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Looking Ahead to 2021

PROPERTY & CASUALTY CONSIDERATIONS FOR THE COMING YEAR

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INTRODUCTION

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2020 has been an intense year: a pandemic, civil unrest, and massive explosions, in addition to the natural catastrophes that take place each year, which now include events like wildfires and derechos. Considering this list of disasters, the primary issue impacting the P&C insurance market is uncertainty.

Insurers have been working the last two years to address profitability problems that arose from a combination of inadequate pricing and increasing losses. COVID-19 added uncertainty because no one really knows the pandemic's ultimate impact on the economy, financial markets, or insurance losses. The result is another year of rate increases for 2021. In this year's *P&C Looking Ahead Guide to 2021*, we forecast rate trends and offer actionable steps you can take to mitigate rate increases and coverage restrictions.

Our Property, Casualty, and Cyber experts explain the factors that are shaping rates in 2021 and provide renewal process management and loss control advice to best position your risk with underwriters. We also interviewed several Cargo underwriters at Lloyd's of London to get their perspective on this difficult market and suggestions to present your Cargo risk in the best possible light.

Many of the factors impacting insurer losses over the last few years have been related to larger companies, leaving middle market buyers to ask the question, "Am I really going to get that kind of rate increase?" We wanted to provide these buyers with guidance suited to their risks, so we surveyed several insurance underwriters about middle markets specifically to get their forecast for 2021.

Woodruff Sawyer is a champion for its clients. Our comprehensive process and loss control expertise reveal a broader view of your risk and drives down your total cost of risk. Uncertainty may be surrounding us but the right insurance program will bring confidence in making critical business decisions to grow your business. We look forward to partnering with you in this growth.

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US INSURANCE MARKET UPDATE

COMMERCIAL LINES FORECAST FOR 2021

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We had high hopes for 2020 in the commercial lines insurance space. Specifically, we hoped that the catastrophes and the rate increases of 2019 would stabilize or flatten recent loss trends. We'll have to leave that dream back in the blissful days of 2019 and focus on forecasting 2021.

COVID-19 Fallout

Commercial lines premiums in 2021 will be impacted by the events of 2020, so let's start with COVID-19. According to Statista, estimates of total industry losses, including life insurance, have ranged from \$80 billion to \$140 billion. To date, most commercial lines insurers have reported the greatest losses in event cancellation, travel, and trade credit insurance.

COVID-19 IS RESPONSIBLE FOR AN ESTIMATED \$80B–\$140B IN LOSSES FOR INSURERS

Business interruption insurance remains a controversial topic because insurers have mostly denied these claims, citing either a virus exclusion on the policy or the fact that the business interruption did not arise from direct physical loss to the property. As of early August, over 700 lawsuits had been filed against insurers seeking coverage for denied business interruption claims.

So far, the court rulings have favored the insurers, but several jurisdictions more favorable to policyholders have yet to weigh in, so this debate is far from over. Even if the insurers prevail in most of this litigation, the legal costs could be material.

>> Keep up with the latest developments on our Coronavirus Resource Page

Disaster Events: Backdrop for Increasing Rate Environment

COVID-19 is just one piece of the 2020 roller coaster. The world also has had to contend with natural catastrophes, civil unrest, and explosions. The spring brought hailstorms and tornados to the US. Hurricane Laura caused estimated insurable losses of \$8 billion to \$12 billion. Insurable losses from the summer riots in the US were around \$775 million, and the insurable losses from the Beirut port explosion are estimated to be about \$3 billion. Losses from the numerous wildfires that hit the nation's West Coast in late summer are sure to be high.

INSURABLE LOSSES FROM 2020 CATASTROPHES

Hurricane Laura	\$8–12B
Riots	\$775M
Beirut Explosion	\$3B

This bleak loss picture is the backdrop to a commercial insurance pricing environment that has been increasing since 2018. According to the CIAB, the average premium increase in Q2 2020 was 10.8%. That's double the average increase of 5.2% in Q2 2019! We expect these increasing premium trends to continue through next year.

AVERAGE PREMIUM INCREASE IN Q2 2020 WAS 10.8%

Disequilibrium Between Capacity and Risk Appetite

The current environment is a combination of losses and macroeconomic forces that shape the insurance industry. It is in a state of disequilibrium. Insurers are willing to offer capacity on most risks, but at a premium much higher than brokers want for their clients.

Mike Sapnar, President and CEO of reinsurer TransRe, summed up the current environment this way:

"This is not blood in the streets, holes in balance sheets-type of a hard market. This is a return-based, bonus losing, job fearing, COVID uncertainty hard market; that's different."

In other words, insurer balance sheets are relatively healthy. According to ALIRT Insurance Research, surplus fell by 1.2% in the first six months of 2020, but that decrease was primarily due to losses in investment portfolios due to the disruption of capital markets.

No One is Blinking

We've all played the staring game that ends when one person blinks first. This game is a good analogy for the insurance industry—all the insurers stare at each other while talking about rate needs. Invariably, someone blinks—an aggressive insurer (or several) sees a market share opportunity and rate discipline breaks down. Insurance buyers benefit as the insurers fight to defend market share.

Today's environment is truly unique though, because insurer balance sheets are relatively healthy, but no one is blinking. They haven't blinked for two years now. Why? Have they found some kind of new resolve in the past two years? Not really.

The good news for insurance buyers is that we are confident someone will blink. The question, then, is when, and how much worse is this situation going to get? To find out, we have to look at the factors that are combining to make this such a unique environment and therefore bringing such a strong pricing discipline to insurers.

Unique Factors Contributing to the Current Commercial Lines Insurance Market

- Historically low-interest rates that went even lower as governments tried to stimulate economies in the wake of COVID-19
- Global pandemic
- Relatively resilient US economy
- Healthy insurer balance sheets
- Increasing loss trends in most lines of insurance: property, auto, primary and excess casualty, D&O

Dino Robusto, CEO of insurer CNA, said that COVID-19 was the straw that broke the proverbial camel's back in the increasing insurance premium environment. Will the pandemic bring a recession in 2021? How will it impact already disturbing loss trends? Layer onto this interest rates near zero, and insurers have no room for error and can't count on making a return on their investment portfolios.

When Will This End?

Insurance cycles are driven by the supply of and demand for capital. Since insurer capital is not depleted, insurers are showing remarkable pricing discipline due to low interest rates and uncertainty. Some other capital event is needed to move the industry, and that is likely to come as new capital (i.e., new insurers) chasing increasing premium levels. It is somewhat surprising this has not already occurred given the current yield-starved environment. However, we believe that the uncertainty impacting insurer behavior is also impacting new capital entering the market. Not only is there uncertainty around the pandemic, but many fear 2021 will bring a recession. Recessions decrease the demand for insurance because economic activity declines.

