MARSH & McLENNAN AGENCY

It's our business to be there for you in the MOMENTS THAT MATTER.

August 2020

Q2 Business Insurance Marketplace

State of the Market Report

The second quarter of 2020 marks the 11th straight quarter of insurance rate increases. When will we stop counting the number of consecutive quarters of rising insurance costs? Unfortunately, not as soon as we would all like, based on current indicators. Organizations are under enormous pressure to manage evolving risks, anticipate emerging trends, and find reprieve from one of the toughest insurance markets experienced in decades. Moreover, this is the first full quarter of results in the shadow of COVID-19, so we are just starting to see how market uncertainty is playing out.

While the landscape may look forbidding, Marsh & McLennan Agency continues to monitor the market closely, seeking to provide insight, uncover opportunities, and problem solve for our clients for the weeks, months, and years ahead.

IT IS CLEAR THAT MANY FACTORS ARE CONVERGING AND EXACERBATING AN ALREADY VOLATILE MARKETPLACE.

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THE GLOBAL COVID-19 RISKS OUTLOOK

Economic distress, a second pandemic, and increasing global protectionism are among the leading risk concerns that topped a recent report published by the World Economic Forum with support from Marsh & McLennan Companies, COVID-19 Risks Outlook: A Preliminary Mapping and Its Implications. The report examines familiar risks that may be amplified by the pandemic and new ones that may emerge.

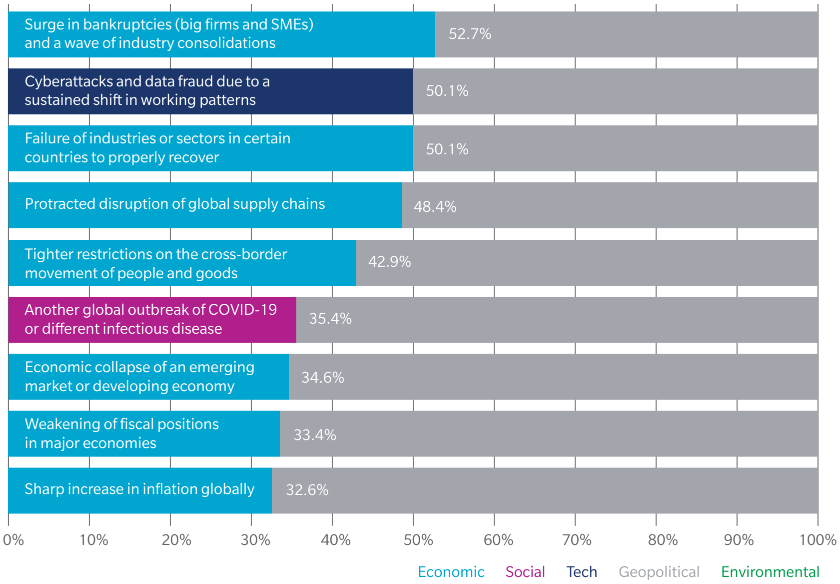
The report draws on survey results of nearly 350 senior risk professionals who were asked to identify their biggest concerns over the next 18 months for both the world and their business.

The likely depth and longevity of the economic fallout unsurprisingly dominates companies' risks perceptions. These concerns include:

- a prolonged recession.
- the weakening fiscal position of major economies.
- tighter restrictions on the cross-border movement of goods and people.
- the protracted disruption of global supply chains.
- an increase in cyber attacks and data fraud.

TOP TEN

Most worrisome for your company



Just as COVID-19 has spread across the globe, so have protectionist measures. Governments have enacted measures to try to safeguard their economies and health systems. While some of these actions seem reasonable, others may respond more to political expedience or the preferences of certain interest groups.

IMPLICATIONS FOR DECISION-MAKERS

The legacy of the COVID-19 crisis will ultimately be determined by our collective ability to understand and preempt interdependent global risks, while being mindful of social, economic, and political imperatives.

The report sets out 20 challenges and questions that can be used as starting points for framing discussions between businesses, governments, and societies worldwide.

WHAT'S REALLY INFLUENCING THE U.S. INSURANCE MARKETPLACE? — SEEMINGLY EVERYTHING

Even before COVID-19, perceived exposure and loss concerns around large fleets, non-owned automobile, long-haul trucking, glyphosate, traumatic brain injury, sexual abuse and molestation, opioids, wildfires, CBD, active shooters, "nuclear" jury awards (social inflation), and climate change risks were already straining the insurance marketplace.

Now the marketplace is faced with additional concerns related to an unprecedented unemployment landscape, growing ransomware attacks and data privacy fraud, travel restrictions, international trade tariffs, inflation, supply chain disruptions, bankruptcies, social unrest, state legislative changes related to COVID-19 immunity, and the growing anxiety from working from home (with students of all ages still unable to return to school). It is clear that many factors are converging and exacerbating an already volatile marketplace.

THE MARKET CONSTRICTION PINCH

While capacity is still available, but not all national carriers are fully tapping into that capability. Business is drifting to regional carriers, Excess and surplus lines carriers, as well as alternative risk and well-designed captive programs.

Some of the influencing factors include:

1. Insurance carriers are experiencing plenty of uncertainty as evidenced by pricing and terms changes including:
   - Non-renewals on unprofitable business.
   - COVID-19/epidemic/pandemic exclusions.
   - Protests, riots, and civil commotion limitations.
2. Many carriers experienced a 95% combined ratio in Q1, only to see Q2 increase up to 118% and higher due to COVID-19 loss reserves, protest/civil unrest claims and prior year loss development as a result of social inflation. Carriers do want to write business, but with restricted terms, conditions, and pricing.
3. Legislative changes further drive the market constriction implications. Here are some of the trends we are seeing:
   - At least 19 states have passed or have pending Workers' Compensation legislation for workers' presumption coverage for certain essential workers (police, fire, EMT, health care, medical) specific to COVID-19, meaning if a worker tests positive for COVID-19, it is presumed it was as a result of work, compelling workers' compensation coverage and benefits. Examples include:
     - California legislation that would have forced insurers to pay more coronavirus business-interruption claims was put on hold in late July when state lawmakers decided not to return from their summer recess because of a resurgence of COVID-19. Assembly Bill 1552 appeared to have a better chance of winning passage than any of the bills introduced in 10 states so far. All of them, in one way or another, would change rules to make insurers liable to commercial property owners for income lost because of closure orders.
     - Georgia has enacted the "COVID-19 Pandemic Business Safety Act" giving businesses some tort law immunity from suit, provided they meet certain criteria (This is new legislation that has not yet been tested in the courts).
     - Federal legislation similar to Georgia's is currently being debated.
   - Business Interruption losses as a result of COVID-19 are being tried in a number of courts across the U.S. and Europe.

