2021 MARKET REVIEW AND FORECAST

SENTINEL
RISK ADVISORS

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Contents

About the Cover Image

The Cape Hatteras Lighthouse is recognized worldwide by its distinctive black & white daymark. It is the tallest brick lighthouse in the United States. The lighthouse was built in 1870 and moved in 1999 to save it from erosion.

Executive Summary

2020 will certainly go down in the annals of history as a year to remember. What began as a "blockbuster" year succumbed to a pandemic that will forever change the way we evaluate all facets of risk. Of the many lessons learned, one salient point has risen to the top, **relationships matter**. We are not speaking of the notion that "longevity" is the key factor in the evaluation of ability, rather, that a strict evaluation of the actual capabilities and intellectual capital that are available for advice, guidance and counsel has proven more critical than ever before. The notion that consolidation and size is a point of differentiation has proven to be a falsehood as the ability to execute with autonomy and specificity to individual client demands has proven to be the most valuable commodity during these trying times. Businesses are now asking questions about supply chain management, business continuity, incremental value propositions, personal networks and access to resources that can help resolve issues. They want organizations that have the ability to provide solutions to problems that often exist outside of their areas of specialization. In the end, it is abundantly clear that **relationships matter**.

In our 2020 forecast, we discussed the nature of an insurance market that is in "transition". The insurance marketplace is cyclical in nature and subject to many influences that include capital surplus, underwriting profitability, investment income, operational costs, loss adjustment costs and trends, reinsurance costs as well as other intangible factors. We discussed that the market was entering a phase of transition from a "soft" profile to a "hard" profile and that process continues to accelerate. In point of fact, we will outline areas that are in a "hardened" state where pricing is increasing and capacity is becoming more scarce. Having a truly strategic approach to maintaining coverages and rate structures in this changing market is more important than ever as we navigate the more turbulent waters of the insurance marketplace.

Risk management strategies today (in particular, Business Continuity Planning) must also include Black Swan events such as COVID-19 which have devastated supply chains and forced legacy industries to re-invent themselves. In addition, it has become mandatory that social media be constantly monitored due to the evolving "cancel culture", "mob" mentality and online bullying. Reputational harm and disruption are real threats to a business and should

be carefully considered in today's unsettling social media environment where sound bites and video clips often tell partial truths. These societal trends will continue to evolve and likely accelerate in the coming years. Businesses must not only monitor but continually evaluate and adapt to survive. Toss in a pandemic and you have an unhealthy soup.

Given these factors, we would suggest that now is the time to:

- Deploy resources and align with partners who have the sophistication and intellectual capital to address evolving and dynamic concerns
- Embrace a comprehensive risk management strategy
- Seek to understand the dynamics of the current market cycle
- Empower your organization to address risk management in a collaborative and comprehensive manner
- Evolve your organizations capacity to address emerging risks

At Sentinel, we understand the transitioning market, emerging online societal risks, pandemic induced supply chain upheaval and how protecting your reputation is as important as protecting your business.

2020 Market in Review – How did we do?

At the beginning of 2020, we predicted that insurance carriers would push moderate rate increases on most lines, yet buyers could continue to have the upper hand in most rate negotiations with carriers... and at the start of the year this was true in both instances.

Original 2020 Forecasted Rate Increases were widely anticipated at:

Flat to Slightly Down	5-10%	10-15%	>15%
Workers' Compensation Errors and Omissions	Property General liability/ Product liability Crime Cyber Directors and Officers (private/ nonprofit) EPLI Environmental	Auto (good loss history) Umbrella Excess liability	Auto (poor loss history) CAT property Directors and Officers (public/IPO)

2020 began with a growing positive outlook for businesses with proper risk management and an eye on the future.

First-quarter 2020: By the numbers

$771.9 billion	Industry surplus, down from $847.8 billion at year-end 2019
$17.9 billion	Net income after taxes, essentially unchanged from first-quarter 2019
$164.4 billion	Net written premium, up from $154.7 billion in first-quarter 2019
94.9%	Combined ratio, up after 95.6% in first-quarter 2019
$6.3 billion	Net underwriting gain, up from $5.2 billion in first-quarter 2019
3.0%	Annualized quarterly investment yield, down slightly from 3.1% in first-quarter 2019
$82.8 billion	Total capital losses for the quarter, after $27.2 billion of total capital gains in first-quarter 2019 and the worst ever value for quarterly total capital gains/losses

Businesses were focusing on data analytics, Insurtech, Internet of Things, and Telematics to boost job site safety and control losses. These were considered an investment in the future as market conditions slowly evolved.

Due to growing national and global economic concerns, that changed quickly within the first quarter and continued throughout the year. Commercial property and automobile rates increased at a rate of 5% each month in the second quarter per Ivans Insurance Services with Casualty and Umbrella/Excess averaging around 4%.

Per Market Scout, commercial insurance buyers saw rate increases on every line of coverage in the third quarter of 2020, averaging 6.25% overall compared to 4.8% overall in second quarter of 2020.

By line, 3rd Quarter increases were reported by Market Scout:
Directors and Officers Liability – 11.5%
Umbrella and Excess Liability – 8.5%
Commercial Automobile – 8%
Professional Liability – 7.5%
Commercial Property – 7%
Workers'' Compensation – 0.5% (the first increase this line of business has seen in over five years)

By industry, transportation and habitational had the highest average rate increases of the quarter at 10.5% and 8% respectively.

We anticipate this "rate creep" to continue for Property, Directors & Officers Liability and Umbrella/Excess Liability in the fourth quarter of 2020.

Reinsurance prices have increased significantly, some up to 60%, at mid-year renewals. Insurers expect reinsurance rates to increase for end of the year renewals based on a survey of almost 40 reinsurance buyers by Moody's Investors Services Inc. 80% of respondents expect property reinsurance rates to increase 5-15% and 55% of respondents expect casualty reinsurance rate increases of 5-15%.

As 2020 winds down and we give way to 2021, new market trends are being watched. New exposures are being addressed. New paths are being forged. Now is the time to partner with a risk advisor to carry you thru these unprecedented times.

