
- This document sets out initial considerations on the design of such solutions, based on Marsh & McLennan's leading expertise on public-private partnerships, to support discussions with policymakers and stakeholders.

For more information visit: <https://www.mmc.com/insights/coronavirus.html>

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APARTMENT LEADERSHIP RESIDES HERE™

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