MARKET TREATMENT OF RENEWAL BUSINESS

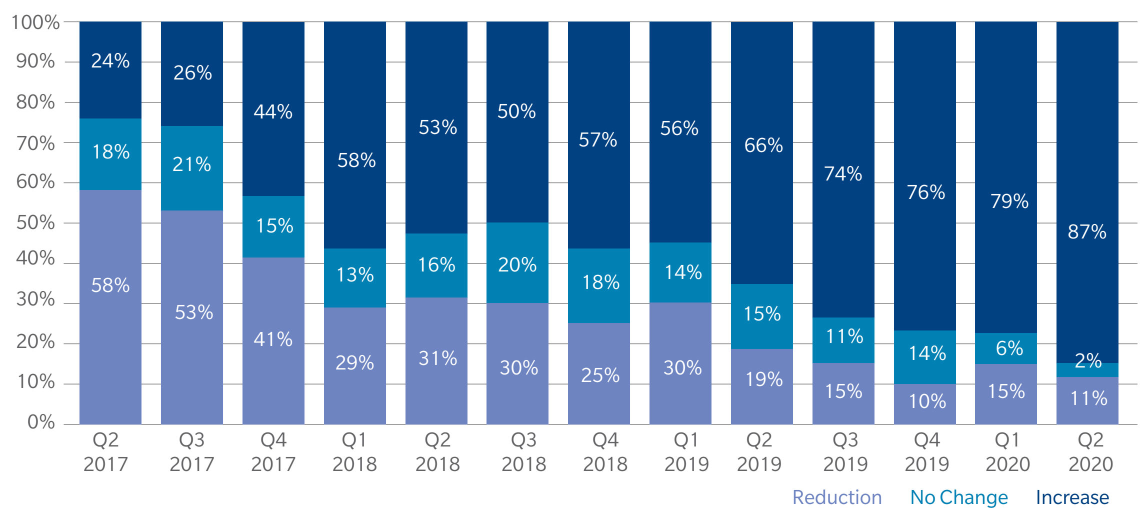
Carriers do want to grow, but only within their limited space and appetite. Commonly, carrier leadership will mandate strict underwriting guidelines, directing where to focus the insurer's financial capacity. With capacity constricted, many businesses are at the mercy of the market. Competing carriers on businesses desired by the insurance market will be more likely to offer more competitive pricing over the incumbent. Businesses can be proactive by taking pre- and post-loss mitigation steps. MMA can advise you on best practices for the successful placement of your insurance and the optimal pricing of your program.

MARSH & MCLENNAN AGENCY HAS SOLUTIONS

During these difficult times, MMA marketing and placement specialists continue to be creative and finding ways to make positive impacts on behalf of our clients in the marketplace. It has never been more important to start the renewal process early (90-120 days in advance or sooner) so that every option and alternative solution can be vetted. It will likely be necessary to market your risk this year and the next as the seismic shifts in the marketplace are really just beginning. The following pages provide details by line of business, including industry-specific and geographic trends.

PROPERTY AND CARGO/INLAND MARINE

- The property market has seen 11 straight quarters of rate increases with Q2 2020 being the highest yet. Not only is pricing continuing to increase, insurance carriers are decreasing their capacity, coverage terms, and interest. CAT prone coastal areas may see 50% increases or more, and limits shared with a number of carriers and high deductibles. Less CAT prone areas are still seeing 10% to 30% or higher rate increases and less interest in certain industries and businesses (market constriction).
- Markets are also trying to exclude strikes, riots and civil commotion, and are implementing communicable disease restrictions or exclusions.
- Loss control and pre-inspections are becoming part of the underwriting norm in order to quote but they don't have enough carrier staff to keep up with the demand.
- Hurricane season as well as other significant CAT events for the balance of the year will ultimately dictate the market environment in 2021.
- Cargo/Inland Marine:
    - Increase of 10-25% premium increase across all renewals.
    - Underwriters are instituting a clarification/change to wind definitions to include tornadoes.
    - Underwriters are also aggregating all CAT perils, making the market very challenging.

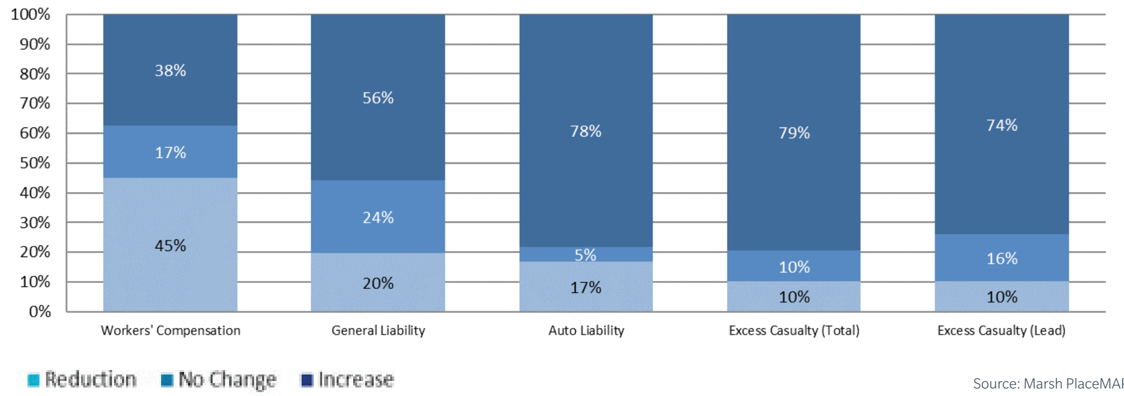


RENEWALS WITH INCREASED DEDUCTIBLES OR REDUCED LIMITS ARE EXCLUDED

Q4 2017 to Q2 2020 results methodology: only rate changes outside of -60% to 250% range are excluded, all other renewals are included.

CASUALTY COVERAGES – AUTOMOBILE/GENERAL LIABILITY/UMBRELLA/EXCESS

PERCENT OF US CLIENTS WITH RATE AND PRICING CHANGES



Source: Marsh PlaceMAP

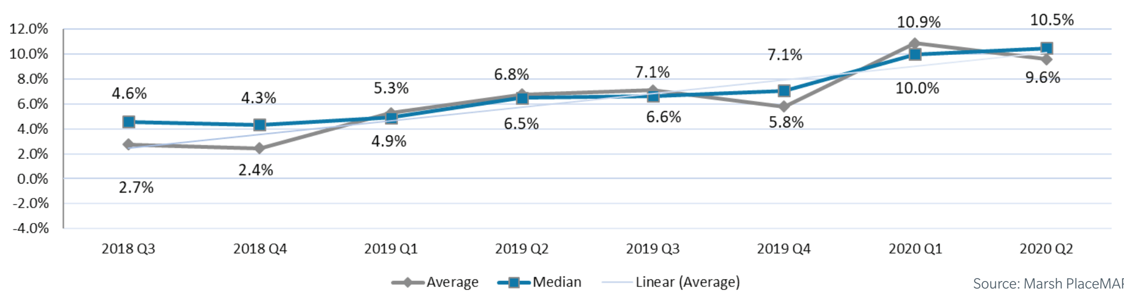
AUTOMOBILE AND FLEET

Consistent rate increases over the past 6 years will continue, especially for over the road trucking due to excessive use of limited driver talent. Service and construction use vehicles continue to see 4% to 10% increases. The insurance marketplace stepped up to support the restaurant industry by providing non-owned, owned, and hired liability coverage for delivery services during a critical time of need. But the transportation industry is experiences a reduction in markets willing to write their risks.

- Rate trends: 5% to 10% and upwards and over 25% for certain business classes with large fleets.

US AUTO LIABILITY – HISTORICAL RATE CHANGES

All Programs



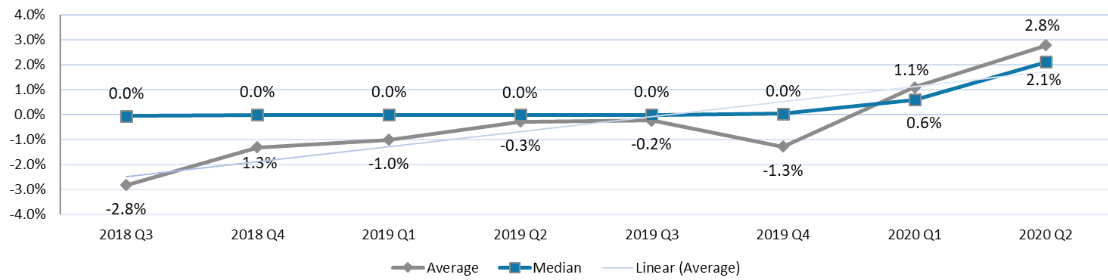
Source: Marsh PlaceMAP

GENERAL LIABILITY

Although loss frequency has decreased with less activity due to COVID-19, loss severity from social inflation and large jury awards has been driving rates up 5% to 20% or more. The inability for insurers to offset losses with investment returns further exacerbates the problem. As with other lines of coverage, General Liability carriers are implementing communicable disease restrictions or exclusions.

