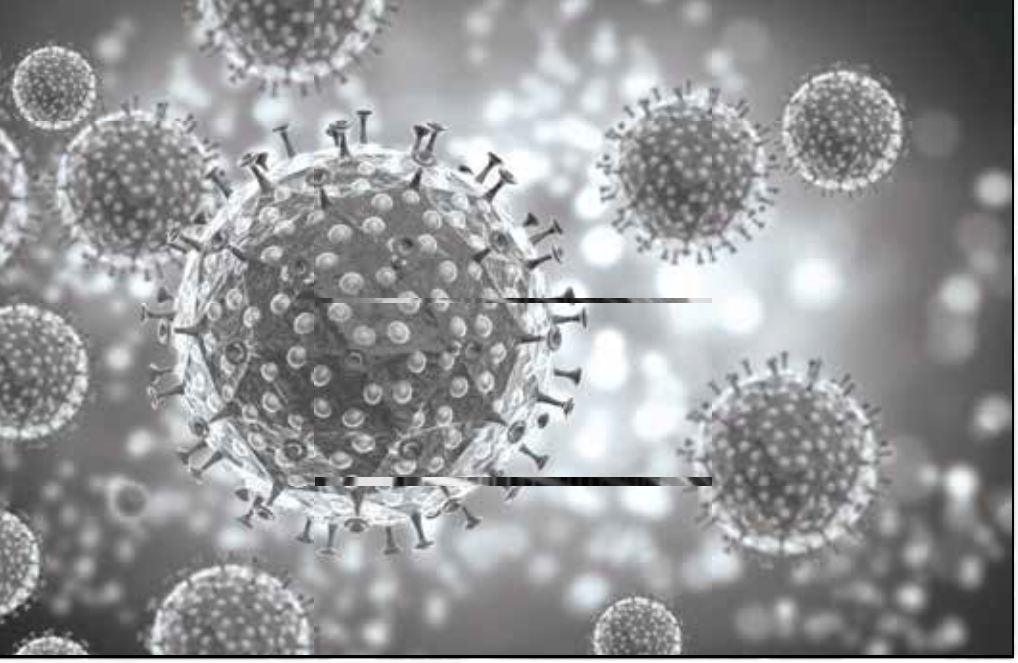


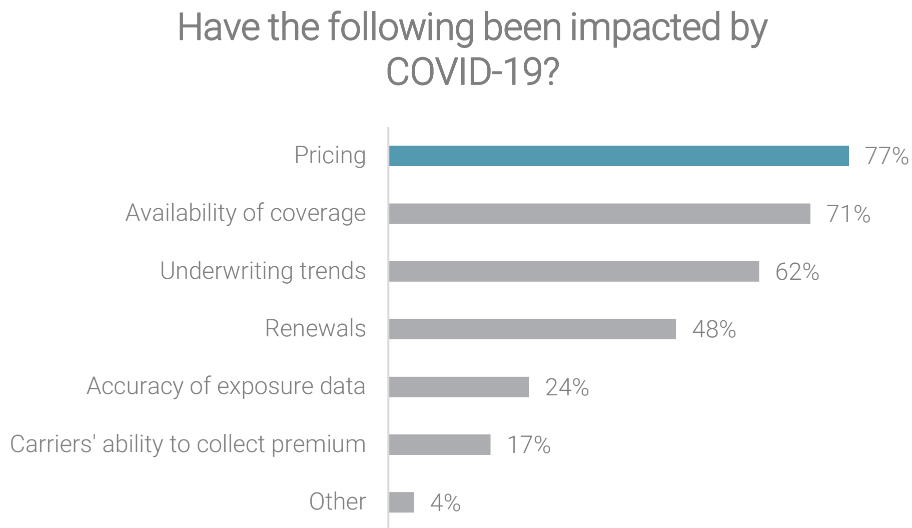
THE COUNCIL

COVID-19 SUPPLEMENT
COMMERCIAL PROPERTY/ CASUALTY MARKET INDEX

Q1/2021

COVID-19's IMPACT ON THE INDUSTRY

According to respondents, the top three things impacted by COVID-19 were pricing (77% of respondents said the pandemic impacted pricing), availability of coverage (71%), and underwriting trends (62%). Nearly half of respondents also reported that renewals had been affected by the pandemic.



AVAILABILITY OF COVERAGE

All of the lines that recorded the highest premium increases in Q1 2021—D&O, Umbrella, Cyber, Property—were also the lines for which respondents noted decreased availability of coverage, often markedly. "COVID-19 continued to cause concerns on specific lines of coverage such as D&O and Cyber. Pressure on these two specific lines of coverage made renewals more challenging as pricing and capacity continued to remain volatile," said one respondent from a midsized Midwestern firm.

