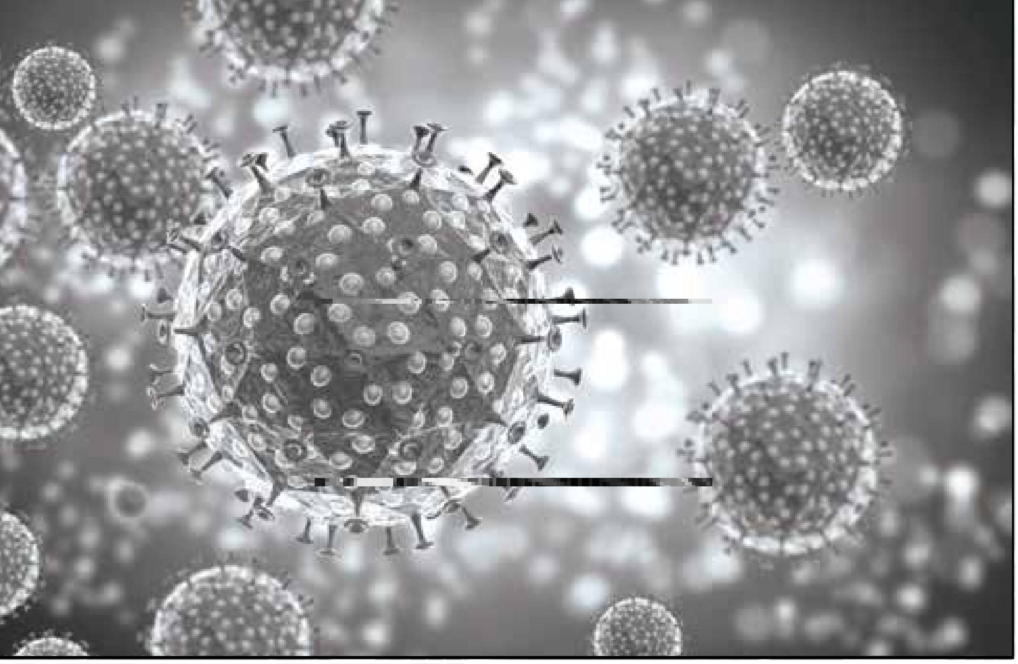
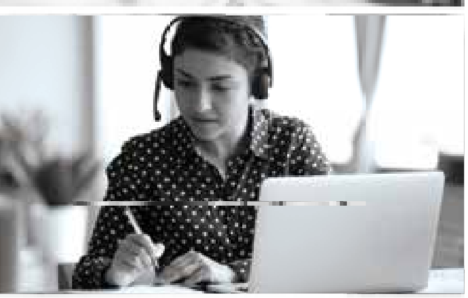




