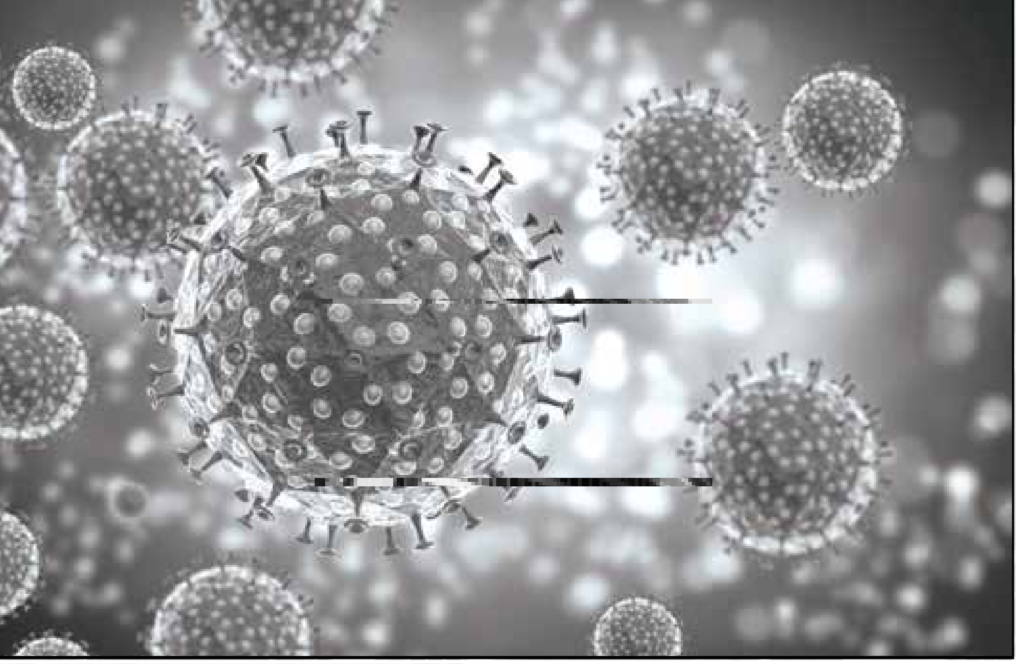
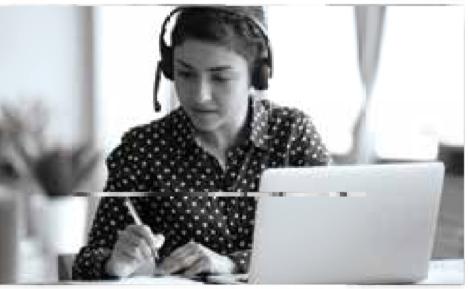




THE COUNCIL

COVID-19 SUPPLEMENT
COMMERCIAL PROPERTY/ CASUALTY MARKET INDEX

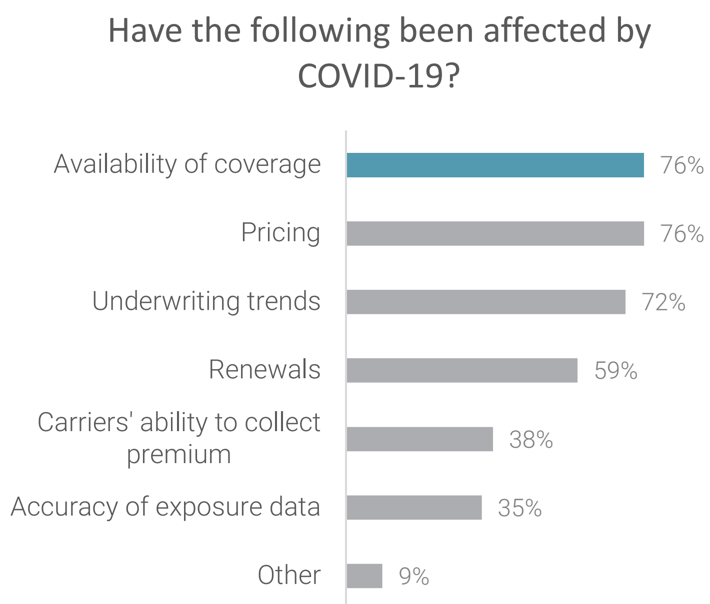
Q3/2020

Q3 P/C Survey: COVID-19 Supplement

For the third consecutive quarter, respondents to The Council's Commercial Property/Casualty Market Index were asked a series of questions relating to the impact of COVID-19 on the property/casualty market in 2020. The impact of COVID-19 remains evident, with key trends from Q2 having continued into Q3.