We forecast that premiums will continue to increase through 2021. New capital will likely enter the market if the COVID-19 vaccines are successful and if we avoid a recession. New capital usually takes some time to impact the market, and that capital may only be focused on certain products as opposed to all lines of insurance, so premium relief may come quicker in some lines of insurance than others. We do expect to see some premium relief by mid-2022.

What Can an Insurance Buyer Do?

Although you may not be able to escape an increase, you can take these steps to mitigate increases.

1. Start early and work with your broker to establish a dialogue with your insurer partners.
2. Gather information for insurance renewals because quality information will help differentiate your risk.
3. Speaking with your underwriters and claims representatives about your loss control efforts and approach to risk will also help. Investing in these relationships with insurers will also likely help you reap the benefit of decreasing premiums when that market cycle returns.

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PROPERTY UPDATE

A MARKET DRIVEN BY BIG LOSSES

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As we look to the year ahead, we see the property insurance market reacting to large and unexpected losses in 2020. COVID-19, damage caused by civil unrest, and natural catastrophes are three major factors contributing to the double-digit rate increases we anticipate in commercial property insurance in 2021.

3 Contributing Factors to Rate Increases

Civil Unrest

The civil unrest that swept the globe in 2020 resulted in significant property damage. Walgreens alone reported damage at $75 million. Several London syndicates now exclude strikes, riots, and civil commotion from their policies for certain industries. While not many US insurers have followed suit, deductibles for exposed retail accounts are increasing and the appetite of carriers is decreasing.

COVID-19

There's still uncertainty as to how big losses will be. Lloyd's of London already reported losses up to $4.3 billion related to the pandemic. Add the costs for defending COVID-19 exclusions, and insurers will be more conservative in their underwriting. Property insurers are limited non-physical damage coverages and scrutinizing policy terms and conditions. Large global reinsurers have also reported large losses and as a result will be looking for increased rates during the 1/1 treaty renewals in addition to restricting coverage.

Disasters

Natural catastrophes wildfires, hurricanes, tornadoes, and hailstorms continue to add pressure on rates. June hailstorms in Alberta, Canada alone totaled more than $1 billion. Preliminary losses from the 2020 Atlantic hurricane season are already in the billions. And damages from the US wildfires are yet to be determined.

The Result? Bigger Losses

Many insurers won't achieve underwriting profit in 2020 as demonstrated by the combined ratio chart below.

The combined ratio is the sum of incurred losses and expenses divided by the earned premium. (A ratio below 100% means the insurer is making an underwriting profit, while a ratio over 100% means the company has an operating loss.)

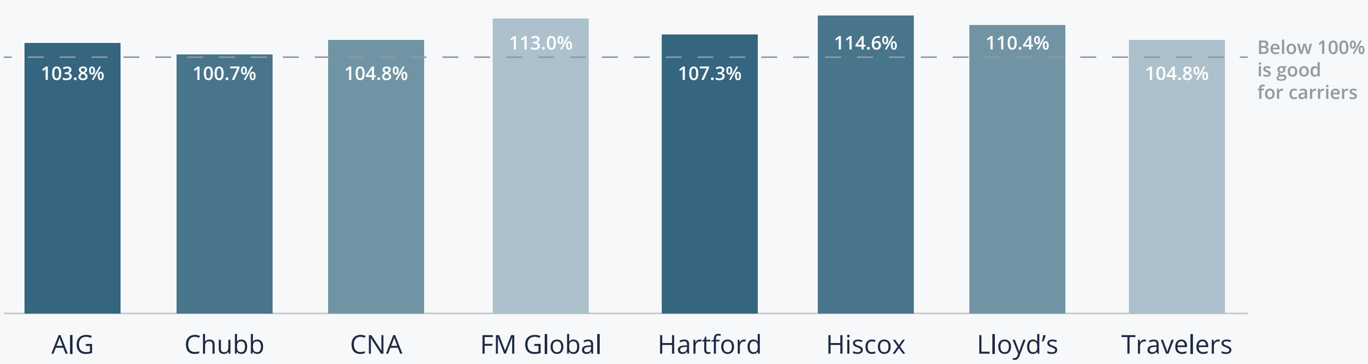
Rate Forecast for 2021

Rate increases will vary by industry, occupancy, risk quality, and catastrophe exposures. We anticipate rate increases between 10% and 20% for accounts with a good loss history, superior risk management practices, and strong carrier relationships. Companies deemed by be high-risk or have an unfavorable loss history could experience a rate increase in excess of 25% in addition to higher deductibles and tighter policy terms and conditions.

Carriers will also continue to request more information regarding valuation, construction, exposures, and business continuity planning. As actuaries become more involved in the underwriting process, insurers will take a more data-driven underwriting approach.

CARRIERS WON'T ACHIEVE UNDERWRITING PROFIT IN 2020, WHICH MEANS HIGHER RATES TO INSUREDS

Combined Ratios: Jan-Jun 2020



Source: Individual Carrier - P&C Results, January to June 2020

How to Improve Your Risk Profile in a Tough Property Market

1. Get a Head Start

There are steps you can take to minimize challenges and create the best possible outcome given the challenging market conditions. Start four months ahead of a renewal. Remember, some capital improvements take time. A half-million-dollar investment in sprinklers, for example, requires planning and execution. Most insurers will accept that you're actively working towards mitigating a risk at the time of renewal, as long as there is a completion date.

2. Valuation and Business Interruption

Be prepared to discuss how real property values were derived and have been trended. Valuation has caused concern to insurers as losses from the catastrophes of the past few years continue to trend upward. In addition, insurers are scrutinizing business interruption values in light of COVID-19; however a well-documented business continuity plan can ease an insurer's concerns.

Identify Cost Saving Levers Meeting with Insurers will help identify what issues each insurer is experiencing. While one insurer may struggle with deductibles, another may struggle with catastrophe loads. Also, the insurer may have dozens of recommendations on how to improve risk at your properties. But there may only be two or three areas that will really move the dial on your risk profile. Find out what those hot-button issues are. Understanding the levers to adjust to offset premium increases will help develop a strategy and identify cost savings measures.

3. Highlight Risk Improvements

It's important to highlight to the insurer anything you've done to address the key areas of risk. You also want to discuss new buildings or upgrades that reduce risk, risk-improvement projects, improved fire prevention programs, or other changes that will reduce risks in the future. Your broker can help you craft a message that will paint your company's risk profile in the best possible light.

4. Invest in Relationships

Insurance buyers who have spent time developing relationships with insurers have experienced better than average renewal results. Providing additional information and participating in underwriting meetings can be time consuming but there is a financial benefit.