US Property/Casualty – 6-month Financial Indicators and Combined Ratio Components, 2019/2020

Data as of August 19, 2020

($ billions)

Financial Indicators	6 months 2019	6 months 2020	Year/Year Change (%)
Net Premiums Written	308.3	317.2	2.9
Net Premiums Earned	297.8	306.2	2.8
Losses and LAE	209.2	209.9	0.4
Underwriting Expenses	82.5	87.1	5.5
Policyholder Dividends	1.4	4.8	237.7
Underwriting Income (Loss)	4.6	4.4	-5.5
Net Investment Income	26.8	26.4	-1.2
Pretax Operating Income (Loss)	32.3	30.7	-4.8
Realized Capital Gain	4.2	-1.3	NM
Federal Income Taxes	4.5	4.4	-3.3

Combined Ratio Components	6 months 2019	6 months 2020	Year/Year Change (%)
Pure Loss Ratio	59.4	58.1	-1.4
Loss Adjustment Expense (LAE) Ratio	10.8	10.5	-0.3
Losses and LAE Ratio	70.2	68.5	-1.7
Underwriting Expense Ratio	26.8	27.5	0.7
Policyholder Dividend Ratio	0.5	1.6	1.1
Combined Ratio (Reported)	97.5	97.6	0.1
Less: Accident Year Capacity Losses (Points)*	4.5	6.5	2.1
Less: A&E Losses (Points)	0.3	0.2	0.0
CORE Adverse (Favorable) Development (Points)	-2.4	-1.8	0.5
Combined Ratio (Normalized)	92.8	90.8	-1.9
Accident-Year Combined Ratio (Reported)	99.6	99.2	-0.4
Accident-Year Combined Ratio (Normalized)	95.1	92.6	-2.5

*A catastrophe loss is defined as an industry event that causes $25 million or more in insured losses.

Note: Figures may not add due to rounding. Source: AM Best data and research

Operating Results for 2020 and 2019 ($ Millions)		
First Quarter	2020	2019
Net Written Premiums / Percent Change (%)	$164,356 / 6.2	$154,719 / -1.1
Net Earned Premiums / Percent Change (%)	157,663 / 5.4	149,593 / 4.6
Incurred Losses & Loss Adjustment Expenses / Percent Change (%)	105,445 / 3.6	101,825 / 5.9
Statutory Underwriting Gains (Losses)	7,092	5,999
Policyholders' Dividends	832	776
Net Underwriting Gains (Losses)	6,260	5,223
Pretax Operating Income	19,448	18,955
Net Investment Income Earned	13,177	13,155
Net Realized Capital Gains (Losses)	1,092	1,596
Net Investment Gains	14,269	14,750
Net Income (Loss) After Taxes / Percent Change (%)	17,887 / 0.1	17,864 / 4.8
Surplus (Consolidated)	771,893	779,566
Loss & Loss Adjustment Expense Reserves	655,034	633,424
Combined Ratio, Post-Dividends (%)	94.9	95.6

Topics of Interest

Potential for Pandemic-Based Claims

In the early days of the pandemic, it was hard for many business leaders to imagine the myriad ways that Coronavirus would impact the potential for claims. But remember—risk is assessed in part by weighing the difference between what is possible and what is likely. A whole host of workplace risks that were possible, but perhaps unlikely, prior to the pandemic are now active exposures. A company for whom business was booming prior to March 2020, for example, is now susceptible to a reduction in force; an event that carries substantial risk for employers.

Crises have a way of upending people and places that typically take great care to honor policy and process. Think about the business manager entrusted with carrying out the company's return-to-work plan, who is stressed, overworked, and lacking the resources to ensure health and safety standards. You can bet that insurers are thinking about that manager, along with the potential for claims from that manager's disgruntled employees.

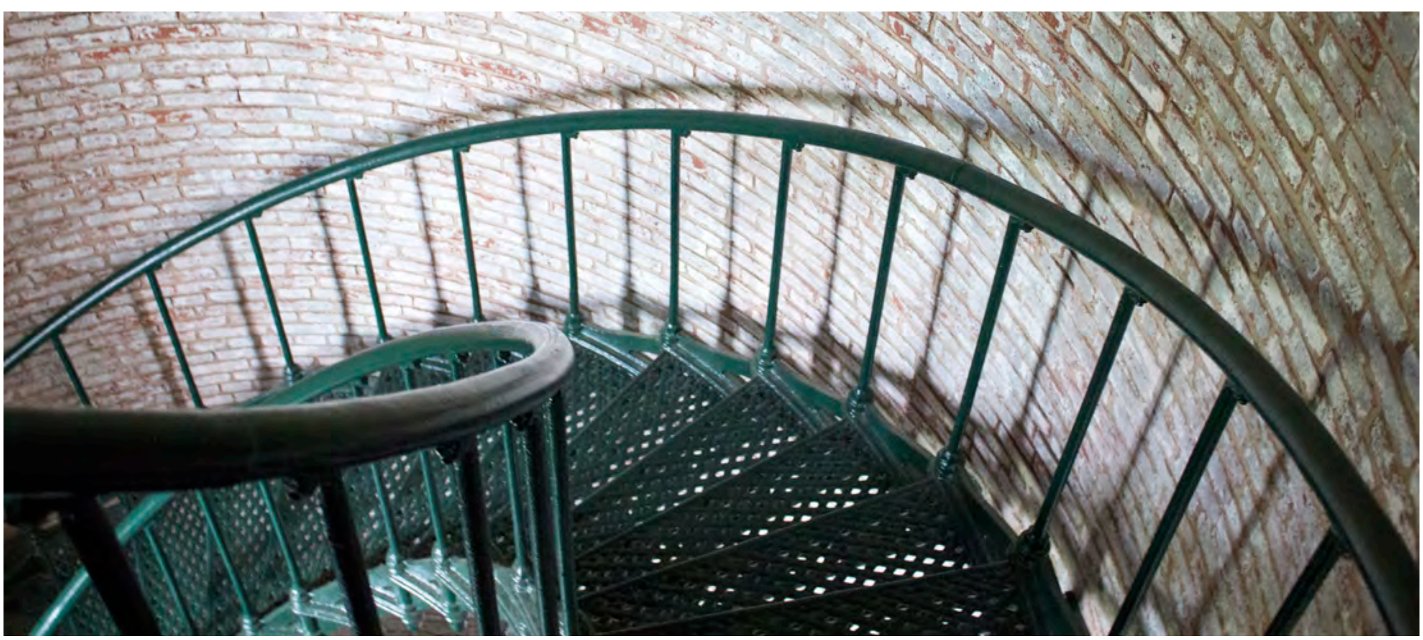
Pandemic-related workplace risks are rising just as fast on the causal side as an effect. For some employers, the pandemic is creating problems that did not exist previously. For others, the pandemic is bringing long-simmering issues to a full-on boil.