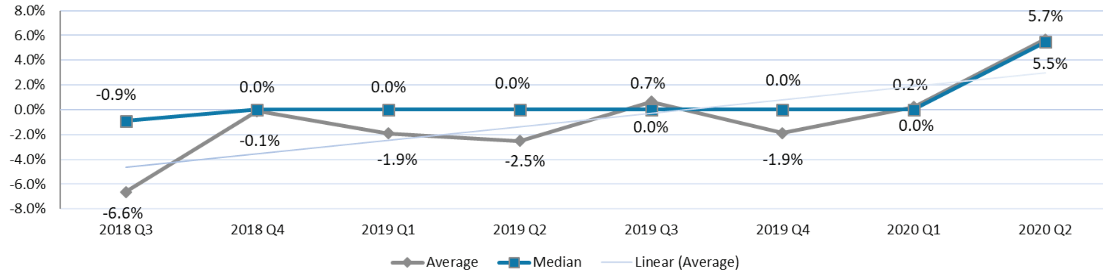
US GENERAL LIABILITY – HISTORICAL RATE CHANGES

All Programs



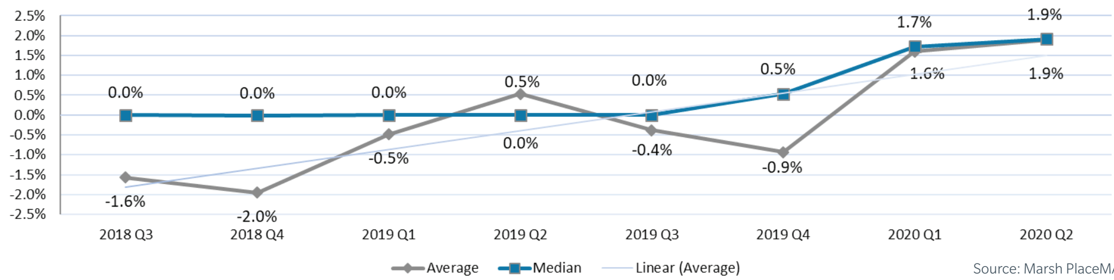
US GENERAL LIABILITY – HISTORICAL RATE CHANGES

Loss Sensitive Programs



US GENERAL LIABILITY – HISTORICAL RATE CHANGES

Guaranteed Cost Programs



Source: Marsh PlaceMAP

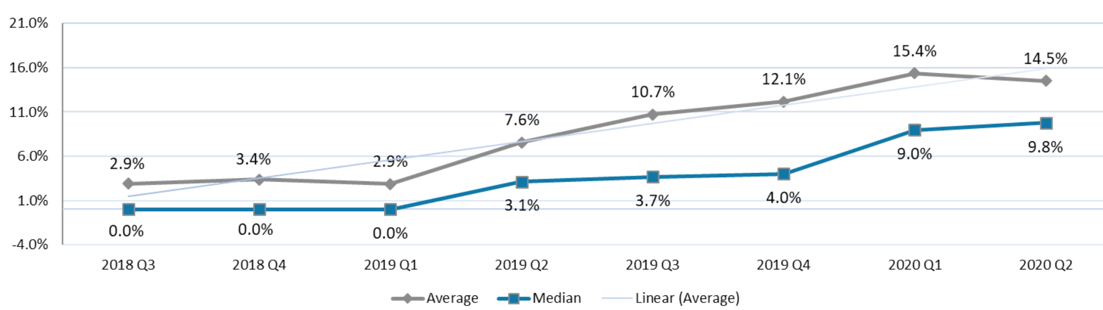
UMBRELLA/EXCESS

- Significant constriction in market capacity due to jury awards/social inflation and unpredictability. Where one carrier provided a $25,000,000 layer, now may result in 3 to 5 carriers providing the $25,000,000 layer at twice the cost. Carriers are significantly reducing limits offered and increasing pricing.
- National Umbrella/Excess Pricing Trends by Region for Q2 2020 (MMA Data):
  - Geographic Region Average Rate Change for Q2 2020

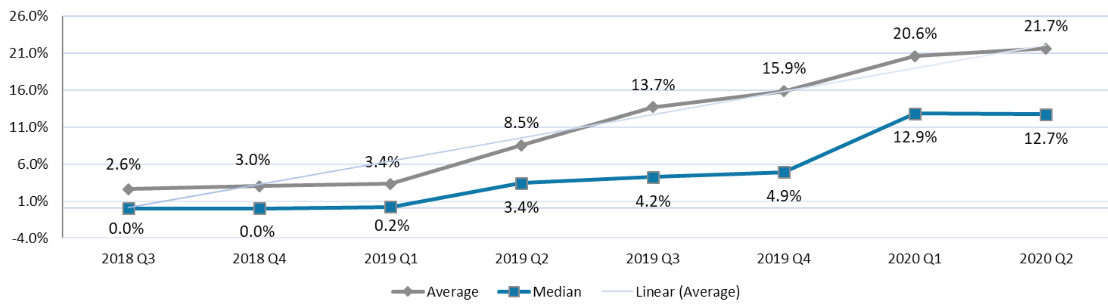
10% Florida	**27%** Mid-Atlantic	**10%** Midwest	**16%** New England
13% Northeast	**17%** Southwest	**15%** Upper Midwest	**25%** West

- Ranges from 5% to well over 200%.