COVID-19's IMPACT ON THE INDUSTRY

Respondents were asked whether certain areas of their business continued to be impacted by COVID-19 in Q3 2020. Similar to the second quarter, the market continued to harden in Q3, as the majority of respondents agreed that pricing, availability of coverage and underwriting trends were most heavily impacted by the effects of COVID-19. Fifty-nine percent (59%) of respondents also noted that renewals were affected by COVID-19 in Q3. While these results were relatively consistent compared to the previous quarter, impact on renewals was down 5% from Q2, while underwriting trends experienced the largest increase from the previous quarter with 10% more respondents signaling it as a COVID-19 impact.



INCREASED UNDERWRITER SCRUTINY

Several respondents commented on payroll and revenue uncertainties for insureds due to the pandemic. As a result, many respondents noted they faced issues related to "the ability to get timely renewal data from the insureds," as well as increased underwriter scrutiny of insured financials and COVID-19 exposure levels and "slower responses time from underwriters." These effects, according to one respondent, led to "quotes coming in last minute from some insurance carriers, especially the insurance carriers that are hitting us with the larger increase in premiums."

One respondent pointed out that delays in the underwriting process were particularly noticeable across certain lines such as D&O, Cyber and Employee Practices Liability (EPL).

PREMIUM PRICING RELATED TO COVID-19

While premium pricing continued to increase across the board in Q3, respondents agreed certain lines – Umbrella, Directors & Officers and Commercial Property – were particularly impacted by COVID-19, with price increases of 23%, 16% and 14%, respectively.

Respondents' comments demonstrated that premium increases were felt by clients, with 50% of respondents citing high current premiums as a top-three client concern, and 71% of respondents signaling their clients were concerned about future premium increases.

While COVID-19 adds more to the list of "unknowns," some respondents' comments signaled that while the pandemic exacerbated the current market conditions, "pricing/rate increases were largely driven by loss activity developing prior to COVID-19."

That said, other comments highlighted that "carriers were offering lower coverage limits" and have "withdrawn capacity and increased rates" due to changes brought about by COVID-19. Another respondent wrote that pricing increased to protect or hedge against "future claims."

AVAILABILITY OF COVERAGE

Carrier scrutiny and new risk assessments brought about by COVID-19 led to an increased number of exclusions on policies, with some carriers choosing not to renew certain lines of coverage.

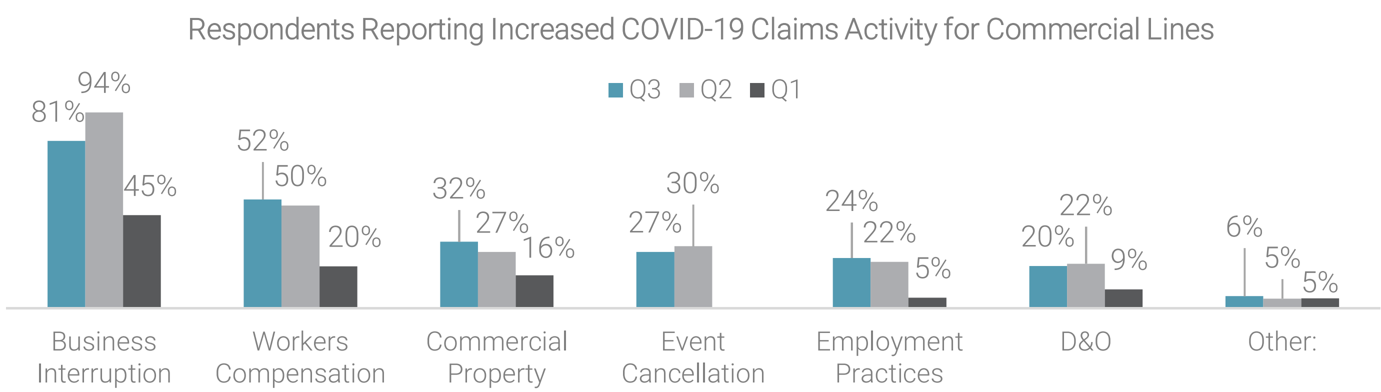
More specifically, as noted by one respondent, "Umbrella or excess liability markets were flooded, and it was harder to put layers together." In addition, "Trying to find layers for property and excess was extremely difficult and pricing has skyrocketed on these exposures," explained another respondent from a mid-sized Northwestern firm. These developments led to increased layering via "alternative options like captives and parametrics."

