Brown & Brown INSURANCE®

Market Trends Quarter 3 | 2020

COMMERCIAL INSURANCE & RISK MANAGEMENT

OUR GOAL

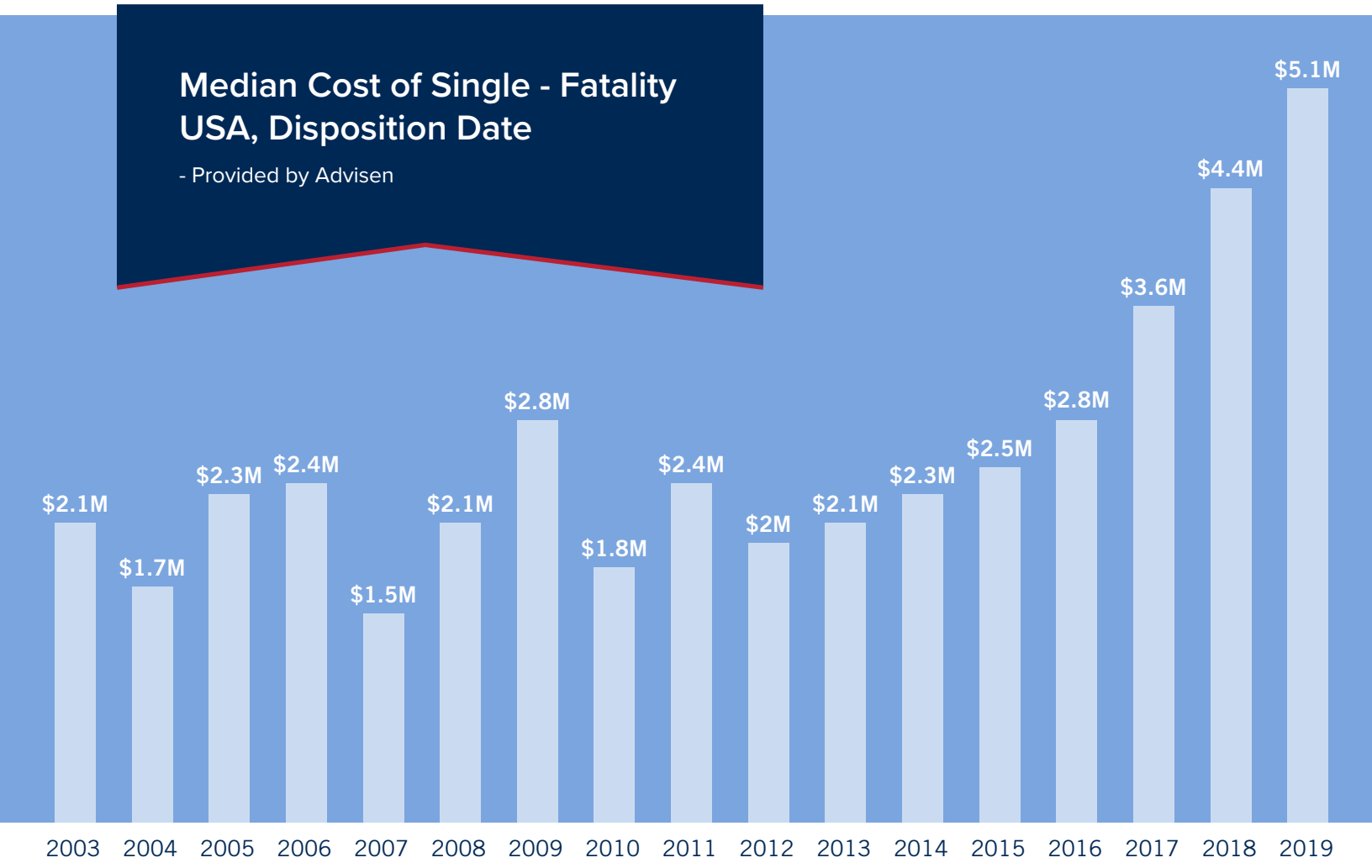
Brown & Brown's Market Trends allows you to connect quickly to succinct key topics and notable updates in the insurance marketplace. Dive deeper on any topic with our Brown & Brown Team to better understand how these trends may impact your business. We welcome the conversation.

DISCOVER

MARKET SUMMARY

Q3 | 2020

Low investment income and deteriorating loss trends continued into the third quarter of 2020. Nuclear verdicts, defined as disproportionate verdicts as compared to economic damages of a claim, are a continued underwriting concern. Per Advisen statistics (see below), the median cost of a single fatality claim in the U.S. has increased 122% since 2014. These claims, along with the uncertainty of the length and cost of COVID-19 claims, civil unrest, reviver statute legislation, a historically active Atlantic hurricane season, and escalating reinsurance costs, are some of the factors continuing to strain the insurance marketplace.



