MARKETS IN FOCUS

Insurance Pricing & Market Update

Q2 2021

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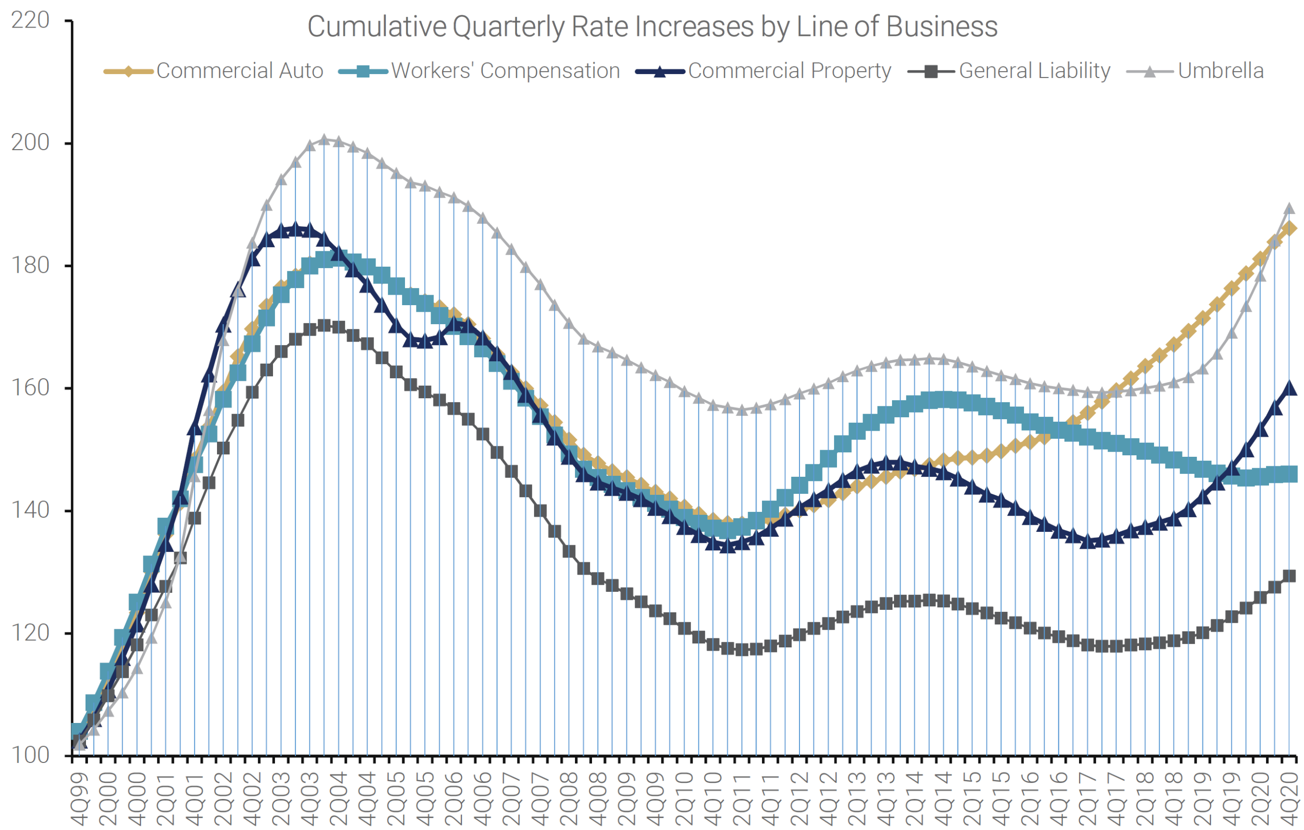
Introduction

As the insurance industry looks to move forward from a tumultuous 2020, many of the market factors that impacted P&C insurer's financial performance in 2020 continue into 2021, albeit to an anticipated lesser degree.

Overall, the pre-pandemic trends of social inflation, increased frequency of catastrophic events, and low investment yields driven by historically low interest rates are still issues carriers are having to work through in 2021.

Regarding catastrophes, in the first quarter of 2021 the insurance industry has already witnessed a record-breaking winter storm. Winter Storm Uri is estimated to have caused $18B[1] in insured losses across the country with the majority of claims occurring in Texas. Though most of these losses were concentrated in one state, the impact is expected to ripple throughout the entire property market.

As for investment income, insurance carriers are struggling to find yield. Though the S&P 500 and other major indices continue to climb, insurance companies' investment choices are highly regulated and generally limited to very safe low-yield derivatives. As such, carriers are seeing weak yields as credit spreads tighten further for lower risk investments and new treasury bills purchased at lower rates are offsetting gains from previously purchased higher rate treasury bills. This environment will result in carriers needing to focus on technical underwriting income and combined ratios in order to be profitable, thereby contributing to a continued hardened commercial insurance market. However, the outlook is fortunately not entirely doom and gloom for insurance purchasers.



