May, 2021

Q1 2021 U.S. Business Insurance

State of the Market Report Executive Summary

While not out of the woods yet, it's refreshing to see the composite rate for all lines of coverage in the U.S. starting to trend down—dropping 3% in Q1 2021 according to the Marsh Global Insurance Market Index. Marsh has been tracking these rate trends for decades and this last decade was certainly a challenging one.

If the global pandemic that started just over a year ago has taught us one thing, it's we are "all in this together" when it comes to building a strong resiliency network. Together, we can employ and efficiently direct our talents to address forthcoming risks such as climate change, cyber security incidents, supply chain issues, business interruptions, and political uncertainty.

This report provides some initial thoughts on these developing concerns so we can find ways to avoid the fallout from the next pandemic—in whatever form that might take. Addressing these global concerns ultimately influences the insurance market conditions. Let's keep driving the downward trends together.

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& National Partnerships

MARSH & McLENNAN AGENCY

Q1 2021 U.S. Business Insurance

State of the Market Report

May, 2021

Rate Hardening Persists

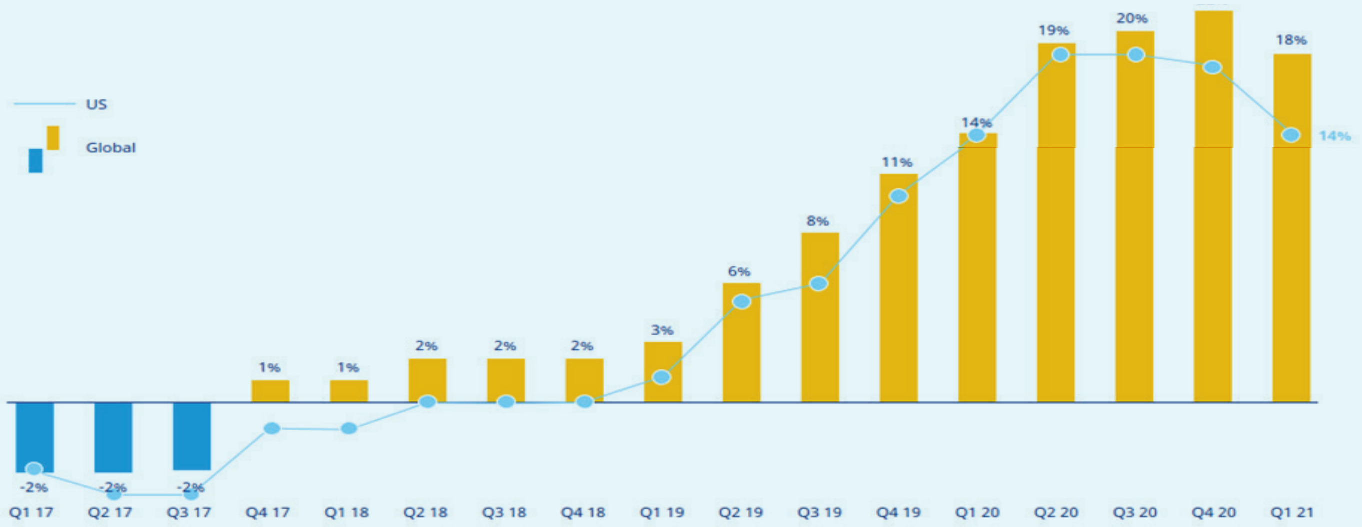
Globally and across all major lines, commercial insurance prices rose an average of 18% in the first quarter of 2021, according to the Marsh Global Insurance Market Index. This takes us into the fourteenth consecutive quarter of price increases in the insurance marketplace, but finally trending down from the prior quarter by 4%. U.S. composite pricing across all commercial insurance lines has trended down by 3% as well.

While more stringent underwriting requirements are being implemented across the board, we remain optimistic that the marketplace will continue moving towards a more balanced state though the rest of 2021. The improvements in risk appetite from regional carriers is one of the first indicators that is keeping Marsh & McLennan Agency (MMA) feeling bullish about the future outlook.

When the national carriers lose business to regional carriers, they start rethinking their strategy for providing new capacity from all markets.

Rates on many coverage lines are beginning to plateau as carriers are beginning to feel confident about future margins as they see rates outpacing the loss trend on written premiums. However, should the industry see an increase in loss trends from a recovering economy and the re-opening of courts, the underlying margin growth for insurers will challenge the industry over the next few years.

Global and U.S. Insurance Composite Pricing Change



Source: Marsh Specialty and Global Placement Data Analytics COE

Note: All references to pricing and pricing movements in this report are averages, unless otherwise noted. For ease of reporting, we have rounded all percentages regarding pricing movements to the nearest whole number.

Risks That Affect Us All are Risks to Resiliency

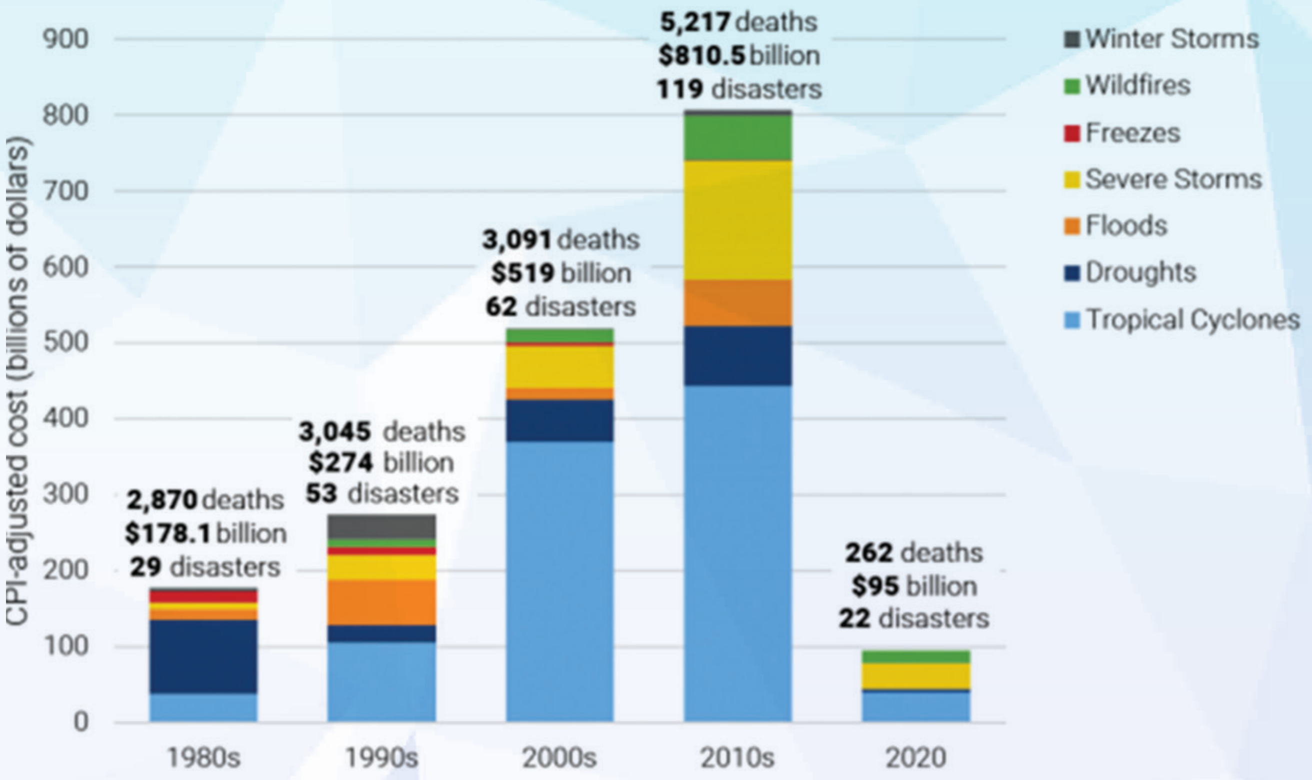
Anticipating risk is essential. With so many emerging risk issues in our complex global economy, a forward-thinking response to potential crises puts an organization on the path to resiliency. Whereas the current pandemic is still the top concern for global markets, compounding uncertainties due to climate change, cyber-related risk, and increased public scrutiny continue to prove equally worthy of attention. Addressing these issues are key board responsibilities for those with a duty to protect long-term shareholder value.

While it is too early to draw definitive lessons, the 2021 edition of the World Economic Forum Global Risks Report reflects on global preparedness regardless of the specific risk concern. As they point out in the report, "if lessons from this crisis only inform decision-makers how to better prepare for the next pandemic—rather than enhancing risk processes, capabilities, and culture—the world will be again planning for the last crisis rather than anticipating the next."

