MORETON & COMPANY

State of the Market

Update of Q2 / 2020-
Planning for Q3 & Q4 2020

Q2 of 2020 was extremely turbulent, with a lot of businesses seeing huge changes in their operations and incomes. As you move forward in planning for the rest of the year, our Q2 State of the Market report can help you develop a plan for addressing what will be coming at you during Q3 and Q4.

- The pandemic is not the only contributor to overall pricing increases and reduced limit capacities, but it sped up the already existing downward spiral.
- Other contributing factors include the overall state of the economy, property damage from riots, predictions of a higher-than-average hurricane season, and unknown additional waves of COVID-19.
- Insurance companies are worried about the long-term impacts of the pandemic and claims that they did not account for when they developed rates and policy wording.
- Many policies from before the pandemic include exclusions for communicable disease and or viruses, and we will probably see more policies with these exclusions.
- Now is the time to review internal systems for cyber protection, revise business continuity plans to include pandemics, and work even closer with your insurance broker, because the renewal process or placement process is taking longer and longer.
- Policyholders need to be flexible and insurance brokers need to be willing to work harder.
- Brokers are dealing with underwriters who are seeing more submission flow, leading to delays in the underwriting process. We are seeing more declinations of accounts with any negative risk factors and last minute responses/quotes.

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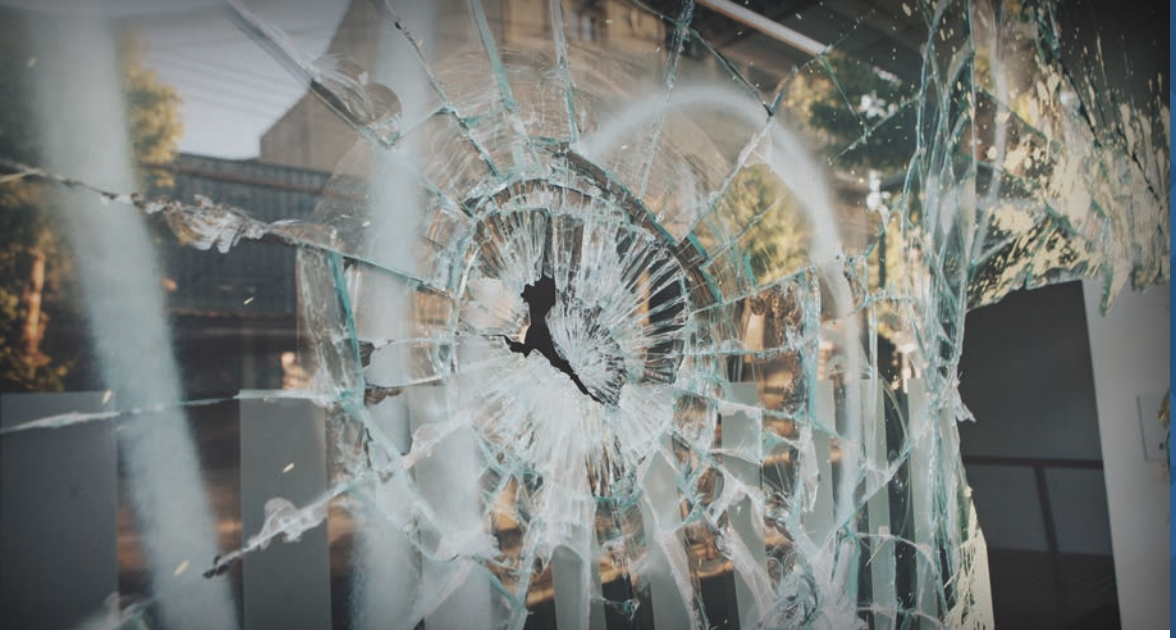


What You Can Expect

Property

Property pricing continues to rise. Insurance carriers are looking closer at values and properties in catastrophic exposed areas. We saw property pricing start to rise in Q4 of 2019. At least through the end of 2020, we anticipate property policies will experience higher rates (dealing with increased reinsurance costs) and capacity restrictions or limitations. Carriers are pushing for higher retention levels and presenting other challenges with COVID-19 claims and lawsuits. Initially, we hoped that if our clients had a large rate increase in Q4 of 2019, any rate increase by the end of 2020 would be minimal.

