Insurance Market Brief

Spring 2021

M&T Insurance Agency, Inc.

The M&T Difference

We listen. We customize. We care.

Impacts of the Pandemic

M&T Insurance Agency, Inc.

These are unprecedented times. Our goal at M&T Insurance Agency (MTIA) is to provide you with insights and information that can help support you and your business.

General

- Many businesses may not have yet experienced a full 12-month cycle of changes in the insurance program. Marketplace impacts remain to be seen.
- Several influences on the market continue to raise concern including weather-related catastrophes (CAT), which continue to affect pricing in 2021.
- So-called "nuclear" court verdicts were cited as another key reason for carriers' premium increases in 4Q 2020, defined as judgments of $10 million plus.
- Ongoing effects felt from a persistently low interest rate environment.
- COVID-19 will continue to impact property and casualty (P&C) insurance pricing and coverage over the next quarter and potentially through the next year.

Property

- All classes of business are experiencing the effects of increased pricing and capacity restrictions – particularly in habitational and hospitality.
- The property and reinsurance markets remain under pressure – renewal outcomes are expected to vary depending on individual account characteristics, CAT exposures, and loss experience.
- Markets are evaluating existing underwriting positions, aggregations, and managing capacity is being deployed more closely.
- Impact of COVID-19 on the property market remains uncertain – tightening conditions are expected to continue into 2021, however new alternative capital entering the market may help.

Liability

- Carriers continue to face issues with availability/affordability of re-insurance. This impacts future pricing as carriers pass those additional costs to clients.
- Auto insurance has unique considerations as carriers are seeing change in frequency-severity trends. These changes are impacted by geography, use of vehicles, coverage, and industry.
- Underwriters continue to add coverage exclusions related to viruses like COVID-19 or pandemic disease. Most often, these restrictive exclusions cannot be negotiated off the policy.

Management Liability

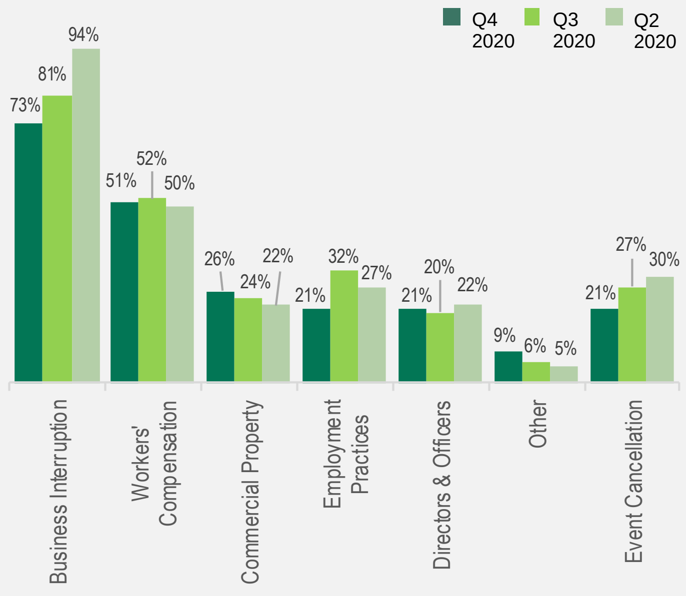
- Underwriting requirements are strict, capacity continues to be cut, clients' retentions are increasing, and annual premiums are expected to increase 20%-100%.

Workers' compensation

- Clients and carriers continue to struggle with clarifying COVID-19 causation to the workplace, this issue is ongoing and will continue to evolve.
- Carriers and actuaries are attempting to understand the impact of medical costs, potential lengthening of lost-time claims, and the impact of the overall claim within certain industries and classes.
- Due to the nature of workers' compensation insurance, there are a few ways to limit coverage by endorsement. An additional pricing cushion is a carrier's main way of building in more cost certainty.

The initial rush of Business Interruption claims due to COVID-19 seemed to have abated slightly in 4Q 2020.