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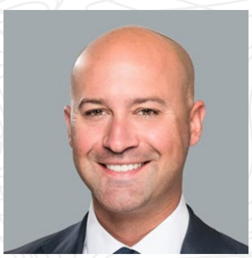
CASUALTY RENEWAL STRATEGY FOR 2021

RATE IMPROVEMENTS FOR KEY LINES



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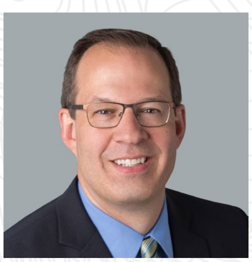

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Increasing premium rates, disappearing capacity, and sharpened underwriting discipline dominated the casualty insurance market in 2020. What challenges will corporate insurance managers have to navigate in 2021? Our view is that many large enterprises can avoid the huge rate corrections they faced in 2020 with strategic renewal planning and creative risk financing approaches. However, the pricing corrections that impacted big companies are now spreading to the broader market, requiring a new focus on leveraging market relationships and proactive risk management.

Following is an overview of what to expect for each main line of casualty coverage. Along with strategic renewal advice, we offer recommendations for two key issues that will drive renewal outcomes for corporations in 2021—auto fleet safety management and mitigation for COVID-19 and other communicable diseases.

Workers' Compensation

As the lone bright spot in the casualty insurance market over the past few years, workers' compensation has delivered consistently profitable underwriting results for insurers and helped offset underwriting losses in third-party liability lines.

Several factors point to workers' compensation being at an inflection point.

Respondents in the Council of Insurance Agents and Brokers' second quarter 2020 rate survey reported an average rate increase of 0.7%, the first increase since 2015. The sudden rise in rates can be attributed to factors like the huge drop in interest rates and insurer investment income since last year, increases in the average cost of claims involving lost work days, and insurer uncertainty about the future cost of COVID-19 Workers' Comp claims.

WC RATES GO UP: FIRST IN 5 YEARS, 0.7% AVERAGE INCREASE

Additionally, many insurers are trying to obtain higher levels of collateral to secure large deductible programs, particularly from policyholders operating in the industries most impacted by the global pandemic such as retail and hospitality.

Rate Forecast for 2021

Risk managers have an array of available strategies to mitigate rate increases and calm underwriters during this transition phase in the Workers' Compensation market. We recommend developing a data-backed narrative that illustrates the effectiveness of employee safety programs, presents a comprehensive strategy for managing COVID-19 spread among employees, and uses competition among insurers to hold down rates. We anticipate rates of -1% to +5%.

Commercial Auto

Despite several years of successive rate increases, insurers have continually lost money writing Commercial Auto insurance since 2010. Companies bore a 9.6% rate increase in the second quarter of 2020, according to the Council of Insurance Agents and Brokers. Driving the rate increase are the adverse loss results of previous years that have forced insurers to increase loss reserves for Commercial Auto claims. In 2019, insurers increased loss reserves attributable to auto claims by 39% to $2.8 billion.

COMPANIES BORE A 9.6% COMMERCIAL AUTO RATE INCREASE
Q2 2020

Rate Forecast for 2021

Increased medical treatment costs, rising auto repair costs, and social inflation all point to a continuation of the rate trend for primary auto insurance of recent years. **We anticipate rates of +7% to +11%.**

General & Products Liability

General Liability premium rates increased 6.8% on average this year, though renewal results were considerably worse for companies in high-hazard industries: habitational real estate, sharing economy, manufacturers of tough products, chemicals, and companies with material wildfire exposure, such as utilities, rural landowners, and forestry concerns.

Rate Forecast for 2021

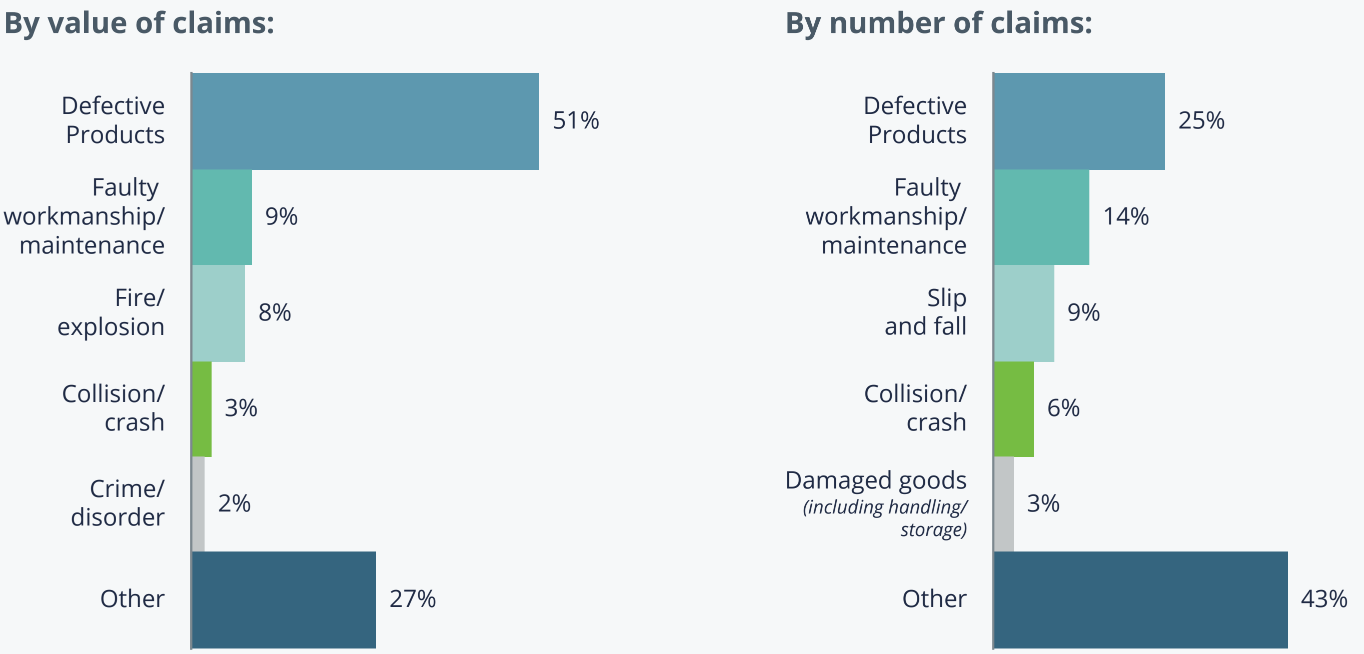
Insurers expect litigation financing to power continued increases in claim activity, which in turn will put upward pressure on General Liability rates in 2021. We anticipate rates of +5% to +10%.

Excess Liability

Excess Liability has proven to be the toughest part of the casualty market. Driving the rise in claim costs is the trend of social inflation—the phenomenon of huge claim cost inflation resulting from changing societal factors such as litigation funding, legal advertising, increases in the number of class action lawsuits, and public distrust of corporations. Key sources of escalating losses include catastrophic auto accidents, class action product liability litigation, wildfires, and criminal assaults (including sexual abuse and molestation).

