



Thank you for the opportunity to provide testimony for the Special Committee on Economic Recovery. The Kansas Association of Insurance Agents (KAIA) is a statewide association of independent insurance agents. It has approximately 320-member insurance agencies with more than 2,000 licensed independent insurance agents throughout the state of Kansas.

Below are responses to the specific questions regarding the impact of the pandemic and related government shutdowns on our independent agents in Kansas:

What is the severity of economic impact of the pandemic and shutdown/restrictions on independent agents and the insurance industry sector?

Insurance agents are being affected, however, they may not feel the full impact immediately on their businesses but instead are considered businesses affected in a second wave. The economic impact to independent insurance agents will not be fully known until agencies go through a full year of customer policy renewals. The impact will vary based on a number of factors including agency location, mix of business (personal vs. commercial lines), and niche business specialties in sectors more affected. In addition, our members are working with their customers to review decreased revenue and payrolls which impact policyholder premiums in various lines of coverage. The reduced exposure caused by the pandemic will ultimately reduce agent compensation.

Like many industry sectors there is much uncertainty in forecasting future revenue projections and the outlook for insurance agents is aligned with how long the pandemic limits businesses from getting back to normal operations and new businesses being formed. A universal concern for KAIA members is being able to continue to acquire new business customers to keep the agency strong.

Insurance agencies have also been impacted on the expense side as they created the infrastructure to allow employees to work remotely. The expenses included the purchase of equipment and technology resources. Some of these expenses were offset by reduced travel and entertainment budget line items.

How long might it take for independent insurance agencies to get back to pre-COVID levels?

There is much uncertainty of the full impact the pandemic will have on insurance agents, as mentioned above. The impact will not be fully known until the agency goes through a full year policy renewal cycle. In general, to date many insurance agent revenues have remained relatively flat with the exception of some lost accounts from businesses closing or reductions in payrolls/revenue, but again, their forecast for annual revenue is aligned with how long the pandemic limits businesses from getting back to normal operations. It also depends on how much of the agency's business is commercial lines versus personal lines and in industries most affected by the pandemic. Finally, we also foresee agency hiring moving forward at a slower rate until there is more certainty around the impact of the pandemic.

Do you think the pandemic puts insurance agencies at risk of not surviving?

Like with other industry sectors, businesses that are just starting or are less established are the most vulnerable to surviving. In addition, businesses that are close to retirement may make the decision that now is a good time to close the business. KAIA has 320 member independent agents across the state of Kansas. Approximately, one-third of our members agency have a revenue between \$100K - \$120K. We do have concerns about their ability to grow to sustain their agency. We've also seen an increased trend of agency start-ups over the past 3 to 5 years and we have concern about their ability to acquire new customers throughout the pandemic. A positive is that focusing on having a strong a digital presence will allow them to reach more customers online which is where consumers are shopping.

What has been the specific impact of government actions to date on your agency?

Insurance agents were listed as essential businesses in the Governor's executive order so they were able to continue operations. Those agents that remained open did limit in-person customer visits. Many agencies made the decision to close their offices and have employees work remotely out of an abundance of caution. These changes in operations were the biggest challenges for KAIA members. The transition for employees to work remotely required them to incur some additional expenses in the purchase of additional computer equipment and technology resources. These newly implemented technologies included digital ways to service customers, such as digital signatures, electronic payment services, video communications, and online marketing content. Agency managers were also greatly challenged in managing the transition of employees to remote work environments including developing human resource policies to maintain productivity. Upon reopening, many agents sought additional HR consultative resources for safely re-opening the office, providing a safe environment for employees, and having protocols for handling positive cases. A huge challenge now for agencies is managing employee productivity and the childcare needs of employees as children go back to school in varying ways: in-person, online, or a mix of both.

Do you have any recommended government/regulatory actions to assist the recovery process for your sector?

At this point, our primary recommendation is to maintain robust liability protections for businesses, municipalities, and schools. From an insurance regulatory standpoint preventing any additional expenses to agencies along with continuing to make sure the insurance marketplace offers consumer affordable and accessible options for all types of risks is a priority. We'd also like to share the general thoughts below focused on access to capital to keep small businesses going and general thoughts on the insurance marketplace:

General feedback:

- The Paycheck Protection Program was helpful in sustaining Kansas businesses and more aid for those businesses hardest hit such as the restaurant and hospitality industries would be helpful. The PPP helped agents keep employees which is critical as the industry is experiencing challenges in finding and retaining talent.
- Maintain liability protections for businesses from the threat of COVID related litigation.

- As has been widely reported, the current insurance marketplace and the policies offered by the vast majority of insurance carriers are not designed to cover risk from pandemics, specifically business income losses. The risk exposure is too unpredictable and rate development difficult. The insurance industry does not have the surplus reserves to support these losses, much less, pay for claims intended to be covered within the policy language. We support developing a solution with the support of government resources that would provide a viable, stable, long-term coverage risk mechanism that would allow the private insurance marketplace to provide businesses with coverage at responsible premiums with limited exposure. These discussions are happening at a national level.
- The insurance marketplace in Kansas is starting to harden with many lines of business, such as commercial property, commercial auto, and excess/umbrella seeing increased premiums. In addition, wind/hail deductibles are commonplace on large property risks. We would ask that regulators continue keep a close eye on the marketplace so that the businesses of Kansas continue to have affordable insurance at a time when they need it most.
- Nationally, there have been 850 cases filed with courts involving business income claims. Many of the lawsuits involve claims where the insurance policy form language is clear that coverage does not fall under the insuring agreement and is also excluded. While we have empathy for these businesses, these lawsuits will become a significant expense in defense costs to litigate. Carriers will incur loss and defense reserves which could ultimately lead to accelerated hardening of the insurance marketplace. In addition, insurance agents are often named in the lawsuits as a possible source of recovery. This will burden independent insurance agents with the cost of defending themselves, including the cost of their E&O policy deductible, lost productivity, and the potential for increased premiums down the road. Anything that Kansas can do to stem unnecessary litigation and the burdensome expense it brings is appreciated.

Should have any additional questions or need more information please contact me.

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