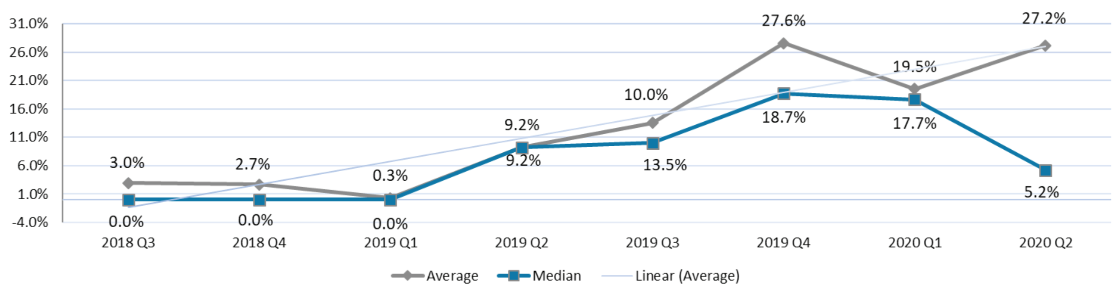
LEAD UMBRELLA/EXCESS – HISTORICAL PRICE PER MILLION CHANGES



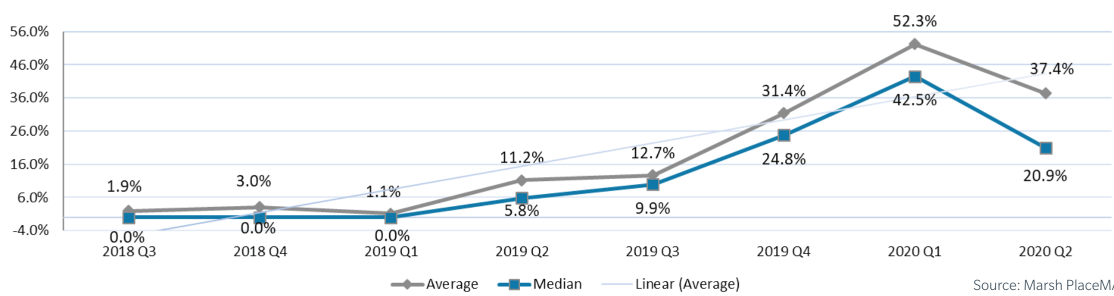
TOTAL UMBRELLA/EXCESS – HISTORICAL PRICE PER MILLION CHANGES



LEAD UMBRELLA/EXCESS – HISTORICAL PRICE PER MILLION CHANGES – NY EXCESS CASUALTY HUB



TOTAL UMBRELLA/EXCESS – HISTORICAL PRICE PER MILLION CHANGES – NY EXCESS CASUALTY HUB



Source: Marsh PlaceMAP

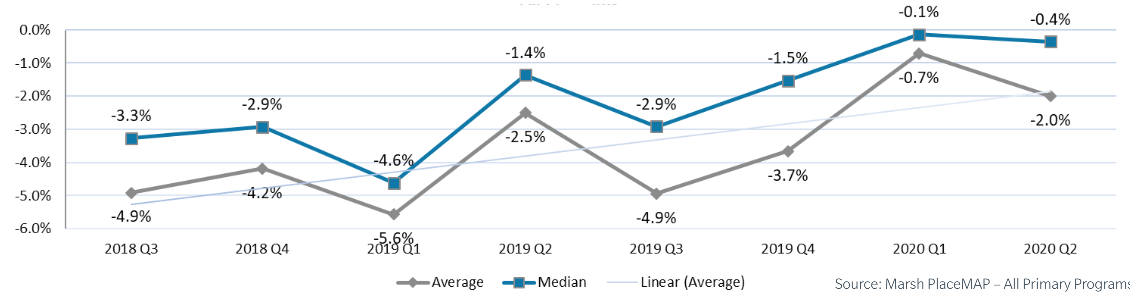
WORKERS' COMPENSATION

- Although somewhat balanced today with -15% decreases to 10% increases, certain industries (health care, human services, public entity/schools, transportation) are seeing pricing increases. Medical cost inflation will likely hit all industries in some fashion over the next two years resulting in increased costs.
  - Another troubling trend is beginning to arise in the part B employers' liability portion of workers' compensation coverage. Lawsuits are being filed by employees for gross negligence, and family members for wrongful death, alleging the workplace failed to protect them from COVID-19. Proposed federal legislation would make it harder for workers to sue their employer if they get sick on the job unless gross and willful misconduct and negligence can be proven. There are several important takeaways:
  - A wave may hit the employers' liability coverage line – a coverage that doesn't normally see a lot of claim activity.
  - The workers' compensation policy needs to be properly scheduled on the Umbrella so Excess limits can respond when there is a claim.

All industries need to strategically balance the risks of reopening the workplace, taking all possible precautions to protect employee well-being.

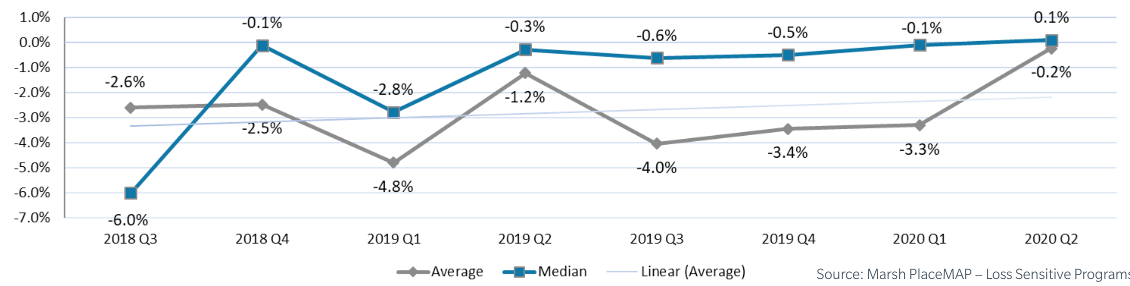
US WORKERS' COMPENSATION – HISTORICAL RATE CHANGES

All Programs



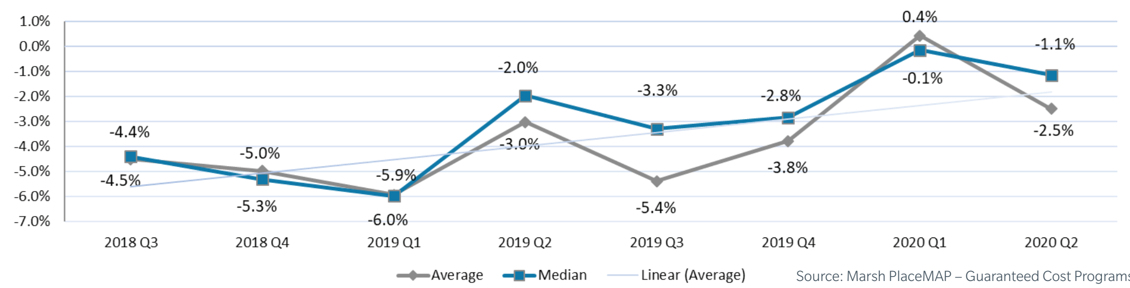
US WORKERS' COMPENSATION – HISTORICAL RATE CHANGES

Loss Sensitive Programs



US WORKERS' COMPENSATION – HISTORICAL RATE CHANGES

Guaranteed Cost Programs



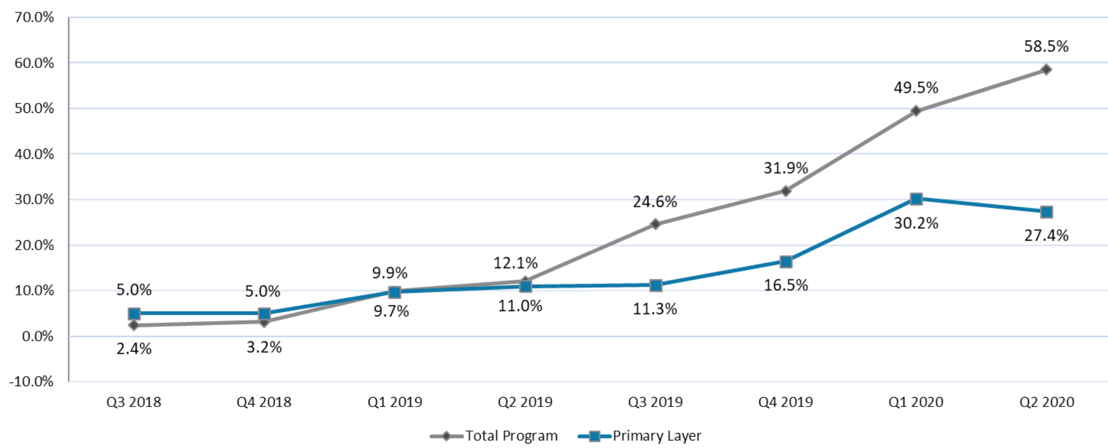
The compensability of a COVID-19 claim will rest on a multitude of factors and will vary from jurisdiction to jurisdiction. A significant number of states have bills pending or passed in their legislatures mainly aimed at confirming workers' compensation for medical personnel, first responders, and essential workers on the front lines. At least eight state governors have affirmed coverage for this group of workers via executive order while state officials in several other jurisdictions have also affirmed compensability via a variety of directives.

PUBLIC DIRECTORS & OFFICERS (D&O) LIABILITY

- Rate trends: Flat to 30+%
- Underwriters are requiring a significant amount of detail about risks and the turnaround time for quotes is taking much longer than it has in decades. Rates continue to climb as coverage terms and conditions shrink with deductibles and self-insured retentions increasing.