THE COUNCIL

COVID-19 SUPPLEMENT
COMMERCIAL PROPERTY/ CASUALTY MARKET INDEX

Q2/2020

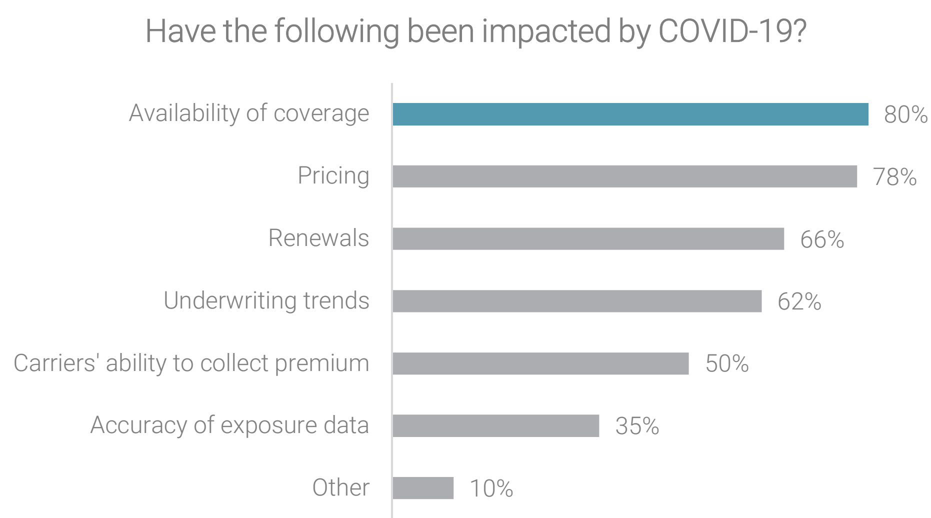
Q2 2020 P/C SURVEY: COVID-19 SUPPLEMENT

For the second consecutive quarter, respondents for The Council's P/C Market Survey (hyperlink) were asked a number of questions related to COVID-19 and how the current pandemic continued to impact the commercial property/casualty market in Q2 2020. It was evident that COVID-19's impact on insurance accelerated into the second quarter, as the majority of respondents noted increased pricing, decreased carrier appetite, stricter underwriting and an increase in reported claims across key lines of business. It is important to note this survey was fielded from July 1 – July 31 and respondents were only asked to report on activity that occurred during Q2, this does not address forward-looking predictions. In Q1, many respondents indicated that it was "too early to tell" the impact of COVID-19, however, respondents in Q2 identified critical impacts that COVID-19 has made on the industry thus far.

COVID-19's IMPACT ON THE INDUSTRY

Respondents were asked whether certain areas of their business continued to be impacted by COVID-19 in Q2 2020 and the majority of respondents agreed key areas of their business - availability of coverage, pricing, renewals, underwriting trends and more - had been affected.

In respondents' comments, the most common theme aside from increased pricing, was decreased capacity, carriers underwriting risks with more scrutiny and carriers asking additional, COVID-related questions at renewal:



"While workers comp was the only exception [to a hardening market] before the pandemic, it has certainly been impacted by COVID-19 with carriers exiting certain industries (i.e., healthcare, etc.)," said one respondent. "Most carriers have not changed their renewal appetite, some have, and many have changed their new business appetite for specific industries. Most carriers are asking many COVID-related underwriting questions to ensure the safety of the employees and safety of the public [and] requiring infectious disease protocols and procedures."

AVAILABILITY OF COVERAGE

Respondents agreed that while premium pricing continued to rise, decreased capacity was also evident, as many carriers pulled out of key lines, particularly D&O, Umbrella, Property, and Management Liability. "Umbrella limits have decreased on renewals and new business," explained one respondent. "Some carriers offer only $5 million now, most only offer up to $10 million on a primary basis. We've had to provide excess liability quotes to complete the expiring term's limit." In addition to decreased capacity across key lines of business, respondents also noted restricted capacity for certain industries, such as senior living facilities, hospitality and retail.

PREMIUM PRICING RELATED TO COVID-19

While premium pricing increased across the board in Q2 2020, respondents agreed pricing increases across certain lines was impacted by COVID-19. One respondent noted that in the first half of COVID-19, particularly in Q1, renewals were the main concern for clients. In Q2, brokers struggled with pricing increases and coverage access for their insureds. Respondents mentioned Property, Management Liability, Excess Liability, D&O, Umbrella, and Employment Practices all as lines where pricing was at least partially impacted by COVID-19.

As one respondent explained, “More coverage restrictions and hardening terms are being presented by markets on renewal. Carriers are also asking more questions and getting more granular with data requests for underwriting purposes.” Another respondent said, “The inability of competing carriers to visit locations due to COVID has decreased competition and caused increased pricing and reduced leverage in the market for clients.”

While it is difficult to identify which lines and how much pricing is being impacted due to the pandemic, as opposed to price increases in general, respondents agreed that COVID-related losses in the first half of 2020 and general uncertainty going forward both contributed to premium pricing increases across key lines of business.

RENEWALS

While carriers’ ability to collect premium upon renewals continued into the second quarter of 2020, respondents agreed most carriers also delayed collection of premiums during mandatory shutdowns, giving struggling businesses relief in this capacity.