Respondents reporting increased COVID-related claims activity for commercial lines



Graphic from Council for Insurance Agents and Brokers (CIAB), 4Q 2020 COVID-19 Supplement.

INSURANCE MARKET BRIEF

COVID-19

Impacts of the pandemic

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Real estate

The real estate industry is amongst the hardest hit markets, with carriers increasing rates significantly and reducing capacity, particularly in states such as NY, CA, FL, and TX.

Habitational continues to be one of the most challenging classes, especially if assets include subsidized, seniors, or student housing.

Construction

The Casualty Construction market has continued to harden and coverage will be the most challenging to place for classes such as habitational and frame construction.

Builder's Risk markets have been increasing rates dramatically, reducing capacity, increasing deductibles, and imposing strict site security requirements, particularly for frame construction. The markets for renovation projects have shrunk and there are limited options.

We have seen rates increase in certain geographies such as NY, FL, and CA.

Health care

Health care premiums are rising substantially regardless of performance. Renewals are seeing dramatic increases on Liability. In addition, carriers are warning of substantial increase on Directors & Officers policies. Terms and conditions being offered are much less favorable. Carriers are placing COVID Exclusions and Class Action Exclusions on the Casualty Lines as well.

Manufacturing

The insurance market for manufacturers will follow industry trends of the harder property and casualty market.

Umbrella/excess limits will be more difficult to find, driving prices higher.

That said, those manufacturers with excellent loss history, favorable property characteristics, and active safety management protocols may benefit from carriers with appetites for new premium from solid historical class of business and profitability.

Hospitality

Pre-COVID-19, the casualty market for hospitality risks was hardening.

Given the impact that COVID-19 has had on the hospitality industry, renewals and appetite from carriers has been unstable so having a proactive strategy around renewals is important.

As the industry slowly recovers, clients should expect that rates may continue to rise.

Transportation / Auto

Vehicle and fleet utilization is rebounding across most industries.

Rates look to be flattening out as significant rate increases were achieved last year.

Excess insurance placement over heavy fleets has been problematic

Casualty

Overview of the current insurance market

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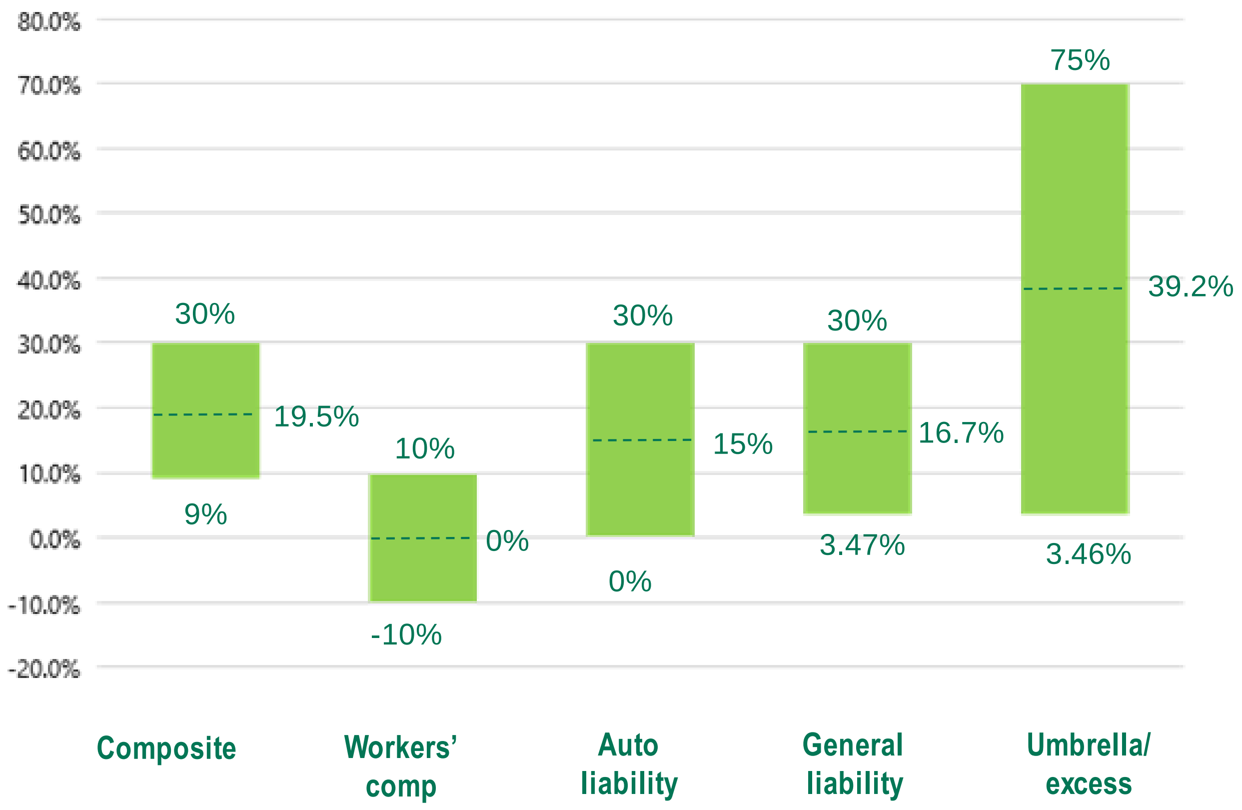