Insurers are reporting an uptick in EPLI claims month over month, as employees begin filing incidents of harassment, retaliation, and wage and hour violations. Industry analysts see the greatest potential for employer losses with wage and hour complaints, given the already great and growing number of workers who say they are pressured to work without pay on business reopening and continuity plans.

COVID-19

As 2020 began, COVID19 struck and progressed to shutter and even shutdown many sectors of national economies worldwide. Seeking relief, businesses looked to their Property Insurance policies, specifically their Loss of Business Income coverage. While some policies may have granted limited coverage (offering broader wording at higher premiums), the vast majority of businesses found their insurance unresponsive due to a Virus and Bacteria Exclusion and the lack of physical damage to the property (a coverage trigger for Business Income claims). Naturally, lawsuits became the norm but, to date, most courts have held fast in denying coverage.

Depending upon the location and type of business, 40% or more of businesses have filed for bankruptcy. In many instances this has resulted in a Directors and Officers claim. While most of these claims remain in litigation, insurers have reserved cases for the full potential exposure. This will result in significant upward pressure on renewal rates and changes to coverage.



Many businesses have had Employment Practices Liability claims filed due to wrongful termination. Again, most of these actions remain 'open' and insurers are reserving the cases for potential adverse decisions.

Additionally, with most businesses that were mandated to shut down, employees were forced to work remotely. The potential for workers' compensation issues has dramatically increased as well due to lack of control over the workspaces at home (ergonomic seating, etc.) and the potential for slip/falls. The decentralization of employees increased the potential for Cyber-attacks (ransomware, phishing, et al). Accordingly, Cyber renewals will see higher rates, potential changes to terms and conditions and more strict underwriting.

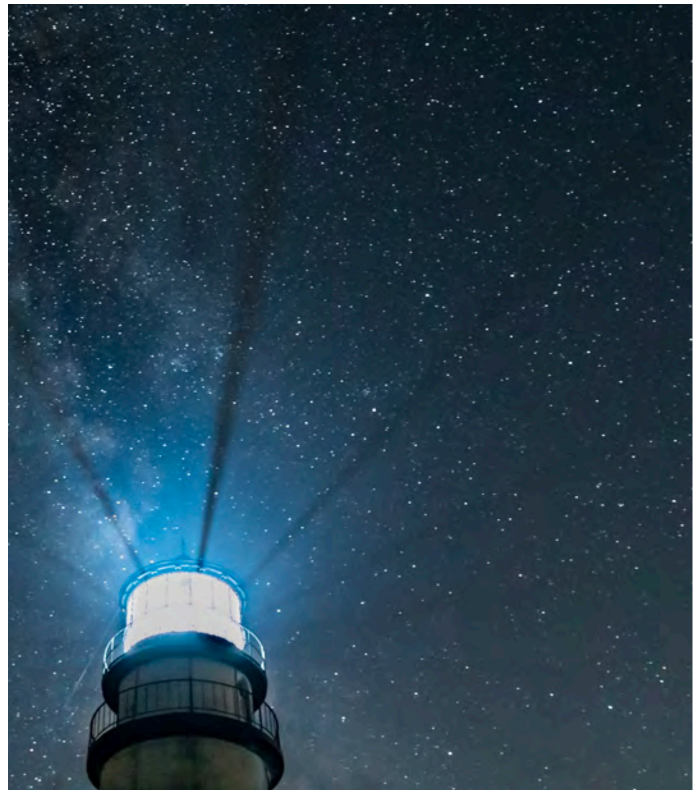
Globally, the financial impact on the insurance industry will be significant and will most certainly drive rates higher and introduce coverage restrictions. This global impact will rapidly cascade into the US market.

Social Movements, Supreme Court Ruling Carry Additional Implications

The pandemic isn't the only thing impacting today's employment risk and insurance marketplace. Social justice movements have picked up tremendous steam, from the highest court in the land to the court of public opinion. Heightened awareness and sensitivity around race-based discrimination stemming from the Black Lives Matter movement is not only a straight line to more EPLI claims, but legal analysts expect it to empower employees who have long wanted to speak out to take action.

The big driver of new claims is likely to be the recent ruling by the US Supreme Court, which makes clear that sex-based discrimination protection under the Civil Rights Act extends to gay, lesbian, and transgender employees. The ruling has major implications on employer liability at a time when many businesses are stretched thin in human resources and compliance.

For many businesses, Employment Practices Liability Insurance is the first line of defense against these types of claims. Check with your Sentinel advisor to determine the specifics of your business's EPLI coverage, as these policies are not written on a standard industry form and can vary greatly.



Business Continuity

During COVID-19, businesses were tested to an extreme level on their Business Continuity Plans (BCP). Many businesses had a plan for Tier-1 suppliers and customers, but COVID-19 impacted multiple tiers of suppliers and customers. Manufacturing facilities were shutdown with minimal notice and remained closed for extended periods. Some remain closed or are reopening with limited production.

While COVID-19 can be viewed as a very unique event and the likelihood of a similar event, even on a more regionalized basis, may be viewed as rare, history shows a Black Swan type event happens every 10 years. Consider volcanic ash clouds stopping all airline travel, resulting in lower air quality, and the overall impact on transportation and water supply, or an event that results in loss to the regional electric grid. In the past there have been tsunamis, major storms, and other pandemic situations.