Per the Council of Insurance Agents & Brokers

[1] Estimate from Karen Clark & Co. *https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/losses-from-winter-storm-in-southern-us-expected-to-reach-historic-levels-62766641*

Reinsurance

Every year, January 1st is an important treaty reinsurance renewal date for many of the largest carriers in the world. Reinsurance treaties represent a significant cost for insurers given these transactions significantly impact their combined ratios and available capacity. Many rating agencies and other industry commentators predicted substantial pricing increases for carriers, which would be passed on to policy holders, but increases were less than initial expectations due to abundant reinsurance capital remaining in the market. Per A.M. Best, traditional dedicated reinsurance capital for year-end 2020 was estimated at $397B, which represented a marginal increase on year-end 2019 capital versus a feared decline in capacity. Though the 20% to 30% initially anticipated reinsurance renewal increases were not realized, on average carriers were still renewed with a 6% to 8.5% increase which represents the biggest year-over-year increase in over a decade.

While there is no doubt that reinsurers were negatively impacted by the high frequency of mid-size catastrophe losses and COVID-19 related losses in 2020, the reinsurance marketplace proved to be more resilient than expected as several new reinsurance companies entered the marketplace and stabilized capacity. Per the rating agency S&P Global, "property and casualty reinsurance pricing has seen an increase during the past year and through this year's January renewals, indicating a firming market, but not a hard one. Rate increases were lower than what reinsurers had hoped for." As such, the modest increases will help protect insurance company's combined ratios. In AM Best's latest February market report, the insurance rating agency projected that the sector's total combined ratio would only deteriorate slightly from 99.3% at year-end 2020 to 99.8% at year-end 2021. However, this is still a poor result for the industry as any loss ratio over 100% represents a loss.

Vaccines

Though there appears to be a general feeling of hopeful optimism that the continued distribution of vaccines will help improve the global economy and bring a return to "normalcy," the vaccines are unfortunately not expected to have a major positive impact on the P&C insurance market in 2021. As mentioned previously, social inflation, increased frequency of catastrophic storms, and low investment yields are expected to continue into 2021. Therefore, the distribution of vaccines allowing a "return to normalcy" will not offset those impacts, resulting in the continuation of the hard market. Though it is true that insurance companies' profitability is correlated to the overall health of the global economy, and vaccines are expected to help improve the global economic outlook, it is hard to gauge when vaccines distribution will reach critical mass and when the sectors hit hardest by COVID-19 will return to pre-pandemic conditions (if ever).

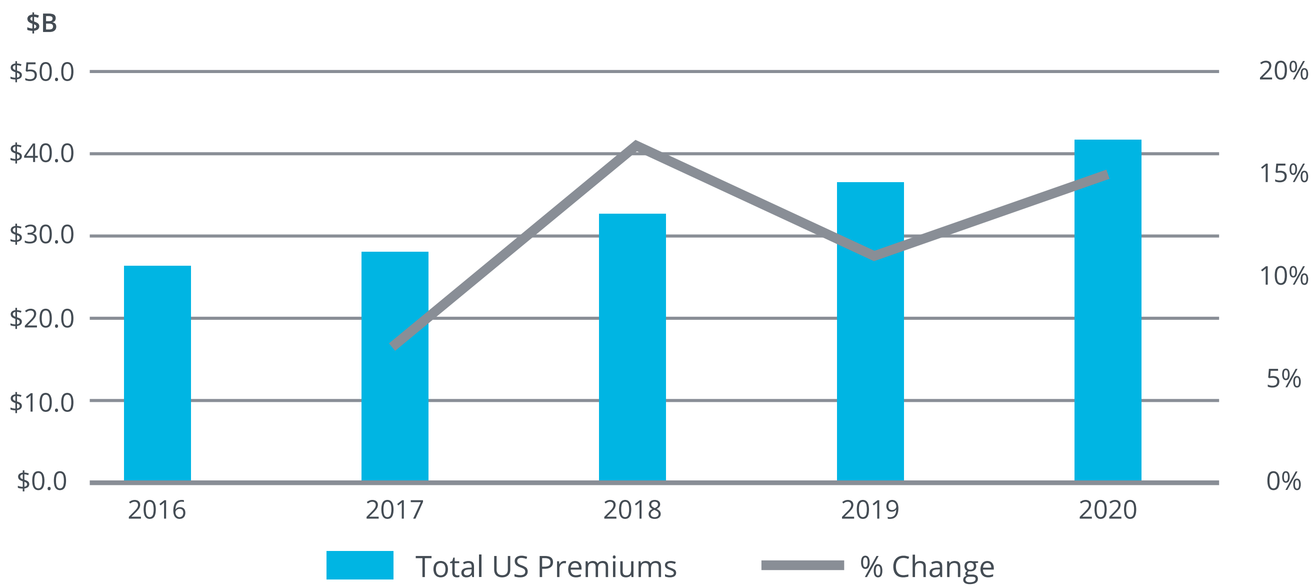
Growth of the Excess & Surplus ("E&S") Market

Even though P&C market conditions remain challenged in 2021, the E&S P&C market continues to grow. This has occurred through the combination of traditional admitted carriers refocusing their distribution strategy towards E&S policies, new capital and private equity investments being made in E&S carriers, and several Bermuda startups entering the E&S market.