Current Property Rate Expectations:

- Domestic property with no catastrophic exposures and good loss history: 10-15% rate increase
- Domestic property with no catastrophic exposures and poor loss history (i.e., losses over the past 5 years): 25-30% rate increase
- Domestic property in areas prone to catastrophic loss: Increase up to 40%

Primary Casualty

Primary Casualty pricing remained steady to +5% depending on the industry up until end of 2019. Expect tighter underwriting requirements, as underwriters will want to know how your business is coping with COVID-19, re-opening, and protecting your employees and customers.

Casualty Rate Expectations:

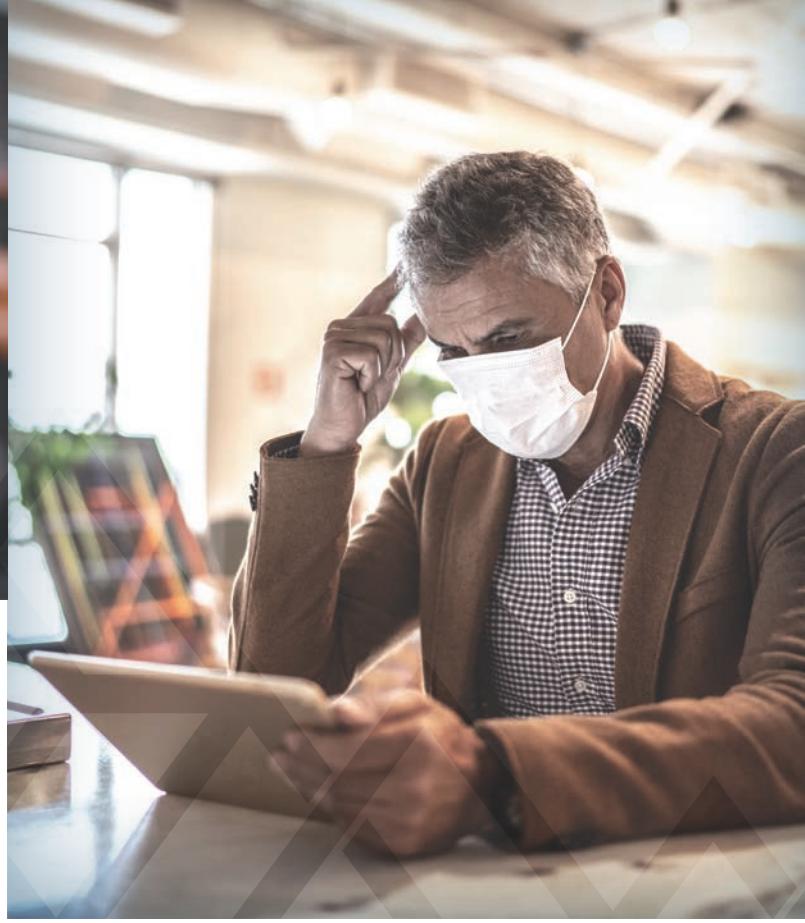
- Will depend on the industry and the losses. Hardly any policies are renewing with a rate increase of less than 5-10%.
- Food Manufacturers with clean losses can expect a 15-20% rate increase
- Garage Liability increases 10-20% or higher depending on loss history

Excess Casualty

This is the most unpredictable line of coverage right now. Capacity is being reduced, requiring layered programs, and policy exclusions or restrictions have increased and, in some cases, a higher attachment point on the underlying casualty policy is required. Higher attachments or buffer layers are being required of auto policies even if the auto policy does not include large fleets. The "Nuclear Amounts" juries are awarding on general liability, product liability, and auto liability losses continue to affect the excess casualty market pricing.

