

COVID-19 Pooling Questions with John Stephens, Senior Vice President, CEO-level Patron Keenan

<https://youtu.be/FTqen0EqIXI>

Ann Gergen (00:08):

So you all were sort of at the forefront of the stay at home orders. How long have you been at home?

John Stephens (00:16):

So let's see, it kind of started in mid April. No, early April is when it started. And for it was interesting. So in California we had, you know, I'm in Southern California, in orange County and we have offices throughout California. So, you know, we were kind of in real time, you know, hearing Hey, by the way, these two counties have issued a shelter in place and you need to shut down the office by five o'clock today. So we in a relatively quick time had to go through and we had been anticipating things, so we were gearing up, but in a really short time we had to, you know, move over 800 employees to working remotely, you know, to make sure one they're safe and two then we had to work on, you know, how do you get supplies, you know, not everyone was accustomed to working remotely.

You know, more of our field folks, you know, sales and service staff, they're traveling, they have computers. Uh, we have a lot of folks that don't, and then, you know, we're trying to find, you know, 200 laptops and printers and wifi systems and then you have, we have to expand the people that can dial up into our systems so they can have access to things to take care of our customers and it, uh, it became challenging going through it, but yeah, super proud of how the company responded and how quickly we're able to get up and running.

Ann Gergen (01:43):

Yeah. We're hearing lots of those stories like, Hey, we didn't realize that we needed to be able to, you know, ship some office chairs to people because they can't really be working at their dining room chairs all day. Or, boy, it's been incredible to realize how reliant we all are on multiple big monitors instead of just a laptop monitors. So lots of folks making those adjustments for sure.

John Stephens (02:04):

Oh, I had people asking me, you know, will I have my dual monitors and I'm thinking, all I see is my laptop and tiny screen. I'm like, you have two monitors?

Ann Gergen (02:14):

Yeah. It's pretty amazing what we've become used to. Um, so you mentioned, you know, offices in various locations in California. So you're doing, um, a lot of work in the public entity space, right? A good portion of your work at Keenan is in the public entity space, a lot of JPA's in particular. But you have those relationships and networks with public entities and nonpublic entities alike. So I'm wondering, you know, just based upon what you're working on and what you're hearing and all those broad relationships that you have, um, what kind of impacts and issues from that broader network do you see that you think, uh, JPA's and pools ought to be thinking about?

John Stephens (02:54):

Sure. So actually, Keenan, we, we, um, we're now owned by Assured Partners, which is a national, actually international organization. So they bought about 350 agencies around the country. And so we're essentially the public entity arm and hub in California. But about 90% of what Keenan does is public sector. So public agencies and joint powers authorities. Uh, so we work with about 60 joint powers authorities and about 700 public agencies in California. The other part of our company, um, is healthcare, which has hospitals and medical groups. So we do a lot of consulting with, you know, large hospital and healthcare systems. And so I think what they're going through as well as what I hear from the other agencies that we're affiliated with around the country is, you know, the economic impact of COVID, I mean there's really two big things in COVID's impact and it's the emotional aspects for everyone in terms of what we're all feeling and dealing with.

And then there's the economic impact both individually as well as what society is going to face. And I think with our healthcare clients, it's pretty symbolic as to what the economy's facing, you know, as they have, you know, significant rep, you know, impact. So even though hospitals are some of the busiest entities right now, they're not able to charge for services, right? It's, it's, it's the testing of folks that have the Coronavirus and taking care of those folks. But the elective surgeries, the non-essential types of services, they're not charging. So we have healthcare clients where their revenues have decreased over 50%. So that's a, you know, I think symbolic of what's happening in terms of what this

means to public entities or pools primarily is this impact is going to be felt in, in all areas. And so if you look at a particular geographic area where there's less, I'll call it house tax.

So less sales tax, property tax, personal income tax, that's less tax revenue going to a jurisdiction, whether it be a state or a county, those are the monies that typically fund public agencies. So I think as we project this out, you know, in terms of, you know, is this going to be a, you know, hopefully shelter in place gets removed. But I think the impact, uh, we're going to feel for several years on this. Um, I was reading a report this morning that Moody's had put out in terms of the, uh, a stress test on different states and who's best equipped or least equipped to kind of deal with what the economic impact is going to be. So when we look at pools, you know, pools rely upon investment income for initial funding, right? They're going to discount their funding and if they can't discount as much, that's higher rates to the membership. But when we look at existing claims where they rely upon an investment income on claims that had a longer tail, you know, when we're seeing social inflation, which is increasing the cost of claims or quick pay house coupled with now lower yields on,

uh, you know, on, on, on 10 year bonds on muni bonds, uh, I think that's going to have a significant impact on what pools feel.