Climate Change Risks Exasperate Business Interruption Concerns

BRINK, the news service of Marsh McLennan Insights, recently reported some chilling statistics about climate change. Climate disasters in the U.S. have accounted for over $1.8 trillion in economic costs since 1980. According to Brookings, the country has endured over 285 climate-related catastrophes in the past 41 years, with a cost of at least $1 billion each. These disasters are becoming more frequent and intense. In the 2010s alone, they cost $81 billion per year—a dramatic increase from $18 billion per year in the 1980s.

Rising Costs of U.S. Climate Disasters, 1980-2020



Source: Brookings analysis of NOAA National Centers for Environmental Information (NCEI) data. Note: Climate disasters refer to droughts, floods, freezes, winter storms, severe storms, tropical cyclones, and wildfires costing at least $1 billion each.

Findings in the 2020 FM Global Annual Report underscore how investment in preparedness not only improves a company's resilience to loss, it also can protect beyond what insurance will cover.

EVERY $1 SPENT ON HURRICANE PROTECTION IN THE U.S. REDUCES LOSS EXPOSURE BY AN AVERAGE OF $105.

Used with Permission from Source: 2020 FM Global Annual Report

5% AVERAGE DECLINE IN SHAREHOLDER VALUE OF DAMAGED FIRMS IN YEAR AFTER MAJOR FLOOD

Despite FM Global data showing the value of investing in climate resilience, more than 3 in 4 companies say they are under prepared for climate-related financial risks.

Used with Permission from Source: 2020 FM Global Annual Report

As the world adapts to an ever-changing climate, flood risk concerns rise as well. Floods are increasing in supposedly low-risk areas, with 36% of the flood claims occurring for properties outside the 100-year flood zone found in the FEMA flood maps. The related hurricane season is right around the corner and 2020's record-breaking season reminds us that primary perils remain a significant threat to businesses.

The "just in time" manufacturing models of supply chains will be re-imagined with a little more cushion to keep up with the demand. The potential for severe business interruption consequences has become all too clear over the last 12–18 months.

Could Cyber Be the Next Pandemic?

When John Doyle, Marsh CEO, talks about the next pandemic being driven by cyber risk and "one of the greatest challenges of our time," resiliency becomes more key than ever. "Systemic events can create a real threat to economic resilience around the world," Doyle said. "We need to learn from one another."

Just as demand to purchase cyber coverage has finally come into the mainstream, the rate increases are making for some tough buying decisions. As Henry de Bracton said in a quotation that adorns the entrance to the Harvard Law School Library, "An ounce of prevention is worth a pound of cure." It's the primary way organizations will keep premiums affordable for this essential line of coverage.

Political and Credit Risk Concerns

Marsh's 2021 Political Risk Map provides insights that demonstrate the urgency in which businesses and public entities should invest in credit risk products to mitigate some of the uncertainty that lies ahead.

1. **Inequality is growing, driving civil unrest and political divide.**
2. **Sovereign debt is growing unsustainable, presenting credit and trade risk.**
3. **Pressure on resources is driving the re-evaluation of supply chain resilience.**

Investing in credit risk solutions can help entities increase supply chain resilience, secure trade and investment capital, and mitigate risk.

PROPERTY COVERAGES

Property

In general, we are seeing rate pressure ease off somewhat on good accounts. The market is not softening, per se, but it appears to have hit its peak around July 1, 2020. Carriers are still reluctant to compromise on terms, with a better chance to manage rate increase rather than seeking coverage enhancements (negotiating on rate was out of the question in the past 12-18 months). This remains a bifurcated market with certain occupancy classes such as frame habitational risks, recycling accounts, and food accounts still being a challenge to place as capacity is scarce. Some markets are coming in last minute on renewals with drastically increased pricing and diminished terms.

We still have the hurricane season to contend with as well as uncertainty around loss creep from Winter Storm Uri in February and COVID-19, but the market is definitely starting to trend downwards from its 2020 peak. It's possible we may be close to flat on desirable accounts before the end of 2021.

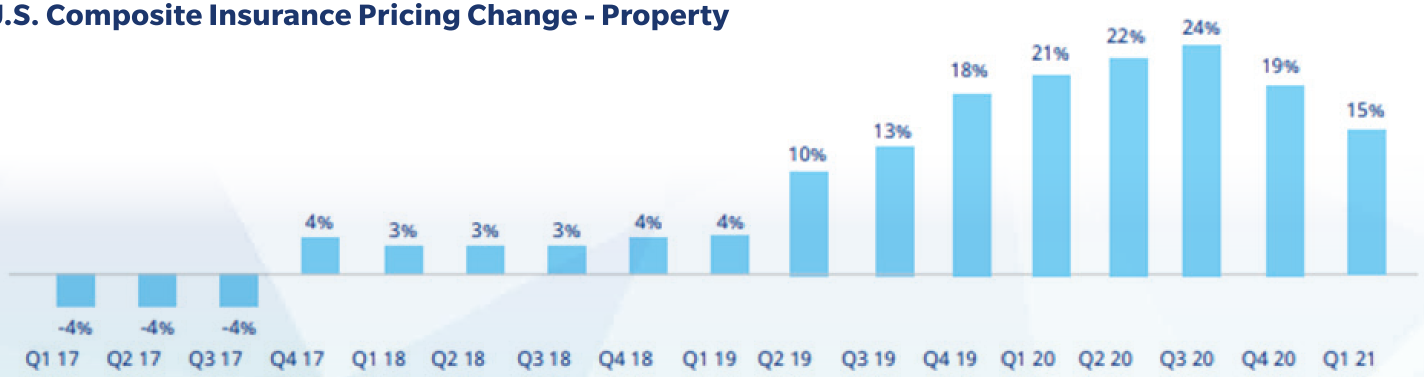
Rate Trends

- According to the Marsh Q1 2021 U.S. composite insurance pricing change, property pricing increased 13-22%.
- MMA has been seeing rate increases of **10%–20%** and higher for catastrophe exposures and continued challenges for tougher risks such as habitational property risks (especially in student and affordable housing).
- Single digit rate increases can be expected on accounts that have performed well and where risk management recommendations have been addressed, but those with tough and/or unprotected exposures are seeing significant increases.

Considerations/Conditions

- We are definitely seeing markets walk back initial aggressive renewal indications, as they do not want to lose good accounts. We are also seeing more competition on new business, especially in the 100% ground up admitted market space.
- Desirable accounts, when brought to market, may even see a decrease in premium/rate.
- The overall focus of underwriting is clearly cleansing their book of business of any account that is in a difficult exposure group and/or has experienced higher than expected loss activity.
- Carrier changes are less disjointed and there has been a greater consistency to changes being implemented to coverage terms.
- New carriers are bringing new capacity into the marketplace, but have more interest in best-in-class risks.
- Wildfire exposed property continues to tighten and carriers have expanded the areas they consider exposed.
- Food related accounts continue to be challenging.
- Convective storm/wind deductible increases and tightening are being applied to new locales.
- Coverage restrictions continue, such as the addition of wind percentage deductibles, removal of blanket limits, and push towards loss limit, increased deductibles, and review of catastrophe aggregates. Insurance to value is being reviewed by carriers more closely as well.
- Pressure remains on insureds to comply with risk control recommendations.

U.S. Composite Insurance Pricing Change - Property

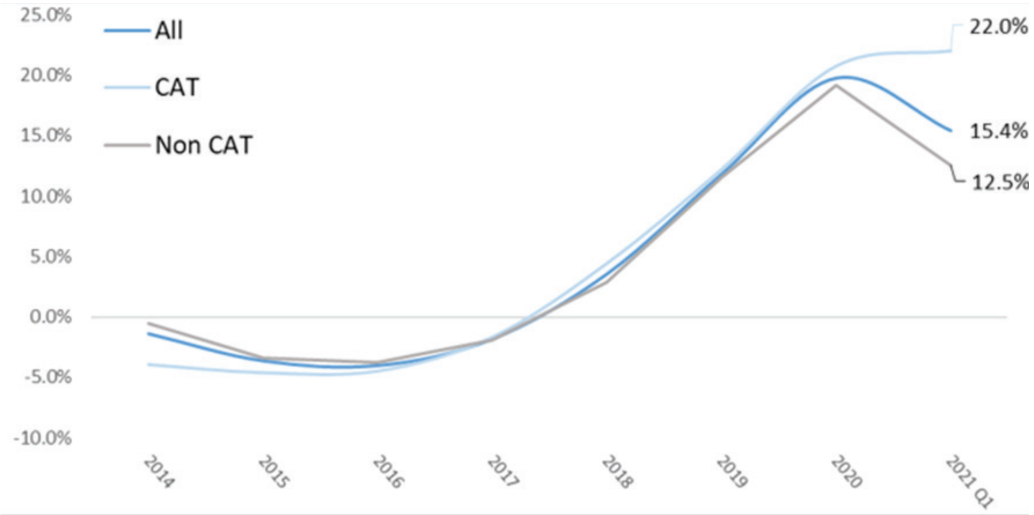


Source: Marsh Specialty and Global Placement Data Analytics COE

Rate Outlook

	Avg Q1 ‘21	Trend	Outlook
Property All Risk	+15.4%	▼	10% to 15%
CAT	+22.0%	▲	15% to 25%
Non CAT	+12.5%	▼	7.5% to 15%

Average Rate Changes By Year



Source: Marsh Specialty and Global Placement Data Analytics COE

Cargo/Inland Marine

Like the property market, the cargo stock throughput (STP) market is also showing signs of easing off from its 2020 peak. Small, straightforward cargo placements were not affected by the hardening market, but the more complex STP accounts certainly were. Soft commodity business, pharmaceutical accounts, and temperature sensitive products remain among the most challenging classes to place due to frequency and severity of losses over the past five years.