Excess Casualty Rate Expectations:

- Rate expectations are all over the board; excess liability rates are partially based on pricing of the primary casualty, including primary auto liability. Other pricing factors are class of business, limits purchased, and underlying losses. Industries hit especially hard are transportation, businesses with large auto fleets, healthcare, manufacturers (products), and education. Pricing increases with good loss history: 5 to 15% increases.



Primary Auto Liability

Auto liability pricing has been going up for the past two years and premiums continue to rise. Insurance carriers want more information about hiring practices for those in driving positions: Does the insured check the driving records? What is an acceptable MVR? Do you hire drivers under age 18? Part of what is driving up the auto liability pricing is the jury awards that have recently been handed down.

Primary Auto Rate Expectations:

- Depends on fleet size and loss history. Current premium increases are 10-20% for accounts with smaller fleet sizes and low loss history. Fleet size under 200 with poor loss history can expect increase of 20-30%.
- Accounts with fleet size in excess of 200 might also see premium increases of 20-30%.
- For transportation-type risks (e.g., short haul/long haul), premium increases depend on losses and fleet size. Underwriters continue to re-evaluate each transportation/trucking-type risk, including DOT inspection reports, MVR reports, fleet size, losses, and most importantly, the general attitude towards safety and whether you are putting good practices in place to avoid loss. Accounts are seeing anywhere from 25% to 75% rate increases. Unrealistic verdicts in trucking have truly hurt this essential industry.

Workers Compensation:

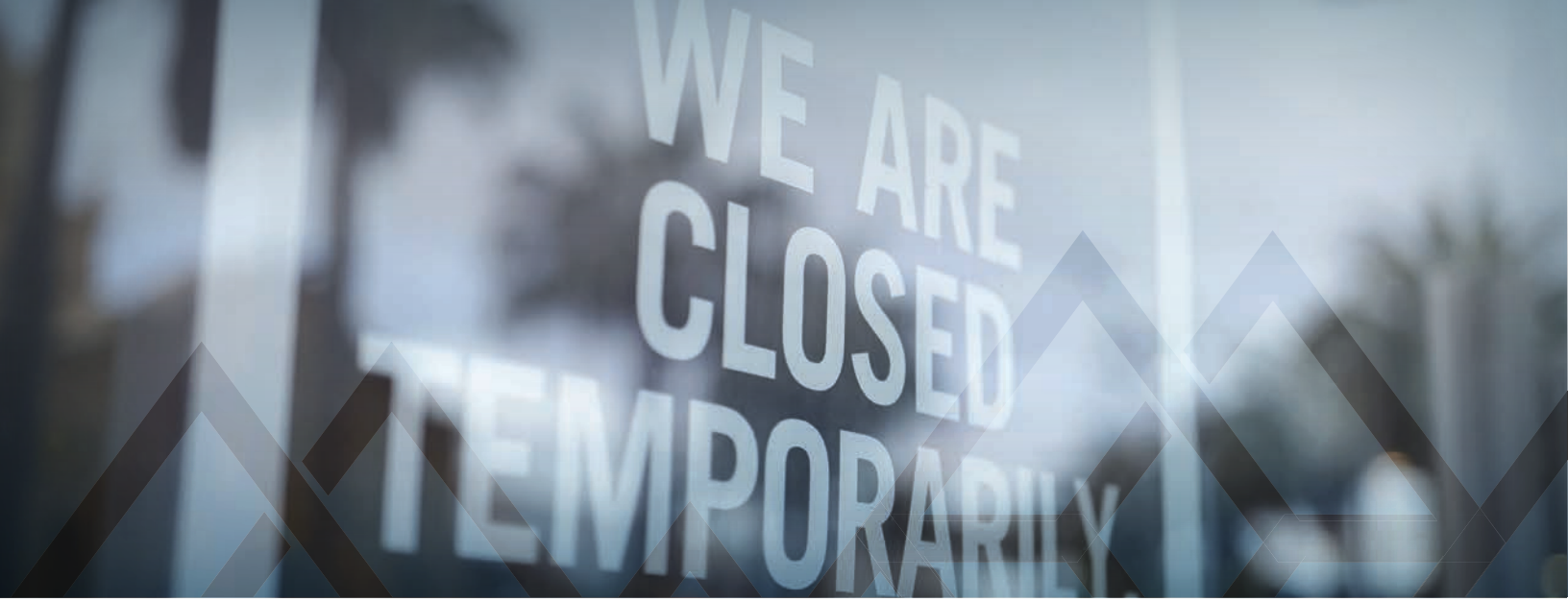
Workers compensation has not seen large rate increases or issues with capacity. We anticipate that premiums will decline due to decreased payroll on renewals. Carriers are allowing reduced rates mid-term for employees that are telecommuting or furloughed.

