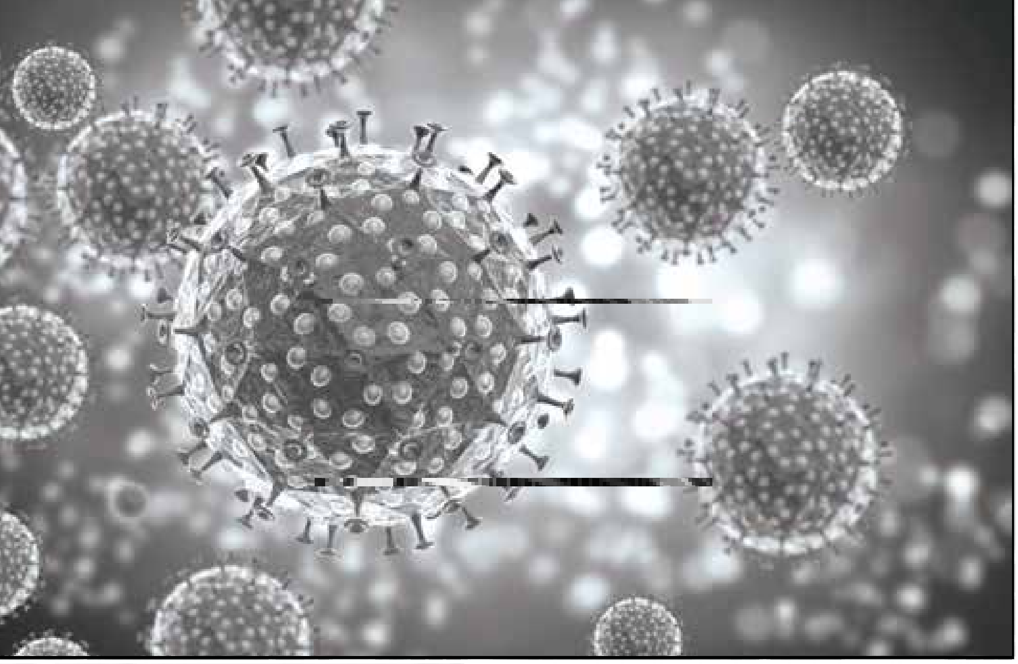
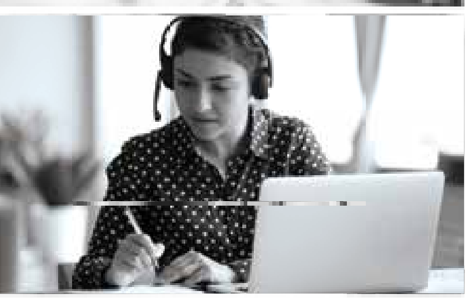




THE COUNCIL

COVID-19 SUPPLEMENT

COMMERCIAL PROPERTY/ CASUALTY MARKET INDEX

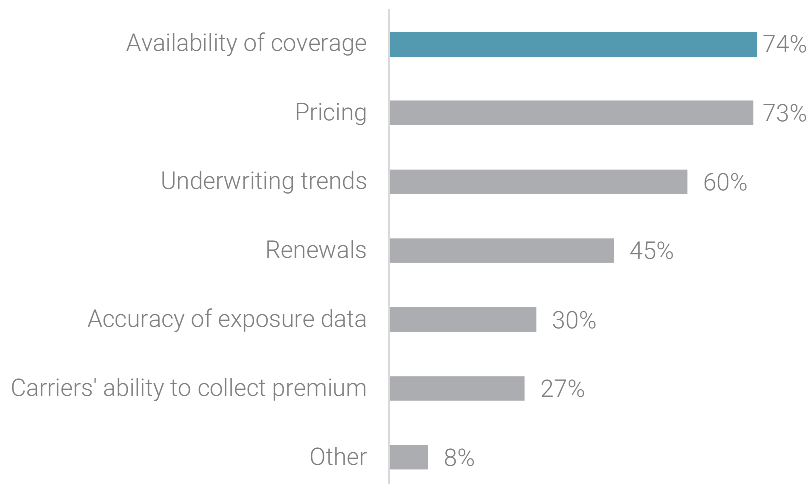
Q4/2020

For the fourth consecutive quarter, respondents were asked additional questions concerning COVID-19's impact on the industry and the property/casualty market in Q4 2020. Alongside questions to gauge how COVID-19 affected the market and business operations, additional questions were added in Q4 2020 to assess respondent plans for returning to work (if they intend to return to work at all) given the recent creation of a COVID-19 vaccine, as well as the affect the pandemic had on office culture.