The ultra-large container vessel Ever Given ran aground in the heavily trafficked Suez Canal in March 2021, disrupting vessel traffic in both directions for six days. The Suez Canal Authority is reportedly claiming at least $900 million in damages against the ship owner/operator. There has also been a lot of loss activity in the marine hull and protection and indemnity markets, which also serves to draw attention to the more challenging cargo accounts. Additionally, severe congestion and delays at ports and terminals have created new supply chain challenges.

Accounts that have been re-engineered and remain loss free should not be subject to such punitive renewals as we move through 2021. However, although rate increases may not be as high as previous years, we are not yet seeing any broadening of coverage terms and conditions.

Rate Trends

- MMA has been seeing rate increases of **5%-10%** and much higher for distressed risks.

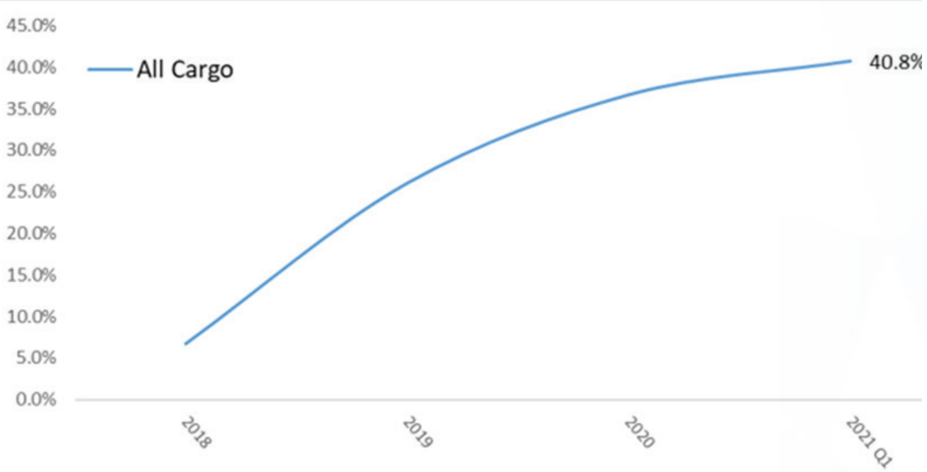
Considerations/Conditions

- Rate increases are easing on better occupancy classes that have performed well and there is limited capacity on tougher classes of business.
- There is more competition on smaller stock throughput accounts.
- We are still seeing reluctance to write stock only accounts and hesitancy to write more challenging risks that have typically been placed in London.
- There is continued loss activity affecting many markets.

Rate Outlook

	Avg Q1 '21	Trend	Outlook
Cargo	+40.8%	▼	25% to 35%

Average Rate Changes By Year



Source: Marsh Specialty and Global Placement Data Analytics COE

Update – NFIP Risk Rating 2.0

According to an article in Politico, the Biden administration is planning to slow rate increase implementation as a result of Risk Rating 2.0. FEMA said it will stagger the roll-out of new rates as described below, according to sources who were briefed on the staggered plan.

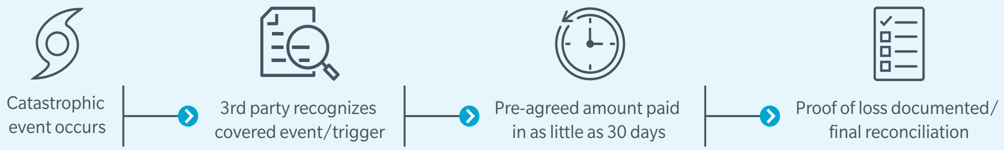
- New rates are planned for new policies that will take effect on October 1, 2021.
- New rates for existing policies will not go into effect until April 1, 2022.

Looking Ahead: Weather-related Parametric Insurance

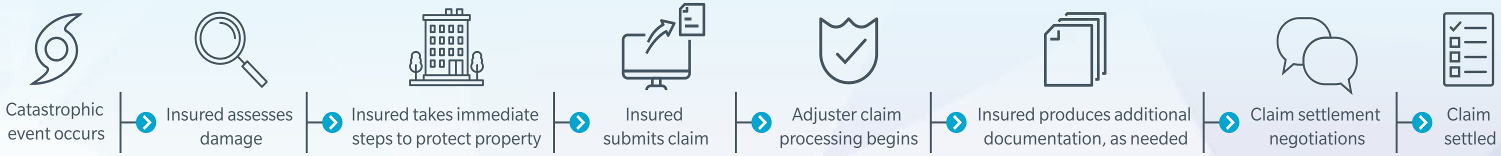
Parametrics are becoming an attractive alternative because of the liquidity they provide with near-instant payouts as opposed to a long and uncertain claims adjustment process in addition to the flexibility in how the proceeds can be used (business interruption costs, covering deductibles/retentions in primary coverage policies, and more).

The value of parametric products emanates not necessarily from replacing traditional catastrophe coverage, but to fill in gaps in an insurance program and cover forms of loss not typically included in traditional indemnity coverage. The solution is also tailored to each individual risk with more focused coverage. Reach out to your MMA broker to learn more about parametric insurance.

Parametric Insurance – Indemnity-Based Alternative



Traditional Indemnity-Based Insurance



CASUALTY COVERAGES

Casualty

An elevated general liability rate continues to be the driving force in the excess marketplace and nuclear verdicts are continuing to complicate future predications on rate trends. Often, the large rewards in these cases are unjustified and are simply the result of changes plaintiffs' lawyers have made in the way they try lawsuits. Instead of just trying to elicit sympathy from a jury, maneuvers to incite a strong emotional response are driving the awards over the top. Until tort reforms and/or a better defense to neutralize sympathetic juries (without minimizing the harm inflicted) are accomplished, challenges will persist. However, these types of changes are unlikely to shift anytime soon.

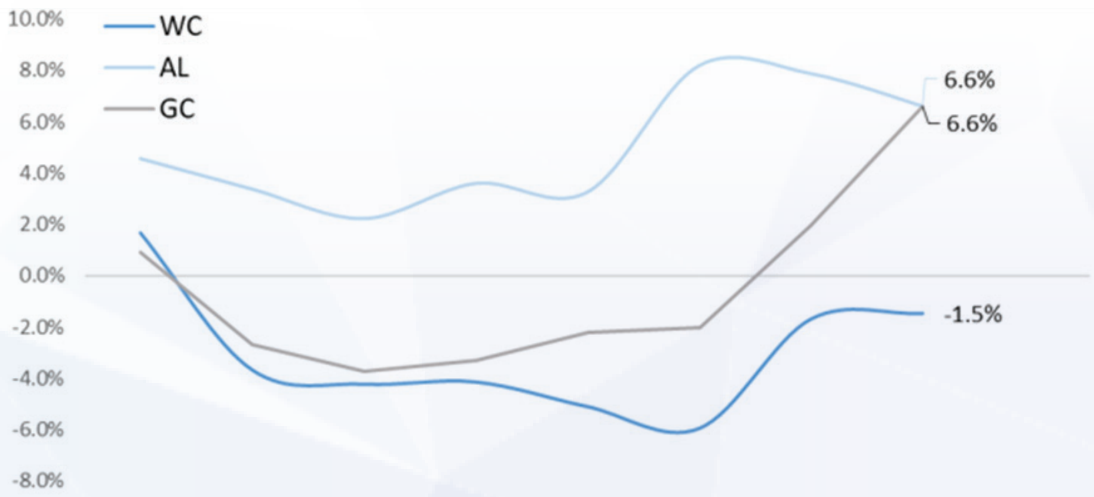
- Products liability verdicts continue to represent the largest category of casualty verdicts in 2019. The total of products liability verdicts almost doubled to $11.6 billion in 2019, from $5.9 billion in 2018, and $1.45 billion in 2017.
  - Products liability represented the largest category of casualty verdicts each year from 2014 to 2019, except for 2015, when motor vehicles led all categories.
- In recent years, we have seen more claims stemming from a business or property owner's premises or operations. In 2019, such verdicts ranked eighth and totaled $317 million. In the previous several years, premises liability did not reach the top 10 categories.
- Motor vehicle verdicts accounted for $2.2 billion in 2019, up from $897 million in 2018 and $839 million in 2017.
  - Auto losses affecting excess/umbrella coverage were among the top 100 verdicts in 2018 and 2019, contributing to more difficult auto liability market conditions. Insurers are seeking higher attachment points more often and auto buffers are increasingly difficult to place.
- Worker/workplace negligence awards fell to $520 million, from $1.3 billion in 2018 and $525 million in 2017.
- Medical malpractice verdicts fell to $719 million in 2019 from $1.3 billion in 2018, but up from $406 million in 2017.
- The top verdicts do not include settlements, legal fees, and expenses incurred in defending claims, which can greatly increase liability exposure.