PROPERTY

Q3 | 2020

Property pricing continues to increase with varying levels of severity into the third quarter of 2020. Larger/Global Risk Management or National accounts are seeing the most significant rating (>20%) and retention scrutiny. In comparison, middle market accounts may achieve more modest increases (<20% for most industries). Insurers remain disciplined in their capacity deployment and have increasingly less flexibility to vary from their technical rating. This makes targeted but aggressive marketing necessary to verify pricing remains competitive and terms are not lost to the whims of a single insurer.

The Marine/Cargo market is subject to similar themes of increased rating and retentions. The ongoing civil unrest has led to some insurers limiting and, in some cases, non-renewing or no longer offering strikes-riots-civil commotion coverage. Stock throughput programs have been hit especially hard and require ample lead-time to secure program options and navigate through wording and capacity changes and restrictions.

Despite the past year+ of rating and attachment point increases, insurers have yet to gain their footing and find profitability. The impact of the current wildfires, active Atlantic storms, continued secondary peril loss activity, and the ongoing pandemic indicates relief will not happen in the early quarters of 2021.

To mitigate the impact of this challenging market, insureds must:

1. Be vigilant to maintain focus on loss control improvement.
2. Work lock-step with your broker on a renewal strategy that engages insurers who write and understand your risk profile.
3. Review the accuracy of your exposures to ensure adequate, or acceptable, coverage options are secured and program changes made with confidence.

> “Insurers remain disciplined in their capacity deployment and have increasingly less flexibility to vary from their technical rating.

CASUALTY

Q3 | 2020

Certain classes, including transportation, habitational real estate, and hospitality, have become increasingly difficult to negotiate. In addition, insurers are limiting capacity or exiting industries such as public entity, higher education, and utilities. More disciplined financial underwriting has increased underwriting time and resulted in additional questions regarding risk transfer, safety protocols, and COVID-19 strategies.

According to the Council of Insurance Agents and Brokers (CIAB), workers' compensation pricing has increased for the first time in 21 months. There is also a concern of increased workers' compensation claims due to some states' enactment of COVID-19 presumptive laws, employer's liability claim potential, and the addition of untrained workers entering the workplace. While the number of automobile claims has decreased due to the economic slowdown, the severity of claims has not followed the same trend. Insurers do not expect the decreased claim frequency to have a significant positive impact on automobile pricing. Deteriorating loss trends in the excess/umbrella markets have resulted in an average rate increase of more than 20% for the first time since September 11, 2001.

Risk management accounts continue to experience significant increases in umbrella/excess pricing. Increases are driven by capacity restrictions and stricter underwriting standards, forcing insureds to evaluate the total limits purchased. Fewer insurers are willing to write large layers and lead umbrella placements often require higher primary attachment points. Structural changes, including alternative risk financing, should be considered to optimize placements.

Middle market accounts (less than $1B in revenue) with favorable loss history and exposures remain attractive to insurers. Businesses in this space benefit from negotiating with multiple insurers for renewal options. While umbrella capacity is starting to follow the large account trend, many insurers are still willing to offer $10M in lead umbrella capacity in the middle market space.

"More disciplined financial underwriting has increased underwriting time and resulted in additional questions regarding risk transfer, safety protocols, and COVID-19 strategies.