COVID-19's IMPACT ON THE INDUSTRY

As with previous quarters, most respondents agreed COVID-19 impacted the availability of coverage and pricing for certain lines of business and had a significant effect on other key parts of their business, including underwriting and renewals.

Have the following been impacted by COVID-19?



In respondent comments, there were similar themes to the results of the property/casualty market survey. Respondents painted a picture of "timid" carriers, increased retentions, increased deductibles, increased scrutiny, and an increased unwillingness to take on too much COVID-19 related risk. Said one respondent, "Every word was reviewed with far more detail than previously." And according to another: "Carriers were either non-renewing risks or increasing rates and reducing limit. Underwriters were re-underwriting accounts and asking for far more information than ever, even on accounts they've been on for years."

In general, respondents highlighted an air of deep uncertainty in the industry about COVID-19, how claims will play out, and how the presence of the disease will affect exposure data and risk assessment in the months and years to come.

AVAILABILITY OF COVERAGE

Most of the lines that experienced the largest premium increases in Q4 2020—Umbrella, D&O, and Commercial Property—were named as lines suffering a crisis of availability of coverage by respondents. According to one respondent from a midsized Southeastern firm, underwriters were "not willing to write some classes of business, such as hotels, restaurants, vacant property." Another respondent from a large Northwestern firm commented that "COVID-19 hurt some accounts where the property was non-renewed and new prospective markets were not comfortable quoting without loss control visits, which did not happen because of COVID." As a result, that firm in particular had to arrange for a "substandard E&S coverage" to fill the gap until a virtual survey took place.

Umbrella availability was also "greatly affected," according to another respondent from the Northwest, "specifically excess limits over existing umbrellas." In addition to capacity reductions across these key lines of business, respondents also noted carriers pulling back on hospitality risks, employment liability and D&O coverages, as well as event cancellation coverages.

PREMIUM PRICING RELATED TO COVID-19

Respondents agreed that price increases were occurring across the board for most lines, if not because of COVID-19, then because COVID-19 has only amplified and accelerated market conditions in Q4 2020. In the words of one respondent from a large Northeastern firm, “It was the perfect storm. All the difficulties which go with a typical hard market combined with coverage uncertainty and COVID-19.” However, as one respondent from a large Southeastern firm highlighted, it was “difficult to know how much premium increases and underwriting trends were due to COVID-19 or the already hardened market.”

Similar to above, Umbrella, D&O, and Commercial Property were mentioned in respondent comments about premium pricing related to COVID-19. Respondents reported that carriers were citing uncertainty due to COVID-19 and uncertainty over how claims would play out as for a rationale for price increases—they were preparing for the eventuality of being hit by claims due to the pandemic.

UNDERWRITING TRENDS

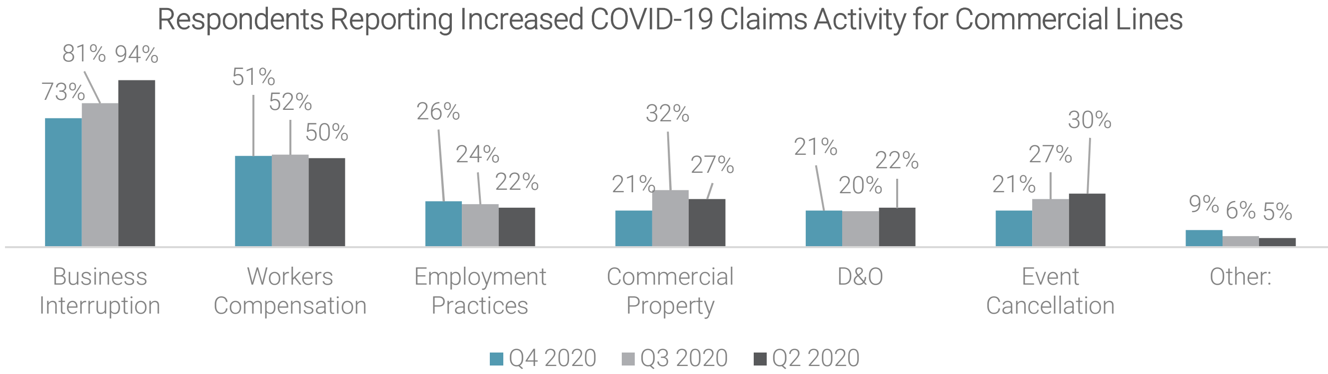
As mentioned above, carriers were taking a more cautious approach to underwriting in Q4, with some declining outright to “write certain classes of business, such as hotels, restaurants, or vacant property.” And for the business carriers were willing to write, carriers imposed “more restrictive terms, increased retentions, and more stringent underwriting,” as well as “more risk control requirements.” For example, one respondent from a midsized Northeastern firm mentioned that “Workers compensation risk management programs meant to protect employees from COVID-19 needed to be in place for employers or carriers would not consider coverage.”