Businesses need to conduct after-action reviews of their Business Continuity Plan's performance as the result of COVID-19 to determine what worked, what did not work, what could be done different or better. Periodically, businesses should perform 'table-top' exercises to challenge their business continuity plan and business resilience.

What is Driving this Market?

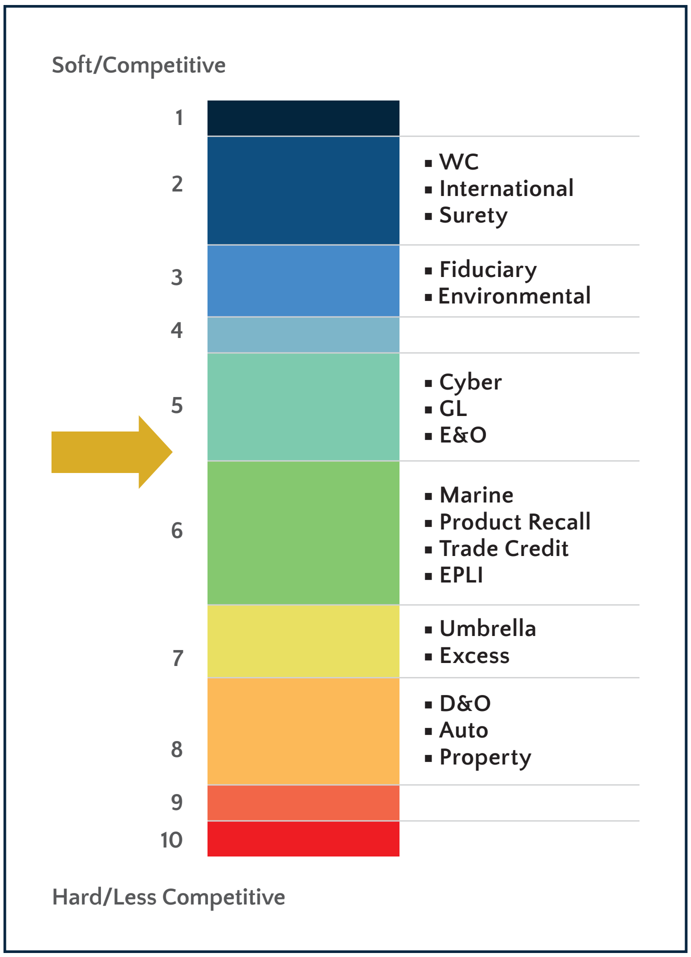
What is driving the current transitional/hard market? To put it simply, owners and investors of insurance products and solutions are dissatisfied with their return on capital/investment. Some of the causes of these poor results include:

- Insurers continue to struggle to meet their cost of capital (10+ years in a row). Accordingly, many are restructuring their programs (use of their Net Capacity, Treaty Capacity and use of Facultative Reinsurance, etc.), restructuring their net retention and use of treaty reinsurance, etc.
- Low Interest Rates continue to yield results that do not support or reduce the cost of capital.
- Expense management efforts have not met expectations.
- Insurance Linked Securities (ILS) have performed poorly – ILS provide insurers protection by aggregating catastrophe losses or offer Retrocession Reinsurance, reinsurance for reinsurers.
- Losses are higher than expected, yielding Combined Ratios (losses + insurance carrier expenses) in excess of 100%. Though 2018 and 2019 yielded combined ratios of just under 100%, lower investment returns failed to improve the overall result.
- In 2018, wildfires (Camp and Woolsey) each yielded insured losses greater than Hurricanes Michael and Florence, combined.
- During 2019 Convective Storms (aka Severe Thunderstorms) were the largest cause of insured losses, accounting for just over 80% of the Catastrophe losses.
- 2020 Rioting and Looting losses and potential lawsuits will exacerbate market conditions.
- COVID-19 claims for EPLI, D&O and to limited extent property and general liability will cause growing concern with insurers.
- Worldwide, insurers are reserving COVID-19 claims with estimates as 'optimistic' $11 billion, 'moderate' $32 billion and 'severe' $80 billion (2019 Global combined from ALL CAT losses were about $56 billion).
- Ransomware/Cyber-attacks continue to increase in number and in value.
- Loss Settlements continue to increase, often at levels higher than insurers reserved.

Where are we in the Transition?

In a very Hard Market the insurers' capacity (amount of risk they will assume and limits they will offer) will plummet by 30% or more, deductibles will increase 2-3x or more, exclusions will typically increase, and if reinsurance is required (facultative), the rates will be very high. Underwriters declining to underwrite risks will increase, even for risks that they may have quoted a couple years ago. Most importantly, the number of insurers willing to offer renewal terms will shrink to a handful or less and often insurers will decline risks outright. In extreme hard market conditions, it is possible that the incumbent insurer will issue notice of non-renewal. Pricing in a very hard market will be multiples (4-5 x or more) from rates paid in a soft/competitive market.

Generally, we believe the overall property and casualty market 'hardness' is 5 transitioning to a 6.



Some coverages, Workers' Compensation, International Casualty, Surety, Fiduciary and Environmental remain very competitive. Cyber, General Liability and Errors & Omissions coverage are very transitional with some classes of businesses experiencing substantial rate increases, due to poor loss history, while others with no losses have seen flat to a decrease in rates.

Marine is experiencing increasing rates. Marine risks are seeing reductions in limits, increases in retentions and up to doubling of premium. Businesses with lower Marine exposures may see flat to slight renewal increases.

Excess and Umbrella Liability markets are reducing the limits they will offer and seeking premium increases. D&O, especially for public companies are seeing significant rate increases and underwriters for all D&O want information on the business management of COVID-19 practices as well as Employment Practices Liability.

Auto rates have been increasing for the last couple of years and may start to plateau. However, businesses with losses will likely continue to see overall rate increases.

Property rates are increasing typically 10-20% for accounts with no losses. If there have been property losses it is not uncommon for insurers to double or even triple rates. Catastrophe (CAT) exposure property will likely see 25% plus rate increases.