That being said, carriers continued to face their own struggles as well: “Insurers as a rule are incredibly behind and the renewal process and getting responses and terms from insurers is slow,” explained one respondent. “We have issues with certain insurers wanting to add COVID/communicable disease exclusions to Umbrella policies. This is a horrible message to insureds right in the middle of a crisis.” Several respondents also mentioned carriers pulling back authority from field underwriters, making the renewal and new business underwriting process protracted, inefficient and frustrating for brokers and clients. Other respondents noted that working with insurers on renewals varies significantly carrier-to-carrier.

Additionally, the combination of carriers asking more questions and constant changes in exposure data took its toll on renewals. For example, one respondent explained, “clients are working remotely, renewal data may be in flux. Underwriters are raising rates and premiums for many, even though exposures are down. In some cases, carriers are sending out non-renewals for no apparent reason.” Obtaining accurate data from insureds was a clear issue in Q2, and respondents agreed that starting the renewal process earlier was critical in servicing their policyholders.

UNDERWRITING TRENDS

Changes in exposure data, decreased capacity and more underwriting scrutiny for new accounts were increasingly evident in Q2. Respondents associated underwriters adding virus exclusions, coverage restrictions and requiring more underwriting information with difficulty during renewals.

“Exposure data accuracy on a prospective basis especially for restaurants, hospitality, sport clubs and entertainment to name a few is [very difficult]. Moratoriums on premium payment by states did nothing more than kick to ball down the road where there are even less dollars to pay,” explained one respondent.

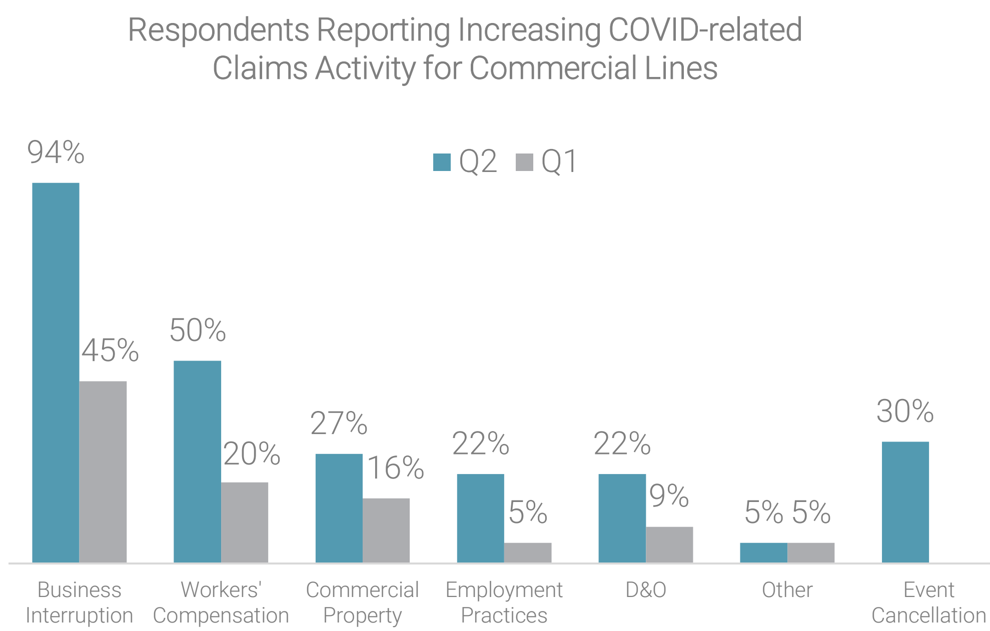
Another noted that “some challenges are the decreased exposures due to our clients having to shut down their businesses. We proactively reached out to our insured to find out what their expected exposures (sales, payroll, fleet) impact would be during the shutdown and was able to get adjustments on most policies.”

Regarding uncertainty around the pandemic, revenue for brokers’ clients became increasingly unpredictable in Q2, as insureds continued to have questions around reopening, limited number of customers, lack of travel and federal, state and local guidelines related to the pandemic. This uncertainty led to increased underwriting questions and carriers "using COVID-19 as a reason to increase rates."