“Underwriting scrutiny massively increased,” said one respondent form a midsized Southeastern firm. “Items that had once been contingencies after binding were now required up front.” Respondents also mentioned there were many more questions about workplace safety. According to one respondent from a large Southwestern firm, the increased scrutiny was a significant issue in Q4: “Insurers were placing a significant burden on agents with redundant applications, questionnaires, etc. …Agents and insureds cannot predict the future with this virus.”

New exclusions were also a common theme in respondent comments, as in the Market Index. “New exclusions were being added to Property & General Liability for communicable disease (CD) and pandemic exposures,” said one respondent from a large Northwestern firm. “CD exclusions were being attached to GL / Umbrella for certain industries with significant public access exposure—i.e., real estate, retail, healthcare, hospitality / restaurants, large venues, etc.” Another respondent from a midsized Southeastern firm commented that, “Each surplus lines account was subject to provisional non-renewal and exclusions for the pandemic.”

But as several respondents observed, brokers were not the only ones struggling in these uncertain times. “Uncertainty regarding litigation and the economy made it difficult for underwriters to determine appropriate pricing and terms,” said one respondent from a large Southwestern firm. And “Insureds struggled with estimating exposures for their next 12 months,” said another respondent from the Southeast.

CLAIMS ACTIVITY



As mentioned in the Market Index, the initial rush of Business Interruption claims due to COVID-19 seems to have abated slightly in Q4 2020. Seventy-three (73%) of respondents reported that COVID-19 caused increased Business Interruption claims in Q4 2020, down from the ostensible peak in Q2 2020, where fully 94% of respondents said there had been increased COVID-19 claims activity for that particular line. Nevertheless, it is important to remember that few COVID-19 Business Interruption claims were successful. Indeed, one respondent in the Southwest observed that they had seen "no successful non-WC claims."

Additionally, 51% of respondents reported that there was increased claims activity for Workers Compensation. This falls in line with respondent comments in the Index about increasing workers compensation claims due to people beginning to return to work and rebuttable presumptions, such as the one in California, where it is assumed that if an essential worker contracts COVID-19 it was through work and therefore triggers coverage.

Otherwise, COVID-19's effect on claims activity in other lines in Q4 2020 seems to have been minimal or has not really changed since Q2. It is not clear whether this is a sign that the pandemic's grip loosened on the industry in Q4.

BROKER CHALLENGES DURING THE PANDEMIC

When asked about challenges they faced during the pandemic, respondents' comments generally followed a few common themes. Some responses highlighted the challenges posed by the remote work environment and all the adjustments to workflow that came with it; others focused more on the fact that the pandemic had brought with it the restrictive underwriting trends and significant price increases discussed above. All in all, respondents agreed that while they had mostly adapted to the new working-from-home paradigm, challenges remained—and sometimes there was little they could do to combat them.