In general, E&S policies are more attractive to carriers because they provide a better solution to the challenges of the current market by allowing insurers to capture additional premiums and implement more favorable language in real time. On the other hand, admitted policy premiums and wording are more heavily regulated by state insurance departments, so it is a lengthy process to revise premiums and language. Since admitted carriers have seen significant losses, are currently working with state insurance offices to make pricing and language changes and are refusing submissions in some unprofitable classes of business, total capacity is being limited. The ability to charge additional premiums and be more proactive with policy language has allowed for E&S carriers to be more profitable in the hard market. In fact, on 2/18/21, AM Best revised its outlook for the excess and surplus lines market to stable from negative, citing the sector's ability to "establish clearly defined coverage exclusions" and "generate consistent underwriting cash flow through stability in claims activity even in current market conditions." Additionally, due to increases in pricing across most major lines, E&S carriers are seeing more submissions as brokers work to canvass the market; which gives them the opportunity to take market share when they choose to.

As a whole, surplus lines premiums reported to U.S. surplus lines stamping and services offices increased 14.9% to $41.7 billion in 2020 with expectations for 2021 US E&S premiums to be even higher. However, even though more E&S premiums are being written, the increase is more representative of pricing increases as opposed to increases in capacity. The slight increase in E&S capacity is not replacing the loss of capacity that admitted carriers are creating. Until admitted carriers are able to make adequate rating and language changes to stabilize their portfolios, many will remain cautious with capacity. As such, more submissions will be driven to the generally more expensive E&S market and limited capacity will continue to be an issue in 2021. As such, insurance purchasers should expect to require more carriers to fulfill expiring limits and coverage through shared and layered programs. This is particularly true for the US property market, which experienced a difficult year in 2020 and has already been impacted by a very costly winter storm in February 2021.

E&S US Premium Growth[1]



[1]Per AM Best

Property

WINTER STORM URI

In February, Winter Storm Uri barreled through the middle of the country and dumped several inches of snow and freezing rain over several states. Over 100 million Americans were impacted by the winter storm; however, Texas was hit the hardest by Uri. During Uri's week-long stay in Texas, several inches of snow fell all over a state that traditionally receives very little snow or stretches of single-digit temperatures. Since snow and prolonged sub-freezing temperatures are outside the norm for many Texans, much of the state's infrastructure was not prepared for the impact of Winter Storm Uri. The Electric Reliability Council of Texas (ERCOT), which operates the state's independent power grid assets, lost control of the state's power supply, leaving millions of individuals and companies without access to electricity for multiple days across the state. Additionally, much of the state uses galvanized metal piping, which froze or broke during the storm, resulting in significant property damage and subsequent claims for carriers. However, the claims from this storm will be impacted by unique circumstances.

In addition to physical damage caused by broken pipes, Winter Storm Uri property claims may be inflated by losses from state-wide power outages. For example, property insurers of retail and wholesale business that operate in perishable goods may be particularly impacted as the property policies for these companies typically includes coverage for inventory spoilage that is not part of everyday business. Moreover, commercial property claims may include business interruption losses due to optional utility service interruption coverage that is offered with many commercial property policies. However, since this coverage is optional and requires continuous loss of power for 24 to 48 hours before coverage can be triggered, it is difficult to estimate the impact of losses in this category. Property carriers reacting to claims from Uri will also be adversely impacted by higher contractor service costs driven by higher demand (especially for plumbers and electricians) as well as significantly higher construction material costs caused by pandemic-related supply chain disruptions. This is particularly true for lumber, for which supply was additionally impacted by forest fires in 2020.

Material	% change Dec. 2020 to Jan. 2021	% change Jan. 2020 to Jan. 2021
Fabricated structural metal products	0.5%	3.2%
Iron and steel	8.2%	15.6%
Steel mill products	5.2%	7.4%
Softwood lumber	14%	73%

Source: Associated Builders and Contractors analysis of BLS data

MARKET ENVIRONMENT

The $18B[1] in total estimated insured losses from Winter Storm Uri is expected to be the largest insured loss from a US winter storm in industry history. Given the fact that capacity in the commercial property markets was already constrained and market conditions had hardened due to an estimated $40B to $80B in losses from COVID-19, as well as multiple catastrophic losses from previous natural disasters[2] that fell below reinsurance retentions, the additional unexpected losses from Uri are expected to result in further capacity constraints, higher pricing, higher retentions, and tighter policy language in the general commercial property market. Below is a list of carriers with a large concentration of multi-peril commercial property policies in Texas. These carriers are believed to be more impacted by the losses from Uri, thus they may have additional incentive to look for pricing and retention increases or reduce capacity in 2021.

Property/Casualty Insurance Market Share - Texas and Louisiana

(Ranking at YE19)

Rank	Homeowners	Share %
1	State Farm	19.6
2	Allstate	13.6
3	USAA	9.4
4	Farmers	8.6
5	Liberty Mutual	6.2
6	Travelers	4.0
7	Progressive	2.5
8	Texas Farm Bureau	2.1
9	Nationwide	2.1
10	Chubb	2.0
Top 10 Market Share		70.0

Rank	Commercial	Share %
1	Liberty Mutual	5.4
2	Travelers	4.2
3	Chubb	4.1
4	AIG	3.9
5	Zurich	3.7
6	Texas Windstorm Insurance Assoc.	3.6
7	Germania Insurance	3.2
8	FM Global	3.2
9	Assurant	3
10	Nationwide	2.8
Top 10 Market Share		37.1

Note: Commercial includes fire, allied lines, commercial multiperil nonliability and inland marine. Excludes CNA's Texas inland marine business.
Source: Fitch Ratings, S&P Global Market Intelligence.