Ann Gergen (06:24):

Yeah. So, um, that investment issue is an interesting one. I was really, as you were talking through the, the healthcare organizations that you work with and what they're experiencing. That's a really good, a similar story I guess to public entities and what you're talking about in terms of revenue. Right? So both the healthcare systems and public entities provide a lot of those safety net services that they have to keep providing no matter what. And yet the funding sources for those entities is eroding and is a little bit more of an unknown. So how do we keep providing those safety net services when we don't have good revenue projections? I think that's a really similar circumstance for sure.

John Stephens (07:07):

If you look at a, uh, a city that relies upon so much with hotels, hotel tax, sales, tax from restaurants and sales tax from people purchasing cars. Right now, hotels are shut down, restaurants are shut down and no one's purchasing new vehicles. Right? So I think there's going to be a, you know, a very similar to what we felt, no, in o-seven, o-eight in terms

of a slowdown. And it's typically, you know, slower to hit public agencies. So it will be slower to feel it, but we'll be slower to come out of it as well.

Ann Gergen (07:41):

Yeah, that's really good perspective to have. So what about the JPA clients in particular? You know, what are you hearing and seeing from them? What are the top trends that you see them facing right now in light of COVID or the impacts that you see, coming down the line for them?

John Stephens (08:00):

Yeah. So we, uh, you know, I just finished the renewable programs for, uh, you know, for our JPA's. And so, you know, dealing with reinsurers around the country, you know, whether it's, you know, London, Bermuda or domestic, um, I would say bulls are going to be confronted with, you know, different aspects of diminished coverage, uh, diminished coverage being that, you know, the reinsurers are gonna require now some sort of pandemic or occupational disease exclusion

to really clarify the intent of coverage number one and number two, really make it clear that the pollution exclusions do indeed, um, exclude pandemic exposures because there were some vague ambiguity in that. Um, so I think that you know we're going to see those types of, uh, exclusions become now just normal with policies. Just like, you know, we'll see a terrorism type of exclusion on it. And until the federal government develops some sort of backstop program like they did with TRIA and I believe they will do something with pandemics. I think it's going to impact pools and you know, for the different pools out there, I don't think it's going to be as much of an impact for Scholastic pools because I don't think we're going to see the same level of third party claims coming in against a school district as you might against a city or a County that's not shutting down or that they're health inspected and do something appropriate or that has first responders. So I think you'll see an impact on all insurance, but depending upon which type of public entity or a public agency you know, the impact would be a little bit different.

Ann Gergen (09:46):

Yeah, those re-insurance renewals, I mean both in terms of pricing and also in terms of coverage and just the terms of communicable disease exclusions and pollution exclusions. That's certainly one to be mindful of. Um, I've, I've heard

more focus on the communicable disease exclusion and pollution is almost sort of secondary as a note. Did you see those as equal conversations when you were working through that with your JPA's or was it mostly focused on communicable disease?

John Stephens (10:18):

Well, I think there's some folks that feel that, um, you know, that the pollution, that there's potential coverage under pollution, you know, for them to say, and I don't think the intent has ever been for a reinsurer to say, Hey, yeah, this is, you know, when you have a pandemic, our pollution coverage is going to apply, right? It's more for the sudden accidental and now you have different attorneys that are saying, Oh, well it was sudden, it was accidental, the COVID sitting on the calendar in your office and that's what really caused this issue now. So I think it's more to clarify things. You know, what I mean? In addition, I think we're seeing, you know, different States are doing things, I can speak to California most specifically, but the impact it's going to have on workers' compensation now. And even though we went to shelter in place, uh, you know, which definitely helped, um, you know, keep people safe initially.

