2021 MARKET MID-YEAR REVIEW AND FORECAST

What a difference a few months makes. In late 2020, Sentinel published the 2021 Market Review and Forecast, providing an outlook for the insurance marketplace coming out of the global pandemic, civil unrest, and natural catastrophes of 2020. Six months after publication, this Mid-Year summary allows us to peel back the covers of 2021 and offer a refreshed look at the market, predict expectations for the balance of the calendar year, and provide key advice and guidance to help mitigate any concerns.

Many of you that have tackled your property and casualty renewals the first half of the year have already faced some of the challenges of a 'transitioning to a hard/less-competitive' insurance market. Others may be in the initial stages of the experience with a renewal looming in the next 6 months.

Most insurers did not post underwriting profit in 2020. This has led to overall rate increases that vary by industry, occupancy, overall risk quality, and catastrophe exposures in 2021. We have routinely seen overall rate increases between 10% and 20% for accounts with superior loss experience, effective risk management practices, and longstanding carrier relationships. Other entities with unfavorable loss history and/or higher risk exposures have experienced overall rate increases in excess of 25%, while adapting to higher deductibles, further underwriter scrutiny, and tightening policy terms and conditions.

Let's first review performance to date of major lines of an insurance program and ascertain expected rate changes in the coming months. We will then dive deeper to discuss the current trends that are driving these rate changes and offer essential risk management tips to navigate the rest of the year.

Grab your hat because you may be in for a bumpy ride.

This forecast offers a look back and a look forward on several key areas:

Category A — Firms that renewed January-June 2021 and
Category B — Firms renewing July-December 2021

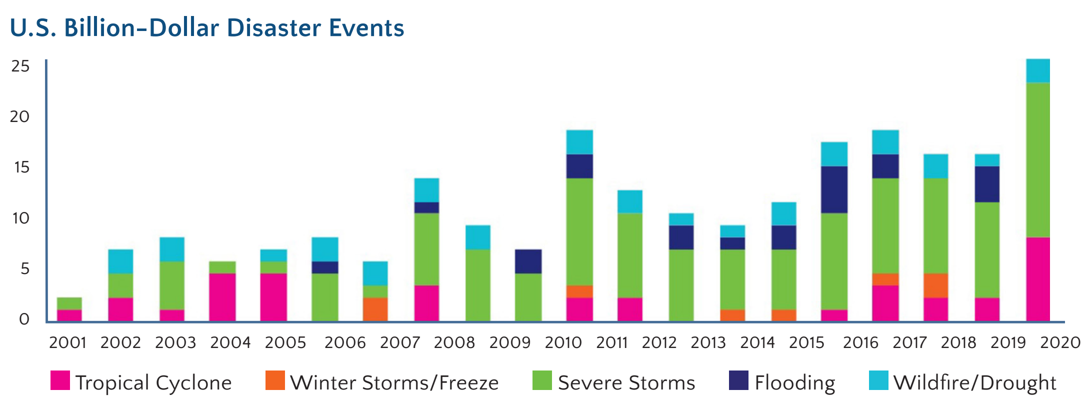
Cyber — Firms in Category A likely experienced rate increases of 10-25% at their most recent renewal. Firms in Category B will likely experience increases of 25-50%. In addition to significant rate change, there is increasing demand for additional underwriting data including cyber policy, practices and procedures.

Directors and Officers Liability — Rate increases for firms in Category A saw increases of 10-20%, whereas firms in Category B will range from 10-40% for private companies and 20-50% for public companies. Firms that have previously not explored Directors and Officers Liability should reconsider as D&O rates are expected to keep climbing throughout 2021. One contributing factor is that carriers are expecting continued lawsuits alleging mismanagement during the pandemic.

Employment Practices Liability — Increases for firms in Category A and B will likely see rate increases continue to range from 10-30%. Firms with current claims arising out of COVID-19 work related concerns may see even higher rate pressure and stricter terms from fewer interested carriers.

Marine Cargo — Cargo rates have been increasing for about 2 years at a rate of 10-15% each year and while there appeared to be a trend toward lower increases (slipping to 5%-10% for accounts with good loss experience), that downward trend may cease for the following reasons:

- The highly publicized 'Ever Green' container vessel blocking the Suez Canal will take several years to adjust, but the reserving and financial impact will have a negative impact upon the market. The 'Ever Green' incident delayed thousands of shipments and this knock-on impact will ripple through the cargo market.
- In 2019, there were 40 reported container fires on vessels and many smaller fires were not reported. With the increasing size of vessels and increasing automation, the number of crew members has declined, hence fewer members to assist in firefighting. Fires are often caused by improper stowage of contents in a container or misclassified shipments of hazardous material.



