2020 PROPERTY & CASUALTY MARKET UPDATE: *NAVIGATING UNCERTAINTY WITH INSIGHT*

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EXECUTIVE SUMMARY

Given the very fluid nature of the Commercial Property & Casualty Market, we want to keep you apprised of the recent developments impacting your insurance program renewal. The hardening market has been further exacerbated by uncertainty surrounding legislative responses at the state and federal level to COVID-19, economic recovery, and unanticipated industry losses. Now more than ever, it's important for you to work with a team of professionals that will use creativity and forward-thinking in structuring the architecture of your renewal program. Our extensive mid-year market outlook will be published this summer, but here are the high-level trends to be mindful of during these uncertain times.

GENERAL TRENDS

- Carriers are facing a "CAT" event in all 50 states. The regulatory compliance burden is immense and distracting.
- Political uncertainty regarding the next legislative moves at the state and federal levels are concerning to carriers who may be on the hook retro-actively for unfunded losses across multiple lines of business.
- Mounting uninsured losses due to COVID-19 are spawning increased litigation across the country.
- Pressure on carrier expense ratios due to reduced exposures and, in turn, premiums is leading to greater underwriting scrutiny as there is less room for error when it comes to losses.
- Investment income is down substantially across carrier portfolios due to low interest rate environment and economic disruption, further stressing combined ratios.
- Increased flow of submissions has led to a strain on underwriting resources.

KEY TRENDS BY COVERAGE LINE

PROPERTY

- Significant rate increases are being levied amid capacity restrictions and even more heavily scrutinized underwriting.
- COVID-19 Business Income physical damage controversy persists as we continue to monitor legislative activity at both the state and federal level.
- Carriers are uncertain about current and future liabilities, which is limiting their willingness to deploy capital further. This is amplified in catastrophe prone geographies as they will soon be entering wind season.
- Continued retrenching on coverage terms, conditions, limits, and deductible structure.
- Valuation is a key area of focus for underwriters.
- Capacity for carriers to generate quotes is extremely diminished relative to submission levels. This decreases the prospect of having multiple options to evaluate, which leads to greater leverage with incumbent carriers in dictating terms and pricing.
- Accurate and complete data is more critical than ever as well as starting the process early.

GENERAL LIABILITY

- The GL coverage line continues to exhibit rate firming amidst meaningful uncertainty.
- We believe it will be difficult for claimants to prove liability on behalf of insureds as a result of COVID-19 exposure. Still, without legislation increasing tort liability thresholds, carriers will take a conservative approach and, in many cases, exclude communicable disease as an additional defense.
- Many insureds have sought midterm exposure reductions to alleviate stress on working capital. The results and responses differ by carrier, and reductions are not guaranteed as carriers worry about assuming additional credit risk.
- Severity driven risks will face decreased capacity due to increased focus on balance sheet protection.

WORKERS' COMPENSATION

- Workers' compensation had been the only recent line of business exhibiting rate decreases through multiple quarters. This rate positivity looks to be subsiding as the economic downturn invariably leads to increased claim activity.
- The primary trend we are monitoring is state legislation that would make it easier for employees of specific front-line industries to file workers' compensation claims due to actual or potential COVID-19 infection.
- Working from home presents some uncertainty over compensability, but concerns are limited.
- Insureds should be working with their carrier to protect cash flow by reducing exposures, reclassifying certain employees, and transitioning to a reporting form, if possible.
- Clients should maintain up to date records of furloughed employees for audit purposes to reduce audit obligations where allowable.

COMMERCIAL AUTO

- Upward pricing trends persist due to the ongoing impact of distracted driving, rising medical expenses, anti-corporate juries, and litigation finance.
- Decreased traffic volume due to shelter-in-place orders have provided a reprieve to carriers from a claim frequency standpoint. It is yet to be seen whether this will have a meaningful impact on pricing as the structural concern around social inflation remains.

UMBRELLA

- Underwriting performance continues to weaken due to the same loss trends (large class action settlements, litigation financing, and anti-corporate juries) firming the line in early '20.
- Carriers are withdrawing capacity significantly, seeking even higher rate increases, limiting coverage, and demanding higher attachment points. Rate increases are more extreme than what we witnessed in Q4 2019 and do not show any signs of slowing.
- With reduced limit capacity, more carriers may be needed to secure full limits.
- We are starting to see carriers place more communicable disease exclusions for certain industry classes.
- Many carriers are requesting documentation surrounding COVID-19/Infectious Disease plans and are now underwriting as if they were providing primary coverage.

DIRECTORS & OFFICERS

- The economic strain of COVID-19 on liquidity is driving underwriters to scrutinize financial health more closely.
- We are particularly concerned about a surge in bankruptcy filings deteriorating an already stressed market further.

EMPLOYMENT PRACTICES

- Rampant unemployment suggests we will see an uptick in claims alleging disparate treatment, privacy violations, wage & hour violations, and retaliation.
- Underwriters are asking more pointed questions related to COVID 19.
- Employers need to remain extra cautious about staying compliant with an evolving employment law landscape.

CYBER

- The incidence of phishing attempts is up dramatically due to the dramatic shift to work from home (WFH).
- Ransomware attacks have become even more pervasive since March.
- The marketplace remains relatively stable as losses have not materially impacted profitability.

THE 5 STRATEGIES TO NAVIGATE THE ENVIRONMENT

1. Start early to provide time for data collection and dealing with carrier bottlenecks.
2. Document "positive" risk characteristics to enhance your negotiating leverage.
3. Use data analytics to negotiate on a more level playing field with underwriters.
4. Rely on underwriting relationships to receive preferential treatment.
5. Use creativity when structuring the architecture of your renewal program.

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