>>Get the Umbrella and Excess Layers right in a hard casualty market

LIABILITY CLAIMS: TOP CAUSES OF LOSS



Source: Allianz Global Corporate & Specialty

As we look ahead to 2021, we can expect underwriters to continue to seek rate increases and to expand the use of restrictive policy wording to address. Large organizations that faced material price corrections in 2020 should expect more modest premium increases in 2021, as larger premiums spark greater competition among insurers for all but the toughest classes of business. The greatest pricing pain will likely hit smaller companies—those designated as "middle market" by underwriters or having revenues below $1 billion—as pricing for such policyholders currently remains in line with the prior soft market.

The good news: Companies can minimize rate increases by strategically managing key exposures (such as manufacturing quality assurance, auto fleet safety, and COVID-19 mitigation) and leveraging insurer relationships across their corporate insurance portfolio.

Rate Forecast for 2021

For large companies (revenues $1 billion+), we anticipate rates of +7% to +12%. For small commercial and middle market firms (less than $1 billion+), we anticipate rates of +10% to +25%

Achieve Better Casualty Renewal Results with Strategic Loss Control

Pandemics and Contagious Diseases

While COVID-19 has obviously presented its own set of challenges, many of those challenges were felt in previous epidemics. It has also educated safety personnel on response to contagions and has informed the underwriting community on basic safety protocol and documentation.

RECENT SENATE BILL 1159

Establishes three rebuttable presumption labor codes for employees contracting COVID-19 and puts substantial reporting requirement burdens on employers and claim administrators.

>>Learn more

Insurance carriers have stepped up their efforts to verify and document how their insureds prevent disease transmission in the workplace. In 2021, ask yourselves some of these questions to ensure that you're meeting carrier expectations. These efforts can help ensure you are doing the things carriers are looking for and getting credit for it.

Street sweeper wearing a mask during the flu pandemic of 1918. From CDC historical files.

RECENT ASSEMBLY BILL 685

Sets new requirements for employers to notify their employees and their unions about a potential COVID-19 exposure in the workplace.

>>Learn more

Meeting Carrier Expectations: Examine Your COVID-19 Safety Program Elements

- Has a COVID-19 safety and prevention program owner been assigned?
- How are you monitoring for updated CDC, OSHA, state, and county/city requirements and guidelines related to COVID-19?
- Based on your location(s) are you subject to any mandatory written program elements such as Appendix A in some California counties, the Virginia OSHA standards, or other state industry-specific guidelines?
- What training elements are you completing for employees related to how COVID-19 spreads, what your program does to prevent infection, and how to use PPE or facial coverings as appropriate?
- Does your safety program/injury illness prevention program document what you have done? (Examples: hazard assessment, PPE changes, training, inspections, enforcement, etc.)
- If an employee is exposed outside of work, how are you handling that?
- How do you decide when an employee who is ill can come back to work?
- How are you ensuring that your prevention protocols are being followed?

Fleet

In 2021, the quickest and easiest way to ensure that your program meets carrier expectations (and that you are getting credit for doing so) will be to work through your current fleet safety policy using questions like the sample questions from our fleet underwriting preparation tool. (See box to the right for the sample questions.) Remember that this applies to rented and personal vehicles used for business, as well as company-owned vehicles. If you have a light fleet and think you need a fleet program sample, your Woodruff Sawyer account team can give you a copy of our sample light fleet auto policy. If you have a DOT-regulated fleet, you may wish to speak with your team to identify the best method of auditing that program.

Meet Carrier Expectations by Analyzing your Fleet Safety Policy

Motor Vehicle Safety

- Do you have a written fleet management program and policy in place?
- Who is responsible for management of drivers?
- Do you have a policy mandating no phone use or no electronic device use while driving for the company?
- Do you pull MVRs or use a monitoring service and compare the results of each record to a standard? How often do you pull MVRs?
- How often do you collect personal auto insurance information, and who is responsible for collecting it?
- Do you use any telematics or other to monitor driving behaviors?

DOT Fleet Only

- If you have DOT-regulated drivers, how do you maintain driver qualification files?
- Who monitors Safer Scores and SMS data?

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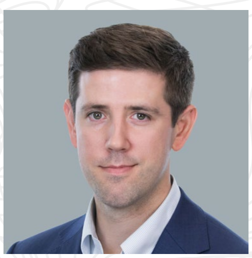
CYBER INSURANCE

CLIMBING RATES IN 2021



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Cyber Market Trends

In 2020, more than half of companies around the globe were hit with a ransomware attack. Keep in mind that 94% of the time that a ransom is paid, it's paid by the insurance company. The global average to remediate these attacks is just over $761,000 per incident, according to 2020 data.

OVER 50% OF COMPANIES AROUND THE GLOBE WERE ATTACKED IN 2020

The global average to remediate is over $761,000 per incident

Rate Forecast for 2021

The frequency and severity of ransomware attacks will continue to be major contributors to the increase of cyber insurance rates from 10% to 25% or higher in 2021.

It's not just ransomware losses, though. Insurers are also bracing for impact related to General Data Protection Regulation (GDPR) and California Consumer Privacy Act (CCPA) claims. We've already seen how GDPR fines have played out globally, with some companies dealing with penalties in the multi-millions.

In California, the attorney general's office only started enforcing CCPA in July 2020, but they're already hard at work sending enforcement letters to non-compliant organizations, despite new challenges presented by the pandemic.

In addition, we have already seen multiple class actions filed under CPPA. Our expectation is that many of these claims will begin to settle through 2021 and further impact cyber rates.

Five Best Practices for Securing Coverage in a Changing Market

The question remains: In this changing market, how do you prepare for your cyber insurance renewal through 2021?

Here are five best practices that companies can adopt to mitigate their cyber risk—so that they can secure better coverage at better rates. (The first four in the following list are basics that any underwriter will look for in a cyber insurance submission today.)

1. Conduct Employee Training Programs

Employees remain the weakest link in any security program, so mitigating your cyber risk begins with employee training. Think awareness campaigns around phishing attacks and social engineering fraud. Insurers will want to know employees are trained at a minimum of once annually.

2. Deploy Multi-Factor Authentication

Ensure two forms of user authentication before giving access to the company's network. One example would be a password and a token sent to a mobile phone to verify. Microsoft states that multi-factor authentication can stop almost 100% of account compromise attacks.

3. Secure Any Open RDP Ports

Many companies don't realize they have open remote desktop protocols. Unfortunately, brute-force RDP attacks are on the rise as more employees working from home need support from remote IT departments. Securing open RDP ports can help curtail this increasing form of attack.

4. Have Offline Backups

Hackers now look for backups when accessing a network, so companies have no choice but to pay a ransom to get their data back. You want your comprehensive data backups stored offline, separate from the network. In the case of cloud backups, enabling two-factor authentication can prohibit attackers from encrypting your backups as well. This step may lower the cost of dealing with the attack because you'll have the ability to restore your network from backups as opposed to paying the ransom.

5. Perform Risk Quantification to Determine Limits

The ideal cyber insurance limits are a combination of your company's unique risk profile and appetite for risk. Quantifying your cyber risks will help you purchase the right limits for your company, not similar companies in your industry.