Property — Property rate increases for Category A or B will be in the range of 5-20% (higher risk exposed properties tend to be in the >30% range). Entering Hurricane Season with most forecasts predicting a higher number of Named Storms and more severe Cat 4 and 5 storms than in prior years will likely keep insurers focused on increasing rates.

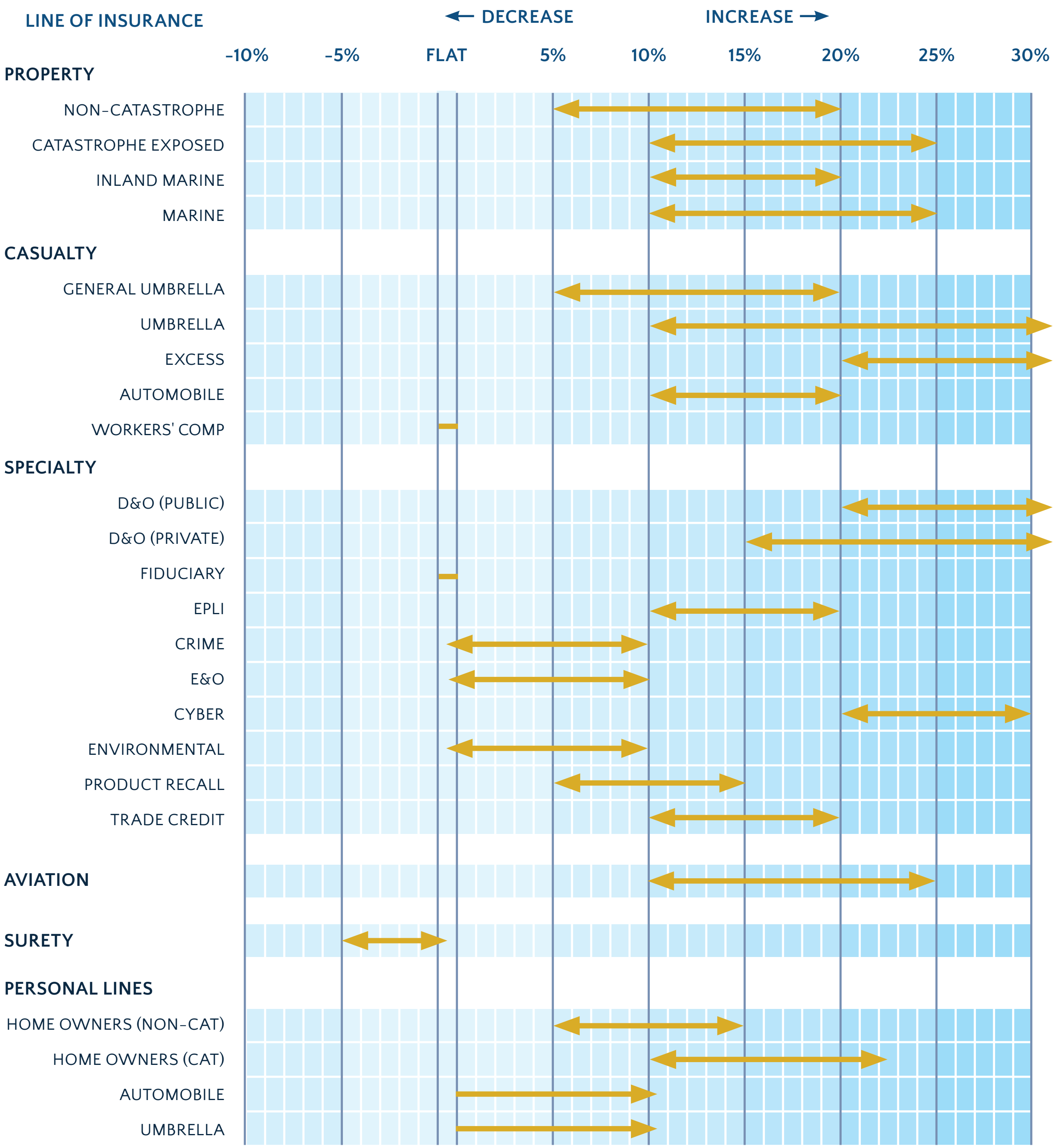
Automobile — Rates are increasing steadily at 5-15%. In North Carolina, the 'Recoupment' fee is still required at each commercial renewal at about 6% (despite having been charged at about 9% in each of the last 2 years). Accounts with adverse loss trends, heavier fleets, or longer distance driving (100 miles and more) are experiencing rate increases of 20% or more.

