



State of the Market

Reflecting on 2019 and Looking Ahead in 2020

The Hard Market, what drives it, and how ABD can help minimize its impact on your insurance program

The insurance market is generally cyclical and fluctuates between a hard and soft market over time. When a soft market occurs, insurance rates decrease, capacity increases, market competition is greater and underwriting of the risk is more flexible. Conversely, a hard market produces an increase in rates, diminished capacity, reduction or elimination of select coverages, less market competition and more conservative underwriting.

Various factors contribute to the creation of a hard market including insurance carrier's diminished return on investment, cost of reinsurance and the way in which it's purchased, increase in frequency and/or severity of loss (including the advent of nuclear verdicts and social inflation), and regulatory and economic factors, any or all of which reduce the insurance carrier's profit margin and contribute to increased cost of insurance.

With exception for Workers' Compensation, signs of the hardening market are visible across all commercial lines of business, which experienced, on average, a slight-to-moderate pricing increase as of Q3 2019. While a soft market has dominated the insurance landscape for many years, a consistent increase in rates has been present within the prior eight quarters. Specific lines of insurance, notably Property, Auto, D&O and Umbrella/Excess are dramatically impacted by the current hard market and potentially subject to significant rate increases. **See Exhibit A - Property, Excess/Umbrella, Auto and Public D&O Market Drivers and Impact.**

The current hard market is largely driven by catastrophic losses in both the Property (wildfires, hurricanes) and Casualty arenas (increased liability awards and defense cost) as well as the cost and way in which reinsurance is purchased, coupled with a diminished return on investments. **See Exhibit B – Catastrophe-Related Insured Losses (1970-2019).**

As the insurance market hardens, the cost of insurance increases, coverage/limits may be subject to reduction, market competition wanes and a more stringent underwriting criteria is in play. While no single insurance buyer is exempt from the effects of hard market, as your

advocate and insurance specialists, there are things ABD can and will do to mitigate the impact of the hard market on your current insurance program.

Specifically and most importantly, ABD will:

- Continue to act as your advocate in pursuit of appropriate insurance at a fair price based on your risk operations and claims history as well as aggressive handling of all claim matters affecting your business.
- Communicate often and early, ideally 120 days prior to the expiration of your current commercial insurance policy(ies).
- Maintain open and candid communications thus ensuring immediate communications regarding changes affecting your current insurance program and combating any negative issues that may arise.
- Create an effective strategy to successfully navigate the changing market.
- Maximize ABD's relationship, position and leverage with various insurance companies thus ensuring you personally benefit from the depth of such relationships in the negotiation and placement of your insurance.
- Prepare a quality detailed submission emphasizing your business operations, depth of professionalism, management and control of inherent risk exposures within your business, detailed claims analysis, rigorous attention to and challenging of claims reserves, and where appropriate, response to prior risk control recommendations, historical pricing, tenure of your account with current insurance carrier, any and all factors unique to your business thus ensuring we present your story accurately and confidently.
- Get an early start to the renewal process and be prepared to work closely with insurance company underwriters and/or management to negotiate desired pricing and continuation of your insurance needs.
- Consider and exhaust alternative program options, working with you to create a plan that meets your needs regardless of the current market conditions.

Appendix

Exhibit A – Property, Excess/Umbrella, Auto and Public D&O Market Drivers and Impact

Property and Stock Throughput

MARKET DRIVERS	IMPACT
Insurers recognized erosion of rates, coverages, conditions, and terms over the long term	Reinsurers are adjusting their risk appetite and offering lower limits coupled with more intense underwriting oversight
Increasingly destructive natural disasters, especially wildfires and hurricanes	Carriers are paying greater attention to wildfire risk scores, with some excluding wildfire altogether or attaching large deductibles/SIR
Over seven years of unprofitable stock throughput performance	Significant decrease in available syndicates and capacity
<p>ABD Insight: Reduced capacity and increased rates means that <i>quality submissions</i> will be necessary to stand out in the market. This means preparing proof of adherence to loss control, fire preparedness, and business continuity plans. Continue to take loss control recommendations seriously, as loss control will likely be much stricter than in previous years.</p>	