CLAIMS ACTIVITY

Claims activity due to COVID-19 in Q2 increased drastically compared to the previous quarter, as the majority of respondents reported in increase in claims across key lines of business. It's important to note however, that while reported claims were up across the board in Q2, most respondents did not see any successful COVID-related claims. Respondents also mentioned difficulties around servicing claims due to a lack of "boots on the ground" and carriers generally being "disjointed" when handling claims.

Additionally, half of respondents reported an increase in Workers Compensation claims, compared to 20% in Q1. Respondents agreed that most WC claims were still pending and noted continued uncertainty due to various state regulations around presumed liability in the workplace.



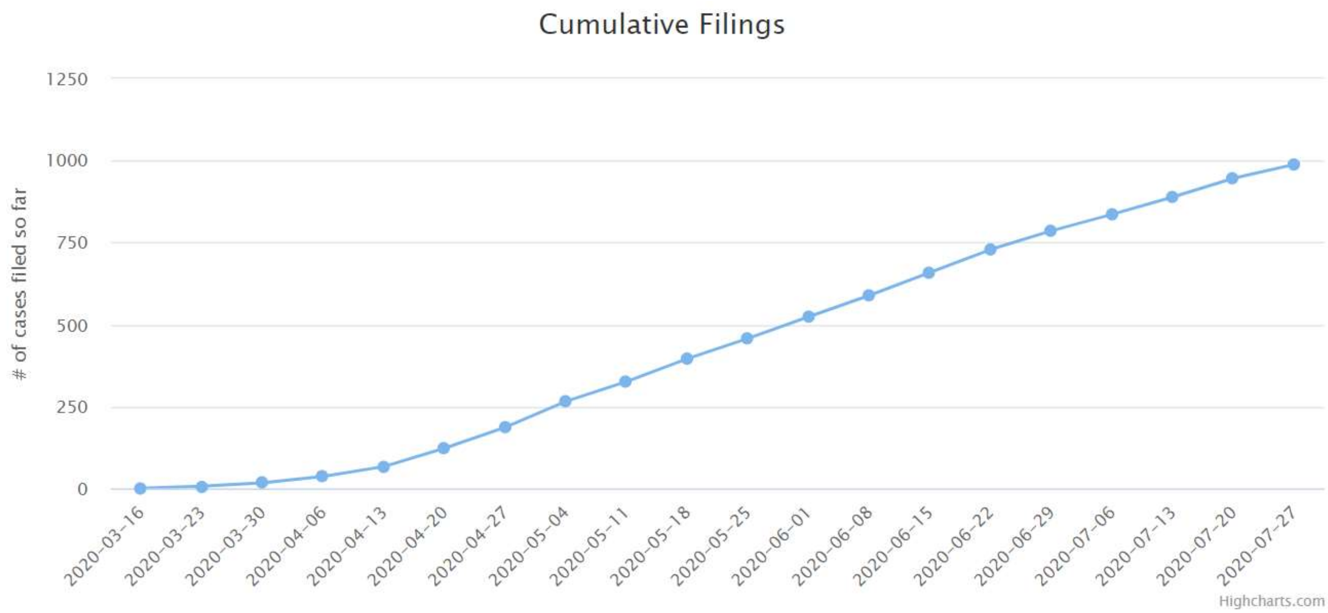
For claims that were not outright denied (primarily Business Interruption claims), respondents noted some property claims still pending and uncertainty and concern around Employment Practices Liability (EPLI). Another respondent mentioned one event cancellation claim being successful, which carried $30,000 in event cancellation coverage, as no exclusions were applied to COVID-19.

BUSINESS INTERRUPTION

On the Business Interruption (BI) front, 94% of respondents reported an increase in claims activity compared to 45% in Q1. Despite this increase, not one respondent reported a successful BI claim and most respondents agreed these claims were outright denied.

"All submitted business interruption claims have been acknowledged by the carrier," said one respondent. "Each claim has been denied along with the carrier providing a reservation of right letter advising they reserve the right to change their position if information regarding the claim changes."