[1] Estimate from Karen Clark & Co. *https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/losses-from-winter-storm-in-southern-us-expected-to-reach-historic-levels-62766641*
[2] 2020 was the most active hurricane season on record with 30 named storms, 12 of which made landfall in the US.

RATES & CAPACITY

Renewal rate changes continue to be widely varied. Single digit increases are still considered rare victories, even on non-CAT properties with a clean loss history. More commonly, the market is delivering increases over 20%, with some problematic accounts witnessing 100% or even 200% rate increases.

Non-CAT exposed property with favorable loss history	Up 5% to 20%+
CAT exposed property with favorable loss history	Up 15% to 40%+
Property with unfavorable loss history or a lack of demonstrated commitment to risk improvement (unresolved recs, pattern of same issues, etc.)	Up 25% to 75%+ In some cases MUCH higher, particularly on shared/layered programs or for industries with limited markets available

These ranges are what we are generally seeing in the marketplace and a specific account's results will of course depend on the industry, risk quality, loss history, geographic region, historic pricing, etc.

+ Rate increases for smaller programs are generally smaller than those for mid-size risks. Likewise, middle market accounts are seeing smaller increases compared to larger, shared & layered programs.
+ Heightened underwriting scrutiny and portfolio rebalancing has resulted in many carriers non-renewing or exiting completely from certain classes of business.
+ Property rates and capacity in Texas could see additional scrutiny as a result of Winter Storm Uri.
+ Reduction of capacity and significant rate increases resulting in a substantial increase in the flow of business sent to alternative carriers – especially E&S markets and overseas (London/European markets and Bermuda).
    - This results in longer turnaround times, with quotes being issued closer to inception date ***** Submission quality is more important than ever to facilitate underwriters' review and timely turnaround.***
+ Up-to-date loss control reports and engineering reviews are often becoming compulsory, thereby reducing the potential insurer pool given that many underwriters may decline a risk immediately if no inspection report is available to review.
    - If unable to perform a loss control visit in person, try to virtually do so with either your current carriers or a different party. Keep in mind, many carriers do not release full reports with all findings and exposure information, so using IMA or a 3rd party risk control service company (coordinated through IMA) may be advantageous if a program needs to be marketed.

TERMS & CONDITIONS

+ As the COVID-19 pandemic prolongs into 2021, underwriters continue evaluating all terms and conditions even more carefully and imposing related restrictions:
  - New exclusions for Communicable Disease and related policy language clarifying restrictions or exclusions of coverage
    - Reinsurance treaties exclude Communicable Diseases, so carriers are incentivized to clarify this language in order to avoid losses not covered by reinsurance
    - COVID-related lawsuits over Communicable Disease exclusions will continue to be tested through 2021
  - Additional scrutiny and restrictions related to properties temporarily or even partially unoccupied
  - Underwriters are requiring information about ongoing operations, suspensions during this outbreak, reopening plans, and how insureds plan to “return to normal” safely (i.e. were key staff retained, will additional hiring need to be done, is the company complying with local, state, and federal requirements, etc.)
+ Limitations on Contingent Business Interruption coverage given heightened underwriting review of global supply chains often results in lower sublimits or specifically scheduling key suppliers/ customers.
  - Related extensions and policy language are also being reviewed and modified to restrict coverage for these 3rd party interruptions
  - Business Interruption coverage could tighten further after claims resulting from Texas power outages are completed
+ Shift toward “blended” deductibles on programs with multiple insurers on a primary layer, which are calculated on the percentage participation of each insurer.
+ Further tightening CAT coverage given record-breaking year for multiple perils, following several years of unsustainable losses from similar loss incidents. For windstorm, flood, wildfire, and other CAT prone areas:
  - Further pressure to increase rates and retentions, as well as reduce capacity, given greater scrutiny in high to mid-hazard areas, with some carriers excluding those regions altogether
  - Percentage deductibles being applied to even more perils and zones than previously underwritten as hazardous exposures, including convective storm and hail
    - Rates in “Tornado Valley” now seeing deductibles ranging from 2% – 7% depending on roof size, roof age, and roof condition
+ Many carriers are focusing on verifying that reported values are accurate given recent losses proving to be undervalued. When carriers feel values may be underreported, they are increasing rates or pushing for the Occurrence Limit of Liability Endorsement (OLLE), effectively limiting the recovery to the values reported on the SOV. Alternatively, they are requiring coinsurance provisions
  - Excess property markets also countering this concern – reducing capacity and significantly raising premiums, sometimes even to higher rates than the primary layer markets

GUIDANCE GOING FORWARD

Start the renewal process early and maintain best practices for ongoing record keeping:

+ Update exposure information in detail
+ Discuss renewal with incumbent markets and explore backup options in case alternatives are needed
+ Review program to assess risk appetite and current retentions to determine possible alternatives to reduce price increase or attract alternative markets
+ Ensure property values are up to date based on replacement cost valuation, which should be updated periodically to reflect increases in cost index over time
+ Ensure business interruption estimates are being updated and calculated accurately

Present a best-in-class submission, including:

+ Full COPE information with as many secondary modifiers as possible, given those details greatly impact modeling results and loss estimates.
+ Providing full loss control reports is advantageous and often required for underwriting review. IMA can help coordinate this with the Risk Management team or a 3rd party vendor.