DIFFICULTIES WITH REMOTE WORK

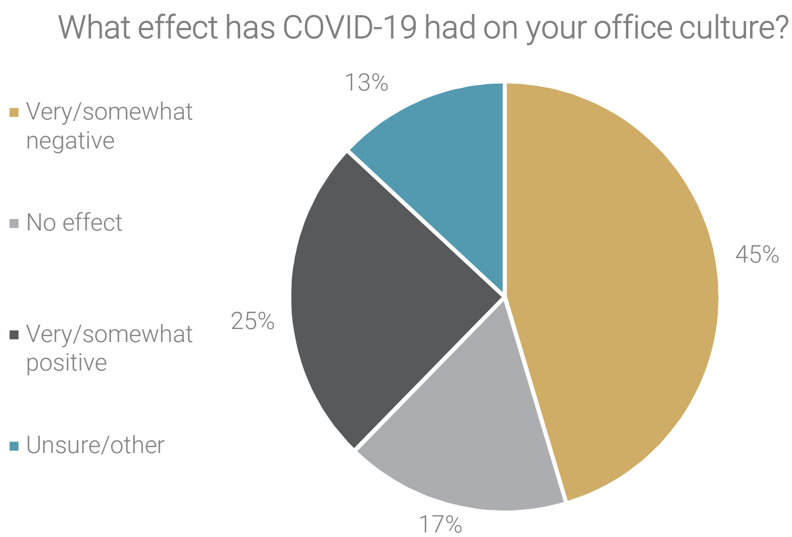
One of the most common difficulties with a remote work environment emphasized by respondents was the lack of face-to-face communication. "Short term, we have been able to transition to having meetings via video conference, but long-term it will be important to get back to in person meetings. Personal relationships are a key piece of being a trusted consultant. These relationships are best built face-to-face," said one respondent from a large Southeastern firm. "Most clients are much more comfortable with video meetings, but this is still not an ideal substitute for face-to-face meetings," said another respondent from a large Northeastern firm. "This is especially true with "tough news" and discussing the implications thereof."

Yet another respondent, from a large Northwestern firm, commented, "The variety of remote working arrangements and phone structures for our clients, carriers, as well as our own folks, created complications. Some folks were very difficult to get hold of by phone and had additional responsibilities at home in addition to those of their job. This created delays and additional stress."

However, another respondent from a large Northwestern firm took a slightly more optimistic view, saying, "Effective servicing for most of our policyholders was not greatly affected. Phone and email have replaced face-to-face meetings but this only a negative for some very complex renewals where a face-to-face would have been more beneficial."

Another challenge with remote work cited by several respondents was issues with mail service. "USPS service has been horrible—lost payments and inability to make payments," said one respondent from a Northeastern firm. And notably, one respondent from a large Northeastern firm said: "More than COVID-19, challenges with mail delivery have impacted our clients with policies sometimes being cancelled before they had even received their premium notices. While we are encouraging people to sign up for online payments, there are a number of clients (especially elderly) that are reluctant to do so."

Lastly, respondents noted that remote work had some effect on their office culture, but respondents were divided over what that effect was. 45% of respondents said remote work had a very negative or somewhat negative effect on the office culture, while 25% said it had a very positive or somewhat positive effect; the rest said it had either no effect on office culture (17%) or were unsure or didn't know if the transition to remote work had any effect.



Those that held the opinion that remote work had a negative effect on their culture said that it had led to a notable atrophying of casual relationships between employees and has hampered team-building and collaboration, especially when it comes to new employees. "We have to have communal sharing of knowledge and that is best transferred in an office environment. The brain trust cannot be replicated in a remote atmosphere," said one respondent from a midsized Southeastern firm. "Staff misses the interaction and camaraderie," said another respondent from a large Southeastern firm. "They also miss the opportunity to work together on difficult accounts."

Other respondents in this group also noted that remote work had a negative impact on productivity. "Employees feel isolated at home and are less accountable working remotely," said a respondent from a large Northeastern firm. "Productivity appears to decrease over time as the distractions at home get prioritized over work." And according to a respondent from another Northeastern firm, remote work brings "loss of team chemistry. Corners are being cut, training has been hampered. Employees that were not good workers before are worse now."

On the positive side, respondents said that their employees were "very appreciative of the flexibility and our concern for their safety," as well as "more collaborative on many projects because experts can easily engage electronically with each other and clients," according to respondents. Said one respondent from a large Midwestern firm, "Many feel more connected with each other and we are able to offer increased training opportunities by simply inviting people to Zoom calls." Other respondents pointed out that Teams and Zoom calls at home can open up more opportunities for deepening relationships and employee bonds, as through the webcam their employees can meet one another's pets, children, spouses, etc.