Casualty

- Challenges in commercial auto and general liability lines persisted in putting pressure on umbrella premiums.
- Large vehicle fleets continued to see issues, and general liability claims continued to expand in size.
- As in 3Q 2020, so-called "nuclear" court verdicts were cited as a key reason for carriers' premium increases in 4Q 2020, especially judgments of $10mn plus.
- Underwriting capacity continued to contract for the most troubled lines.
- Workers' comp premiums were once again the exception to sharply rising casualty rates elsewhere, as workplace injuries continue to decline.

*Data as of 4Q 2020.

Property

Overview of the current insurance market

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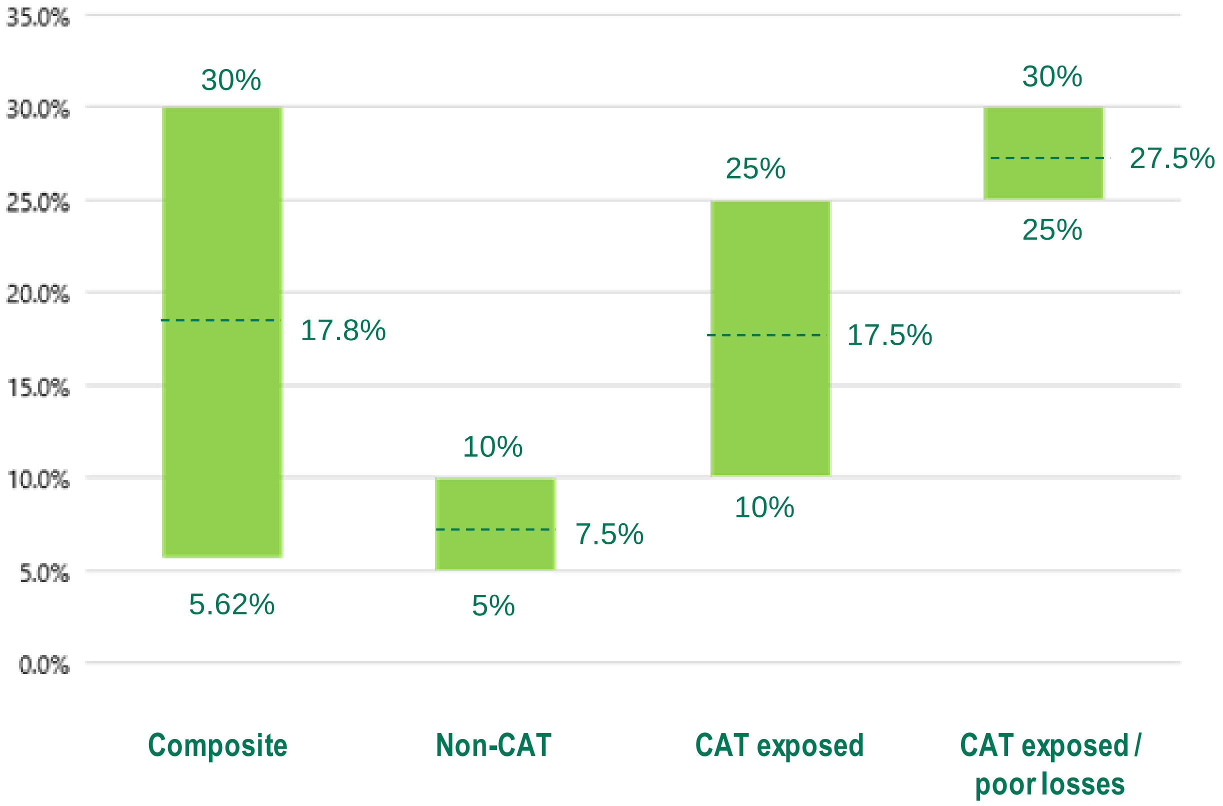