Workers Compensation (WC) was also impacted by COVID-19 exposures. "Carriers are backing off Workers Comp in states with presumptive laws," wrote one respondent. To date, according to The Council's legal team at Steptoe & Johnson, 22 states have adopted varied measures of presumption of compensability with regard to workers compensation.

The addition of policy exclusions amidst rate hikes in Q3 complicated the client's understanding of these price increases, and heightened client attention to their specific coverages as noted in numerous respondent comments.

CLAIMS ACTIVITY

While Q3 experienced a notable increase in reported claims across Business Interruption, Workers Compensation and Commercial Property due to COVID-19, successful claims specifically related to the pandemic remained minimal.

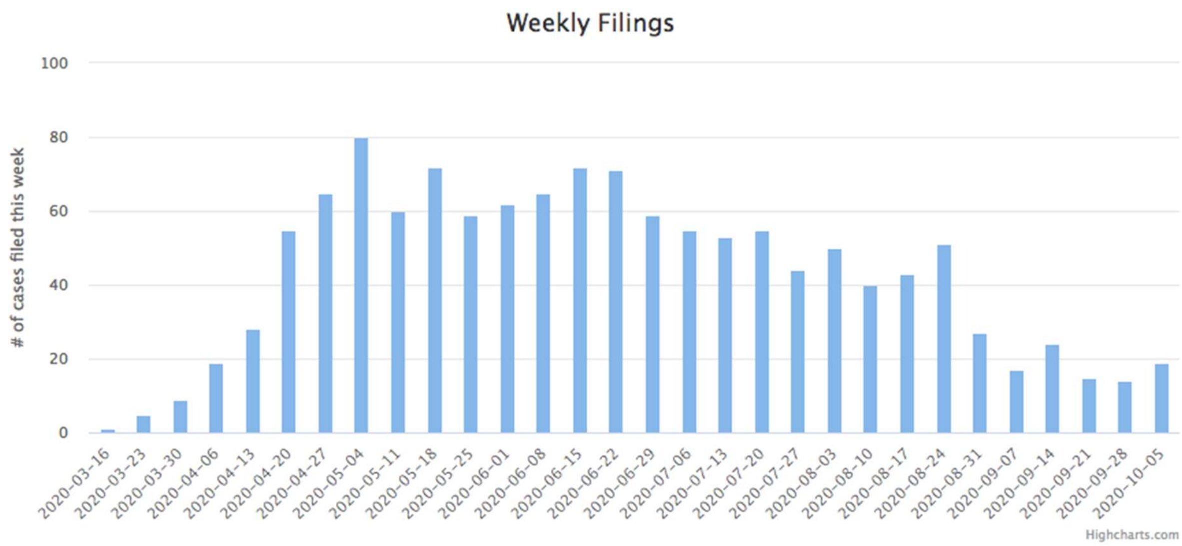


While Business Interruption (BI) claims achieved little success, respondents' comments demonstrated that some WC claims were successful in Q3. One respondent wrote that "WC claims for essential type exposures such as restaurants" have been compensable. Another respondent similarly highlighted the success of "WC claims in PA for healthcare workers."

One respondent also noted that "event and production cancellation" claims were successful in Q3, but only when the "client bought additional coverage."

For Business Interruption, 81% of respondents reported an increase in claims related to the pandemic, compared to 94% in Q2 and 45% in Q1. Despite nearly all Business Interruption claims being denied, respondents agreed that client inquires related to BI did not slow by much in Q3. However, while insureds continued to inquire about potential coverage, carriers did not show a significant appetite for this risk with many "specific exclusions being added for pandemics, communicable disease, viruses, etc."