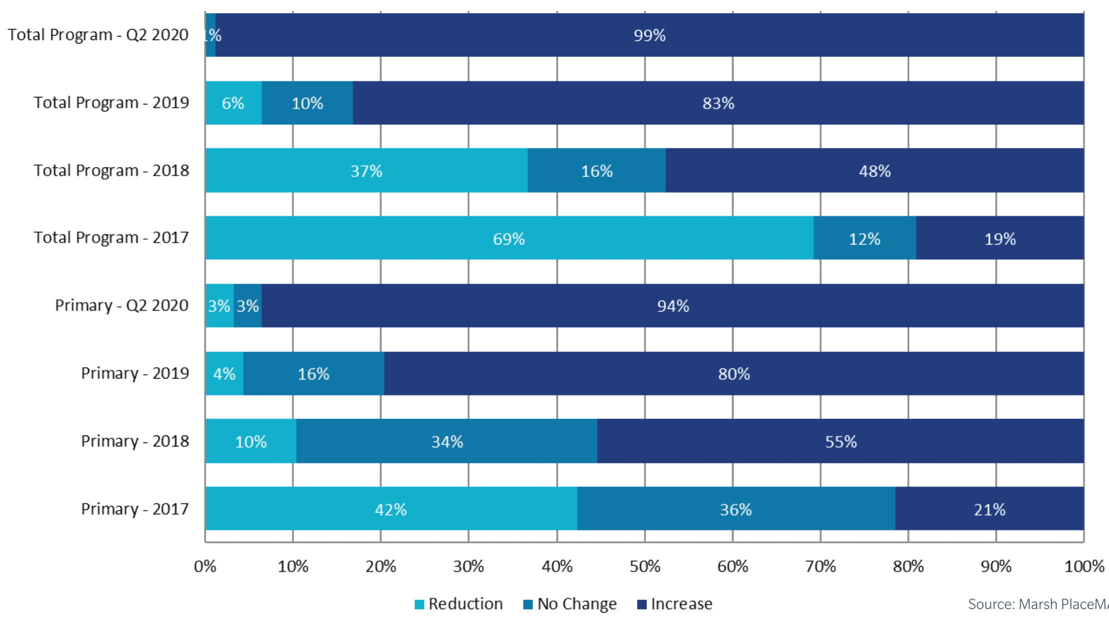
US PUBLICLY TRADE CLIENTS – AVERAGE HISTORICAL RATE (PRICE PER MILLION) CHANGES

D&O and Side A-Only Programs



PERCENT OF US PUBLICLY TRADED CLIENTS WITH AGGREGATED QUARTERLY RATE CHANGES

D&O and Side A-Only Programs



Source: Marsh PlaceMAP

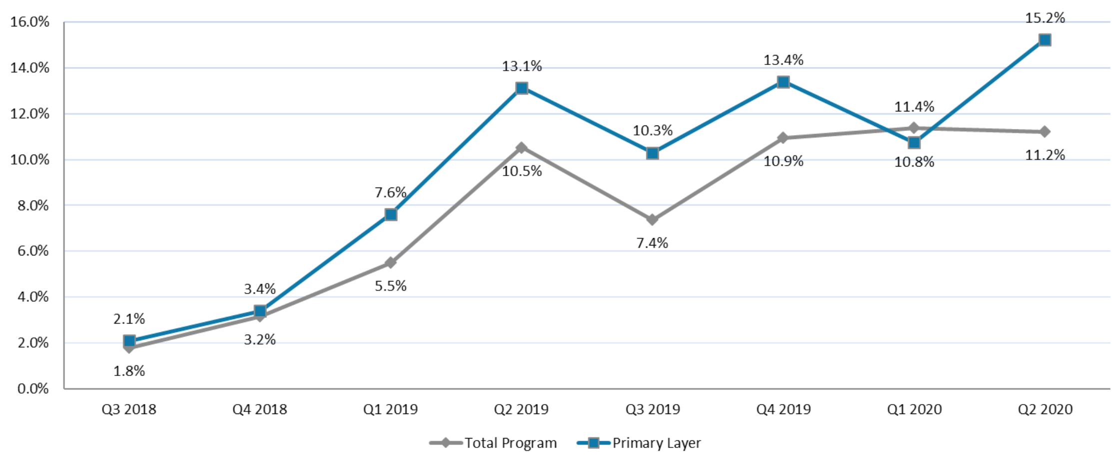
Note: Layer structure changes are not contemplated in the price per million analyses. In addition, 2019 rate changes outside of -50% - +250% range are excluded, all other renewals are included.

PRIVATE DIRECTORS & OFFICERS (D&O) LIABILITY

- Capacity cut by carriers is forcing layered programs.
- Underwriters are scrutinizing emergency operational preparedness and response plans.

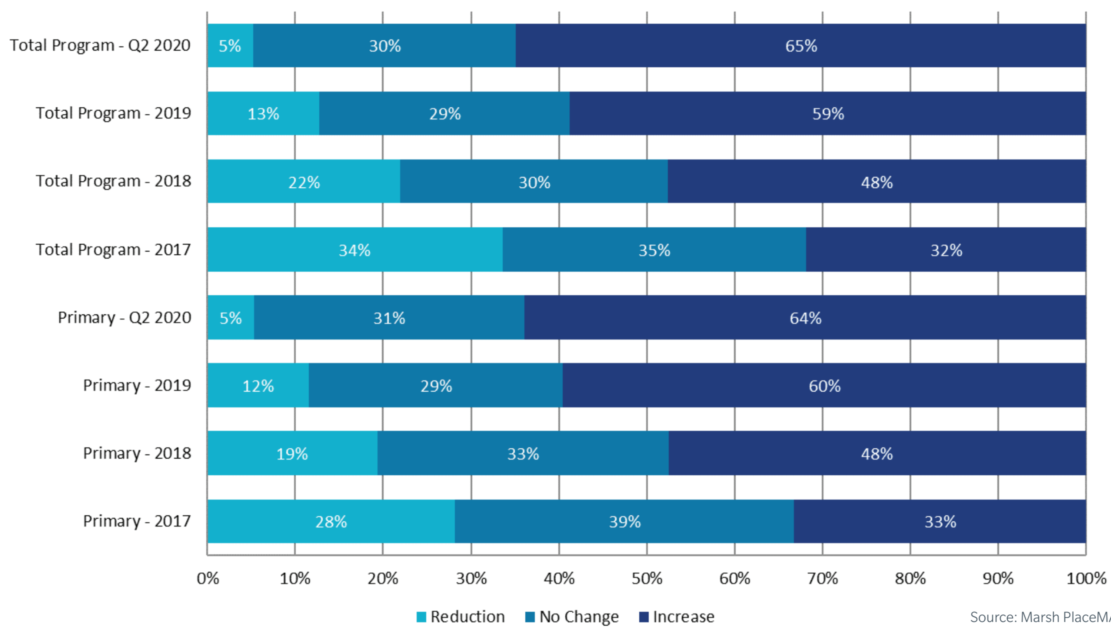
US PRIVATELY HELD & NOT-FOR-PROFIT CLIENTS AVERAGE HISTORICAL RATE (PRICE PER MILLION) CHANGES