For example, a peer may buy $20 million of cyber insurance against their custom risk quantification of a $40 million maximum loss. But if your custom analysis results in a maximum loss of $15 million, buying up to $20 million of cyber insurance would be foolish.

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ASK THE UNDERWRITER

CARGO MARKET PERSPECTIVES

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Premiums in the cargo/stock throughput (STP) market have increased dramatically in the last year. In order to get a better understanding of the dynamics in this niche segment of the insurance market, we went (virtually) to the heart of this market: London.

Will Ripley, Head of Marine & Cargo at GAWS of London, interviewed several London cargo underwriters to get their view on this market and what insurance buyers should expect in 2021. GAWS of London is a Lloyds of London licensed broker and is a joint venture between Woodruff Sawyer and our UK Assurex partner, Griffiths & Armour. Will interviewed the following underwriters:

Chris Hicks

Underwriting Manager
Marine Cargo

Liberty Specialty Markets

LinkedIn

Simon Lascelles

Portfolio Manager

QBE Europe

LinkedIn

Henry Maughan

Class Underwriter

Antares Syndicate

LinkedIn

Jon Hamilton

Class Underwriter
London Market Cargo

ArgoGlobal

LinkedIn

Why is the cargo market so challenging?

Jon Hamilton: There are a number of reasons that the cargo market finds itself in such an unenviable predicament: a glut of capacity, widening of coverage, inadequate pricing, and underestimating reserve. But the shift is helping carriers who remained in the space to create a sustainable business that can add value to customers now and in the future.

Chris Hicks: The market has suffered with overcapacity globally for a prolonged period. Oversupply of capacity has led to significant price erosion, lack of differentiation between risks, and an expansion of terms and conditions. The global market as a whole has been unprofitable for at least five years.

KEY FACTORS THAT CREATED A CHALLENGING CARGO MARKET:

- Overcapacity
- Inadequate pricing
- Expansion of terms & conditions

Q:

Are there any particular areas that are more challenging than others?

Simon Lascelles: Industry sectors we see as most challenged in the current market are chilled and frozen goods (pharmaceuticals in particular), commodity risks, wineries, bourbon storage, automotive risks, and retail stock exposures.

Henry Maughan: The areas and industries that have caused the most problems for cargo insurers are temperature-sensitive goods (in particular pharmaceuticals), cars, and soft commodities

Q:

We've seen particular attention on more narrow coverage. Why is this such a focus?

Simon Lascelles: The Lloyd's cargo market has historically been proactive in developing bespoke, innovative coverage solutions for specific customer needs. However, following years of soft market conditions, what was bespoke coverage became commoditised and offered to the majority of clients irrespective of risk complexity or risk management practices. The market-wide remediation of cargo wordings is largely driven by a desire for underwriters to return to more traditional coverage, However, customers with specific coverage requirements are still able to challenge their brokers and insurers to work towards bespoke wordings as necessary.

Henry Maughan: One of the major side effects of a soft market is "coverage creep." Each year, brokers would widen the wordings so that they were not just differentiating on price. As a result, insurers started paying for claims that were not really being budgeted for within the business plan. Examples include misappropriation losses, unlimited extra expenses, and 'quasi' business interruption on the Basis of Valuations being offered.

These were all over and above the 'physical loss or damage' pricing we were giving to clients. Due to the quantity and severity of the losses over many years, these coverages are now slowly being taken out again (or heavily sublimited).

Q:

What is your prediction for 2021?

Chris Hicks: I see further contraction of capacity as weaker and smaller carriers pull out, and a flight to quality as clients partner with larger, more stable insurers. Further hardening of the market is likely, but will potentially be less dramatic than in 2020, especially for long-standing renewals. There has been a noted movement in the conversation from rate rise to rate adequacy as carriers look for a sustainable premium level.

Simon Lascelles: 2021 will likely be another challenging year for insurers and consequently their customers, with most classes of business anticipating pressure on reinsurance program pricing, irrespective of individual account performance. However, there are reasons for optimism in that those insurers who have completed any remedial work will be positioned to offer alternative solutions to clients who are dissatisfied with their incumbent carriers.

Henry Maughan: The entire insurance industry is reeling from a heavily disrupted 2020, and capacity has continued to pull out of certain classes, including cargo. There is definitely a lack of capacity in the global cargo market at the moment, and I can see this trend continuing into 2021.

As such, I can't see the market softening in the near future. Even with the price corrections of the last 18 months, there have still been major losses that have impacted profitability in 2020. What I can see happening is companies and syndicates protecting their "best" clients and ensuring that they keep their most profitable and well risk-managed sections of their portfolios. These measures should hopefully flatten out pricing for these core clients.

Jon Hamilton: The market is hardening, and we expect this trend to continue into 2021 as the cargo market edges towards a more sustainable position. However, 2020 has proved disastrous for many cargo insurers. COVID-19 has added to the disruption caused by some larger losses in H1 that will further delay the recovery and continue to bring upward pressure on rating in many areas.

If you then factor in the civil unrest, wildfires, and hurricane season in the US, and the loss creep from previous events, the outlook may seem bleak. However, the remediation to date has assisted in addressing some of the underpricing, and, while there is still some way to go before cargo as a line of business is seen as accretive, there are signs that the rating environment is on an upwards trajectory, giving incumbent players some cause for optimism in 2021.

CARGO MARKET PREDICTIONS FOR 2021

Lack of capacity and continued hard market

Cause for optimism due to past remedial work on rate deficiencies

Still upward rate pressure, but market will be in more sustainable position

Q:

There is a consensus that rates will continue to increase in 2021, so what can clients do to present their risk in the best possible light?

Chris Hicks: Relationships that have been built with carriers are hugely important. Clients with long-term renewals who have taken time to meet (either in person or virtually) with their underwriters to explain their business and the challenges they face are treated differently from clients who have not invested that time. Carriers appreciate openness and more information is usually better than less. It is prudent to expect further investigation if issues have been identified in survey reports.

Henry Maughan: Consistent and clear risk management strategy is something we look for in clients. We want a profitable relationship over a long period. We do not want a "dollar-swapping" arrangement with high premiums and a high level of claims! If a client can clearly show us how they look to mitigate their risks and what they see as their specific needs from a cargo insurance policy, then we can tailor the coverage accordingly.

> "CARRIERS APPRECIATE OPENNESS AND A CLEAR AND CONSISTENT RISK MANAGEMENT STRATEGY.

Looking Ahead

Though 2021 will likely see further rate increases, we believe this should be more stable as the majority of insureds have already undertaken renewals with increased rates, tightening conditions, and likely higher self-insured retentions. There will still be a focus from insureds on rate adequacy but the expectation is for this to be more manageable going forward.

The old adage rings true that those clients that have long-standing relationships with their insurers and invest in loss prevention, which differentiates them from their peers on the quality of their risk, will see better terms going forward.