Rate Outlook

	Avg Q1 '21	Trend	Outlook
Workers Comp	-1.5%	▼	Stable
Auto Liability	+6.6%	▼	Stable
General Liability	+6.6%	▲	Moderately firming

Source: Marsh Specialty and Global Placement Data Analytics COE

Average Rate Changes By Year



Escalating medical costs and rising automobile repair costs, combined with higher loss frequency, further exasperate rates in the casualty insurance market.

With better analytics and data, carriers will hold close to pricing/rate necessities to meet profitability objectives. The up and down cycle we have become accustomed to will not continue indefinitely. Alternative funding will continue to grow as a result (captives, risk retention groups, loss sensitive programs, etc.).

Automobile/Fleet

Rate Trends

- Average rate increases of **10%–20%** and up continue. Some of the increases on well performing accounts were in the 5%–10% range this quarter compared to higher rate increases in 2020.

Considerations/Conditions

- Garage liability and automobile rates continue to climb due to loss activity and social inflation. Automobile fatalities were reported to be 20% higher in the U.S. in 2020 compared to 2019, even though fewer miles were driven.
- Tough exposures, fleets over 50 units, and accounts with worse than expected loss experience have been hit hard on rate increases and are even being non-renewed by carriers.

General Liability

Rate Trends

- Expect increases of **5%–15%** and higher for certain business classes.

Considerations/Conditions

- Exclusions are being added to limit coverage to designated premises.
- Communicable disease exclusions are now commonplace.

Umbrella/Excess

Significant reductions in markets and capacity continues to negatively impact umbrella and excess coverage. Limits are being reduced and exclusions further dilute coverage. However, there are early indications that more competition and interest in writing new business is opening up in the umbrella/excess market. 2020 could potentially end up being the worst of it for the excess casualty market, but it's really still too soon to speculate.

Rate Trends

- A conservative estimate for rate increase is anywhere from a **20% increase to well over 50%.**

Considerations/Conditions

- Unsupported primary umbrella (carrier writing in an excess position and not writing the primary coverage) remains very difficult and expensive to place.
- Automobile risks with large fleets and/or losses are a key driver in umbrella and excess rates.
- Nuclear verdicts have driven insurers away from lead and first excess positions, leaving little to no competition for the most difficult risks. Markets are continuously revisiting their umbrella/excess appetite and capacity, limiting competition and available options in the marketplace.

- $2 million primary general liability and automobile attachments continue to be needed. Many markets will not consider risks with $1 million attachments and therefore the pool of potential lead markets is further limited with shorter primary limits.
- Most markets have limited capacity to $15 million deployed in the first $50 million in limits. This results in the need for additional carriers to fulfill the incumbent structure, often at an increased total price.

Underwriters continue to re-evaluate their pricing on high excess layers. Many insureds are choosing to purchase less overall limit due to significant rate increases on high excess layers.

Workers' Compensation

To date, there have been approximately 40 proposed bills with Congress addressing COVID-19 issues. Many of these bills address issues not directly related to benefits and compensation for workers who develop COVID-19. The most recent federal update of note from the latest Oliver Wyman Workers' Compensation COVID-19 Legislative Update report is related to H.R. 1319, the American Rescue Plan Act of 2021.

H.R. 1319 was enacted March 11, 2021. The new law creates a conclusive presumption that "covered employees" who are employed in the federal service at any time from January 27, 2020 to January 27, 2023 and contract COVID-19 during such period contracted the disease in the course of employment and are subject to full workers' compensation benefits. The employee must carry out duties that require contact with patients, members of the public, or co-workers or include a risk of exposure to COVID-19.

Rate Trends

- This is the only coverage line where rates generally remained in negative territory with decreases around -5% (unless there has been worse than expected loss activity), but increases in the +5% range have become more common.
- If there are COVID-19 claims, pricing is increasing significantly. COVID-19 "long hauler" claims are a top concern that can greatly influence the claims trends for workers' compensation.
- It's best to remain cautiously optimistic at this stage in the cycle as carriers continually reassess pricing adequacy.

Considerations/Conditions

- Package carriers are leveraging workers' compensation in order to ease the overall increases on other coverage lines. This has been difficult for our mono-line workers' compensation carriers.

Environmental liability

Rate Trends

- Renewals with good loss experience are seeing rates increases of **5%–10%**.

Considerations/Conditions

- The environmental market has been hardening for the past two years.
- Some carriers have exited the marketplace and some have been acquired by others.

MANAGEMENT AND EXECUTIVE LIABILITY COVERAGES

Public Directors & Officers (D&O) Liability

Loss free accounts with consistent financial and operational performance are the only risks with no to minimal premium increases. All other risks are being highly scrutinized. Organizations with recent adverse loss experience, poor stock trading performance, an SEC enforcement action, and those with heavy merger and acquisition or stock offering activity continue to experience significant increases. Traditionally challenged risks such as life sciences, IPO, technology, etc. continue to see high increases as well. SPACs continue to be prevalent and are seeing extreme rate and retentions.

Rate Trends

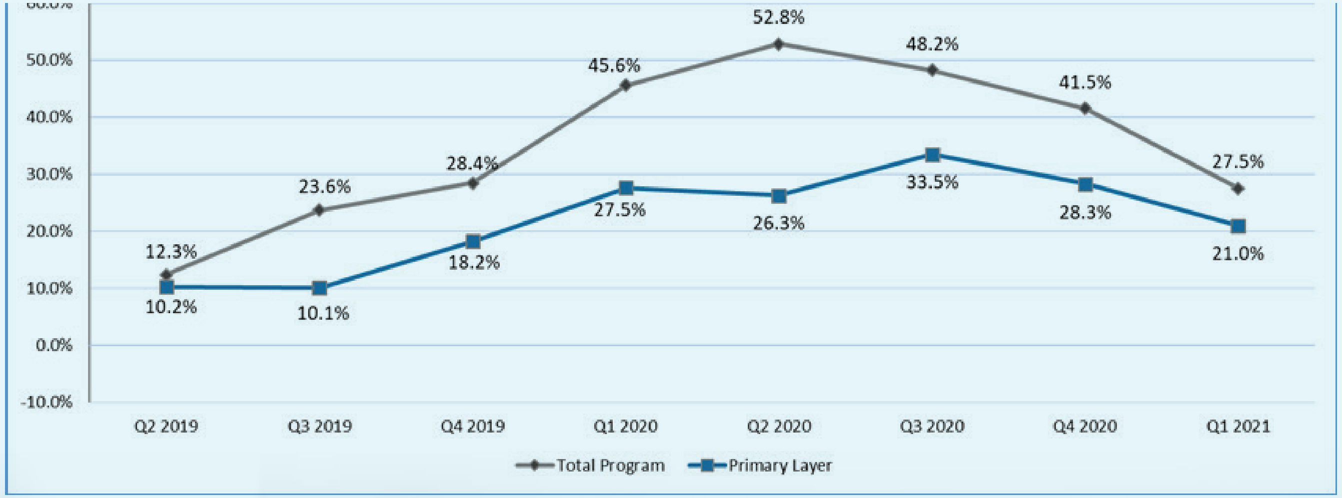
- While there is still upward pressure, we are starting to see some stabilization in the marketplace.
- The total average rate changes including commercial and financial Institution renewals from Q2 2019 to Q1 2021 are:
  - Primary: +21%.
  - Total program: +27.5%.
- 63% of programs experienced a rate increase greater than 20%.

Considerations/Conditions

- There is increased underwriting rigor along with reduced coverage terms and deductible increases are frustrating for insurers.
- COVID-19 infected an already stressed D&O market and uncertainty/economic concerns persist.
- Placing public D&O risk is almost as difficult as excess and umbrella.

U.S. Publicly Traded Clients - Average Historical Rate (Price Per Million) Changes

D&O and Side A-Only Programs



Source: Marsh PlaceMAP
Note: Layer structure changes are not contemplated in the total price per million analyses. In addition, 2019 rate changes outside of -50%–+250% range are excluded while all other renewals are included.

Private Directors & Officers (D&O) Liability

Rates, while still elevated, are seemingly starting to stabilize. Material changes in rate are still being seen, but we saw the first downward trend in rate increase in four quarters in the first quarter of 2021.