Property

- For 4Q 2020, composite property premiums continued to rise significantly.
- Commercial property saw one of the highest premium increases of all lines, jumping 12.9%, according to the CIAB. However, this was slightly less than the 14.2% increase recorded in 3Q 2020.
- Real estate property renewals experienced marked increases in pricing, along with lower limits and higher deductibles, particularly for all-risk, hail, flood, and tornado.
- Risks in the multifamily/wood frame construction and coastal hospitality sectors experienced the most challenging conditions.

*Data as of 4Q 2020.

Specialty Lines

Overview of the current insurance market

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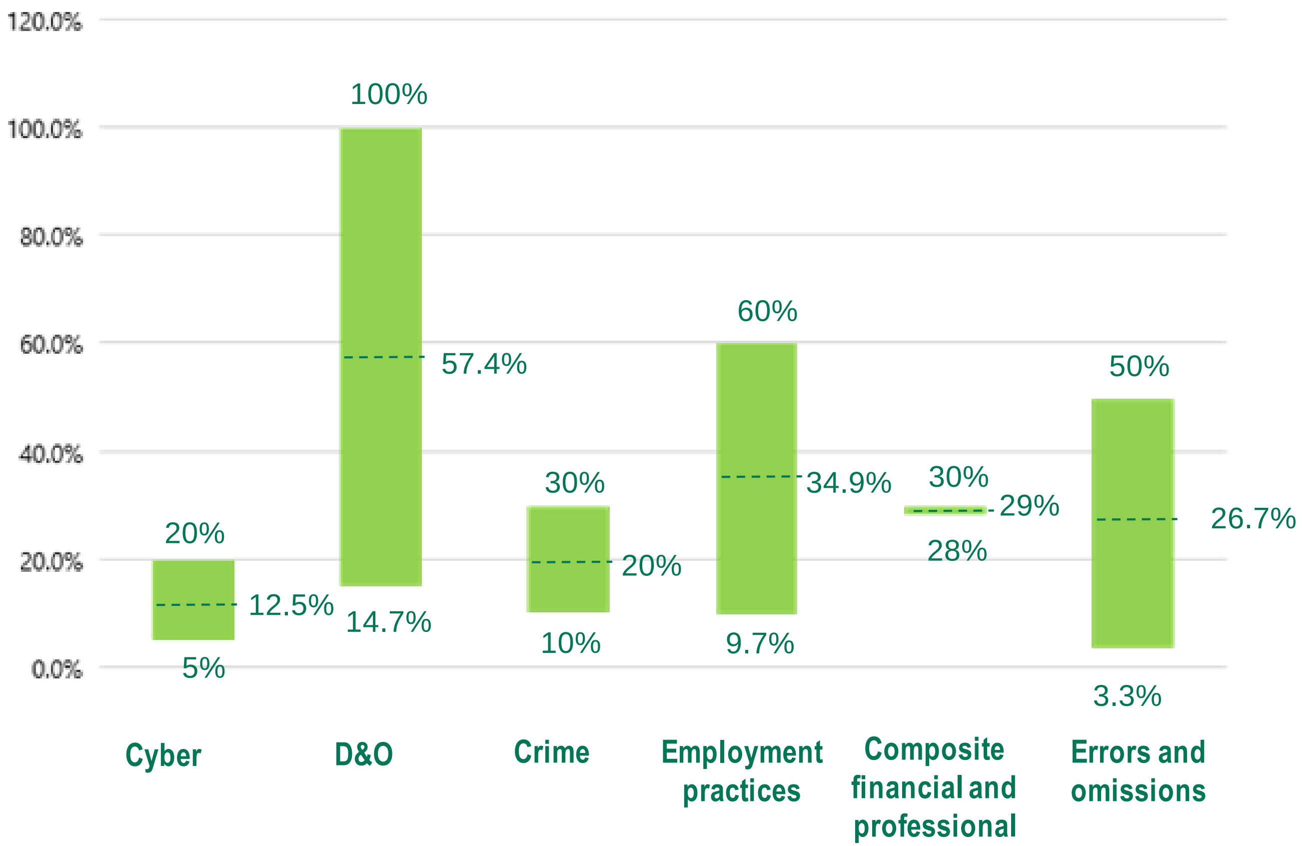