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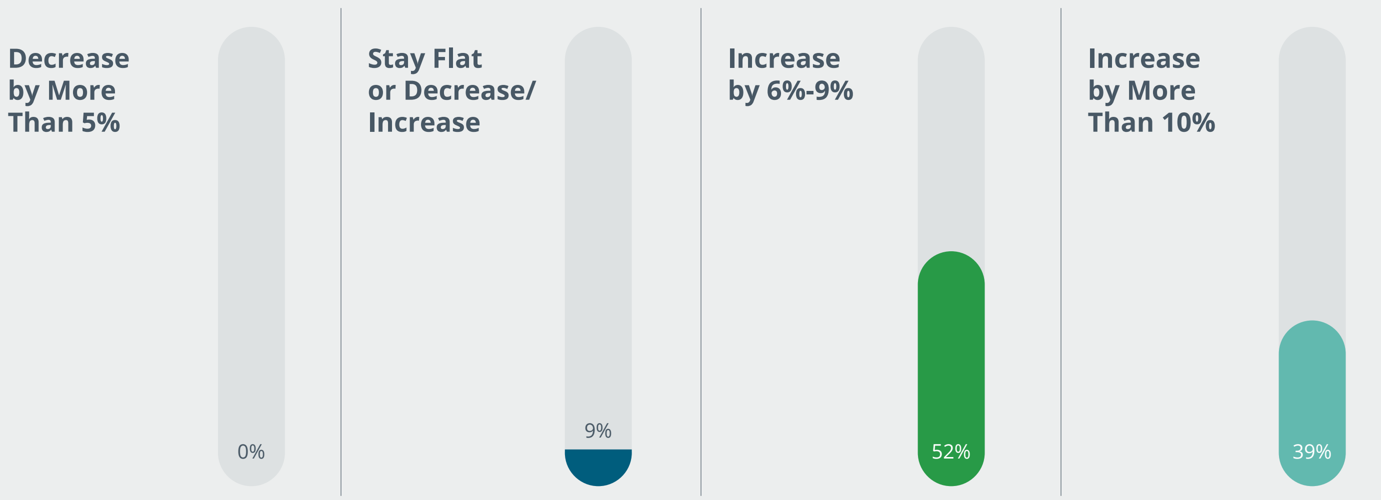
MIDDLE MARKET UNDERWRITER SURVEY RESULTS

Our experience during the last two years of increasing pricing has been that large companies are seeing bigger increases than medium-sized companies (middle markets) and small companies. Given that the US economy is made up of many more medium-sized companies than large, we wanted to give more targeted guidance to these companies. To that end, we surveyed underwriters specializing in middle markets at 12 insurers, including CNA, Chubb, The Hartford, Liberty Mutual, and Travelers.

The headlines are that auto continues to be a concern for underwriters and this concern is undoubtedly also impacting their view of umbrella rates. We encourage all insurance buyers regardless of size to invest in fleet safety programs to differentiate your risk to underwriters. The uncertainty around the impact of COVID-19 is also evident in this survey. Most insurers are not looking to broadly exclude pandemics—instead, they are focusing on specific risks, which will likely be related to certain industries (i.e., hospitality). Also, most underwriters expect COVID-19 to only have a marginal impact on pricing.

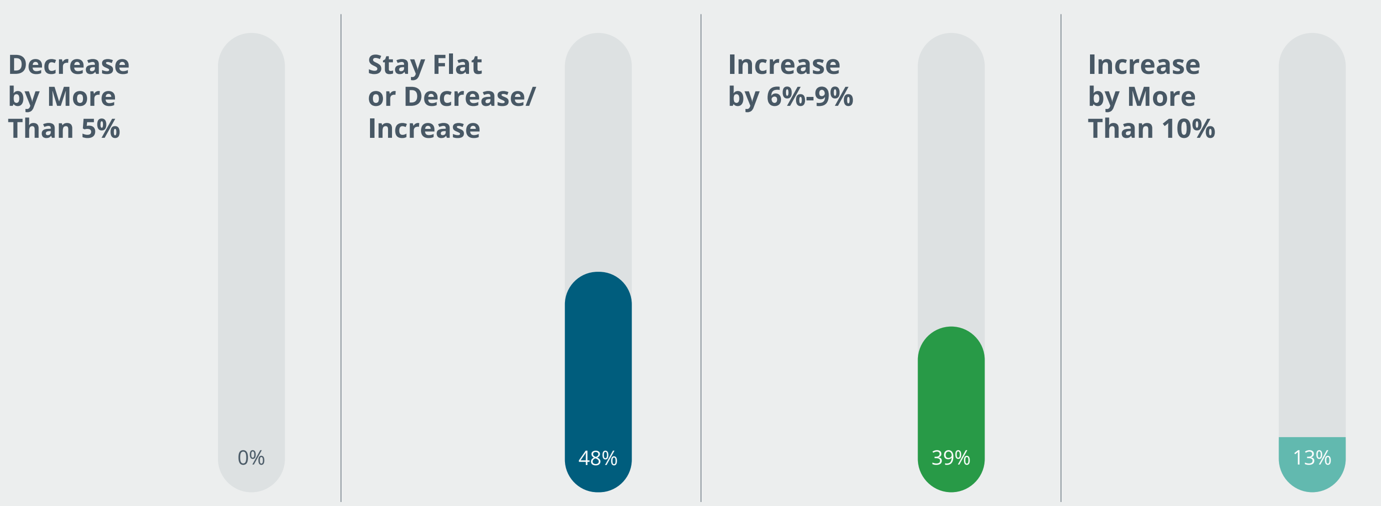
Q1 What do you expect of middle markets property rates in 2021?

A Respondents tend to believe that property rates for middle market companies will increase.



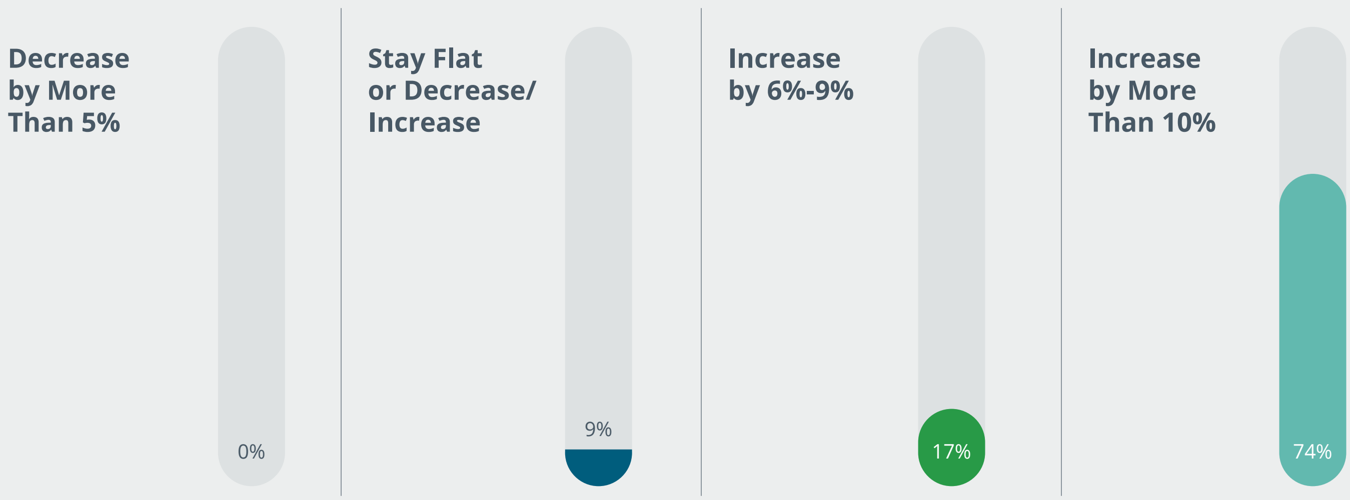
Q2 What do you expect of middle markets general liability rates in 2021?