Umbrella and Excess Casualty — These lines of insurance for Category B will be one of the most severe increases ranging from 20-40% and accounts with higher risk can approach 100% increases. Category A firms saw 10-25% increases on average. Depending upon the risk, some insurers are reducing the limits they are offering (expiring terms offered $10,000,000 but will only offer renewal at $5,000,000 at the same premium as the $10,000,000 the prior term).

Workers Compensation — Rates remain largely 'flat' though some classes of business have seen increases averaging 5%. Your Experience Modifier is increasingly important as underwriters are increasingly reluctant to apply 'credits' to off-set a high Experience Modification.

MID-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's Trending — Specialty Lines

The market for Specialty Lines projects to continue to harden – most project it will continue well in to 2022. Many carriers are focusing on profitability rather than growth, making capacity and rate corrections at every opportunity. Coverage terms and limits are trimmed or greatly sub-limited while retentions are increasing. Exclusions are being added as well as co-insurance, in some areas. In general, underwriting guidelines are tightening throughout all lines, making competitive placements with competitive terms more and more difficult. Specifically:

Directors and Officers Liability

Most submissions now will require current financial statements and a COVID supplemental to further evaluate potential liquidity issues. We are seeing retentions increasing, in many cases doubling, from expiring terms. Add to that overall shrinking capacity. Many insureds are left building towers of coverage with multiple carriers to achieve the same limit they carried with one carrier only one year prior.

Employment Practices Liability

The effects of COVID-19 are long from over with respect to EPLI. Already we have seen an increase in Whistleblower Claims, with most employees claiming their workplace is not COVID-19 secure, allegations of furlough fraud etc. Add to that an expected increase in discrimination claims stemming from how employers will handle vaccine requirements and you will see rising rates, rising deductibles and less competitive terms and conditions overall.

Cyber

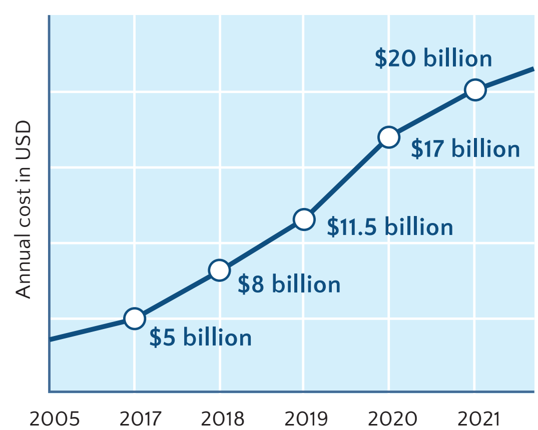
So many changes are affecting the Privacy and Security coverage and it can be hard to keep up. Ransomware claims continue to be a threat. As evidenced by the chart below from Safety Detectives, the frequency and severity of ransomware claims is increasing at a harrowing rate.

The average Ransomware down time is now approaching 3 weeks with an average ransom payment of $154,000. Experts assess that the total 'cost' of downtime is at least 5-10 times the ransom payment—and increasing.

Cybercriminals have doubled their tactics – they are more and more sophisticated every day. Now they request payment of the ransom to get your data and threaten to publish the data that they stole and encrypted. Cybercrime is a business. When negotiating with Cybercriminals they have a hierarchy to approve a proposed ransomware settlement.

Spam levels are becoming more sophisticated pivoting from COVID-themed spam messages to Financial Services, Delivery Services and Travel Services. Now, more than ever, 'it is not if we get attacked, but when' rings true. All of this activity will continue to push for much tighter underwriting guidelines across the board.