Provide insight on large losses, lessons learned, steps taken to mitigate those types of risks going forward and other plans or commitment of capital to address those concerns.

Review all retentions, limits and terms in conjunction with an insured's risk appetite to determine possible solutions to mitigate rate increases and program changes:

+ Explore increased retentions on AOP, CAT, Time Element and other deductibles
+ Determine if an aggregate deductible structure is advantageous and/or supported by markets

IMA Insight

Quality of submissions is particularly important in this hard market, with carriers being inundated with submissions. Complete information presented in an efficient format helps expedite the review process and ensures a submission does not fall to the bottom of the pile.

Explore Quota Share options on programs previously written 100% by one carrier, as many are reducing exposure on accounts and no longer able to write as a single carrier.

+ Similarly, consider alternative layer structures on accounts requiring multiple participants, as restructuring could potentially reduce overall costs

Consider alternatives such as captives, co-insurance, different coverage triggers, alternative risk solutions, and other strategies to offset premium spend.

Investments in infrastructure and safety measures taken to control losses show underwriters a commitment to managing risk.

Consider meeting or hosting calls with key underwriters in order to strengthen relationships and give carriers a chance to get more comfortable with the risk.

Liability

The trend of reduced capacity and increased rates started prior to the COVID-19 outbreak, but the effects of the pandemic have added to that market pressure, not only with continued rate increases but also tightening of terms and conditions and higher retentions. Notably, capacity is being restricted, particularly in the umbrella and excess market.

The one bright spot in the casualty market remains to be Workers' Compensation, which continues to see stability in rates and capacity. Though many were concerned that COVID-19 related claims would result in pressure on rates and capacity, the cost of COVID-19 claims were more than offset by a steep drop in non-COVID-19 claims as layoffs, shutdowns, and remote work reduced the number of workplace accidents and injuries. This has resulted in the Workers' Compensation market remaining favorable to insurance purchasers.

MARKET ENVIRONMENT

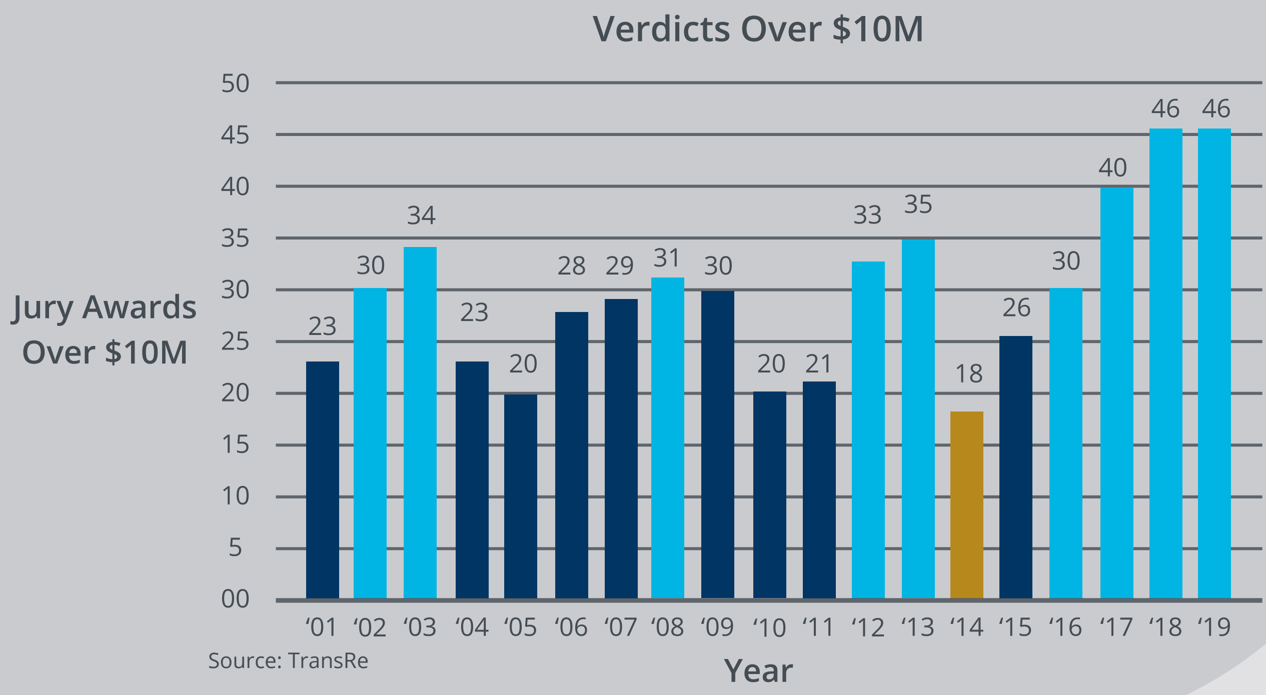
Factors impacting the liability marketplace include:

+ Carriers needing to correct the historic trend of inadequate, unsustainable pricing during the decade-long soft market as claim frequency and cost continue to rise
+ The current low interest rate environment and inability to earn a reasonable investment income to offset losses from claims is forcing carriers to focus more on traditional underwriting income
+ Insureds are experiencing decreased competition in the insurance market due to pressure from the heightened underwriting discipline, which is resulting in reductions of available limits, significant cost increases, and coverage restrictions
+ Renewal process is taking much longer, with more accounts being marketed and the need for participation from more carriers to replace expiring umbrella/excess liability limits
+ Underwriting and pricing guidelines remain fluid, with underwriters continuously reacting to market conditions and occasionally even changing their positions throughout the renewal process
+ Historic Auto and General Liability results are exhibiting adverse development, so markets will push to continue increasing rates for the foreseeable future to offset those growing losses
+ Mounting jury awards, often involving punitive damages, have resulted in huge underwriting losses for liability markets, particularly for Excess Liability
+ Facultative and Treaty reinsurance costs are typically higher in the liability space due to the increase of claims costs piercing reinsurance layers
+ Continuing trend amongst insurance companies to cease writing coverage for certain industries or reducing their overall capacity. Total available global capacity has reduced from $2.2B in 2018 to $1.4B in 2020
    - Closer to $690M is actually deployed, given restrictions for certain classes of business/risks/hazards, largely driven by litigation trends. Reduced capacity = less competition = increased cost for insurance product
+ New administration lends itself to increased potential for legislation reform and unpredictability

LITIGATION TRENDS

Astronomical jury verdicts are the new normal: according to the *Wall Street Journal* analysis of data from *verdictsearch.com*, in 2019 there was a 300% increase in “nuclear verdicts” – judgments that surpass $10 million – compared to the prior 10 years. This is attributed at least part to “social inflation” and major factors contributing to this increase include:

+ **The “Reptile Approach” –** Plaintiff attorney argues the wrongdoing from the point of view of the jury, not the plaintiff
    - Result is juror personalizes the wrongdoing and analyzes from an emotional perspective, resulting in higher awards
+ **Corporate Mindset –** Per Gallup’s 2020 polls, 36% of Americans have very little to no trust in big business. As such, many jurors feel more sympathy towards the plaintiffs and want to “punish” offending companies
+ **Litigation Funding –** Claimants are receiving funds from private equity and other sources in exchange for a percentage of the proceeds obtained in the lawsuit, thereby eliminating attorneys’ financial risk and covering the high cost for the best representation and expert witnesses
+ **Venue Shopping –** Plaintiff’s council may seek to file a lawsuit in a jurisdiction most favorable to a plaintiff based on state laws and treatment of punitive damages



Source: TransRe

Top Verdict Categories

Dollar value of Top 100 verdicts by cause of action, in millions.

2018

1	Products Liability	$5,909
2	Intellectual Property	$3,497
3	Medical Malpractice	$1,301
4	Worker/Workplace Negligence	$1,274
5	Intentional Torts	$988
6	Motor Vehicle	$897
7	Antitrust	$490
8	Contracts	$146
9	Government	$123
10	Employment	$116

2019

1	Products Liability	$11,633
2	Intellectual Property	$2,417
3	Motor Vehicle	$2,176
4	Intentional Torts	$1,567
5	Contracts	$1,253
6	Medical Malpractice	$719
7	Worker/Workplace Negligence	$520
8	Premises Liability	$317
9	Professional Negligence	$171
10	Business Law	$169

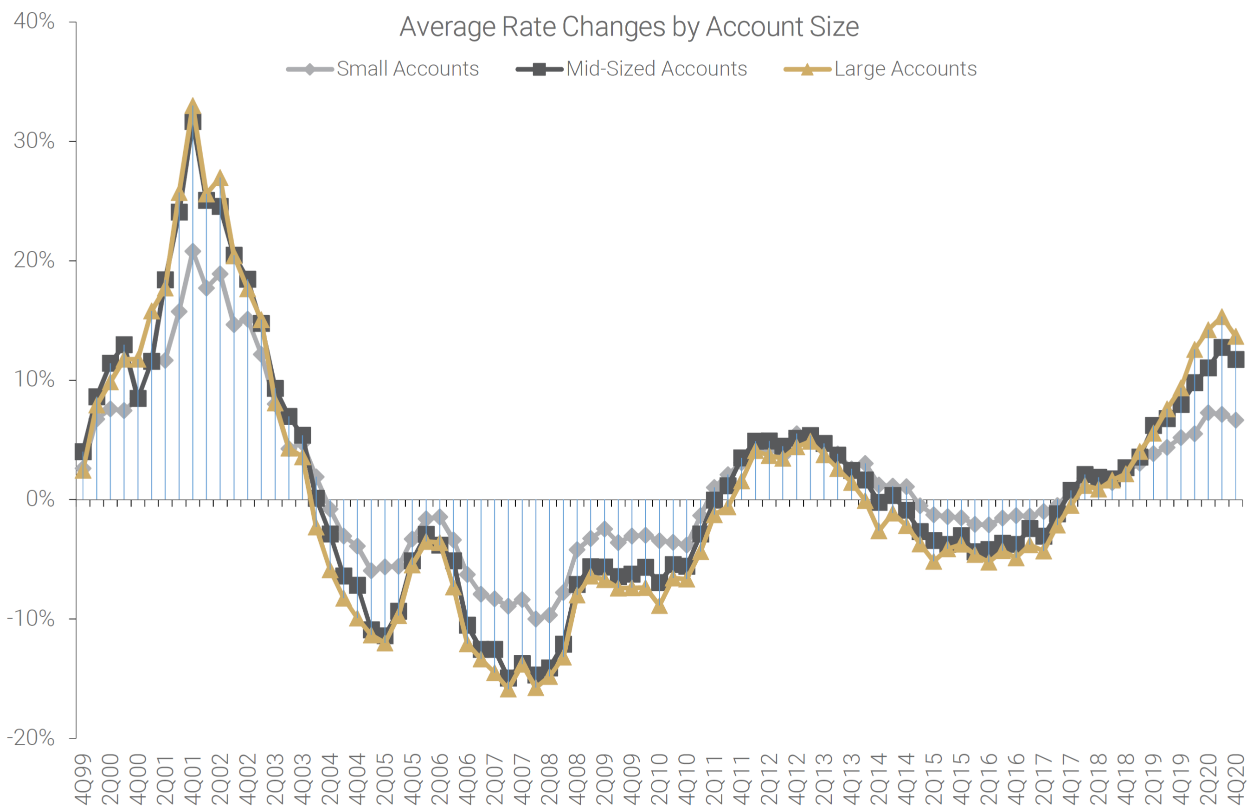
Source: VerdictSearch. Figures are rounded to the nearest $1 million.