Specialty lines

- For 4Q 2020, the average premium jump for cyber saw double digits (11.1%) for the first time since CIAB began tracking it, an increase from 7.7% in 3Q 2020.
- Cyber claims became more frequent and severe. Ransomware attacks were particularly virulent toward the end of 2020.
- For D&O, increases in premiums and retention rates continued. A challenging macroeconomic landscape and event-driven litigation—including pandemic-related issues—had a major affect on pricing.

*Data as of 4Q 2020.

Historical View

15-month view 4Q 2019 - 4Q 2020

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	Auto liability	Workers' comp	Commercial property	General liability	Umbrella	Average P&C	Cyber liability	D&O	Employment practices	E&O	Average ML*
Fourth quarter 2020	9.1%	0.4%	12.9%	7.3%	21.3%	10.2%	11.1%	14.7%	9.7%	3.3%	9.7%
Third quarter 2020	11.0%	1.5%	14.2%	6.7%	22.9%	11.3%	7.7 %	16.1%	10.1%	4.4%	9.6%
Second quarter 2020	9.6%	0.7%	13.3%	6.8%	20.0%	10.1%	6.5%	16.8%	9.4%	3.5%	9.1%
First quarter 2020	9.6%	–1.2%	12.0%	5.7%	17.3%	8.7%	4.4%	8.0%	5.5%	2.3%	5.1%
Fourth quarter 2019	10.5%	–1.9%	9.7%	5.8%	13.6%	7.5%	2.9%	7.0%	4.6%	2.2%	4.2%

*Management liability

15-month view

- Across all lines of business, the overall average P&C increase was 10.2%, compared to 11.3% in 3Q 2020 and 10.1% in 2Q 2020.
- The most significant increases in premiums were observed in Umbrella and D&O, which recorded increases of 21.3% and 14.7%, respectively.
- The pandemic and the resulting economic slowdown have increased carriers' underwriting scrutiny and aversion to risk.
- Other factors impacting the marketplace include more numerous natural catastrophes, the higher costs of social inflation for insurers, and low investment yields.
- The trend of rising prices is expected to continue well into 2021.

*Data as of 4Q 2020

Special Edition: Health Insurance costs and the condensing marketplace.

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Industry at-a-glance:

- Health care carriers are expected to experience challenges from medical cost inflation.
- Key sources of growth for carriers include medical cost inflation and an aging U.S. population.
- Health care reform has motivated many health insurance companies to consolidate.

