Property & Casualty | *Commercial Insurance Outlook* — March 2021

LOCKTON

MARKET OVERVIEW

PROPERTY

- Average renewal rate increase +20% with increased retentions as well as decreased capacity on some programs
- Heightened focus on risk quality and compliance with engineering recommendations and valuation adequacy for rating basis
- Flexibility in virtual engineering/loss control inspections are now required
- Scale and frequency of civil unrest claims has dramatically increased
- Increased emphasis on catastrophe modeling
- Re-insurance pricing is increasing and cost is being passed to buyers
- Dramatic rate increases began in April 2019. Increases are predicted to continue in 2021 as insurers continue to recover from catastrophic losses of 2016 & 2017
- The prior two years have produced losses in excess of $200 billion from climate related disasters, pushing combined ratios well over 100%
- Most insurers remain confident the lack of direct physical damage from Coronavirus will insulate them from paying out business interruption claims, but litigation costs to combat the numerous filings is causing uncertainty

WORKERS' COMPENSATION

- Decrease in claim counts due to COVID are offset by modest increase in claim costs. Dramatic rate increases not expected in 2021, but underwriter uncertainty remains due from the following:
  - Increased unemployment rates have a significant impact on WC costs. Lack of stimulus agreement, ongoing furloughs and renewed surge of COVID-19 could amplify the impact
  - In CA, COVID related claims are presumed work related through 1/1/23 if the employee is working outside of the home (outbreak criteria must be met). All positive COVID cases (whether work related or not) must be reported to carrier for tracking
  - COVID-19 claims are excluded from x mod, payroll for employees being paid but not working is excluded and assignment of 8810 classification for employees working from home is allowed
  - Delayed access to medical care and inability to return employees to modified duty will increase claim costs
- For loss sensitive programs, carriers are tightening credit guidelines and pulling back on paid loss credits. Some are adding collateral surcharge or restricting type of instrument

AUTO

- Market has endured rate increases for the past 10 years
- Factors include distracted driving, more drivers on the road, increased attorney involvement, escalating jury verdicts and rise in third party litigation financing
- Although COVID-19 briefly led to lower frequency due to reduced traffic, severity continues to be an issue
- Increased non-owned exposure due to increased delivery service is being scrutinized
- Primary markets are demanding higher retentions
- Renewed scrutiny around driver training and the use of telematics
- Risks with large fleets are finding it increasingly difficult to secure capacity at any price, especially those with loss activity
- Underwriters now see a distribution company and a "true trucking" company as the same, both competing for same capacity

GENERAL LIABILITY

- Since Q1 of 2019, the market has been challenged with increased prices, restricted terms and reduced market capacity
- Claim activity may be associated with failure to appropriately follow/ communicate public health guidelines
- Nontraditional uses of properties raises new liability/ coverage issues for owners/ operators (i.e. hotels used to shelter patients)
- More service providers and delivery drivers face significant 3rd party onsite exposure (i.e. waste haulers, delivery/ service at hospitals)
- Slowdown in court systems cause delays in resolution. Cases don't get better with age
- Capacity is shrinking for wildfire exposed contractors and residential construction
- In NY, Labor law and action over claims is causing insurers to push for higher retentions, attachment points and premium. Some insurers have stopped writing this exposure all together

MEDICAL PROFESSIONAL LIABILITY

- Pre-COVID the market was already at a crisis point, resulting from huge uptick in frequency of jumbo verdict and settlements
- Hospitals, senior living and physicians are being impacted more severely than patient-care delivery sector
- Clients with adverse loss history will struggle to find coverage at any price
- COVID-19 created new exposures including:
  - Use of alternative facilities (vacant hotels, hospitals, ships, stadiums)
  - Healthcare workers are crossing state lines to help
  - Student healthcare workers are rushed through graduation
  - Healthcare workers came out of retirement due to shortage
- Market capacity is shrinking
  - More carriers are exiting. Zurich and QBE are major players that have recently exited
  - Smaller insurers, unable to absorb escalating losses, are going into run off (not writing new business)
  - Industry consolidation is continuing. Proassurance acquired Norcal. Berkshire Hathaway acquired MLMIC
  - Rating downgrades have limited the viability of some carriers
- Underwriters question how physicians manage opioid prescriptions and overall patient monitoring
- #MeToo movement caused increase in sexual abuse claims
- Electronic health records are impacting future value of claims as plaintiff's attorneys focus on the integrity and quality of documentation
- Insureds confronted with retaining more risk due to increased claim severity
- Underwriters want to better understand how insureds who self-administer are establishing reserves

UMBRELLA / EXCESS

- Pre-Covid, capacity was shrinking and costs were increasing. Some predict current market will persist through 2022
- The number of markets willing to write lead umbrellas continues to shrink
- Continued pressure for higher attachment points of $2M per occurence or more
- More markets will likely be required to secure the desired capacity compared to prior year
- Many clients are purchasing less limit than the prior year's program, a decision due to cost rather than availability of capacity
- Many insurers require communicable disease exclusions
- Deferral of nonessential medical treatments could lead to increased severity in long-tailed bodily injury claims
- A fleet size of 250 power units is an inflection point for increasing attachment point above $1M. For larger fleets, markets may require between $5-10M
  - Buffer layers, captives, reinsurance, and aggressive retention strategies are all being used to manage the gap