Businesses are also facing 'social inflation' where they are potentially being held accountable for social ills, even if the business was not directly involved. The Cancel Culture or social boycotting will likely have negative influence for businesses which underwriters may begin to consider.

Caution should be taken as businesses will also likely face insurers adding exclusions or removing extensions offered in the soft/competitive market. Insurers will also require much more underwriting information – even if coverages remain with the incumbent.

There is also potential for insurers to express unwillingness to offer a competitive quote unless they believe they have an extremely high probability of writing the account.

The impact of COVID-19 will vary by insurer and by court decisions that will begin in 2021. Markets such as Lloyds, who offered broad coverage, may have higher liability for COVID-19 losses than many US insurers.

It is expected that insurers will issue quotes and policies with absolute communicable disease exclusions. Further, ingress/egress and civil authority extensions of coverage will be reduced in duration (90 or 60 days to 30) and lowering of sublimit. Some insurers may begin to define 'physical loss or damage' which has remained an undefined term in most policies.

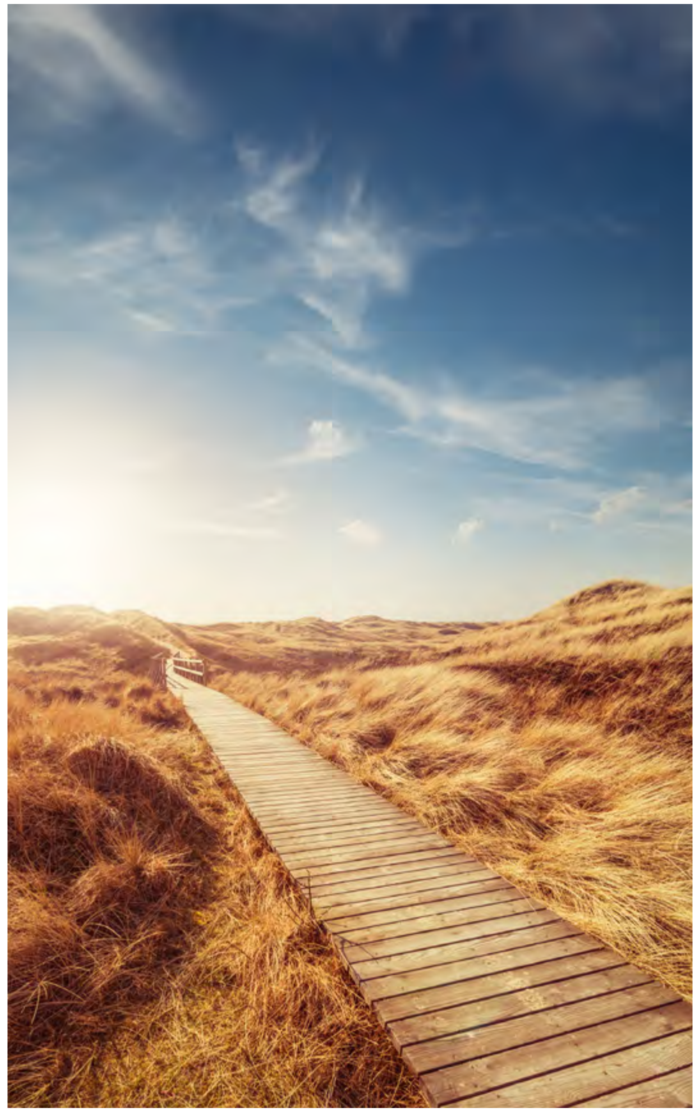
There are a couple more months to run in 2020, and the potential for additional catastrophic losses remains high, potentially resulting in unexpected high insured losses. Even if losses remain low to mild, we do not see insurers backing away from their pursuit of rate increases.

Insurance companies modeling for catastrophic (CAT) events has become very data driven. To better understand the carrier perspective, it is important to illustrate the geographic regions anticipated to experience CAT events.

- Coastal States nationwide, even northern east coast through MD, NY, NJ. Within coastal states, Tier 1 counties are especially high CAT.
- Big concerns specifically on the state of Texas as the entire state has quickly become a CAT zone. Many standard markets will not currently consider property risks in Texas.
- States throughout the Midwest considered to part of tornado alley. Severe weather from non-named storms are a huge market concern.
- For standard insurers, the CAT area and/or "wind zones" often extend beyond what the excess markets define as CAT.

Excess Property Market forecast:

- 10-25% rate increases on the most coastal areas throughout the country. The construction and age of an asset heavily influences the rate change. Frame construction will be at the higher end of this forecast.
- Decreased capacity for frame construction and high TIV schedules.
- Higher primary wind deductible positions for "Named Storm" and "all other wind" perils.
- Throughout Texas, 15-25% rate increases on habitational exposures and 10-15% increases on more superior construction and commercial property.



- Deductible buy-down markets becoming increasingly utilized. These markets are also taking rate increases, but not at the percentages in the primary insurer base. For the purpose of this forecast, we can assume the buy-down market will be up 8-15%. One caveat, the buy down market is hedging exposure by increasing the amount they will buy down to. Where a $10k deductible had been the norm, we are seeing that increase to $15-25k.

It's also important to isolate state wind pools as they are not up as much but have limited capacity and coverage terms. Many coastal states have in-state wind markets. These in-state "pools" are not seeing the same rate volatility as the insurance marketplace. However, state pools have limited capacity and appetite. It is not uncommon for a state pool to offer coverage for only a portion of total replacement cost, thus requiring excess coverage to meet total valuation. Still, state pools should be evaluated in this marketplace.