As for Commercial Property, one respondent from a large Midwestern firm said, "Property carriers who previously provided Communicable Disease sublimits have depleted reserves which is impacting pricing. Coverage is now either completely excluded or severely limited." Respondents also commented that "Umbrella capacity continued to reduce significantly" and "The EPLI, Umbrella and Excess market has proven difficult to find capacity."

PREMIUM PRICING RELATED TO COVID-19

A few respondents noted that though prices increased moderately to significantly in Q1 2021, it was "hard to say if pricing changes are COVID-related or simply the result of current market conditions. One could argue that COVID exacerbated the difficult market conditions." Another respondent from a large Southwestern firm said, "I keep hearing from underwriters that COVID is part of why the prices are increasing but since no claims were paid—does not make sense to me."

Either way, as shown in the Commercial Property/Casualty Market Index report for Q1 2021, prices were up across the board for any kind of coverage, according to respondents. Respondents noted "strong rate increases across most LOBs," and that COVID-19 was a reason "underwriters were giving for increases—i.e. uncertainty around possible increase in claim costs."

UNDERWRITING TRENDS

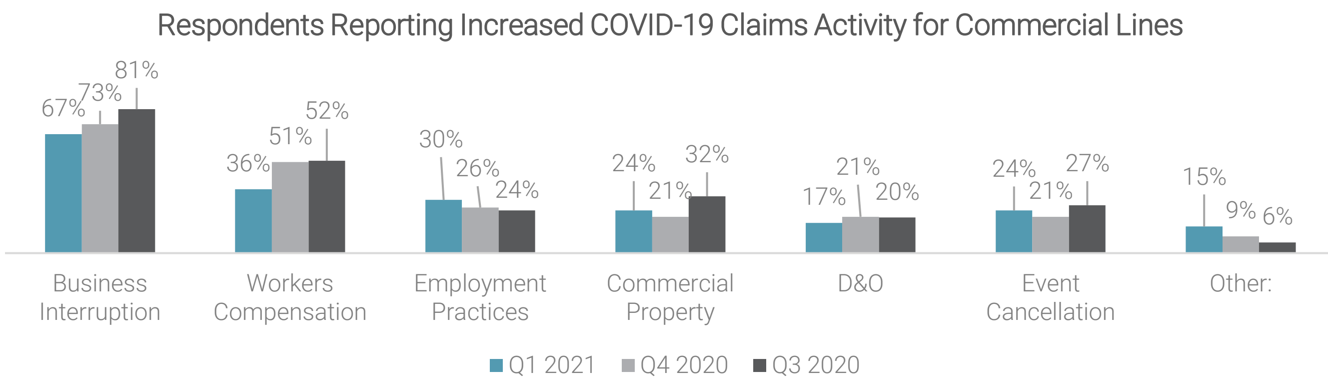
However, it was clear that underwriting changes were driven mostly by pandemic-related conditions, given that one of the most common themes in responses explaining the impact to underwriting trends was the addition of communicable disease and pandemic exclusions, as well as requiring policyholders to complete supplemental questionnaires "relating to client's financial stability, PPP loans, re-opening practices, hiring/firing practices, & COVID safety precautions."

"Communicable disease exclusions or just new COVID-19 exclusions came out from just about everybody," said one respondent from a large Midwestern firm. "Lots of COVID-19 related questions on several lines of business." One respondent from a large Southwestern firm noted, "Carriers/underwriters asked more questions and required more information around employee headcount and any reduction in workforce that was a result of COVID-19 and related shutdowns," and another respondent, speaking about the real estate sector specifically, said, "Almost every carrier is adding the communicable disease exclusion to liability and sometimes property polices (if a virus/bacteria exclusion was not already there)."

"COVID caused concern/fear by underwriters—that created a negative impact," said one respondent from a midsized Northwestern firm. As a result, "carriers were much stricter in their underwriting guidelines and tightening of the market continued," and "we had less capacity on auto, property, excess and D&O. Markets were non-existent on D&O. Building towers on any type of coverage became a big issue and time consuming."

In line with that, respondents also observed carriers pulling back on risks both associated with COVID-19, even tangentially, and other risks. According to one respondent from a large Midwestern firm, they had seen appetite and capacity constriction on "healthcare, human services, sexual abuse, education, auto, property in certain cat prone areas, cyber.... resulting in the pursuit of captives. The P/C market is missing a big opportunity."

CLAIMS ACTIVITY



Though overall the amount of respondents reporting an increase in Business Interruption claims decreased, according to the results of the Commercial Property/Casualty Market Index for Q1 2021, a majority of respondents (67%) also said that the pandemic still contributed to increased claims for Business Interruption. Nevertheless, this was still down from 73% in Q4 2020 and 94% in Q2 2020, suggesting the initial rush of Business Interruption claims continued to abate in Q1 2021.