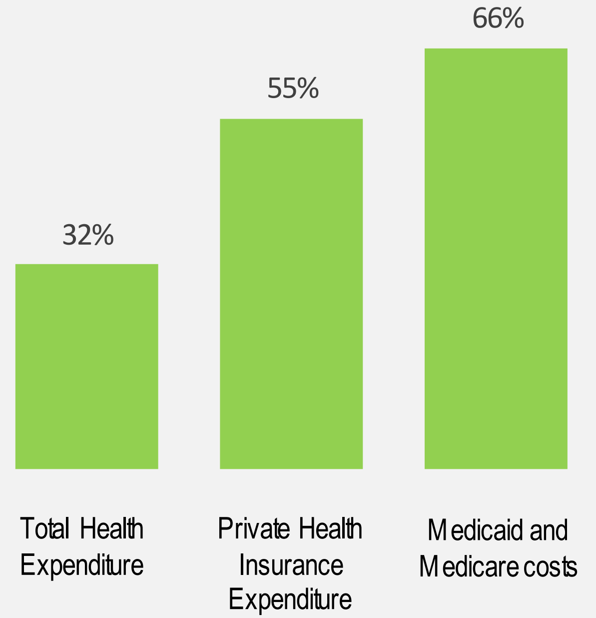
What we expect to happen in the next 5 years (2020 – 2025):

- The industry will likely be affected by large companies seeking to shake up health insurance.
- Overall demand for health insurance coverage is anticipated to grow.
- Prescription drug expenditures are projected to exhibit strong growth over the five years to 2025, according to Centers for Medicare & Medicaid Services (CMS). An expected 6.2% annualized increase illustrates a changing demographic landscape and high drug costs in the United States.
- Some of this growth will come from renewed employment rates, with U.S. employment expected to grow at an annualized rate of 2.1% over the five years to 2025, according to the U.S. Bureau of Labor Statistics.

What does this mean for employer groups?

- Continued focus on cost containment.
- Impetus to further understand program-level data.
- Examination of risk/reward when it comes to funding your health care costs.

Projected increases in health insurance costs*



*From now until 2025, according to the Centers for Medicare & Medicaid Services (CMS)

 IBISWorld, **Health & Medical Insurance in the US, November 2020**

Special Edition: Impacts of work-from-home and the pandemic on employee wellness and mental well-being.

M&T Insurance Agency, Inc.

Resulting outcomes of the pandemic have triggered the potential to see an increase in the use of mental health benefits.

What is driving this?

- Governments issuing "stay at home" orders, and workers transitioning to a work-from-home environment, individuals may quickly begin to feel a higher degree of social isolation.
- Businesses slowing production and stimulus incentives have led to overall unemployment rate increases in most markets.
- Individuals who still hold employment may perceive a lower security of income.

What does this mean for employer groups?

- Increased usage of mental health services (employers should conduct examination of mental health provided by your health insurance carrier, as well as, Employee Assistance Programs (EAP) programs).
- Employer groups could benefit by encouraging alternative stress release (i.e., mindfulness, fitness, etc.).

COMMERICIAL LARGE GROUP HEALTH CARE COST TRENDS FOR MENTAL HEALTH

Year	Inpatient Admissions Per 1000 Members Per Month	Anti-Depressant Prescriptions Per 100 Members Per Year
2014	2.79	724.1
2015	2.77	727.2
2016	2.78	755.6
2017	2.98	802.9
2018	3.15	815.8

*This chart does not account for the affects of COVID-19 on mental well-being, only shows the upward treatment trend over the period of 2014 – 2018.

Society of Actuaries, Mental Health Trends and COVID-19, April 2020

Sourcing

Data captured as of March 2021

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Methodology

The ranges and figures listed in this quarterly review represent a composite look at market data from multiple sources. After collecting all available data from across this range of industry professionals and collecting additional input from insurance-line-specific leadership at MTIA, the team created these leveraging data inputs from 4Q 2020.

We will continue to monitor all these developments and their impact on the insurance market.

Questions? Call us at 800.716.8314.

https://www.ciab.com/download/28164/

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