Directors & Officers Liability (D&O)

Claims that may result from COVID-19:

- Shareholder Derivative Lawsuits
- Lawsuits alleging breach of the duty of oversight
- Bankruptcy
- Securities Class Actions
  a. Allegations pertaining to the business impact of the Coronavirus outbreak on the company's financial performance or business operations
  b. Privacy concerns
  c. Company statements regarding operating readiness/ capabilities, financial shape, etc.
  d. Alleged board failure to manage the business impact from COVID-19

These and other concerns will have a resulting impact on D&O insurance policies including:

- Reduction in available limit
- Reduction in coverage terms
  a. Absolute EPL exclusion
  b. Bankruptcy exclusion
  c. Eliminating Additional Side A Limit
  d. Communicable disease exclusion
  e. Antitrust exclusion
- Increased retentions
- Premium increases (averaging 10-15%)
- Additional underwriting requirements
- Decreased capacity for those without prior coverage
- Decreased capacity for certain industries (hospitality, life sciences, assisted living)

Cyber

There are additional concerns related to COVID-19 affecting Cyber and Security Insurance as well:

- Work-from-home mobilization
  a. Security concerns
  b. Distracted employees
- Increased phishing attempts – COVID-19 has been the perfect bait. In the first quarter of 2020, 16,000 newly registered "corona-domains" were created, of which roughly 20% were "suspicious or even malicious."
- Increased frequency and severity of ransomware attacks

These and other concerns will have a resulting impact on Cyber and Security insurance policies including:

- Time factor – Companies take longer to respond and triage cyber claims, which often results in claims taking longer to handle and costing more
- Pricing increases of 5-15%. Much of this was a pre-COVID-19 rate increase as loss ratio have continued to increase year over year.
- Capacity and coverage terms do not seem to be impacted as of yet
- Insurers are providing more resources to insureds than ever
- Insurers are expecting more from insureds from an underwriting perspective

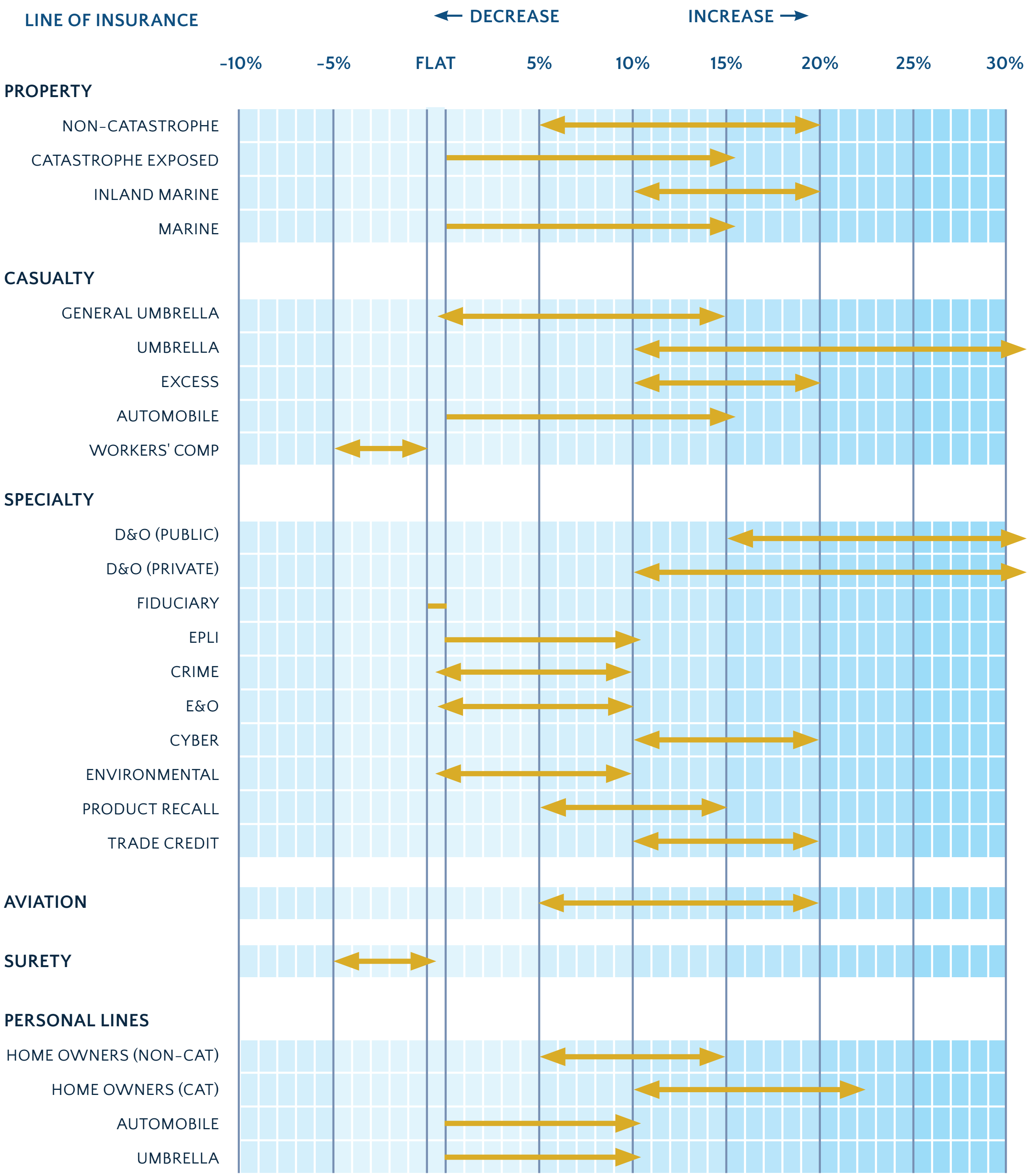
Employment Practices Liability (EPLI)

The insurance market began to tighten in specialty lines well before Coronavirus arrived to further disrupt rates, capacity, and insurer appetites. In November 2019, Sentinel published its annual Insurance Market Forecast for 2020, projecting rate increases of up to 10 percent in Employment Practices Liability Insurance. Who could have known that just a few months later, EPLI rates would balloon three-to-five times higher, even for businesses with clean, uncomplicated risk profiles?

These are unchartered waters for many of us in the risk and insurance arena. Hard markets typically drive rates up but leave enough capacity in the market to build new insurance programs and broker competitive renewals. That is not the case in the fallout from COVID-19 as insurers across the board sour their appetite for risks they've yet to fully get their arms around. Underwriters have little or no leeway to apply credits, and no choice but to reduce limits and increase retentions.