Um, there is a, uh, an executive order that we believe is going to be signed in this next week by our governor. Uh, that's going to basically make the COVID or coronavirus a presumptive presumption, uh, now, so you know, it's going to be an automatically accepted claim that had happened or arose in, you know, in employment. Uh, so again, that won't have much of an impact for a Scholastic type of entity. But for a city and County entity, it would because it's going to apply to first responders and healthcare workers. So if you're a County that has, you know, police fire or County run hospitals, that's going to be an impact, right? If you're a school district that doesn't really have first responders, it's not as much of an impact. But the projections on what this will mean to the cost for worker's compensation, they're saying as high as \$35 billion into, you know, worker's comp costs.

So I think that's going to have an impact, obviously for entities. And then, you know, the, the other big issue, uh, again, depending upon how long this goes, is how do JPA's adapt to this new world of remote servicing of their members. You know, so if we have shelter in place and, and, and entities have some sort of, you know, new world that they're living in with shutdowns, but we still have regulatory oversight, so there might be safety preventative inspections that need to take place. So we have, you know, we have, um, a department that does, um, chemical hazard inventories. And so, you know, we're helping agencies, we're doing their, their hazmat plans, their, um, their inspections of, of their premises, but they're saying, but we don't have anyone on the premise and we don't want to send anyone to that premise, which is

valid. However, when the regulatory authorities say it has to be done within this time period, you know, it's just a new challenge and I think there'll be a relaxation of some of the rules and regulations. But I think the longer this goes, the more new items pop up and we just have to figure out how to best adapt. And kind of the new world that we're living in.

Ann Gergen (13:25):

So what about Keenan itself? Um, I mean, you, you're working with 60 JPA's and you've got other public entity clients. Is there anything that you're doing new, different, are you, um, working with services different? Are there new products, you know, where are you in making sure that you're responsive to the needs and, and just putting things together for clients in a way that makes sense?

John Stephens (13:51):

So we, we like, you know, every other entity in America have a COVID resource page, right? So, um, and so what we tried to do is really a couple of things we try to take. There's so much information that's out there that everyone is getting inundated with and everyone has the, the, the, the right intentions, right? The best of intentions to sharing this. But it's, you know, at some point it's a bit of overload. So we, we created our COVID resource page to try and take the information and say, okay, how can we at least put it in a way where it's best usable and folks can go to it and use it as they wish, as opposed to us sending all of their stuff. And so, you know, we did it around, you know, here's what their regulatory information is. Here's some training information here's, some the information from the health insurance companies.

So you can deal with what your coverage is, whether it be, you know, EAP type, you know, programs and services that you need, health related services. You know, just legislative best practices, all that. So we have the resource page, um, that's on the, you know, Keenan website that anyone can go to. But what we also did is we created a micro learning training program and that's on there as well. And they're just short videos. There's nine videos there, you know, three, four minutes each that you go to. But we have, you know, a lot of folks that are working remotely now and they have to adapt to new things. And so they're kind of loss control types, you know, training, but it helps people adapt to their new space. And so, um, how to set up a proper ergonomic station when you might be working at your kitchen table.

Right? So that's a, it's one of these things, it's easy to kind of, you know, joke about it, but it's like, Hey, if they're going to be there for three months, we need to make sure that they're safe and that they know how to do this with the, you

know, we're not taking our entire office and shipping it to their home. And so we've done a lot of that. And I mean this last week we had 700 course completions for that program. Yeah. So it's something where, you know, I think it's, uh, it's easy to use and it, and it's helpful and, um, you know, so we're just spending a lot of time with that. I'd say the other thing that, um, you know, both we do as well as you know, pools that, um, that are out there that should be doing is making sure whoever your third party claims administrator is for workers' comp, that there's some sort of telehealth, the type of service that they're providing. Because you know, you still have, um, injured workers that are out there and you know, them going to see their healthcare provider may not be convenient or safe and a telehealth type of service would, it'd be more, um, you know, more safe, more effective for everybody.

Ann Gergen (16:49):

Do you have any, um, do you have any perspective on that yet about how well those telehealth services are working and how, how much staying power you think they might have after the COVID-19 crisis?

