



# Insurance Market Brief

4Q 2020

**M&T**  
Insurance  
Agency, Inc.

The M&T Difference  
**We listen. We customize. We care.**

## INSURANCE MARKET BRIEF

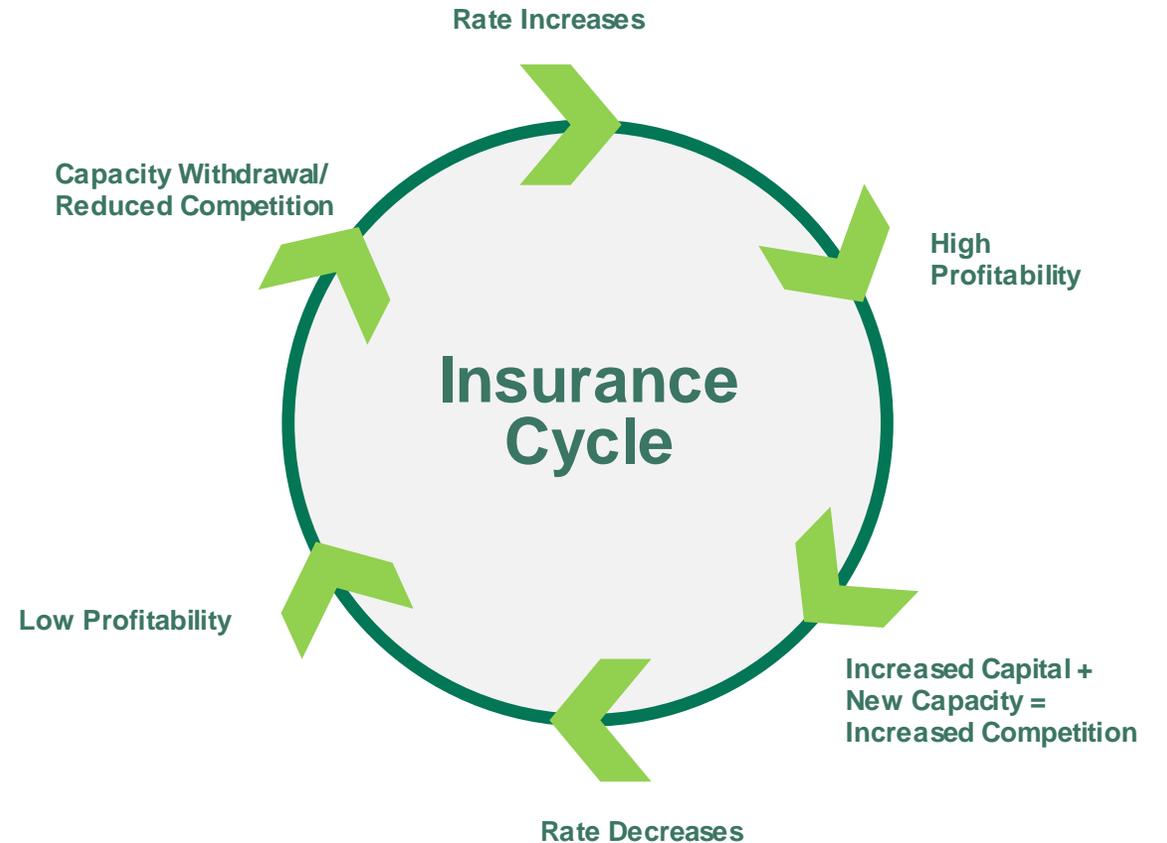
# The Insurance Market Is Hardening: What does that mean?

During a soft market competition is fierce and premiums are stable or declining. Many insurers relax their underwriting guidelines and lower their rates on exposure. Factors may include:

- Active, growing economy
- Positive interest rate environment
- Low/favorable claims activity
- Abundant capital to insure
- Strong policy holder surplus

A hard insurance market is the upswing in a market cycle when insurance premium rates are escalating, and insurers are disinclined to negotiate terms. During this period, underwriting standards tighten. Factors may include:

- Economic downturn/uncertainty
- Financial market volatility
- Shrinking insurance capital/decreased competition
- Catastrophic events/increased claim activity
- Global events (e.g., pandemic, climate change, etc.)