2021 FORECAST

The following table provides estimated rate increases by major line of insurance:



The above projected rates are for insureds with good loss experience (loss ratio <50%) – higher loss ratios will see much higher rates.

What can you do?

During a hard or hardening market, businesses will need to secure a much firmer grasp on the 'controllable' elements of their renewal.

Every quote includes the analysis of controllable elements/ facts/information/data contributors, such as:

- **Claims History** – Include a narrative description of large claims (depends upon the size of the insured but typically, claims over $25,000, as a minimum). The narrative should include a brief description of the claim, reserving history, amount paid to date or total payments, retention/ deductible, changes/improvements in safety or loss control policies, practices and procedures which will mitigate the loss from recurring, unique characteristics, etc.
- **Safety & Loss Control** – Provide a chronological narrative of enhancements and improvements, including investments made.
- **Automobile Fleets** – Insurers expect fleets to have Telematics but are increasing their expectation that the output of the Telematics are being aggressively monitored and managed.
- **Detailed Operational Description** – Include a full description of operations and exposures with any plans for the future and a description of products and/or services, including allocation/ splits of the revenue.
- **Statement of Values including COPE information for each building** – Quality Information, in as much detail as is practicable providing the <u>C</u>onstruction, <u>O</u>ccupancy, <u>P</u>rotection and <u>E</u>xposure – with asset, replacement cost values providing as much detail as is practicable and aligning the values to identified sections or buildings. Appraisals can be extremely beneficial. As the market conditions harden, insurers will be increasingly unwilling to provide Agreed Amount (waives Coinsurance Clause) or offer Blanket Limits. In lieu of an Appraisal, total construction value with a reasonable 'index' factor applied each year to ensure replacement cost values are maintained. It is also important to understand the lead time to rebuild your facility and/or order critical pieces of equipment.
- **CAT exposures** – Address the controllable elements and outline what is being done to prevent or mitigate a CAT loss.

Specifically, for Specialty Lines:

- **Prepare** – Work with your broker to put together a detailed, thoughtful insurance program. Be ready to answer pandemic-related questions that will likely slow down the underwriting process (your broker will give you a very good idea of what to expect).
- **Utilize Insurer Services** – Most EPLI policies typically contain a host of Insurer resources to help your business control losses, from employee training to consultations with employment law and HR specialists at no additional cost.
- **Document Current Business Policies** – Businesses that are planful and process oriented on human resources will fare far better in the current market. Sentinel's advice: document everything. Look for gaps in employee policies, internal communications, and pandemic-related office procedures in particular. Once those policies and procedures are made clear and communicated well with employees, document every detail of that effort to shore up your business's risk profile with insurers. Underwriters will require supplemental information regarding COVID-19 policies and procedures.

We further expect that rather than a quick return to a soft/ competitive market, insurers will soften slightly, maintain, then adjust on a stairstep (up or down) basis.

Businesses may want to consider alternative risk financing options, varying levels of self-insurance or considering different types of captive insurance.

Ultimately, the goal is to favorably differentiate your business from peers, and reduce, neutralize, or eliminate obstacles/ barriers from an underwriter to decline or rate your account more severely. Start the renewal process early, and where practicable, meet with the underwriter so they can gain a better understanding of your operation.

Personal Lines:

Overall, the cost of homeowners insurance has risen steadily in recent years. In 2010 the average annual cost of a homeowner policy country wide was around $900. In 2020 sources estimate the average cost over $1,400 – an increase of almost 60% in the last decade.

With continued growth in property values as well as the continued impact of natural disasters – hurricanes and wildfires – the rates are likely to continue to climb.

- According to rate filings from the prior 5 years, over half of the states (31 to be precise) have filed homeowner rate increases at greater the cumulative rate of inflation (9.14%).
- Furthermore, when the loss ratio climbs, rates tend to increase significantly for a few years after. For instance, wildfires in California led to $16.5 billion in damages and loss ratios well over 100%. Rate filings for insurers affected were some of the largest increases seen nationwide.
- Rates are also affected by the rising costs of building materials and labor. As there is an increase in severe disasters and thus increases in material or labor demands, insurers have raised rates as well.

What can be done to mitigate rising homeowner rates?

- Make your home safer. Things like water leak detection devices, smart home security systems, and fire alarms can reduce your home's risk exposures. By investing in things that make your home safer, you are reducing the risk of loss and become eligible for homeowners insurance discounts.
- Increase your deductible. Higher deductibles reduce premiums because your insurer will pay out less for covered claims. Consider moving from $500 to $1,000 deductible to save 10-13% or $500 to $5,000 to save 30% or more.
- Work with a trusted advisor to offer you constructive advice for program design and discounts available. Reach out to our Private Client team today to learn more.

Emerging Risks

Cyber – While Cyber is a well 'established' risk and exposure, the risks evolve in frequency, severity and new attacks continue to appear. Further, as businesses increase their use and dependency with technology and the Internet of Things, risks will continue to emerge.

Terrorism – Or rather the changing/emerging threats under Terrorist activity and by whom. Terrorism may evolve causing a blurring of lines between perils.

Terrorism is defined in the Code of Federal Regulations as "the unlawful use of force and violence against persons or property to intimidate or coerce a government, the civilian population, or any segment thereof, in furtherance of political or social objectives" (28 C.F.R. Section 0.85). The Federal Bureau of Investigation breaks down terrorism as:

- Domestic Terrorism is the unlawful use, or threatened use, of force or violence by a group or individual based and operating entirely within the United States or Puerto Rico without foreign direction committed against persons or property to intimidate or coerce a government, the civilian population, or any segment thereof in furtherance of political or social objectives.