This heightened client awareness and inquiry around Business Interruption did not equate to an increase in litigation in Q3 that was seen in previous quarters. Numbers from Penn Law's COVID Coverage Litigation Tracker show that weekly filings were down by roughly 50% in the second half of Q3 2020 and have continued the downward trend from April's peak, seen below.



COVID-19 BROKER CHALLENGES

In Q2 2020, this survey highlighted the growing concern for brokers to maintain employee health and wellness. While this continued to be top of mind in the industry, with 46% of respondents citing it as a top-three challenge, Q3 brought increased attention to the difficulties surrounding organic growth and recruiting and developing talent.

Added complexities and delays in underwriting timelines brought about by COVID-19 were stressed in Q3 responses, in which respondents emphasized a need for increased training and recruitment to help their firms regain personnel efficiency to meet market demands.

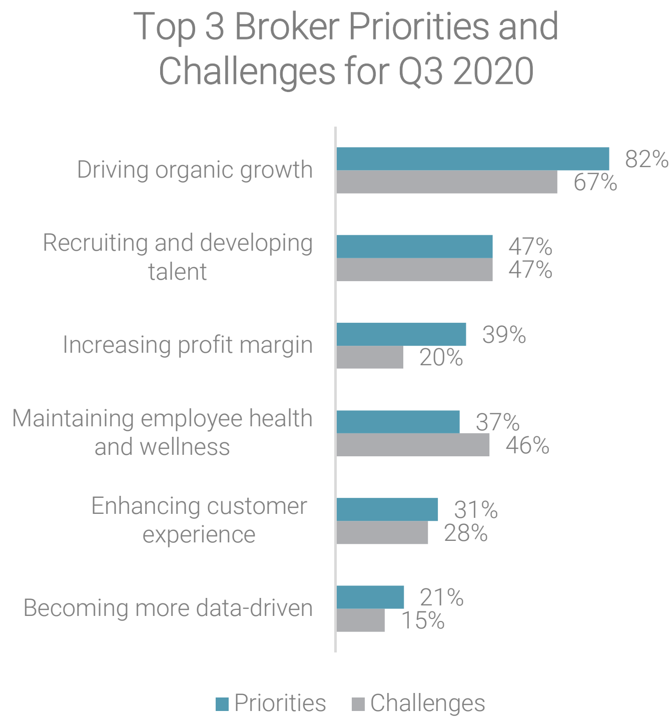
As carriers grew increasingly careful with policy language, coverages and exclusions, so did clients, with one respondent noting that "insureds were seeking coverages that they traditionally did not focus on in prior policy periods."

This increased interest in new and additional coverage coupled with changing client expectations created more demands on the client service teams, leading sometimes to, as one respondent said, "brokers [becoming] inundated solving for premium payment issues, securing solutions for excessive non-renewals, switching marketing efforts given a client's change in operations, being a therapist to their clients, and the list goes on."

One respondent reflected that the "increase in call volume, claims and questions concerning coverage," further emphasized the need for talent acquisition and development in Q3. One respondent shared their difficulties by stating, "We have been recruiting new employees for the last two months and are not getting great talent."

Furthermore, as existing clients required more time, respondents signaled that organic growth slowed. Still, many brokers have adopted to remote work, with some finding that the "lack of face-to-face meetings [has been] overcome with video technology."

Overall, most respondents signaled that a new normal has been established in terms of remote working, and that while issues such as forming new relationships were apparent, many client-serving issues have been ironed out. And in this new normal, "Client engagement has actually increased in many cases" with another respondent noting that "all service challenges have been worked out and a different way of servicing has been created."



Three quarters into the COVID-19 pandemic era, another respondent observed, "The adoption of the virtual environment has been more positive than expected. We are experiencing little-to-no issues in being able to service our policyholders."

Still, it was evident that many brokerages struggled to provide value in ways that traditionally required face-to-face interaction when servicing policyholders. Certain challenges remained, specifically related to "virtual audits and inspections" as well as "property and risk control," which was impacted due to the struggles surrounding performing surveys.

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