A Respondents agree that general liability rates for middle markets will stay flat or increase.



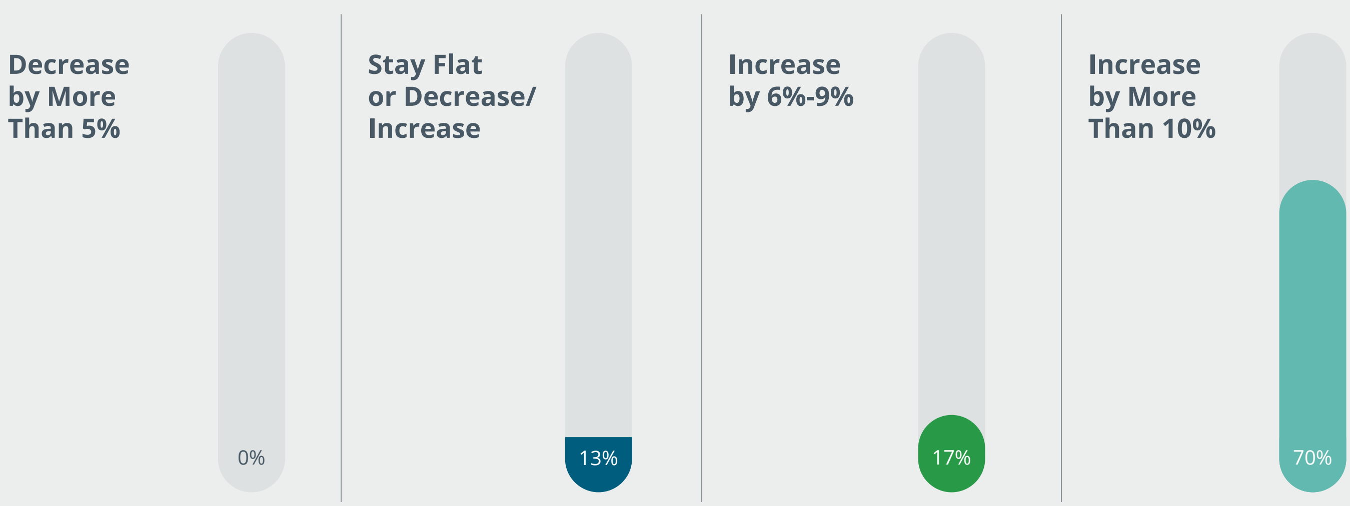
Q3 What do you expect of middle markets auto rates in 2021?

A Respondents believe that auto rates will increase by more than 10% in 2021.



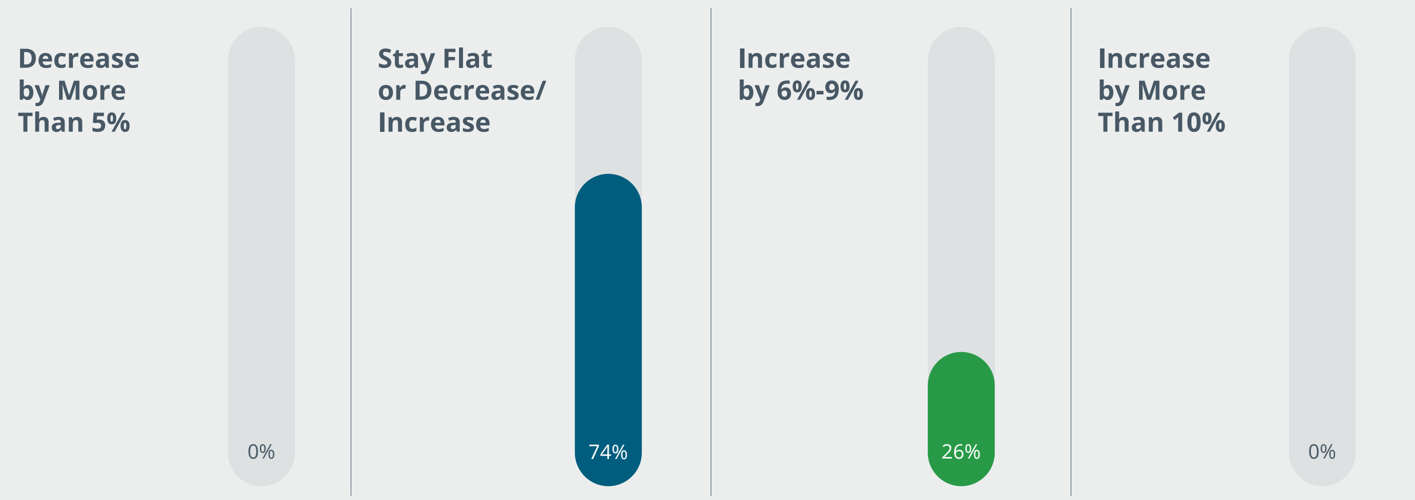
Q4 What do you expect of middle markets umbrella rates in 2021?

A Most respondents agree that umbrella rates will increase, most by 10% or more.