D&O, D&O Including EPL, and Side A-Only programs



PERCENT OF US PRIVATELY HELD & NOT-FOR-PROFIT CLIENTS WITH AGGREGATED RATE CHANGES

D&O, D&O Including EPL, and Side A-Only programs



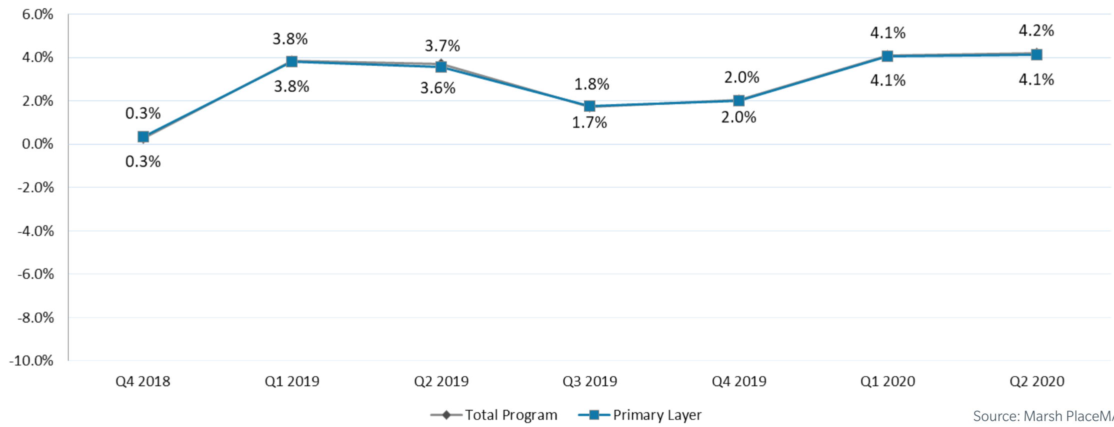
Source: Marsh PlaceMAP

E&O

- Miscellaneous errors & omissions as well as medical malpractice have a decreased amount of carrier interest, especially in health care, human services, and senior living.
- Sexual Abuse/Molestation – human services, health care and education have been hit especially hard with coverage exclusions, limitations, and deductibles.
    - Capacity is limited but available in the London marketplace.

US MISCELLANEOUS PROFESSIONAL LIABILITY CLIENTS AVERAGE HISTORICAL RATE (PRICE PER MILLION) CHANGES

All Industries



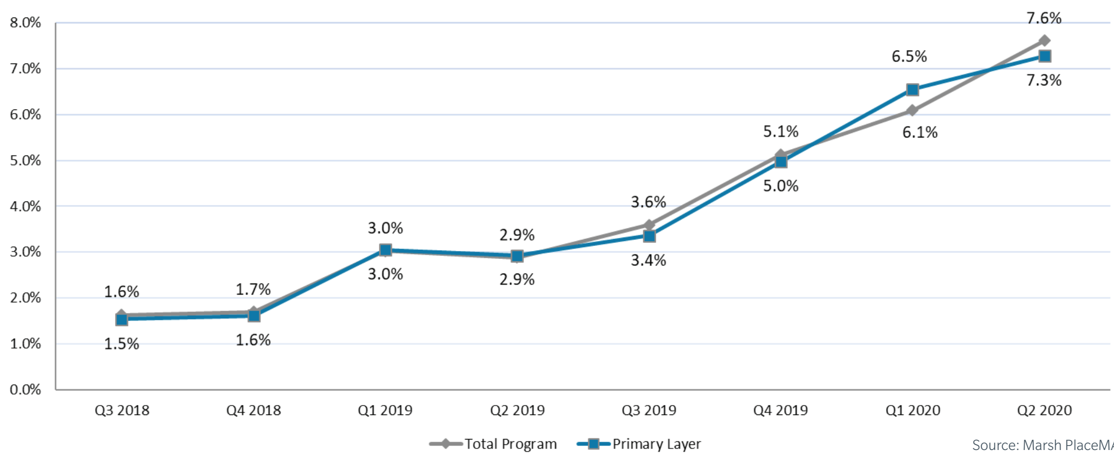
Source: Marsh PlaceMAP

EMPLOYMENT PRACTICES LIABILITY (EPL)

- Increased pricing and deductibles.
- Decreased markets. Many have stopped writing new business for first-time buyers.
- Terms and conditions have been negatively impacted.

US EPL CLIENTS – AVERAGE RATE (PRICE PER MILLION) CHANGES

Standalone EPL programs only



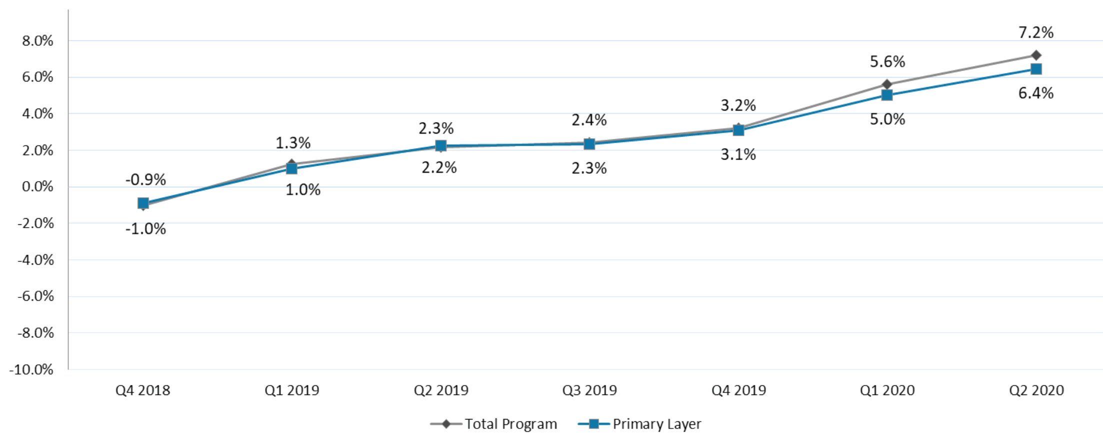
Source: Marsh PlaceMAP

CYBER SECURITY AND DATA PRIVACY

- Underwriters are seeking cyber premium increases and higher retentions, although these increases are not unreasonable in most cases (5-15%).
- Cyber underwriting is getting much more intense and we are starting to see some price increases.
- Data from AM Best shows U.S. cyber premiums increased by 11% in 2019 to $2.25B, as customers continued to transfer more cyber risk to the insurance market.
- Contraction in capacity on municipality cyber risks, especially in Excess is resulting in premium inversion on layered programs in Excess of ~$10m, which historically would not be considered a large program.
- Cyber premiums are increasing due to perceived increase in exposure due to work from home.
- Increased ransomware claims filed (frequency and severity) across all industries.
- Increased underwriter scrutiny especially around business resiliency (i.e. backup systems, patching of systems) due to increased loss trends by intrusions such as ransomware.
- Increased state and foreign regulations around consumer privacy and security is driving the need for coverage to adapt.