Rate Trends

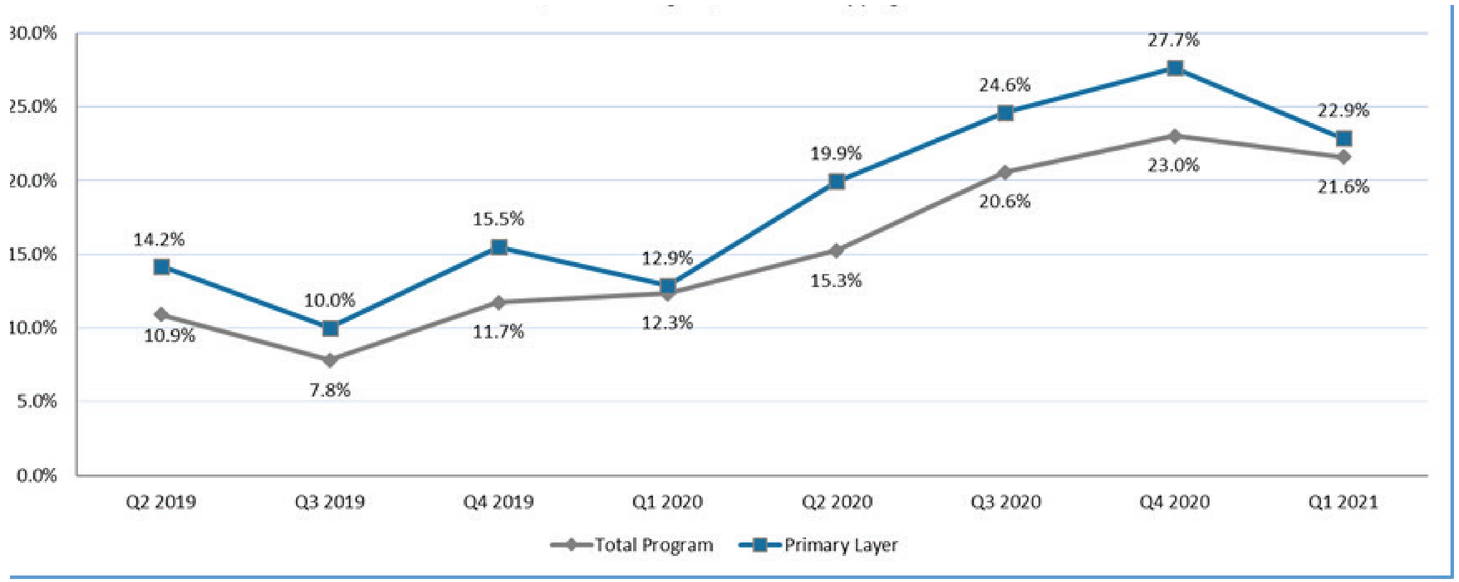
- Premium increases continue to trend in the **15%–30%** range. Excess layer premiums continue to trend upwards as well.

Considerations/Conditions

- We continue to experience increased rates, very little market flexibility in coverage improvements, increased retentions, and some capacity restrictions.
- Bankruptcy exclusions are popping up more frequently.
- Carriers are pushing shared limits.
- More organizations are seeking IPO opportunities and reverse merger transactions resulting in reduction or removal of coverages like anti-trust, IPO roadshow carve-back, along with increased retentions and a cap on limits above $5 million.
- For clients that have financial issues, insolvency exclusions are being applied.
- Real estate and health care have been the hardest hit industries.

U.S. Privately Held & Not-For-Profit Clients - Average Historical Rate (Price Per Million) Changes

D&O, D&O including EPL, and Side A-Only Programs



Source: Marsh PlaceMAP
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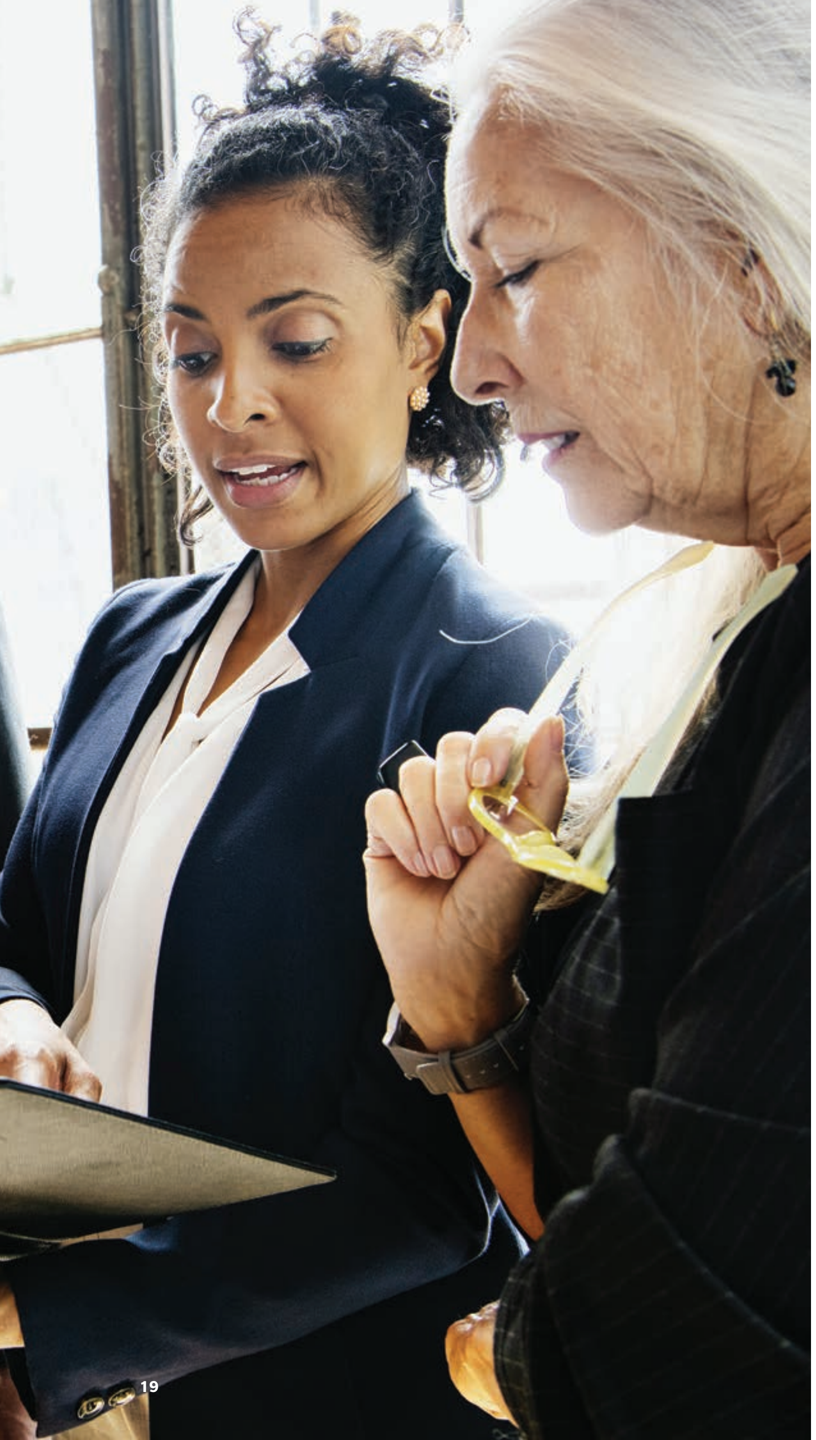


Errors & Omissions (E&O)

Carriers are expressing interest in growing their E&O books, driving increased competition in the executive and professional liability space as they retract from previous focus on cyber opportunities.

Rate Trends

- Expect rate increases of **5%–15%**.

Considerations/Conditions

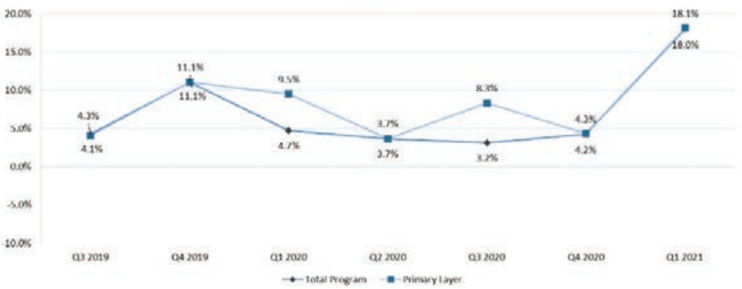
- Rates are up slightly, but are generally based on revenue/exposure more so than a material push for rate (outside of high-risk classes of business).