RATES & CAPACITY

In the wake of COVID-19, there is diminished appetite for accounts with potential exposure to severe losses, particularly accounts with communicable disease exposures. Even accounts with long, favorable loss histories are receiving increases on renewals due to overall market conditions.

General Liability	Up 7.5% to 15%
Workers' Compensation	Flat to Up 5%+
Auto	Up 8% to 20%+ Up 30%+ if large fleet and/or poor loss history
Umbrella & Excess Liability – Middle Market	Up 10% to 50%+
Umbrella & Excess Liability – Risk Management and other Complex/Hazardous Exposures	Up 25% to 75%+ Some excess layers have increased more than 150% on large accounts

+ For excess layers, carriers continue to reduce their limits provided, thereby increasing the number of carriers on a program and overall price
  - Carriers with high capacity still available are sometimes able to ventilate those limits by splitting them up and staggering smaller limits throughout the tower
  - Needing additional carriers is also increasing the time needed to complete renewals
+ Appetite for certain risks perceived to have a higher potential for severity is diminishing, including accounts with communicable disease exposures (hospitality, real estate, etc.), wildfires, certain chemicals, and active shooter incidents
  - Many carriers are making wholesale portfolio decisions and simply exiting certain industry verticals
+ Larger accounts are seeing the biggest increases compared to smaller or middle-market accounts
+ Unfortunately, while accounts with favorable loss history will not have as large of increases as those with high frequency/severity, insureds are nonetheless receiving increases on renewals, often regardless of tenure with carrier, due to overall market conditions
+ Accounts with competitive expiring lower excess pricing have experienced greater percentage increases as carriers focus more on sufficient rates for capacity (price per million) irrespective of attachment point
  - Where price per million previously had a minimum of $1K, it is now often $2K-$3K or higher, often regardless of attachment point higher up in a liability tower
+ Accounts placed with London markets are typically seeing higher rate increases than those placed with domestic insurers.
  - In this competitive marketplace all options and insurers should be considered, if practical



CAPACITY, TERMS & CONDITIONS

+ Carriers continue to seek higher attachment points while reducing capacity, particularly on Umbrellas/Excess Liability and Auto Liability.
+ General Liability carriers continue to push for higher retentions resulting in higher collateral requirements
+ Insurers continue to modify policy language to clarify how coverage addresses evolving risks, including:
    - COVID-19 and other virus or communicable disease exclusions are commonplace, particularly for retail and public entity occupancies
    - Wildfire exclusions also widely imposed, particularly if located near a high-risk area
    - Exclusions for other emerging risks such as THC and hemp bioproducts, opioids, drones, self-driving cars, sexual abuse & molestation, and genetically modified organisms
+ Facultative reinsurance support is becoming increasingly difficult to obtain, requiring upfront carrier to hold larger net lines and forcing pricing up even further on a program.
+ Accounts particularly experiencing higher rate increases and withdrawal of capacity:
    - Medical/healthcare exposures
    - Habitational – particularly hardened by slip-and-fall claims, coupled with high medical costs
    - Retail
    - Hospitality
    - Accounts with wildfire exposures
    - Transportation
    - Public Entity - limiting coverage and increasing retentions for law enforcement liability coverage, particularly for larger municipalities given recent civil unrest and rioting
    - Accounts with tougher product exposures

UMBRELLA & EXCESS LIABILITY

Umbrella and Excess Liability remains the most challenging casualty line to place, often due to the negative implications of "social inflation" and rising cost of claims under General Liability and Auto Liability policies.