## INSURANCE MARKET BRIEF

# The Insurance Market Is Hardening: 9 Hard Market Drivers

We reviewed average quarterly rate changes for the last 20 years. Here's a glance of what that looks like.

The commercial insurance market had been considered soft for nearly 15 years but is now in a hard market.

## What goes up must come down

The cycles of average premium change over 20 years



Average premium change taken from quarterly data ranging from 2000 to 2020.

## 9 trends driving the need for increased rates

- 1 Severe Weather
- 2 Litigation Strategies
- 3 Driving Dangers
- 4 Economic Climate
- 5 Increased Loss Severity
- 6 Return to Work
- 7 Workers' Comp Presumption Laws
- 8 Reopening Economies
- 9 Sawy Plaintiffs' Bar

Sourced from Risk & Insurance. Risk Matrix: Presented by Liberty Mutual Insurance, September 2020.

# INSURANCE MARKET BRIEF

## Impacts of the Pandemic

These are unprecedented times, and 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

- 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.
- As carriers see an increase in claims, premiums will be impacted. Carriers have already seen increases in claims for certain classes and have moved to add exclusions to policies.
- Both the private market and the government continue to explore ways to insure pandemic risk on a go-forward basis.

### 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 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 this uncertainty.

### Liability

- 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.
- 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.
- As state quarantines continue, carriers will be able to analyze changes in frequency, average costs of claims, and loss impacts. Carriers still need time to determine the impact COVID-19 and the reduced mileage exposure will have on loss ratios and future pricing.

### Management Liability

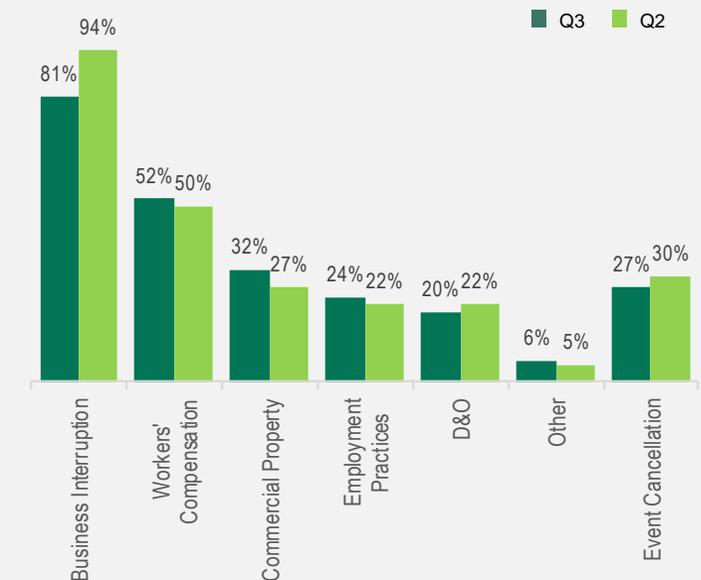
- The marketplace remains hard with no signs of improving in 2021. Underwriting requirements are strict, capacity continues to be cut, retention is increasing and annual premiums are expected to increase 20%-100%. The COVID-19 pandemic and uncertain economic conditions are the main factors.

### Workers' compensation

- The impact of COVID-19 on workers' compensation coverage still remains to be seen in the long run but in the short term carriers are looking to build in additional pricing to offset the uncertainty.
- 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.

According to CIAB, respondents are reporting increased claims activity in virtually all lines of coverage.

Respondents reporting increased COVID-related claims activity for commercial lines



Graphic from Council for Insurance Agents and Brokers (CIAB), 3Q 2020 COVID-19 Supplement.

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## COVID-19 (coronavirus)

### Impacts of the pandemic

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#### Construction

We have not seen a restriction in underwriting activity although additional time should be allowed in order to complete placements.

We have seen rates begin to **increase in certain geographies.**

We are building in additional months to our project timelines in anticipation of work slow downs due to the virus.



#### Health care

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



#### Hospitality

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

Given the impact that COVID-19 has had on the hospitality industry, carriers have shown flexibility with insureds on payments and mid-term changes to exposures.

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



#### Real estate

The market continues to harden as carrier underwriting becomes more conservative given the uncertain economic environment.