RANSOMWARE WILL HIT THE WORLD WITH A $20 BILLION TAB IN 2021



Projected total estimated cost of ransomware to organizations worldwide.
Source: Safety Detectives

Now more than ever you should invest in:

1. Employee Training Programs
2. Multi-Factor Authentication – in fact without it, many carriers will not even offer coverage

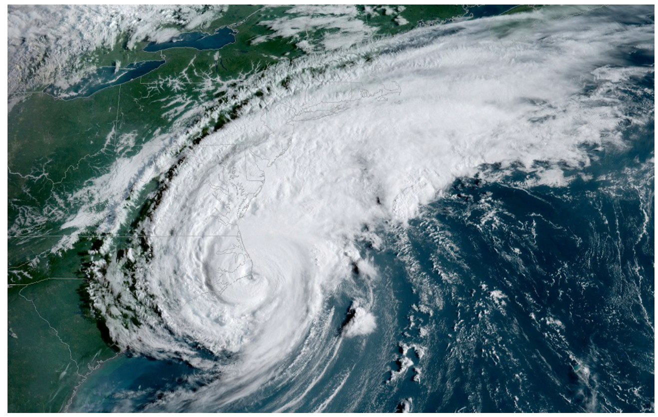
What's Trending — Personal Insurance

Weather and Climate Disaster Events

The U.S. had a record year in 2020 with 22 weather and climate disaster events each totaling $1 billion or greater in damages. The impact of these disasters on the property insurance market has caused increased premiums as well as the tightening of carrier appetite and underwriting guidelines. These trends continue in 2021 as we have already seen several extreme weather events in the first quarter of 2021. A deadly Artic outbreak in mid-February that sent temperatures plunging to historic lows across much of North America resulting in more than $10 billion in damages in the U.S. alone. This was followed by 284 reports of severe weather across the Southeast during March, including 49 confirmed tornadoes, a 249 percent increase from the monthly average of 19.

2021 Hurricane Season Forecast

	1991–2020 Average	Colorado State Univ.	The Weather Company
Total Named	14	17	19
Hurricanes	7	8	8
Category 3 or higher	3	4	4



In 2020 the U.S. experienced the highest number of named storms (30) on record and the second-highest number of hurricanes (13) on record, making 2020 the fifth consecutive above-normal season and causing damages of more than $41 billion. For 2021, the National Oceanic and Atmospheric Administration (NOAA) is predicting a likely range of 13 to 20 named storms (winds of 39 mph or higher), of which 6 to 10 could become hurricanes (winds of 74 mph or higher), including 3 to 5 major hurricanes (category 3, 4 or 5; with winds of 111 mph or higher). NOAA provides these ranges with a 70% confidence. The Atlantic hurricane season extends from June 1 through November 30.

Personal Automobile

The personal automobile market has seen profitable underwriting performance, which is expected to sustain throughout 2021, owing to a reduction of travel and ongoing remote work resulting in a reduced number of miles driven by many people. However, as the world starts to re-open and vehicle usage increases it could lead to a rise in auto accident frequencies which could impact the personal automobile market.

Increased Replacement Costs for Homeowners

A shortage of lumber has resulted in a 500% price increase compared to prices a year ago. Lumber is not the only building material seeing price increases. Piping and copper prices are rising as well. As a result, insurance carriers are insuring homes at above-normal coverage limits to account for the increased costs that would be needed to rebuild a home. Homeowners should re-evaluate their current policy limits to ensure that they have adequate coverage to rebuild in the event of a total loss. A policy that includes Guaranteed Replacement Cost can eliminate any possibility of coverage falling short.

Lumber Costs The cost of lumber is surging as the housing market booms. Prices increased by more than 500% since early April 2020.

Market Impacts

As we gear up for another tumultuous six months in the insurance industry it is important to remember:

1. When reporting a claim, be aware that insurers adhere to strict interpretations of policy terms and conditions, which could impact coverage and valuation of your claim.

2. Underwriters are requiring substantially more and detailed underwriting information for most if not all lines of business, including requiring supplemental applications and substantially more narration (or conversation) on business operations, exposures, and prior losses.

3. Generally, insurers are taking longer to underwrite risks and frequently have more questions or need more information. Current (30-60 day) valued loss history is required for at least 4 years (plus the current policy). Gone are the days of quoting subject to receipt of loss runs after the effective date.

4. Despite insurers maintaining an appetite for new business, they are incredibly selective and will decline many risks to allow their time to be invested on a few highly preferred risks. It is imperative to provide carriers with complete submissions in a timely fashion for review and consideration.

Now more than ever it is imperative to partner with a true risk management firm for advice, guidance, and consultation. We encourage you to embrace creative solutions for dealing with the hardening market. For starters, expect your renewal negotiations to be unlike any other year in recent history. Start early and be prepared to face challenges head on. Highlight your risk improvements to your carriers and invest in building a strong relationship with your insurance carrier. Update your policies and procedures to Best Practices guidelines. Have open and honest conversations with your risk advisor about your appetite for risk and financial capabilities. Together, we can weather this storm.