U.S. Miscellaneous Proffesional Liability Clients - Average Historical Rate (Price Per Million) Changes

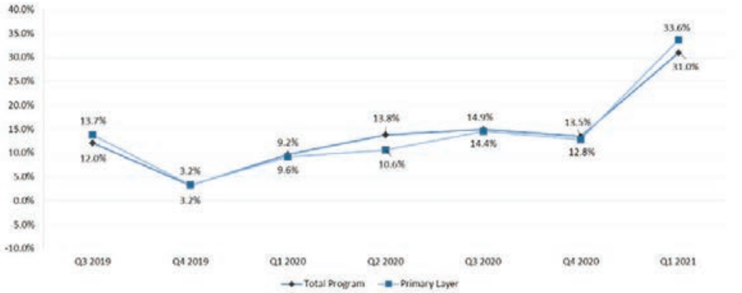
All Industries

U.S. Architects and Engineers E&O Including Contractors Professional Liability Clients - Average Historical Rate (Price Per Million) Changes

All Industries



U.S. Communications, Media, and Technology E&O Including Cyber and Blended Clients - Average Historical Rate (Price Per Million) Changes



Source: Marsh PlaceMAP

Note: Layer structure changes are not contemplated in the total price per million analyses. In addition, 2019 rate changes outside of -50%–+250% range are excluded while all other renewals are included.

Medical Malpractice

Increased claims frequency and severity, particularly from COVID-19 impacts, are driving rate increases.

Rate Trends

- Expect rate changes of **10%–25%** for mature programs with stable losses and exposures in favorable venues.

Considerations/Conditions

- Rate changes are significantly higher in challenging venues or for clients with material loss development.
- Failure to provide a safe environment, rationing of care, delays in diagnosis and treatment, staff and equipment shortages are top of mind for underwriters.

Employment Practices Liability (EPL)

With the worst of the pandemic in the rear-view mirror, and as we move into a more positive economic outlook, job growth and stability may lead to more stable EPL market conditions going forward. Although carriers continue to seek rates as they are expecting claims activity to tick up as employees bring suits related to layoffs, furloughs, and employer decisions as a result of the economic slowdown.

Rate Trends

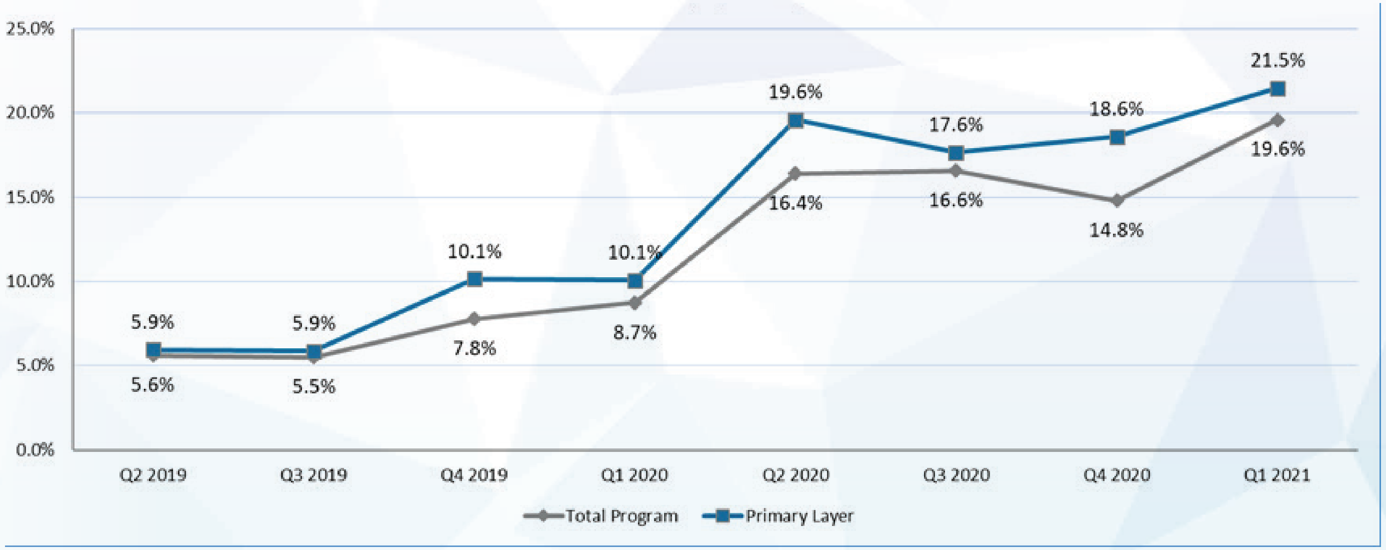
- Expect pricing increases across most industries approaching **15% or more.**

Considerations/Conditions

- The market is still grappling with lingering effects of COVID-19 and layoffs/furloughs.
- Economic uncertainty due to shut downs continues for organizations not yet back at full capacity, especially with respect to hospitality and service industries.
- Increased expansion of Biometric Information Privacy Act (BIPA) exclusions and expansion of BIPA-related statutes in other states are an increasing concern.
- Diversity and inclusion initiatives confronting the disparate impact on minority groups in employment decisions is increasing EPL litigation.
- Many carriers are imposing separate higher retentions for mass and class action claims.
- EPL for staffing organizations is in flux and may be heading to a very hard market due to the merger of two dominate markets for staffing.

U.S. EPL Clients - Average Historical Rate (Price Per Million) Changes

DStandalone EPL programs only



Source: Marsh PlaceMAP

Note: Layer structure changes are not contemplated in the total price per million analyses. In addition, 2019 rate changes outside of -50%–+250% range are excluded while all other renewals are included.

Cyber Security/Data Privacy

As we've written about before, the shift to remote work, large-scale dependency on residential networks, and businesses digitizing operations at a record pace to adapt resulted in choice circumstances for cyber criminals. Even less sophisticated bad actors have gained entry through the eruption of "ransomware as a service" (RaaS) business models. RaaS enables affiliates to utilize already developed ransom-ware tools to further exploit vulnerabilities over a broader canvas.

The Justice Department is taking new aim at ransomware following the costliest year on record for cyberattacks, with ransom demands averaging over $100,000 and in some cases totaling tens of millions of dollars, according to the Justice Department. "Ransomware can have devastating human and financial consequences," John Carlin, the acting deputy attorney general, wrote in a staff memo to the Justice Department. "When criminals target critical infrastructure such as hospitals, utilities, and municipal networks, their activity jeopardizes the safety and health of Americans."

In response to these escalating risks, the cyber insurance market has hardened significantly over the last three months. Certain carriers are implementing drastic measures with rigorous underwriting requirements in response to massive incidents such as the SolarWinds hack that spread to its large base of customers and the recent Microsoft Exchange issues. This increase in the quantity of underwriting requirements with more questions being asked than ever before is putting a large burden on insureds to complete supplemental underwriting questionnaires. However, it is forcing the adoption of the necessary controls that can keep organizations insurable at a reasonable price point.

Rate Trends

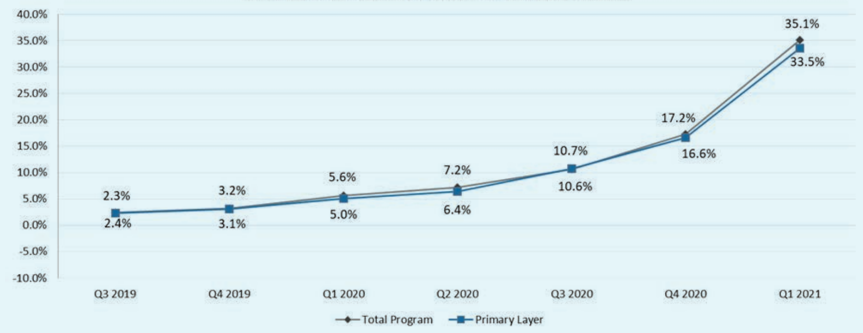
- Expect increases of **25%–50% or more**.
- The average premium that Marsh has for Cyber and Tech E&O combined:
  - January 2021: 29%.
  - February 2021: 32%.
  - March 2021: 39%.
- Some large cyber placements are experiencing 100% increases in lower excess layers. This scenario has accelerated over the last year as other financial coverage lines finally started to show signs of stabilizing.

Considerations/Conditions

- Ransomware losses continue to increase in frequency and severity.
- OFAC (The Office of Foreign Asses Controls of the U.S. Department of Treasury that enforces economic and trade sanctions) requirements are creating tough claim settlement situations making it difficult to get ransom demands paid by carriers.
- Terms and capacity for business interruption coverage have deteriorated, particularly for contingent business interruption.
- Limit and coverage withdrawals/reductions from carriers is happening more frequently.