EXECUTIVE RISK

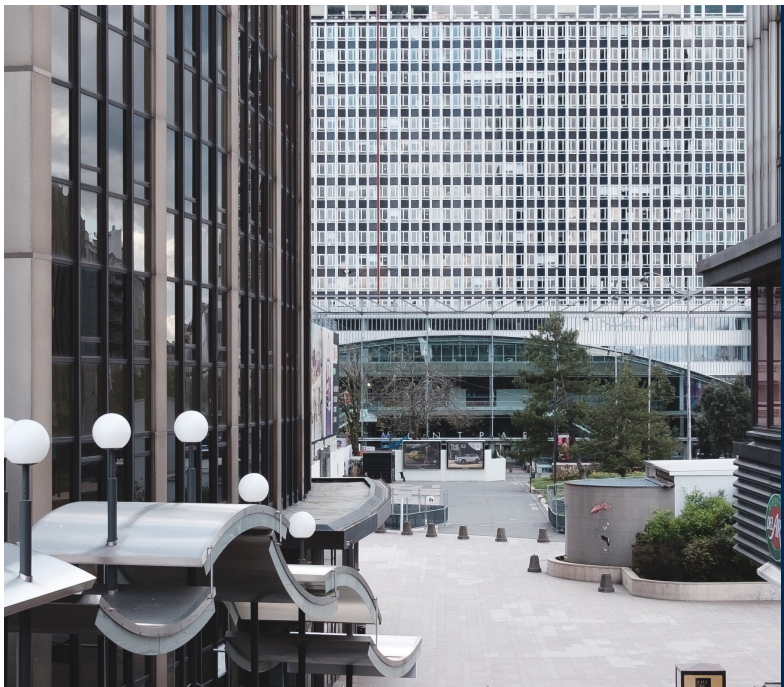
Q3 | 2020

Rate changes are affecting every area of the property and casualty market. CIAB released its 2020 second-quarter report and notably highlighted that 100% of respondents reported increased premiums for all account sizes and all lines of business. Directors and Officers (D&O) rates increased by 17%, only topped by umbrella rate increases. These premium increases are in addition to increased deductibles, lower limits, and restricted coverage. As noted in our previous report, bankruptcy filings continue to increase, and insurers are looking to reduce their exposure by adding a bankruptcy exclusion. Public companies should continue to expect 35%+ premium increases on their primary policy – while previously under-priced excess and Side-A layers are seeing more than 50% increases.

IPOs may find rate relief after a recent ruling. The Cyan Supreme Court ruling in 2018, which allowed Section 11 suits to be filed at the state level, caused Public D&O rates to skyrocket. This specifically effected IPO companies. However, on September 1, 2020 the Superior Court in San Mateo County, California (Silicon Valley) issued a reversal in its opinion in Restoration Robotics. The presiding judge dismissed the Section 11 case for lack of jurisdiction, noting the federal forum provisions in the company's certificate of incorporation. With this ruling, we expect to see premium relief for IPO and younger public entity companies if more courts follow with similar rulings.

"

Directors and Officers rates increased by 17%, only topped by umbrella rate increases. These premium increases are in addition to increased deductibles, lower limits, and restricted coverage.



CYBER LIABILITY

Q3 | 2020

The cyber market has hardened considerably and is expected to continue hardening for the foreseeable future. Generally, most accounts will experience increases of 10% to 30%. Buyers with significant physical operations, e.g., manufacturers, distributors, and transportation companies, may see increases exceeding 100%. Buyers with large excess towers may experience changing carrier appetites and increasingly strict standards for excess rates and pricing per million of coverage.

Ransomware, business interruption, social engineering, and invoice manipulation continue to be significant drivers of losses across all industries. Large losses, particularly the massive regulatory settlements under various domestic and foreign privacy laws, have significantly impacted carrier portfolios. These losses affect both primary insurers as well as reinsurers, with many carriers' reinsurance negotiations involving double-digit rate increases.

Underwriters continue to push for additional information, with a majority of underwriters preferring to collect supplemental applications related to ransomware, business interruption, and social engineering. Carriers also continue to supplement manual underwriting with third-party analytics providers that scan applicants' public-facing computer assets.

Despite the hardening market, limited numbers of carriers are narrowing the scope of their coverage, and many continue to expand. We do not expect this trend to change for the foreseeable future, as carriers are sensitive to their ability to continue to grow in this space.

"Ransomware, business interruption, social engineering, and invoice manipulation continue to be significant drivers of losses across all industries.

INTERNATIONAL

Q3 | 2020

U.S. multinational companies are continuing to see stability for rates in international casualty programs. This stability is impacting international liability, international automobile liability, and international voluntary workers' compensation/employer's liability. The rate stability is due to a competitive marketplace in a highly profitable underwriting class.

Company size and marketing are impacting the renewal rates. Recent renewals on middle market multinational casualty programs have experienced flat rates. Larger multinational casualty programs can expect rate decreases in this highly competitive market segment, subject to loss history. Flat to decreased rates can also be achieved through the marketing of programs to various insurers. Many insurers are opening up their capacity for international casualty programs to tougher products and risks than in the past.

Insurers have now started to incorporate communicable disease exclusions into their policy forms. However, we have seen several insurers take a measured approach to adding the communicable disease exclusion. Companies with minimal exposures and/or good corporate protocols for managing the communicable disease risk have generally been able to avoid the exclusion. Communicable disease exclusions should be removed whenever possible.

> "Many insurers are opening up their capacity for international casualty programs to tougher products and risks than in the past.

Brown & Brown Legal Entity Name
Address - City, ST 11111 | website.com | (000) 000-0000