Workers Compensation Rate Expectations:

- We expect rates to stay steady.
- If carriers start to pay a lot of COVID-19 claims, expect the Workers Comp market to change.
- Watching COVID-19 infection rates and the impact on heathcare and education risks as school open will be important.

Management Liability

Management liability insurance rates increased in Q2 of 2020. Average Directors & Officers for Private and Not-For-Profit Companies were up 10-20% up from QI where the average increase was 7-10%. Certain renewals even saw renewal increases in excess of 100%. The management liability marketplace includes Directors and Officers, Employment Practices Liability, Crime, Professional, and Cyber. Each of these lines is dealing with unique underwriting complications and industry-specific issues. The most challenging placements continue to be public company D&O, where renewal rates can be double what they were in 2019. Healthcare risks have also seen significant renewal challenges tied to the COVID-19 pandemic. Many D&O risks are having to convince underwriters that their business plan and financial strategy around COVID-19 are sound. Employment Practices Liability claims tend to follow periods of recessions or layoffs. We could see claim counts rise with substantial reduction of employees, as employees come off furloughs, or as employers make changes to their contribution to 401k plans.



Ransomware and phishing scams continue to evolve with new methods of creativity and innovation. As a result, company log in credentials continue to fall in the wrong hands. Many of these scams are successful given cyber criminals' ability to leverage the global pandemic to their favor.

Management Liability Rate Expectations:

- Renewal results could vary greatly and depend on the coverage line, along with the size, class of business, and loss history.
- Smaller D&O risks should expect 5% - 10%.
- Larger and more complex risks should expect a 20% increase or more.
- Rate increases should be planned for the remainder of 2020.

COVID 19 has definitely upset the current market dynamic across all lines of insurance. We are seeing decreases in exposures like payroll, inventory, and sales, but unfortunately, premiums are still increasing.

- Programs are available with parametric solutions for earthquake, storms, hail, wildfires, and snowfall.
- New programs are available for epidemic/pandemics for certain industries including a new product for Non-Damage Pandemic Interruption/Coverage, but typically not covering COVID-19.
- We won't be surprised if a program becomes available covering business interruption caused by contagious disease/epidemic/pandemics that will mirror the terrorism program (TRIA) backed by the Federal Government.

Solutions

Other Moreton & Company services available to all insureds include Safety & Loss Control, Bonds, Executive Risk, Property, Risk Management, and Captives services.

Moreton & Company will leverage our market expertise and experience and remain close to industry and market developments.

We value relationships and commit to working hard for our insureds and will guide and support them through these hard times.

We realize communication with our clients will be key to managing expectations.

Please contact your Moreton & Company consultant with any questions.

Please visit www.moreton.com/news-events/ for more information and to view other newsletters. For additional questions, please contact your Moreton & Company representative.

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