ATTACHMENT “2”

MEMORANDUM

Date: June 7, 2021

From: Courtney Ramirez, First Vice President, Alliant Insurance Services

Re: State of the Property and Casualty Market

We are in the midst of a very challenging insurance market for both property and liability insurance. This memo provides a brief overview of what's happening in the marketplace and why.

Property Insurance Market Update

The property market has deteriorated over the last several years and has become the most difficult environment we have seen for some time. The market has been impacted by years of catastrophic events including wildfires in California, hurricanes in the Southeast and the Gulf of Mexico, convective storms in the Midwest, uncertainty surrounding COVID-19, and the most recent ice storm in Texas, Uri.

Last year brought with it some 30 named storms and set a record, it is the first time they have been forced to move into the Greek alphabet for naming storms. In total for 2020, losses exceeded $83billion which is the 5th worst year on record. The first quarter of 2021 became the largest first quarter on record in terms of losses, with losses related to Uri amounting to roughly $100billion. Underwriter concern has grown considerably as the frequency of large catastrophic events have occurred. Predictive modeling, although helpful, has failed to foresee the uptick in what are typically rare events, creating an alarming trend.

As interest rates have dropped to record lows, insurance carrier investments have taken a steep dive. Insurers have relied on this income historically. Poor performance coupled with rising claims have greatly impacted carrier net income. At this time, insurance companies are paying out more in claims costs than they are taking in.

Due to proposed increases in property rates going into 2021, insurance carriers have been inundated with submissions from the marketplace. Hardening market conditions including restrictions to carrier appetite (the availability of limits/capacity) have removed the once competitive property market. This means that underwriters have been very selective this renewal season as to what accounts they want to underwrite. In this type of market environment, quality submissions (including complete and accurate data) is of utmost importance.

Liability Insurance Market Update

The Casualty insurance market is undergoing a significant realignment in terms of available capacity, underwriters' appetite, and pricing adequacy. The public sector, in particular, is experiencing this in an acute way. The core issues impacting this market shift are as follows:

- Alarming increase in the frequency and severity of large claims. Suggested variables impacting severity of loss:
  - **Defendant Mistrust:** Plaintiff counsel are arguing that public entities are putting budgetary considerations over citizen safety;
  - **Litigation Financing:** There is a growing trend for third parties to finance plaintiffs' lawsuits, underwrite expensive experts, etc., making it easier for plaintiff's to "hang in there" to the end;

  - **Social Inflation / Corporate / Public Sector "Deep Pockets":** Where the news of large verdicts travel via regular and social media which may influence what a jury's notion of what a reasonable verdict might be;
  - **"Anchoring"** or setting the bar: where the plaintiff's lawyer argues for $20M and the jury might award $10M to split the difference, regardless of what the facts call for.
- Market withdrawal / Capacity Reductions over the last several years from key markets, accelerating more recently.
- Insurers contend that prior to 2019 excess pricing had been stagnant over many years, but has also not kept pace with the realities of an increased frequency in severe claims (including claims for police activities, sexual abuse/molestation and cumulative trauma claims).
- Social environment around Law Enforcement activities.

Cyber Insurance Market Update:

Historically, cyber premiums have been low compared to other major lines of coverage. Recent claims developments across the industry have greatly exceeded premiums, and the cyber markets are now reeling. Markets are experiencing dramatic increases in notice of loss events with the overall cost of losses rapidly increasing. Going into third quarter 2021, losses in the cyber industry are expected to reach $6Trillion.

While many different types of losses have occurred, the major issues have been attributed to ransomware attacks. When these occur, they trigger many areas of loss, such as hardware physical damage, business interruption and data recovery costs. Public entities have been the largest target class for ransomware attacks. It is our recommendation that every account keep information relative to its Cyber program including limits confidential as it is apparent that many recent events have been targeted.

Several key markets have exited the marketplace putting further strain on an already limited segment. In many instances, premiums have been observed increasing by several hundred percent (some higher) for reduced limits and higher retentions.

Workers Compensation Insurance Market Update:

The Workers' Compensation market is finally starting to feel the pressure due to COVID-19 claims. Over the past year, claims have continued to be filed, primarily from police, fire and public works employees who have continued to work through the pandemic. Although the number of claims reported is expected to dwindle with the proliferation of the vaccine, we are far from closing the chapter on COVID-19 claims. What carriers observed over the last year was COVID-19 claims had the tendency to develop rapidly. Claims ranged from nominal lost time from work to catastrophic ICU stays and in some cases death. The overall impact from the pandemic are still unknown. The Workers' Compensation market is now experiencing increased rates with higher increases tied to individual client losses.

Summary:

It is unclear how long the current hard market environment will continue. Much will depend on underwriting performance over the coming year(s) relative to the public sector's own loss experience and insurer overall performance. Development within insurers' historical claims will play a key role, given many losses in recent years have not yet resolved themselves, as will whether enough new entrants to the market will materialize and create additional capacity to offset the current constraints.