U.S. Cyber Clients - Average Historical Rate (Price Per Million) Changes

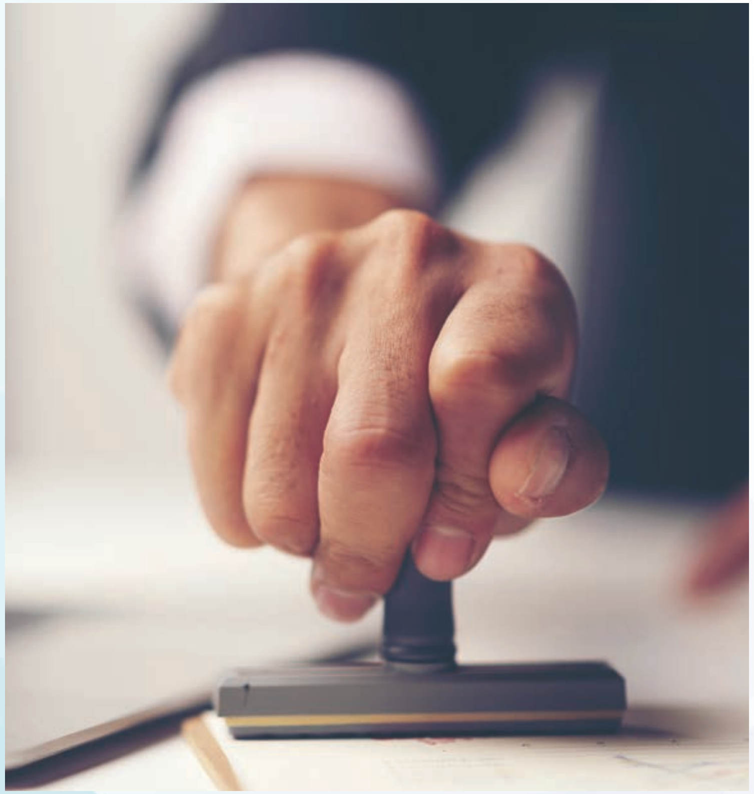
All industries



Source: Marsh PlaceMAP

Note: Layer structure changes are not contemplated in the total price per million analyses. In addition, 2019 rate changes outside of -50%–+250% range are excluded while all other renewals are included.

- Some carriers are taking a cooperative approach by helping clients improve their cyber security posture. Some carriers are affording flexibility and giving clients time to make improvements. And some are willing to make mid-term changes upon implementation of required controls such as multi-factor authentication, the ongoing review and closing of unnecessary open ports, and other general cyber hygiene mitigation steps.
- Class action lawsuits are becoming a growing concern with the chances of a large judgment growing.



MINDING THE GAP

Organizations are really only as secure as their least secure third-party vendor. This reality has been recently brought to the forefront. Granting access to a third-party broadens an organization’s cyber-risk landscape.

The potential risks associated with outsourcing, external data housing, and supply chains may be impossible to completely eliminate, but it is important to consider third-party risk management as a component of overall security posture.

Crime

Rate Trends

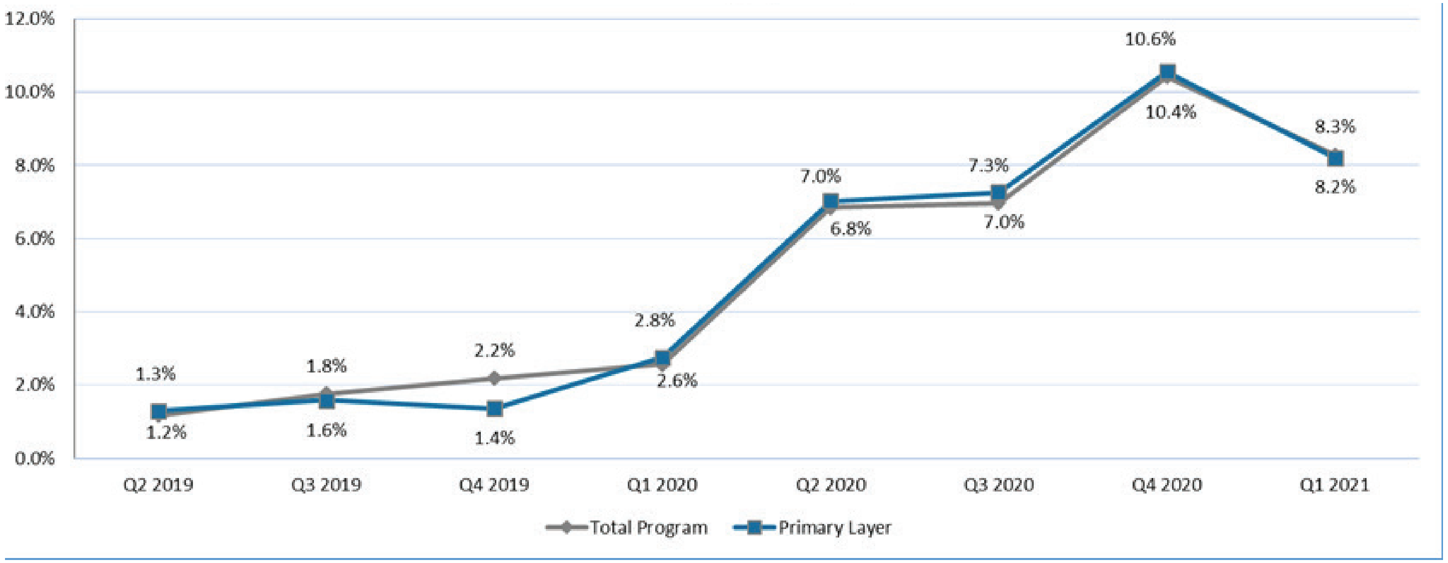
- We are seeing fairly stable pricing with increases of **5% or more**, but with continued reductions in social engineering limits.

Considerations/Conditions

- The continued coordination of "cyber crime" coverages (social engineering, funds transfer fraud, telecom fraud) is important between crime and cyber policies to ensure which policy is primary and to recognize erosion of the retention. Due to ongoing losses, some cyber carriers have hinted at removing "cyber crime" coverages from cyber policies and pointing those coverages solely to crime policies (which is more in line with the way most larger organizations have it structured).

U.S. Fidelity (Crime) Clients - Average Historical Rate (Price Per Million) Changes

Stand-Alone Fidelity Programs Only



Source: Marsh PlaceMAP

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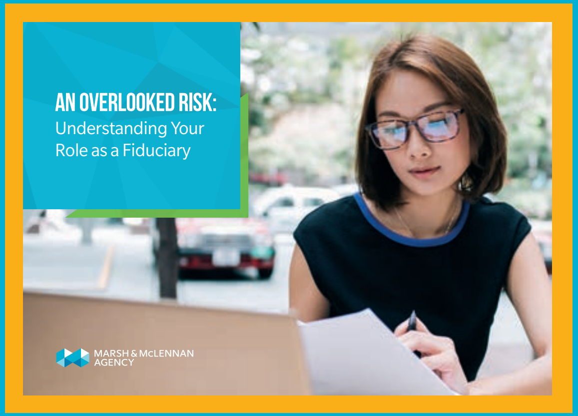
How much do you know about your role as a fiduciary?



The risks associated with fiduciary liability and retirement plans are rapidly increasing and addressing these risks could save countless organizations from rough seas ahead they may not even see coming. As fiduciary-related lawsuits, litigation payouts, and insurance rates increase, it is time to start paying close attention to this often overlooked risk. Fiduciaries should feel confident in their process and coverage. To find out more, read our latest MMA Perspectives piece, "An Overlooked Risk: Understanding Your Role as a Fiduciary."

Fiduciary

Rate Trends

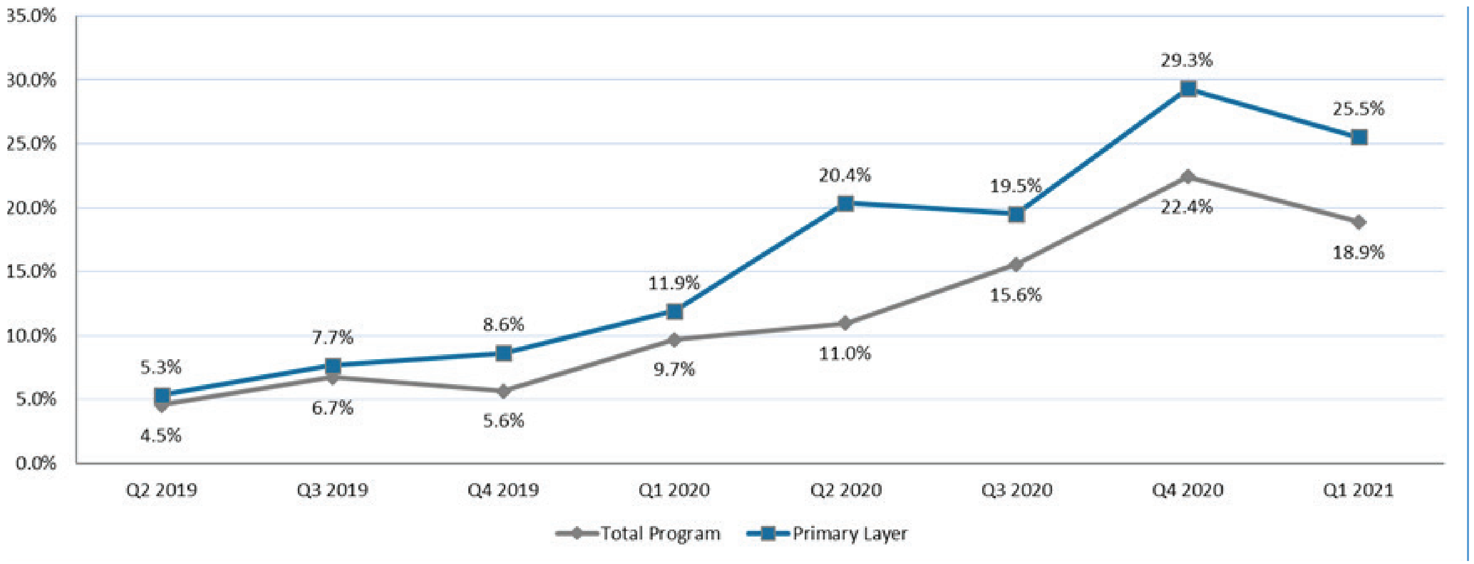
- Seeing increases upwards of 1**5%–20%** and more for financially stressed organizations.