According to Penn Law's [COVID Coverage Litigation Tracker](), nearly 1,000 cases had been filed as of July 27, 2020. Given that the vast majority of these clams were outright denied, many of these cases will be left for the courts to decide, which will likely continue for years to come.



SERVICING POLICYHOLDERS IN THE MIDST OF A PANDEMIC

Last quarter, when asked if they had any challenges servicing policyholders during the midst of a pandemic, respondents were overwhelmingly positive and optimistic. Many, if not all, felt they had successfully made the transition to remote work and that it would be "business as usual" until the pandemic was over. Now, however, as the pandemic has dragged on, respondents have moderated their optimism somewhat as they contend with the unique challenges posed by the pandemic combined with fact that virtual meetings are not a permanent substitute for face-to-face interactions that are the bedrock of broking.

According to respondents, one of the main challenges of servicing insureds during a pandemic was renewals. "Market pricing and capacity changes have required a much larger number of accounts to go to market which is creating stress on service capacity," said one respondent from a midsized Midwestern firm. "Due to COVID-19 many clients have questions related to their policy, exposure change potential." On top of that, added a respondent from a large Northeastern firm, "client expectations for timely renewals and responses has increased, the presumption is everyone is working at home 24/7 and should respond immediately," putting additional stress on brokers.

Respondents also felt that going remote due to the pandemic affected not just renewals, but overall operations. "Virtual interaction with customers makes it challenging to have in depth discussions," said one respondent. "The inability to meet face-to-face lessens the interpersonal aspects of the insured/broker relationship" and "I miss meeting with clients in person. It's difficult to provide a "personal touch" over a video call" was also a popular sentiment expressed by brokers.

And it wasn't just the lack of a "personal touch"— several respondents felt that the pandemic also made everything move slower. "Underwriters are really difficult to get ahold of. Also, almost everything is now a "home office" referral so nothing turns around quickly," said one respondent. "With the majority of our staff and carrier staffs working remotely, workflows have slowed and we are seeing some backlogs. In some cases, due to clients also working remotely the information flow has not been as crisp," said another respondent from a midsized Northeastern firm. And from the Midwest: "Working at home and technology enhancements were a significant challenge. While we were up and running in days, many of our clients still have not fully recovered."

In general, respondents seemed to be combating the challenges posed by taking a proactive approach. "We let the policyholders know what to expect by sharing market intelligence, pricing trends, and whether their expiring coverage terms will be offered. This starts 120-150 days prior to renewal date. Objectives are set and discussion regarding re-marketing of the account is also done during this period. Some policyholders will agree to keep the account out of market if the carrier agrees to terms at least 90 days prior to renewal," said a respondent from a midsized Southeastern firm.

MAINTAINING EMPLOYEE HEALTH & WELLNESS

Given the ongoing pandemic, the Q2 2020 survey introduced a new category about brokerages' top three challenges and top three priorities, to take stock of how the pandemic and working from home were affecting employees (if at all), and how firms were addressing those issues: "maintaining employee health and wellness." Thirty-two (32%) percent of respondents listed it as a top three priority, and 41% listed it is a top challenge for their firms.

Those respondents that identified "maintaining employee health and wellness" as a top challenge or priority made clear the negative impacts of the pandemic and of working from home. "COVID-19 is taking a toll on everyone," said a respondent from a large Northwestern firm. "Children are at home and school has become complicated. Our business has become more demanding and we are all working longer hours even from home." "Working remotely and not seeing colleagues is a real concern - we want to make sure all employees are happy and not isolated and depressed," said a respondent from a midsized Southeastern firm. As a respondent from a midsized Southwestern firm put it, "Mental health and positivity is key in COVID-19."

To address these challenges, some respondents have implemented "an active wellness program in-house which encourages employees to participate" or allow for "a lot of accommodations for health and child care" in order to take pressure off employees. Another firm has "set up an employee COVID-19 fund which can provide dollars to our staff in need during this time."

Overall, respondents are taking their employee health and wellness seriously. After all, "COVID-19 management of employee safety is critically important, as our colleagues are the backbone of the industry."

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