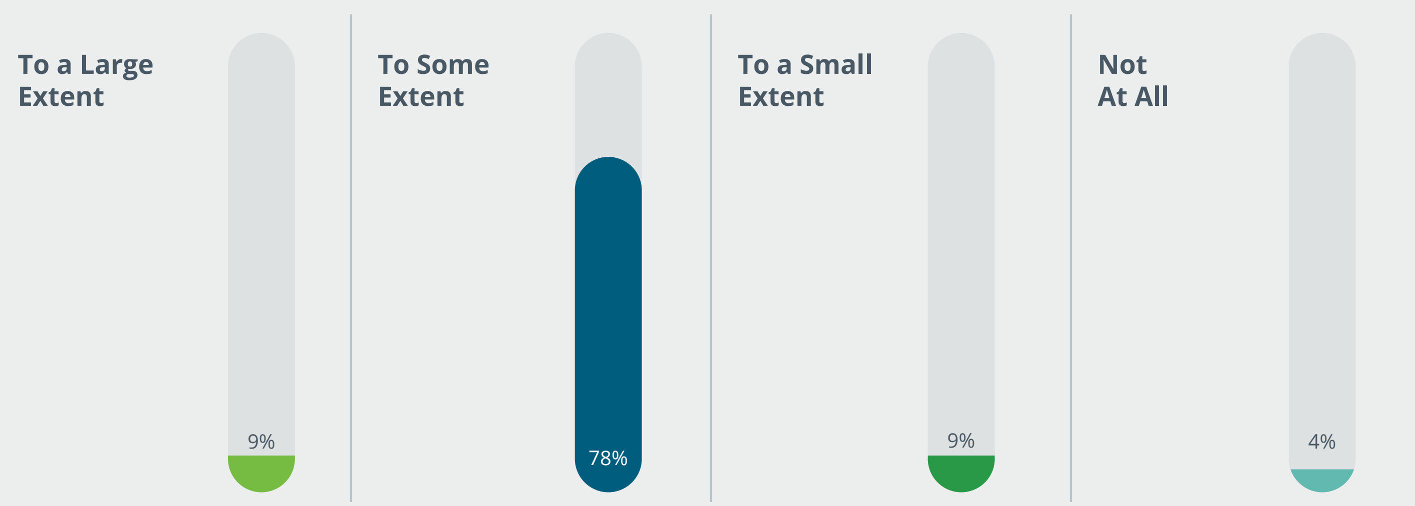
Q5 What do you expect of middle markets workers' compensation rates in 2021?

A Respondents believe that worker's comp rates will remain flat in 2021, with some expecting an increase.



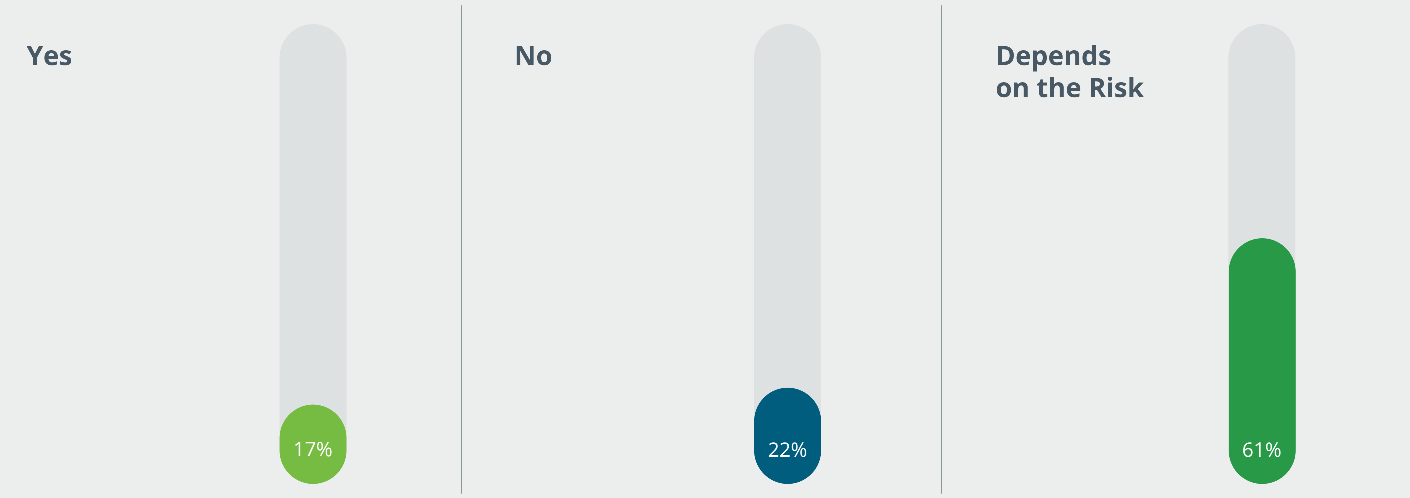
Q6 To what extent do you think that COVID-19 will be a factor driving middle markets pricing in 2021?

A Most respondents agree that COVID-19 will factor to some extent in pricing in 2021.



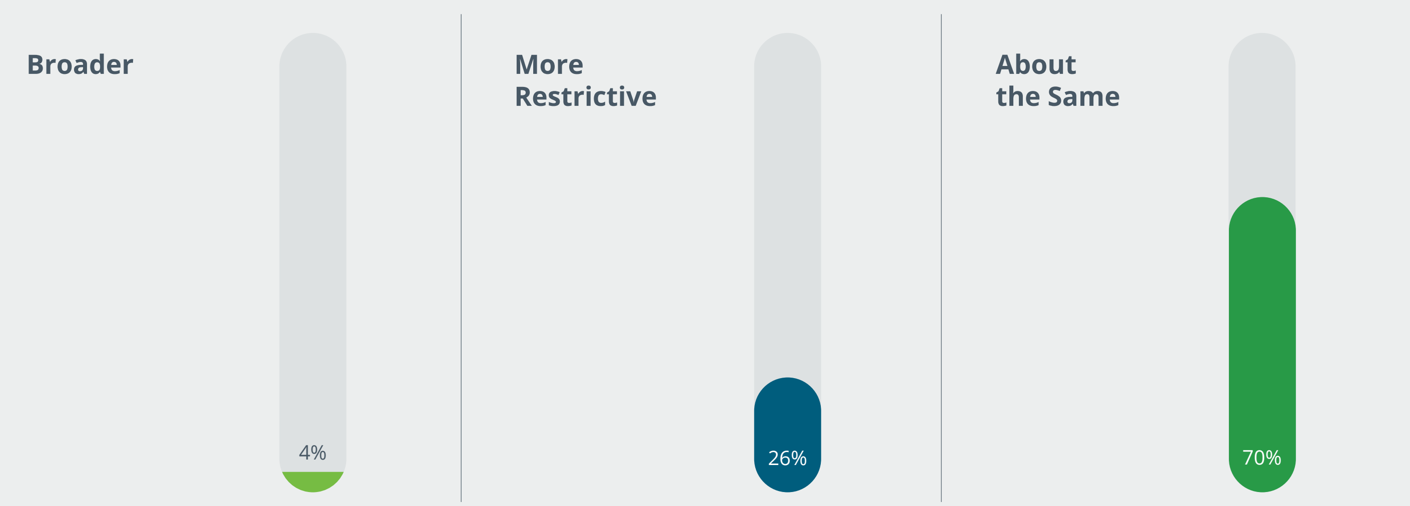
Q7 Do you plan to add a pandemic/virus exclusion to middle markets packages?

A Respondents plan to add a pandemic exclusion to packages, depending on the risk.



Q8 What is your expectation of middle markets coverage in 2021?

A Respondents expect middle market coverage to remain about the same, with a few expecting it to be more restrictive.



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