Excess/Umbrella Liability

MARKET DRIVERS	IMPACT
Increase in the cost of litigation and size of jury awards (including the advent of nuclear verdicts and social inflation). Increase in the frequency of claims piercing the Umbrella/Excess Limit	Reduction in capacity with some carriers limiting coverage to a 1/3 of limits previously provided. Regardless of the limits afforded, majority of carriers are increasing their rates for the Umbrella/Excess line of business
Tighter reins on panel counsel, stricter billing guidelines for law firms	Choice of counsel will no longer be an option for Duty to Defend cases. Expect counsel to handle more defense than outside firms
Eight years of sustained growth in construction casualty market	Reduction in capacity and increased premiums
Guest-focused technology services within the shared economy space are disrupting the hospitality and service industry, creating nontraditional liability risk	Carriers working to develop products and services for this growing risk
<p>ABD Insight: We're encouraging early intervention and communication and commencing renewal analysis a minimum of 120 days prior to policy expiration. ABD will use increased marketing analysis and capitalize on our strategic position and influence in the market to secure the most competitive rate and coverage options available.</p>	

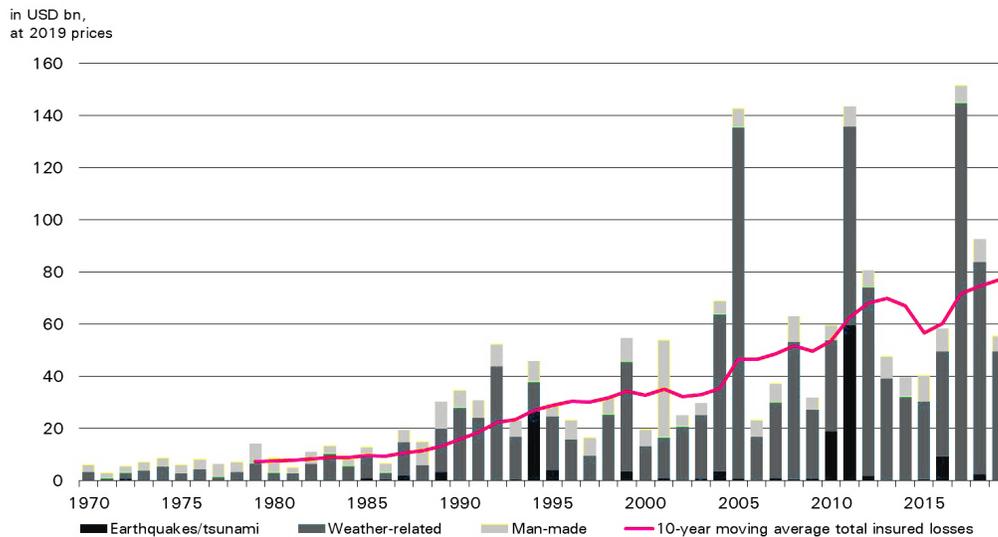
Automobile Liability

MARKET DRIVERS	IMPACT
Eight consecutive years of escalating losses (Auto claims <i>doubled</i> in 2019 alone)	Drastic reduction in available reinsurance capacity
Improper driver safety programs and procedures (Distracted driving continues to be a major risk factor)	Rates expected to continue trending upwards, along with higher retention loss-sensitive programs
<p>ABD Insight: Implement a thorough driver safety plan if you don't already have one. Demonstrate awareness and mitigation of loss trends by being transparent about the actions you have taken. Keep detailed loss data and be prepared to explain the nature of past claims.</p>	

Public Directors and Officers

MARKET DRIVERS	IMPACT
Securities class action lawsuits are at all time high levels, with 5.5% of companies listed on a U.S. exchange subject to a non-M&A securities class action lawsuit in 2019 (versus a 20-year historic average of 3%)	The market’s reaction to these dynamics (and insurers’ associated losses) has been dramatic. With existing business, we see insurers materially increasing their premium (with excess layers often taking greater percentage increases than primary layers); increasing retention amounts; and reducing their capacity. With IPOs, the shift has been even more dramatic, with few insurers willing to offer capacity, and those willing only doing so at shockingly high premium and retention amounts. Policy wording generally remains unaffected, but that may change.
Prevalence of event-driven litigation (brought as derivative suits or class actions), a phenomenon not seen historically	
Increased exposure in the wake of the U.S. Supreme Court’s 2018 Cyan decision	
<p>ABD Insight: Start the process early – this cannot be overstated. Set expectations throughout your organization early, so that all constituents (e.g. finance and legal teams, outside counsel, the Audit Committee, and the full Board of Directors) are fully aware of the dynamics. Build in sufficient time in the process to allow for the exploration of possible alternative strategies (e.g. changes in D&O program structure, higher retention amounts, etc.). Build relationships with your underwriters and help educate them on how to differentiate your organization from the pack.</p>	

Exhibit B – Catastrophe-Related Insured Losses (1970-2019)



Source: Swiss Re Group

About ABD. ABD is a consulting firm providing risk management, insurance brokerage, human resources, and retirement consulting services. Our advisors offer guidance and craft innovative solutions to help address risk for clients of varying sizes, growth stages and industries.