However, the vast majority if not all Business Interruption claims were unsuccessful. "BI claims were all denied. Some are being litigated," said one respondent from a large Southeastern firm. "BI claims were denied due to virus/bacteria or communicable disease exclusion," said another respondent from a midsized Northeastern firm. Generally, respondents seemed to acknowledge that only those accounts that had sublimits for communicable disease losses had coverage, but for those that didn't, "we still submitted claims to obtain a formal reply and to preserve the rights of our clients."

Only 35% of respondents noted an increase in Worker's Compensation claims, down noticeably from 51% in Q4 2020 and 52% in Q3 2020. In line with that, one respondent from a large Northeastern firm commented that "WC claims from COVID-19 spiked in January, but, have lowered significantly since then." Respondents also observed that Worker's Compensation claims tended to be more successful than Business Interruption claims.

Apart from the lines mentioned above, a quarter of less of respondents reported increased COVID-19 related claims for all other lines.

BROKER CHALLENGES DURING THE PANDEMIC

This quarter, respondents' main challenges tended to center on how to navigate returning to work and returning to more "normal" operations as the pandemic eased. Responses also highlighted challenges that came from working remote for so long, both when it came to managing employees as well as communicating with clients.

REMOTE WORK

Many respondents emphasized the negative effect remote work had on relationships, both between employees and with clients. "Not being able to have face-to-face interactions is challenging for business relationships," said one respondent from a midsize Northwestern firm. "In addition, with everyone being remote, communication in general can be impacted." "Difficult in meeting face-to-face" was a challenge another respondent had in Q1 2021, and though they said they were "using Zoom," it was "not the same," because of the "delay in information movement due to many remote decision makers."

"It's becoming increasingly difficult to create and maintain relationships, especially as new / additional people join from all sides," said one respondent from a midsized Midwestern firm. Another respondent from the Midwest highlighted the challenge that was "maintaining relationships while still not being able to be in-person as much as desired. Technologically we've been able to keep pace and perform. It's the need for in-person meeting/discussion that is a challenge to meet."

Respondents also mentioned having problems with managing an all-remote workforce. "Working from home can create a challenge to fully manage the staff," said one respondent from a midsized Northwestern firm. "We are monitoring activity on the system to ensure work is being completed." Likewise, according to a respondent from a midsized Southwestern firm said that "getting employees excited and willing to return to the office from working remotely has been a challenge."

MEETING CUSTOMER EXEPCTATIONS

Another common theme in responses was the shift in customer expectations and how firms were adapting to it. "Customer expectations substantially increased from 2020 to 2021," said one respondent, and "Speed is a way of life now and an expectation of policyholders," said another. "Commercial insurance companies and brokers will need to quickly keep up with that because customers are looking for better servicing overall."

Respondents also pointed to a new pain point for operating in the new normal. As one respondent from a midsized Northeastern firm put it, they needed "to be conscious of how each policyholder wants to conduct business—some have elected to want all business conducted remotely, others insist on in person meetings/servicing." Said another respondent from a midsize Midwestern firm, "More and more customers were back 100% and/or allowing people back in their facilities. Trying to balance each customer's comfort level and safety protocols has added another touchpoint."

CURRENT MARKET CONDITIONS

One challenge stemming from navigating current market conditions that many respondents emphasized was client frustration when it came to rates and underwriting. "Policyholders were tired of the inconsistent underwriting and messaging from the commercial carriers," said one respondent from a large Midwestern firm. "They understood the rate pressures, but they were annoyed at the changes in underwriter interest in (and authority to underwrite) their business." One respondent even commented that "Collecting updated underwriting information for renewals have been very challenging as many clients either have not budgeted proper time for renewals or have an indifference to the insurance industry as a result of the BI claim denials."

Several respondents agreed that justifying rate increases to their clients was a significant challenge. "Explaining rationale for significant rate increases, especially on loss free accounts" was a challenge, explained one respondent from a large Northeastern firm. Said another respondent from the Northeast: "Clients are getting more upset that pricing increases are still occurring despite their exposures remaining flat or decreasing." Another respondent from a large Southeastern firm said that "Explaining the hard market on property, casualty AND auto all in the same cycle" was a "hard message to deliver," and that they were "combating this by providing as much insight and information on the industry world and what we are experiencing as an industry."

Respondents noted, "Delays in getting terms and conditions, increases anxiety for all involved…very difficult when you deliver substantial prices changes days before the expiration" and "underwriters have been looking more intently on renewals and requesting loss control visits to seek approval from reinsurance markets. When submissions are turned in to the carrier it has been difficult receiving renewals within the normal timeframes." Respondents acknowledged carriers felt pushed to increase scrutiny, to request more information, and to pull back on COVID-19 related risks. As a result, respondents described having to adapt to "thorough submissions and long timelines" and having to lean into "early communication" with clients and carriers regarding renewals as well as having involved "discussions with underwriters on real exposures and risk quality" to effectively advocate for their clients.

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