ENVIRONMENTAL LIABILITY

- Capacity continues to be plentiful and competitive with 20+ insurers in the space. Terms, conditions and pricing reflect a competitive and changing market
- In response to COVID, many pursued coverage under their environmental policy with some providing limited coverage for disinfection/cleanup
- This has caused carriers to add exclusions and limitations on go forward policies
- Increased mold and legionella claims in hospitality, healthcare and education sector made this coverage difficult to obtain without robust underwriting data. When coverage is available, it is limited
- Older generation of underground storage tanks (+30 years) in some cases continues to be a pain point for carriers
  - Some will blanketly non-renew once the tank reaches 30 years
  - Deductibles on older tanks can reach $250K-$1M and require collateral

CYBER

- Underwriters predict the need for additional rate over the next 12 months
- Causes for the firming market include:
  - Ransomware and Business Interruption claims
  - CCPA and other US legislation which mimics GDPR
  - Underwriter's re-evaluating risk appetite
- Increased business interruption claims activity has pushed underwriters to reconsider their rating models
  - Frequency of ransomware attacks in the first half of 2020 increased by 700% over 2019
  - Severity of ransomware is also increasing and often involves 7 figure demands
  - Data exfiltration is becoming more common in ransomware claims
  - Underwriters are very focused on evaluation of ransomware controls (i.e. multi-factor authentication)

MANAGEMENT LIABILITY

- Private company D&O primary layer rate increase are in the 20-30+% range
- Public company D&O primary layer rate increase average 30-50+% with retentions being forced to at least $1M or $2.5M
- Excess carriers are seeking higher rate increases than the primary, sometimes double
- Excess side A/DIC market has also sharpened quickly
- It is now common for programs to be built in increments of $5M or $2.5M, especially in challenged sectors or for high-risk companies
- EPL claims are expected to rise due to COVID-19 furloughs and layoffs
  - Rates are increasing on average by 10-15%
  - Carriers are adding higher retentions, specifically for CA employees
- Fiduciary and crime markets are more stable, but expect increases in the 5-10% range
- Market has been hardening since Q1 of 2019
- COVID-19 is causing underwriters deep concern because increase in D&O, employment practices and fiduciary claims are likely
- Alternative carrier interest has decreased. Often reliant on incumbent carriers, who will likely require higher premiums with no flexibility
- D&O insurance buying process has become more time consuming, labor intensive and unpredictable for the buyer

GLOBAL

- Average rate increases in major global insurance markets:
  - General liability +8%
  - Property +15%
  - D&O +30%
- Global insurance programs are seeing increased scrutiny by compliance and tax regulatory authorities
- Carriers providing controlled master programs are more selective in their deployment of capacity on a regional basis, often resulting in exclusion of certain countries
  - Supplemental or even replacement coverage in local markets is often required

SURETY

- Pre COVID-19, market was soft with ample capacity and strong profitability. The pandemic has had a significant impact on the market
- Losses are occurring on existing portfolios and are expected to continue into 2021
  - A potential loss in the energy sector is in the beginning stages and could affect the entire industry
- Risk appetite for the following industries is limited: oil and gas, retail, restaurant/food service, hospitality, airlines and commercial real estate
- Tightened underwriting standards
  - Many surety companies now use existing credit committees to carefully examine new and existing exposures
  - Sureties may ask to be removed from program participation as they focus on decreasing exposure and limiting capacity
- The longer the pandemic lasts, the more the credit market will tighten as a response to general economic concerns

Key

Unfavorable	Transitioning to Unfavorable	Favorable

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The current insurance market is harsh and requires increased engagement from all parties

Lockton will help!

- Start renewal process early 120-150 days out
- Provide budget expectations early and update accordingly to keep pace with market developments
- We tell your story to the market by differentiating your risk with quality submission data and offer context behind the data
- We invest time responding to underwriter questions and articulating your claim management philosophy and specific risk control strategies
- We create direct communication between you and key underwriters so you can tell your story
- Analyze various risk transfer structures and options - may include higher retentions and lower limits
- Prepare analytic review of loss trends to evaluate financial efficiency of retention levels, collateral and pricing
- Provide benchmarking and claims data to factor into limit adequacy discussion
- Workers' Comp: analyze and validate accuracy of all class codes. Review for potential changes in job classifications per COVID related legislation (i.e. remote workers)
- Property: CAT model early
  - Explore alternative strategies: parametric, dual trigger cover, facultative reinsurance capacity, multi-layer single limit and second event covers
- Explore cross selling opportunities with carriers who have appetite for multiple lines of coverage
- Explore every access point, including wholesale and international market
- Lockton will work with insurers to deliver specific manuscript language, where possible, to fit your needs

What we need from you

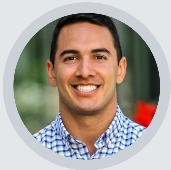
- Engage key stakeholders in planning and strategy discussions
- Provide renewal exposures and completed applications timely
- Be prepared for highly scrutinized underwriting process
  - Detailed explanation of COVID-19 impact, both financially and operationally
  - Business continuity plan
  - Explain credit downgrades, distressed financials and access to capital
  - Explain contractual risk transfer agreements
  - Provide detailed documentation on controls (safety, cyber security, employee theft)
  - Be flexible with virtual engineering/loss control inspections
  - Share completion or progress plan of previous loss control recommendations
  - Be available for last minute underwriter questions and requests for data

Our Approach

RESULTS THROUGH PROCESS

1	2	3	4	5	6	7
Monthly call: Agenda of open & closed items	Monthly proprietary loss reports	Mid-year review/budget forecast	Quarterly Workers Compensation Claims Reviews	On-going updates; Client involvement, direct insurer communication	30 days prior: Bindable "worst case scenario"	Strategic engagement to integrate risk management into your broader business planning

Contact



Dan Urias
CLCS, AAI
Vice President
M: 949.394.6528
durias@lockton.com