Considerations/Conditions

- Carriers are adding separate mass or class action retentions with special concern around organizations in the health care, higher education, and religious classes.
- We are seeing an increase in ERISA class action litigation against defined contribution and retirement plan fiduciaries.
- Underwriters are wary of excessive fee litigation and cite this as a reason for rate increases as well.

U.S. Fiduciary Clients - Average Historical Rate (Price Per Million) Changes

Stand-Alone Fiduciary Programs Only



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INDUSTRY-SPECIFIC MARKET TRENDS & CONSIDERATIONS

The following highlights unique trends, considerations, and conditions relative to specific industries that don't have their own separate Industry Insights reports.

Agribusiness

- Current environment has made it harder to deliver goods to customers, causing drop in exports from the U.S. to its key trading partners.
- Global food safety and security shifts traceability to all parties participating in the food chain.
- Leading agribusiness organizations are developing a resilient supply chain and utilizing multiple vendors without over reliance on single source.

Aviation

- The aviation underwriters de-risked their books the past two treaty years and are now focused predominantly on pricing correction as they see appropriate. Where we had big changes to underwriting philosophy the past couple years are mostly limited to rating increases in the current year.
- The aviation underwriters are starting to quote against each other more frequently, aggressively leading to deceleration in some hardening aspects of the overall market.
- Transition pilots, meaning pilots moving up in class, continue to be challenging risks.
- Single-pilot operations on higher valued aircraft and/or higher liability limits continue to be challenging.
- A slew of well-known helicopter accidents are continuing to wreak havoc on that segment of the market.
- Commercial operations and those with claims continue to be highly scrutinized, as are senior pilots.

Human Services/Not-For-Profit

- In senior living, health care's largest segment, insureds can expect to see significant rate increases.
  - Potential COVID-19 class-action claims and punitive damages still have carriers on edge.
  - Reinsurance support is extremely difficult to secure for primary carriers.
  - In the U.S., senior living staff and residents account for at least 39% of COVID-19 deaths.
- Due to the increase in sexual abuse cases, coverage for this risk also extremely difficult.

Retail

- Capacity continues to be constrained due to portfolio performance and underwriting authority changes. However, we are seeing new entrants come into the marketplace which has helped fill some of the gaps.
- Despite heightened awareness, incidents of loss due to social engineering or impersonation fraud continue unabated.
- Rates are increasing for EPL renewals as a few key markets push changes across their entire portfolios. COVID-19 has been the cause of a number of EPL claims over the last several months.
- The trend of excess carriers managing their pricing after a prolonged period of pressure continues.
- Retailers continue to adapt by investing more in drive-up, pick-up, and delivery options to meet the needs of customers.

Vehicle Dealerships/Automotive

- COVID-19 hit manufacturing hard leaving the automotive Industry hard pressed to meet market demands.
- The demand for new and used vehicles cannot be met with adequate supply, driving up prices.
- Vehicle rental firms are not able to keep inventory to meet demands.
- Parts manufacturers (all parts including computer chips) cannot meet demands.
- The industry is heavily impacted by vehicle recalls.
- Dealers open lot (DOL) coverage remains a difficult placement.
- This is an industry in transition (from motorized to electrical) that is not yet supported by infrastructure while it's also shifting from a retail sales model to an online distribution model.
- There is potential for class action lawsuits.
- There is a growing trend to hold dealerships accountable to OSHA recordkeeping (e.g. California Assembly Bill 685) with potential for non-compliance fines and even the burden of DOL and I9 audits that could ensue.

Read about more industry-specific insights

- [Manufacturing]
- [Education]
- [Construction]
- [Health Care]
- [Transportation]
- [Real Estate]
- [Energy]
- [Med Tech]

REGIONAL MARKET TRENDS & CONSIDERATIONS

Regional Market Trends & Considerations

East Coast

Throughout Q1, we saw a dramatic change in cyber liability capacity and rate. On the other hand, workers' compensation continues to be a competitive marketplace, with multiple carriers bidding to include dividends and higher commissions to get the business. New York real estate has been more stable in Q1 but property vacancies continue to be a concern for underwriters. The construction market is seeing intense scrutiny by underwriters considering new projects.

Southeast

Hurricane season is right around the corner and tornado activity has already been impacting the property market in Q1. In addition, the overall insurance market continues to experience increases across all lines of coverage. Increased jury awards (social inflation) are a leading factor in continued rate increases.

Southwest

The region is experiencing continued rate pressure in the property market after a tough catastrophe loss year and a record-breaking winter storm that nearly paralyzed the entire region. The real estate, hospitality, and oil & gas industries are slowly returning and the hope is that the recovery will help elevate the region to pre-pandemic levels. The automobile and excess markets are still seeing increased pressure around tough automobile/fleet risks with reduced capacity and large rate increases across all industries.

West Coast

California EPL markets are issuing declinations and/or exclusions, especially with respect to wage and hour liability and defense costs related to violations of the federal Fair Labor Standards Act. Workers' compensation coverage is tougher to place for health care risks who have had COVID-19 claims. Commercial insurance carriers have begun to decline commercial locations that are in danger from brush fires. The last few years of fire losses have carried over from personal lines into commercial lines. Underwriters have started to use an endorsement limiting general liability coverage to the insureds premises. Watch for ISO Form CG 21 44, or Limitation of Coverage to Designated Premises or Project, being added to policies that can restrict coverage.

Midwest

Excess, cyber, property, and D&O continue to face limited market capacity, reductions in coverage at increased costs, and large increases in deductibles and retentions. Some of the more reliable markets for manufacturing, distribution, construction, and commercial/industrial real estate are seeing a softening market with carriers starting to offer more competitive terms. Markets for health care/senior living, transportation, habitational real estate, restaurants, and hospitality continue to be challenging due to the continued impact of COVID-19 coupled with the presence of highly reserved claims within these industries. The Midwest continues to see increases in deductibles for wind and hail due to the increasing presence of those hazards.

Northwest

The Pacific Northwest's core industries capture the regions market activity. In construction, even in the face of escalating material costs we continue to see record demand for residential projects. Agribusiness is experiencing significant growth opportunities across a range of commodity sectors that contribute to the region. Crop insurance, in particular, is undergoing rapid growth. Carrier options and appetites remain thin for many key agribusiness segments. Transportation account premium increases have reduced to single digits for good performing motor carriers, while others continue to try and absorb double digit increases at renewals. The market overall continues to be challenging for health care related risks. More specifically, capacity is being limited by 30%–50% on medical professional and sexual/physical abuse and some deductibles/retentions are doubling–and even tripling–in some cases. The demand and need for enhanced cyber security coverage continues to be at the forefront for all industries.

International

The international footprint has contracted over the last year with infrequent travel overseas. Merger and acquisition activity is up and we expect to see more market competition for foreign exposures in the second half of 2021.

Every market is different. The national trends mentioned above may not be representative of what's happening in your area. Ask your MMA broker if they can provide additional insight regarding your local market conditions.

Looking Ahead as Rate Hardening Persists

The need to keep in continuous contact with underwriters is critical to ensure the right decision makers are addressing terms, conditions, and capacity. Additionally, underwriters are seeking more explanation and data to document their files accordingly. In every business class, it's critical to provide quality submissions including:

- Clear, detailed exposure information— for all lines of coverage.
- Financials, including last audited and interim.
- Five years (and upwards of ten years for education, health care, and other highly impacted industries) of currently valued ground-up loss information for all lines of coverage including large loss summaries and open claim details.
- Plenty of lead time for quotes, especially given the current situation surrounding COVID-19.

MMA is prepared to work with every client to develop a winning underwriting submission to position every risk well in this challenging marketplace.

What to Expect from Marsh & McLennan Agency

MMA will work in partnership with you to create a strategic plan that aligns with your short- and long-term organizational goals. **MMA is your resiliency-focused risk champion.**

To learn more, contact your MMA representative.

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