+ Excess limits are being reduced, often at the same price for a shorter stretch. This is in conjunction with many lead umbrellas being reduced from the traditional $25M to shorter limits of $5M or $10M.
  - Number of carriers needed to complete a liability tower has greatly increased, adding complexity to the program and increasing the marketing efforts required to fill out a tower.
+ Excess Liability markets higher up in the tower are obtaining 50%-75% of the rate in the layer beneath them, and some are even reserving the right to re-evaluate pricing based on pricing in layers above them
+ Growing trend to require participation on all or a portion of the primary lines in order to write Umbrella and/or Excess Liability coverage
+ In response to increasing claim costs, umbrella carriers continue to demand higher attachment points for Auto, General, and Products Liability, resulting in stretching of primary limits or the necessity of excess buffer layers
  - Auto requirement for fleets of 100+ units being pushed to $2M; $5M+ for larger fleets or accounts with adverse loss history
  - General Liability attachments often increasing to $2M/$4M
  - To fill in the gap, primary limits must be stretched or filled with the purchase of excess/buffer layers
+ Insureds are often choosing to buy less in total limits and/or increase retentions to offset premium increases
+ Claims-made coverage is often a necessary option on types of programs not previously underwritten on that basis

AUTO

Unlike other lines of business, the auto insurance industry was experiencing significant increases even prior to 2019. Still, Commercial Auto Liability continues to be unprofitable for insurers as claim payments remain on the rise due to several factors, including social inflation. AM Best reported that 2019 was the Commercial Auto sector's worst year in 10 years, with losses approaching $4B and a combined ratio of 109%. 2020 saw only a slight improvement in the combined ratio to 104%, which marked the 10th year in a row of unprofitable underwriting for the coverage.

+ Traditionally, many carriers would offer product packages consisting of Commercial Auto, General Liability, and Workers' Compensation as a way of pairing the losses from Commercial Auto with more profitable lines and to win market share, but today many carriers are rethinking this strategy
  - It is not uncommon to see carriers splitting out Commercial Auto from their product offerings because they have deemed the line too unprofitable or the increase of General Liability claims have made this packaging strategy suboptimal
+ Auto rates have increased for 38 consecutive quarters based on tracking by the Council of Insurance Agents and Brokers
+ Auto Liability coverage has become very difficult to place for trucking and logistics companies due to an uptick in expensive verdicts and settlements in the industry despite the fact that the number of deaths and injuries from accidents involving large trucks have been declining for multiple years
+ Median cost of commercial auto losses with fatalities over $1M has steadily risen since 2014
  - Capacity continue to withdrawal from this sector given loss trends
+ Excess Auto for larger fleets continues to be a particularly difficult exposure to place
+ Heightened underwriting focus and material pricing changes will continue, particularly for accounts with unfavorable loss histories
  - Additional details being requested/required for non-owned exposures
+ Demonstration of robust driver safety programs, safety technology and other risk control measures will be recognized in application of renewal rate and will receive better terms and conditions
+ The advances in fleet technology and growth of telematics will continue to reduce accidents over time, but those benefits are nonetheless offset by:
  - Negative litigation trends - higher claim severity
  - Increasing rate of medical inflation trends
  - Increasing rate of distracted driving
  - Decaying public infrastructure
  - Rising repair costs given higher cost of vehicles with technological advances

GUIDANCE GOING FORWARD

Considering these market conditions and rapidly changing environment, it is important for insureds to plan ahead by working with their IMA account team to overcome some of the obstacles and achieve a successful renewal.

To offset higher costs for insurance programs, it is important to review a program and consider structural changes, including higher retentions, reducing key limits, or otherwise amending a program's terms and conditions.

Some trends in the market and other solutions to consider:

+ Aggregating coverage lines when given the opportunity, possibly even those not traditionally aggregated
+ Be prepared to discuss all technology and fleet safety programs on applications in order to show carriers that your company is doing everything in their power to prevent auto claims
+ Retain a portion of the risk directly as an insured or through a captive. Could be advantageous on a quota share basis or by carving out a layer within the program, depending on layer pricing and risk appetite
+ Including defense costs within the limit of liability
+ Review indemnity agreements and make sure they are reflective of the current market risks and look to make amendments if language is out outdated
+ Consider alternative contract terms – negotiate contracts with suppliers and vendors diligently, particularly in regards to hold harmless provisions and liability limits required

Measures to take to secure a more favorable outcome:

+ Start the renewal process early in reviewing the program and starting conversations with both the incumbent underwriter as well as new/alternative markets
    - Reduces risk of determining late in the renewal process that a market is changing its position on a risk, increasing rates significantly higher than expected, or requiring significant changes in terms & conditions and exclusionary language
    - Determine minimum underlying limits umbrella market(s) are willing to attach over to allow sufficient time to secure a buffer limit or negotiate with primary carriers to stretch their limits up as needed
+ Document and highlight loss control practices, contractual risk management, capital expenditures and dedication to risk management philosophy as an organization
+ Use data and analytics to make informed decisions, as well as identify trends in loss experience to better assess those strategies
+ For Auto, review applicable Compliance, Safety and Accountability (CSA) scores and take corrective actions to improve those or eliminate specific issues driving those scores down

More Than Just Insurance

IMA is a diversified financial services company specializing in risk management , insurance, employee benefits and wealth management. It is the sixth-largest privately-held and employee-owned insurance broker in the country and employs more than 850 associates.

Markets in Focus Contributors

JUSTIN JACOBS, *Vice President of Marketing*

REBECCA GREEN, *Marketing Strategist*

JOHN SEEGER, *Marketing Strategist, Market Intelligence & Insight*

ANDREA KRUEGER, *Strategic Risk Advisor*

STEVEN MILLER, *Vice President, Business Strategy & Consulting*

JASON PATCHEN, *SVP, National Director of Carrier Relationships*

JEFF WALLS, *Corporate Marketing Manager*