John Stephens (17:01):

So we've actually been utilizing them for years, so, um, I think they're really good. They, I don't think they were utilized as much before when people kind of looked at like, well, why would I do that when I can go to the doctor? Right. But now people are saying, but I don't want to go to the doctor. But I still need to see my doctor. Wow. So I don't want to have, you know, statistics in terms of what the impact has been. Um, you know, on it in terms of, uh, utilization. But I do know, and I have a friend who's very involved in healthcare. He's a, he's a PA. He actually had COVID that he had contracted and you know, he's now safe now, but like he literally spends a day a week as part of his job where he's a, he's the telehealth person. And so, you know, he's done that. My wife and daughters, they, I had an appointment with our, you know, with our doctor and they did it via telehealth. Right. And I think it's one of the things where it's new. I think people are going to realize over time that new doesn't necessarily mean it can't be effective.

Ann Gergen (18:06):

Yeah. And anecdotally that's consistent with, um, sort of what I've heard as well. But the telehealth services have been really well received and really effective. And so this might be, um, unfortunately the crisis that kind of engages that as an ongoing tool and service, which, which could be beneficial overall.

John Stephens (18:25):

Sure. Well, I'll tell you. So a comparison on that is, you know, we just finalized the reinsurance for, you know, the, um, for the pools and clients that we work with. And so, you know, it's no, it's covering about half of California public agencies. You know, I represented it in our pools and so they're massive, placements. You know, I think this is an interesting time that we're in right now. Um, you know, for the last several years, pools have been wrestling with how do we, how do we kind of train the next generation of pool leaders, right? As the, you know, as the boomers retire and you have new leadership coming in that may not have been there back in the mid eighties, right when pools started, you know, how do we help them understand things? Um, because pools have really served a great purpose.

Um, what's happened now is, you know, pools have been around in a very soft market, so there's no true need that people have felt that a pool served, you know, or there is no true loyalty that someone had that they had in the eighties when they couldn't get insurance. Right now they sit there and go, well, there's so many pools out there. It's kind of like shopping on Amazon. Right. I'll just go to this pool or that pool, um, obviously I'm being facetious when I say that, but, um, I think with what we're experiencing right now in the midst of a very hard market in certain areas of the country are affected more. You know, if you're a school district and you have sexual abuse exposure, you have incredibly hard market that you're dealing with. You know, if you have law enforcement liability issues, you're dealing with a hard market.

Mmm. From a property stand point, it used to be, and again, I'm in California, it used to be the hard property market didn't really affect us. It, that was Florida's issue because they're coastal. Right. But now with the new wild fire modeling that's taking place and what's what's happening are people are incredibly concerned with what wildfire could be. And there's just an inconsistency of modeling from one reinsurer to another, you know, as they try and figure out what is, you know, what does this wildfire exposure look like? And then you take the COVID situation. So I think the, as you say, history repeats itself, um, we're kind of in that environment that we were in the mid eighties. And so what I would say is, you know, for those that are, you know, new into pooling, this is why pools were originally built. You know, and this is the, the benefit of a pool in that, you know, reinsures they may put different exclusions on, um, you know, the market's going to fluctuate in terms of hard to stop.

But the pools are really the stability. The pools are the ones that are going to provide the value from a coverage standpoint, a servicing standpoint. And I think this is a time when I would hope, you know, the pooling community, you

know, does a really good job of, of helping raise awareness as to the benefits of pools and that folks that may not have been involved in pools before really look to their pool as this is a great alternative to, you know, just traditional insurance. This is a, I think it's one of these things when I try it, I always try and find the good out of any difficult situation. And when you look at a pandemic like this, I mean it's terrible what, what the world is experiencing. You know, you asked me, you know, how am I doing? Where do I live? I mean, it's terrible what we're facing. And here I am in Southern California it's going to be 80 degrees today. And you know, it's an inconvenience. I'm healthy, you know. But when I look at the pooling world, Mmm. You know, there's a lot of difficult items that we're always going to deal with, but the good that can come out of this is kind of the reinvention of what pools do and the value that pools provide.

Ann Gergen (22:41):

Kind of that unfortunate, but really important reminder and, um, maybe a little bit of a return to some of the roots of pooling to begin with. Right. And, and why we are here and why pools do what they do. For sure.

John Stephens (22:55):

And I, and I commend you and in terms of what you've done with a AGRiP, uh, to help really advance the education and bring awareness on this. So thank you for what you do to help our industry.

Ann Gergen (23:08):

John. Thank you again for just taking the time this morning and sharing that insight and perspective. I think it'll be really useful and invaluable to our pools. So I appreciate that you took the time today. Thank you.

John Stephens (23:20):

Thanks Ann. Be safe.