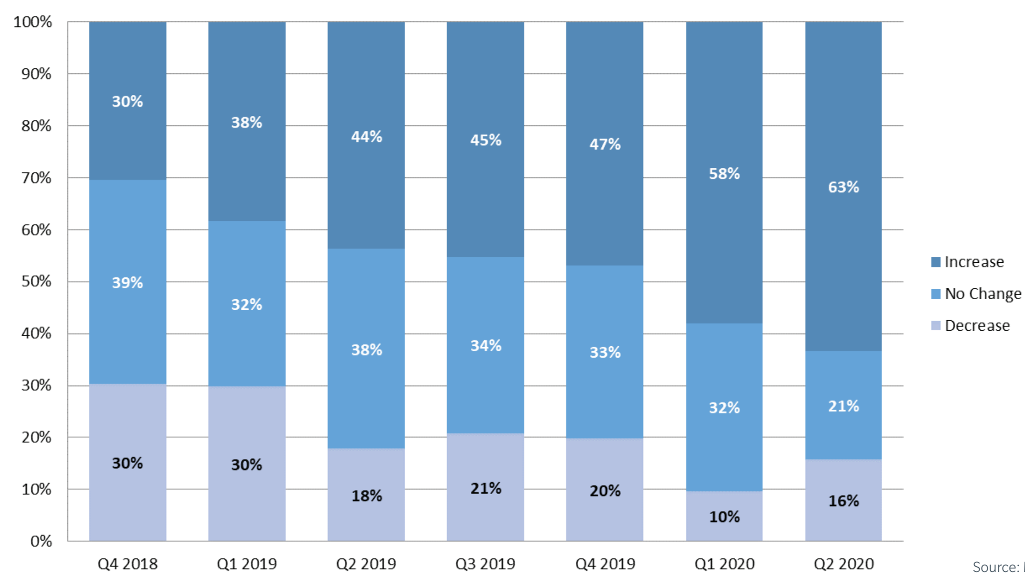
US CYBER CLIENTS – AVERAGE HISTORICAL RATE (PRICE PER MILLION) CHANGES

All Industries



PERCENT OF US CYBER CLIENTS WITH PREMIUM PRICING CHANGES

All Industries

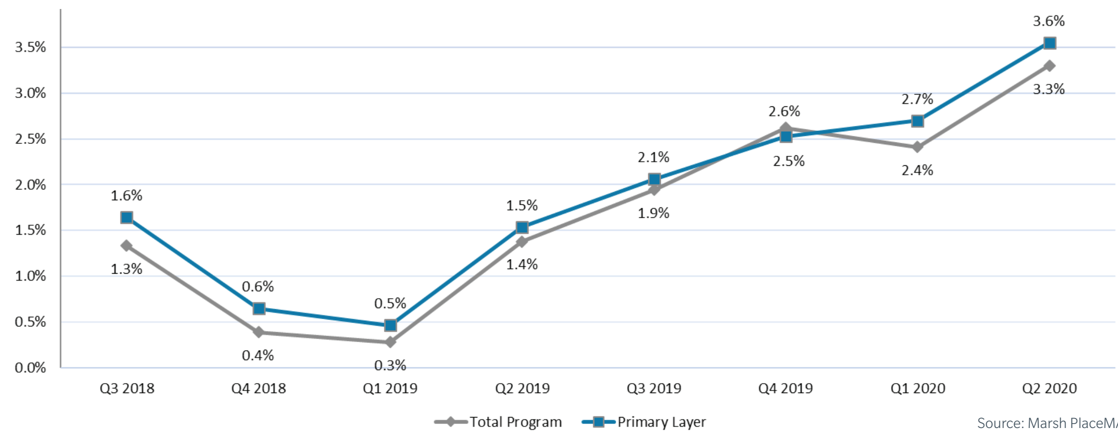


Source: Marsh PlaceMAP

CRIME

Many financial and professional insureds are experiencing increases in premiums and retentions.

US FIDELITY (CRIME) CLIENT – AVERAGE HISTORICAL RATE (PRICE PER MILLION) CHANGES
Standalone Fidelity programs only

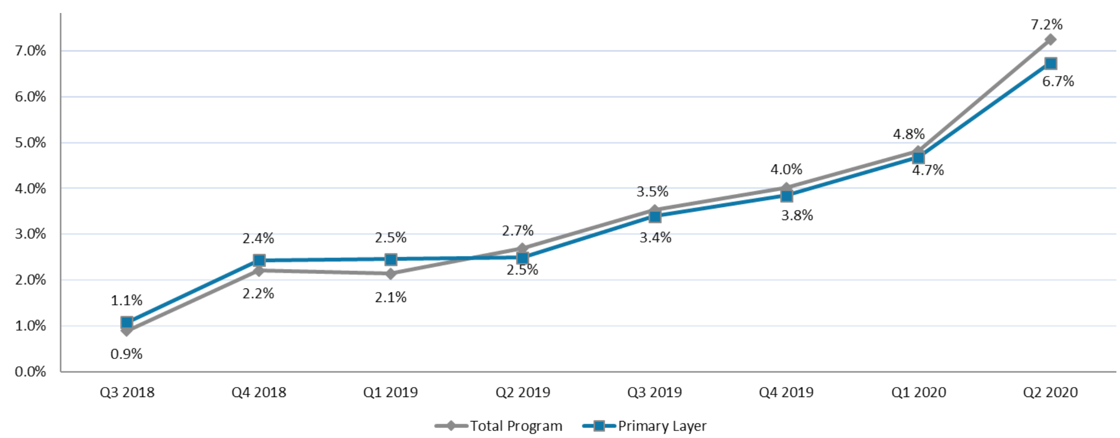


Source: Marsh PlaceMAP

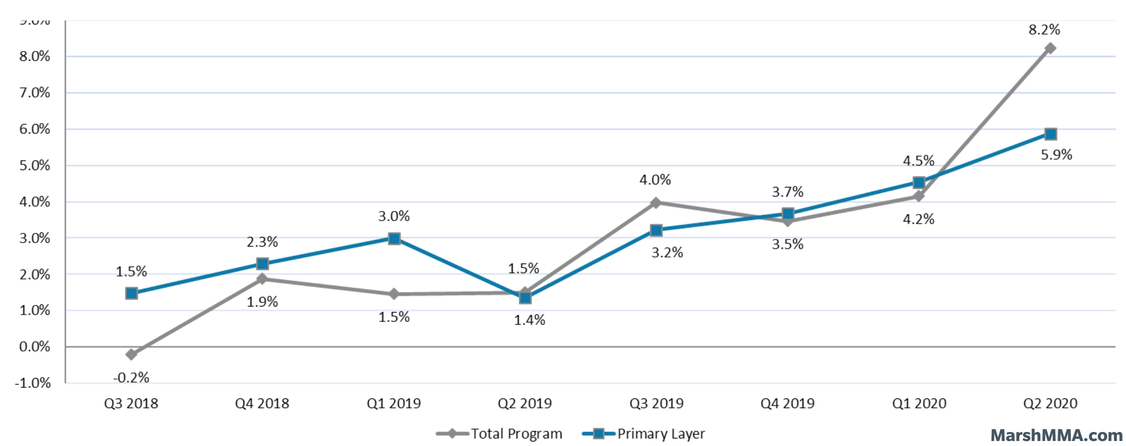
FIDUCIARY

Organizations need to continue to take their fiduciary responsibilities seriously. To proactively manage COVID-19 risks, risk professionals and boards should work with other key stakeholders, including teams dedicated to business continuity and health and safety.

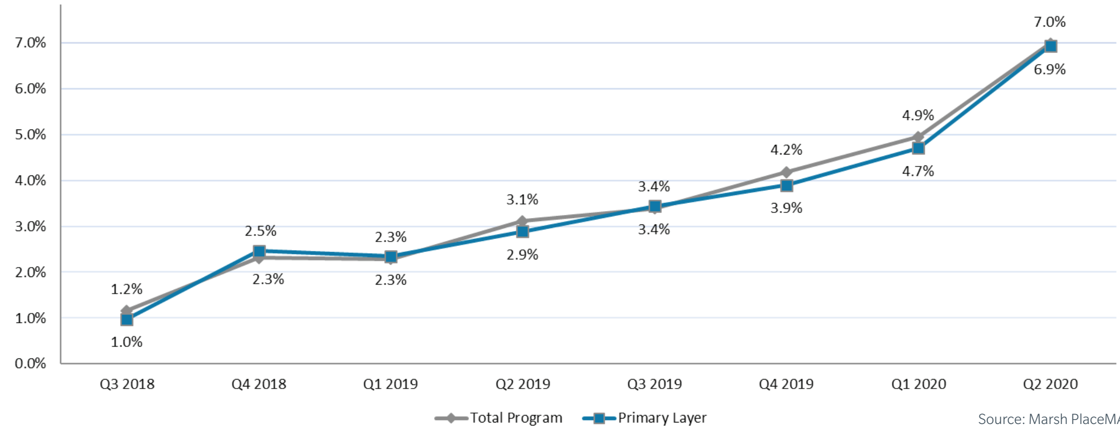
US FIDUCIARY CLIENTS – AVERAGE HISTORICAL RATE (PRICE PER MILLION) CHANGES
Standalone Fiduciary programs only