- International Terrorism involves violent acts or acts dangerous to human life that are a violation of the criminal laws of the United States or any state, or that would be a criminal violation if committed within the jurisdiction of the United States or any state. These acts appear to be intended to intimidate or coerce a civilian population, influence the policy of a government by intimidation or coercion, or affect the conduct of a government by assassination or kidnapping. International terrorist acts occur outside the United States or transcend national boundaries in terms of the means by which they are accomplished, the persons they appear intended to coerce or intimidate, or the locale in which their perpetrators operate or seek asylum.

A significant factor regarding terrorism is that there is no one standard accepted definition.

TRIA (in the US, Terrorism Risk Insurance Act – passed in November of 2002) established a risk-sharing mechanism for certain commercial lines that allows the federal government and the insurance industry to share losses in the event of a major terrorist attack. The program was designed to ensure that adequate resources are available for businesses to recover and rebuild if they become the victims of a catastrophic terrorist attack. TRIA defines the 'act of terrorism' as any act that is certified by the Secretary, in concurrence with the Secretary of State, and the Attorney General of the United States – (1) to be an act of terrorism; (2) to be a violent act or an act that is dangerous to – (I) human life; (II) property; or (III) infrastructure; (3) to have resulted in damage within the United States, or outside of the United States in the case of – (I) an air carrier or vessel described in paragraph (5)(B); or (II) the premises of a United States mission; and (4) to have been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

Upon closer reading you can see the incongruity between the federal definition of terrorism and how the Federal Government and TRIA would respond.

Cancel culture – Refers to the popular practice of withdrawing support for (canceling) public figures and companies after they have done or said something considered objectionable or offensive. Cancel culture is generally discussed as being performed on social media in the form of group shaming.

It seems a natural progression is to morph Rioting and Cancel Culture into a set of activities.

Further, if a business were to experience a significant loss in stock value or revenue due to a coordinated (even if 'free-form' or 'organic/natural' spread) threat or act to either extort 'favor', donation, support, or 'invasion' as a result of the manipulation and malicious spread of 'cancel culture' where would a business turn for relief?

Social Disruption – The alteration, dysfunction, or breakdown of social life for a radical transformation. Traditional transitions and evolution of behaviors, beliefs, and norms which progress passively is being replaced with social disruptions which have become blended over, overtaken by exclusion, boycotts, intimidation, threats, and violence. One of the risks is rapid onset and from seemingly innocuous product, statement, advertisement, comment, or presence.

Pandemic – Who would've openly predicted a pandemic virus would impact most businesses world-wide, ranging from 'minimal' disruption, to altering business practices and behaviors (temporarily, short-term, or long-term), to the total destruction of the business as a result of financial loss?

Many global insurers either excluded Bacteria and Virus prior to COVID-19 or will include an exclusion at the next renewal. Some insurers will offer (via Endorsement or stand-alone policy) coverage for future Bacteria and Virus (or even more narrow, COVID-19).

Internationally, many businesses have brought legal action against insurers, where their terms and conditions differ from those within a US insurance policy and are resulting in courts finding that COVID-19 business interruption coverage may exist. The result is that losses that were denied (specifically in the UK) are now being deemed to be covered, though further appeals are expected. Lloyd's of London, in May 2020 reported they expect COVID-19 related losses to exceed $4.3 billion, which is 2nd only to the 9/11 terror attacks, in size of loss dollars. With a vast majority of reinsurance having a foothold in the London market, these losses will have a significant impact on increasing rates world-wide.

Black Swan Events – An unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences. Black swan events are characterized by their extreme rarity, severe impact, and the widespread insistence they were obvious in hindsight. For example, an 'Ash Cloud' caused by a volcano, any pandemic, major contamination/shutdown of food chain, Electromagnetic Pulse (EMP), Power Grid failure or compromise, etc.

One of the challenges for businesses is the conscious awareness of Black Swan, Grey Swan, or any unique risk is to find time to analyze risk and prepare including supply chain management, business continuity, and situational analysis.

World Trade – The potential disruption of supply chains and the risk of trade wars may escalate in 2021 and beyond as countries and businesses strive to secure their supply chains for critical components production (pharma, technology, medical supply, et al), rising costs of ingredients and materials, increased labor costs, lead-time to build infrastructure and distribution channels, are potential risks. While Political Risk coverage is available to cover certain risks and exposures, it does not extend to many of the risks, such as increased tariffs and trade wars.

Business Continuity – With the recent COVID-19 challenges, wildfires, hurricanes, riots and looting, local events and crises, many businesses are testing their Business Continuity Plan (BCP) for the first time and are finding the plan lacking. A challenge is that BCPs are often developed for common disruptive events and not for severe threats to the business's life and survival, well beyond the scope of continuity. Further, many businesses focus upon their Disaster Recovery Plan, which in recent years has become centered upon IT and technology.

BCP is a strategy or methodology that allows the enterprise to keep their business running in the event of a crisis and return to full functionality when the crisis ends. It is a process of continuous improvement that address internal and external operations. After each event, the Plan needs to be refreshed and updated and run through further preparation and testing. For example, reflecting upon COVID-19, what, where and how does the plan need to be refreshed and/or changed to meet a future event?

Trade Credit – Trade Credit insurance has been available for many years but is often overlooked as a solution to a business financial risk. Trade Credit, also known as accounts receivable coverage, is intended to protect a business's Accounts Receivables on their Balance Sheet. Most any reason for non-payment can be covered including bankruptcy. Businesses that had Trade Credit policies in force before COVID-19 were fortunate to have secured limits and pricing prior to the global pandemic which is expected to impact many businesses and industries negatively (hospitality, airlines, travel, retail, bars, and restaurants, et al).

Summary

Transitional markets create unique opportunities to drive results within your risk management strategy. The first step in successfully navigating rising rates and constricting terms is to actually have a strategy that can be executed with the goal of obtaining optimal results in less than optimal conditions. A few key points would be:

- Start early and establish a timeline for accountability and measurement
- The difference between good and great is very simply the details – focus in this area
- Engage with carriers and tell your story
- Understand that existing programs will likely be more conservative than new relationships
- Be certain that you are partnered with a team that has the intellectual capital to drive results on your behalf
- Choosing the right broker with a focus on total risk management is the key

We will conclude where we began, **relationships matter**.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