CURRENT MARKET CONDITIONS

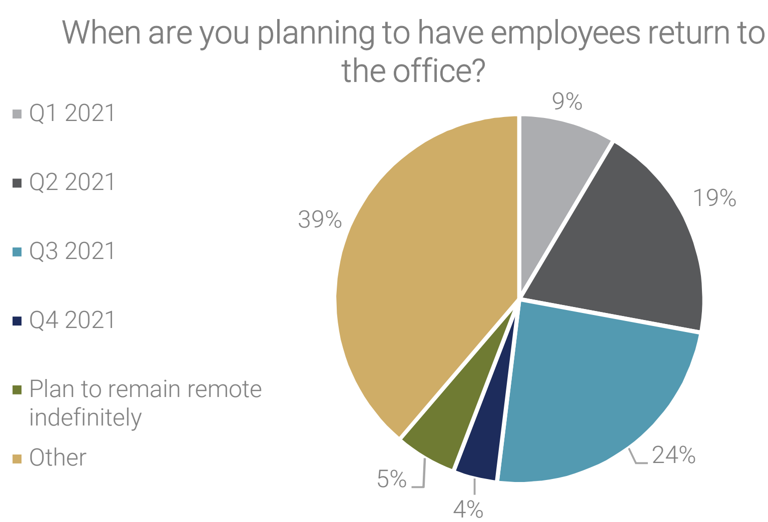
For some respondents, the biggest challenge in Q4 2020 was dealing with the current market conditions. "Securing quotes is difficult and requires more marketing," said one respondent from a large Northwestern firm. "Carriers' capacity shrinking. Nothing caused by remote workers." "Carrier appetite changing, clean accounts being non-renewed, interest in writing new business has been impacted," commented another respondent from a large Midwestern firm.

Current underwriting trends and carriers pushing for rate led to some respondents struggling with having to "counsel" their clients and finding the best way to explain rate increases and coverage restrictions, especially when businesses were "having trouble keeping their doors open or paying their employees." "The market trends have been challenging for policyholders specifically regarding the increased rates and not receiving renewal terms early in the process," said one respondent from a large Midwestern firm. "We are combating these challenges by trying to educate our clients on the marketplace and setting expectations ahead of time."

"Mental health of many clients is hurting, business is down in many sectors, staff and owners are getting sick from COVID, businesses are hurting," said another respondent from a large Northwestern firm. "Carriers are trying to get rate while many insured are hurting," commented another respondent. "Not a good combo."

FUTURE OF WORK

This quarter, respondents were also asked their timeline for having employees physically return to the office. Though nearly a quarter of respondents expressed plans to have employees return sometime in Q3 2021, and 19% intended for employees to return to the office in Q2 2021, the most common response, at 39%, was that they had other plans or plans that did not fit into that defined structure.



Those who said they had other plans were divided into roughly two groups: those whose employees had already returned to the office (either completely or in some phased capacity), and those that were taking a "wait and see" approach, guided by state or CDC recommendations as well as vaccine distribution plans. Most if not all agreed that employees would continue to work remote even after the "official" return to the office, with one respondent saying, "Vast majority of exempt employees have expressed that they no longer want to work in the traditional office environment. There are many advantages to working at home, i.e., no commute (that's a BIG one), being more available for family, not "wasting time" getting dressed to go to the office, just having more of one's personal time back."

Most of the respondents whose firms had employees back at work in some capacity mentioned that they were taking a “hybrid” approach to bringing employees back to the office or allowing people to return to the office voluntarily for however many days a week they felt comfortable doing so. One respondent from a large Northeastern firm said they were “currently half-staffed, with some always remote, some always in office, and others hybrid. I suspect a resemblance of such a schedule will remain in the future.” And according to a respondent from a large firm in the Midwest, “We've allowed them to come back voluntarily since Q3 2020. We are now seeing 50% of our employees in the office 3-4 days a week. We are hoping that number increases to 85% by the end of Q1 2021.” On the whole, respondents seemed open to the possibility that many of their employees would transition to that “hybrid” model, where they would work from home a few days a week and come into the office for the remainder.

Some respondents also acknowledged that employee presence in the office may never return to original levels. One respondent from a midsized firm in the Northwest said they were “having internal talks of never returning full time. Maybe a day a week is required but primarily remaining remote.” And another respondent from a large Northeastern firm said they were “expecting a hybrid work environment where some employees return to the office full-time, some split time working at the office and at home and others continuing to work at home full-time.”

What the varied responses show is that there is no “one size fits all” approach for every company regarding when and how they should bring employees back. State regulations influence how companies approach employee return—as one respondent from a large Northwestern firm explained, “We have locations in 25 states, with different state regulations. Return times vary by state.” And employee comfort levels, health, and desire to return to the office vary dramatically between firms, serving as additional factors for when considering employee return. Perhaps once the vaccine has been distributed there will be more defined movement on that front, but for now most firms seem to be proceeding based on their own unique circumstances.

THE COUNCIL