US FIDUCIARY PUBLICLY-TRADED – AVERAGE HISTORICAL RATE (PRICE PER MILLION) CHANGES
Standalone Fiduciary programs only



US FIDUCIARY PRIVATELY HELD & NOT-FOR-PROFIT – AVERAGE HISTORICAL RATE (PRICE PER MILLION) CHANGES
Standalone Fiduciary programs only



Source: Marsh PlaceMAP

INDUSTRY-SPECIFIC MARKET TRENDS

Agribusiness

- Workers' compensation pricing remains steady but increases are expected sometime in 2020.
- Automobile:
  - Great attention to automobile fleet management practices by underwriters.
  - Reluctance to write fleets >100.
  - Markets requiring MVRs before quoting instead of post-binding.
  - Deeper dive into CAB reporting and DOT information with resulting tighter underwriting action.
- Property:
  - Higher property deductibles, including wind/hail specific deductibles.
  - Great attention to property valuations and price per square foot calculations.
  - Tighter underwriting on business income (BI) exposures, including BI worksheet requirements.
  - Stock throughput pricing increases and capacity reduced.
  - Less negotiating room on open loss control recommendations.
- Umbrella:
  - Rate increases, capacity reduction, and long-term carriers leaving the space.
  - Reduced underwriting capacity and increased pricing.
  - Specific carve-out exclusions on Umbrella.
  - Food ingredient manufacturing no longer a desirable class with many national carriers.
  - Wholesale market increases are more pronounced than in the standard market. That means "Plan B" options from the past are no longer consistently viable markets.
- D&O (Private Companies):
  - Showing little interest in food manufacturing and not writing CBD products.
  - Underwriters requiring a deep dive into financials and some underwriters are struggling to understand the business.

Construction

- In addition to a hardening insurance market where premiums are going up along with decreased capacity, the new world of COVID-19 delivers specific emerging risks in the areas of workers' compensation and employment practices liability.
- Umbrella is very difficult. Carriers cutting limits and pricing is often doubling. Clients buying less limits.
- Large automobile fleets are still getting significant increases.
- ERP continues to firm. Underwriters slow to issue quotes.

Read more about current challenges and considerations in a special edition report: **Insurance Insights for the Construction Industry.**

Education

- Increased costs and insurance premiums to run schools, with the challenge of how to effectively open for the 2020/2021 year.
    - The impact of this decision can and will be felt by every family with children, teachers and staff, businesses with staff working from home, day care and related services. Not to mention socialization, effective and consistent learning and the stress of ongoing educational change.

Health Care

- COVID-19/pandemic exclusions on all new business. Some class action lawsuit exclusions.
- Sexual abuse and molestation in Excess/Umbrella limits is very difficult to secure.
- Workers' Compensation carriers are pulling back and instituting moratoriums on senior living.

COVID-19 has illustrated how a single infectious disease has impacted almost all health care operations worldwide. The insurance industry and insureds need to better plan for such occurrences and what can be done to mitigate against losses. Additionally, a growing propensity for litigation has dramatically heightened risk for health care organizations. Mass torts and class actions are increasingly common. Sympathetic juries are awarding bigger settlements. All of this affects policy provisions such as batch clauses and aggregate deductible structures.

Read more about current challenges and considerations in a special edition report: **Insurance Insights for the Health Care Industry.**

Human Services/Not-For-Profit

- As a result of COVID-19, protesting and civil unrest, human services support is needed now more than ever. However, without the needed government and private funding, many operations are running at 50% or less capacity.
- Unemployment is driving more and more people to food shelves that are not able to keep up with the demand. Staffing has been furloughed or outright reduced, further impacting demand.
- Lastly, many insurance carriers have eliminated or reduced key coverages such as sexual abuse and molestation and workers' compensation, while others have eliminated many human services classes from their preferred/acceptable business portfolios.

Manufacturing

- Losses due to the nearly overnight decrease in demand matched with widespread supply chain disruption have been felt by manufacturers involved in food and beverage, aerospace, hospitality, oil and gas, health care, and so many others.
- Increased deductibles on property coverage.
- Lowered catastrophic property limits and lender agreements with minimum requirements.

Read more about current challenges and considerations in a special edition report: **Insurance Insights for the Manufacturing Industry.**

Real Estate and Hospitality

Three main factors are contributing to escalating costs:

- Some carriers are exiting markets where there have been major claims or repeat damage.
  - The risk for these carriers is simply too high to underwrite coverage.
- Appetite for risk among both carriers and re-insurers is diminishing.
  - Without re-insurers as a backstop, many carriers have no choice but to reduce their underwriting or withdraw from the market entirely.
- Deductibles are rising, which translates into higher out-of-pocket expenses.
  - In some markets, carriers are shifting risk to property owners through a percentage deductible.
  - Deductibles can range from 1% to 5%, which is significantly more than most owners pay now with a flat-dollar deductible.

Read more about current challenges and considerations in a special edition report: **Insurance Insights for the Real Estate and Hospitality Industries.**

Transportation

- Organizations of all sizes and in all industries need to remain as nimble as possible under severe economic pressure.
- Seek alternatives and adapt to the changing insurance market.
- In the age of nuclear verdicts, trucking companies need to be proactive with their defense plans.
  - Implement safety programs.
  - Keep up on driver training.
  - Invest in technology.
  - Have a plan to manage alert data so that recurring issues can be corrected before they evolve into major claims.

Read more about current challenges and considerations in a special edition report: **Insurance Insights for the Transportation Industry.**

TRENDS BY GEOGRAPHICAL REGION

Florida
The hurricane season got off to an early start and carrier appetite continues to deteriorate.

Mid-Atlantic
Heavily impacted by Property, Umbrella and Management Liability pricing increases and coverage term declines.

Midwest/ Upper Midwest
Civil unrest/riots, crime, and storms influence the market shifts in this region.

Northeast
Carrier constriction and capacity for property, Umbrella/Excess and Automobile pricing is shrinking. Late payment relief has expired. Underwriters are offering early renewal terms on good risks. New York construction marketplace is extremely tough.

Southeast
Large storm activity, legislative changes, and civil unrest/riots all impact this region.

Southwest
Large storm activity (wind/hail) and carrier constriction top the concerns in this region.

West
Critically impacted by legislative changes, carrier constriction, Property and Umbrella pricing and availability, Management Liability pricing, coverage terms and exclusions, and Workers' Compensation changes with potential mandates requiring carriers to roll back rates.

CLOSING REMARKS

The cyclical nature of the insurance market was recognized as early as the 1920s. Over the past century, it was seen as a defining feature of the market. The last three hard markets in the U.S. were 1975-1978, 1984-1987, and 2001-2004. For many organizations, this may be their first experience with truly hard market conditions. This hard market may turn out to be one of the toughest of all time with a full spectrum of traditional and emerging risks. It is possible however that a long-term economic downturn will have the insurance marketplace eventually easing rates as they compete to preserve market share. Uncertainty remains.

The challenges and emerging risks that businesses are confronted with today are massive, especially during a time when businesses struggle with running their businesses to meet their changing customers' needs.

We need insurers to remain solvent so they can honor the promises that they made knowingly and intentionally—and that we all rely on them to keep. It is more critical today than ever before to make sure your business has access to trusted advisors who know how to develop solutions to meet your business challenges, both tactically as well as strategically.

Insurance is but a small part of the whole. Capital and risk management decision-making analytics and benchmarking, emerging risk best practices, along with coverage and risk control innovation, can bring essential knowledge and solutions to your business. Marsh & McLennan Agency is positioned and ready to meet your present and future business needs.

WHAT TO EXPECT FROM MARSH & MCLENNAN AGENCY (MMA)

MMA will work with you to create an aligned strategic plan that is supported by industry expertise, data, required services, and practiced risk management techniques.

For further information, please contact your local MMA representative or visit our website at MarshMMA.com.