The impact has been felt in the property market as well as the excess casualty market with increased pricing, limited capacity, and more restrictive terms and conditions.

The very active wind season is compounding the issues related to the hard market.



#### 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.



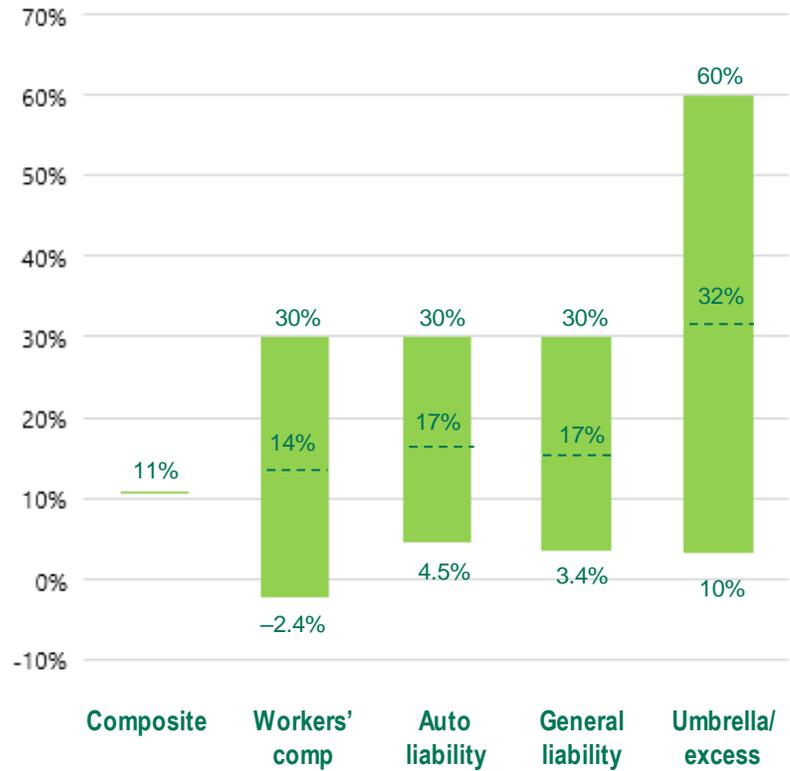
#### Transportation / Auto

While vehicle usage is down due to the pandemic and some carriers have offered rate reductions as a result, the commercial auto market continues to be challenging particularly for transportation exposures, large fleets, and companies with loss history.

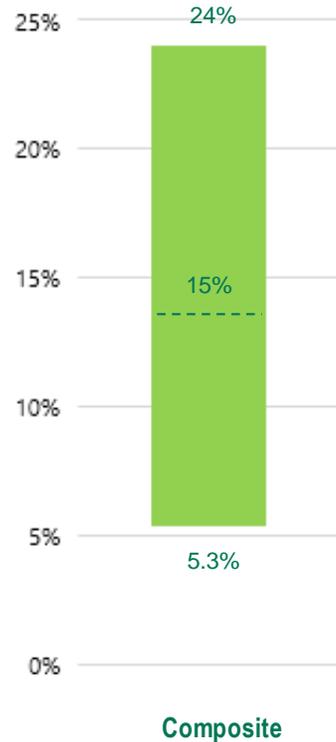
# Casualty and Property

Overview of the current insurance market

## Casualty



## Property



### Casualty

- Rate increases, capacity reductions, and other negative trends continue to harden the market. Umbrella/Excess Liability and Casualty are currently dealing with the most significant issues.
- Workers' Compensation rates increased in the first half of the year, and CIAB notes that this quarter's increase marks the end of 21 quarters of decreasing prices for Workers' Compensation.
- While premium prices continued to rise for commercial Auto Liability, CIAB notes that the number of claims submitted continued to fall.

### Property

- Commercial property continues to hit record premium renewal rate highs, experiencing the largest percentage jump of 5.2% in April.
- According to CIAB, one of the factors driving commercial property rates up was higher-than-normal losses from natural disasters. For example, when tropical storms Arthur and Bertha hit the East Coast in May, they caused hundreds of millions of dollars in damages.

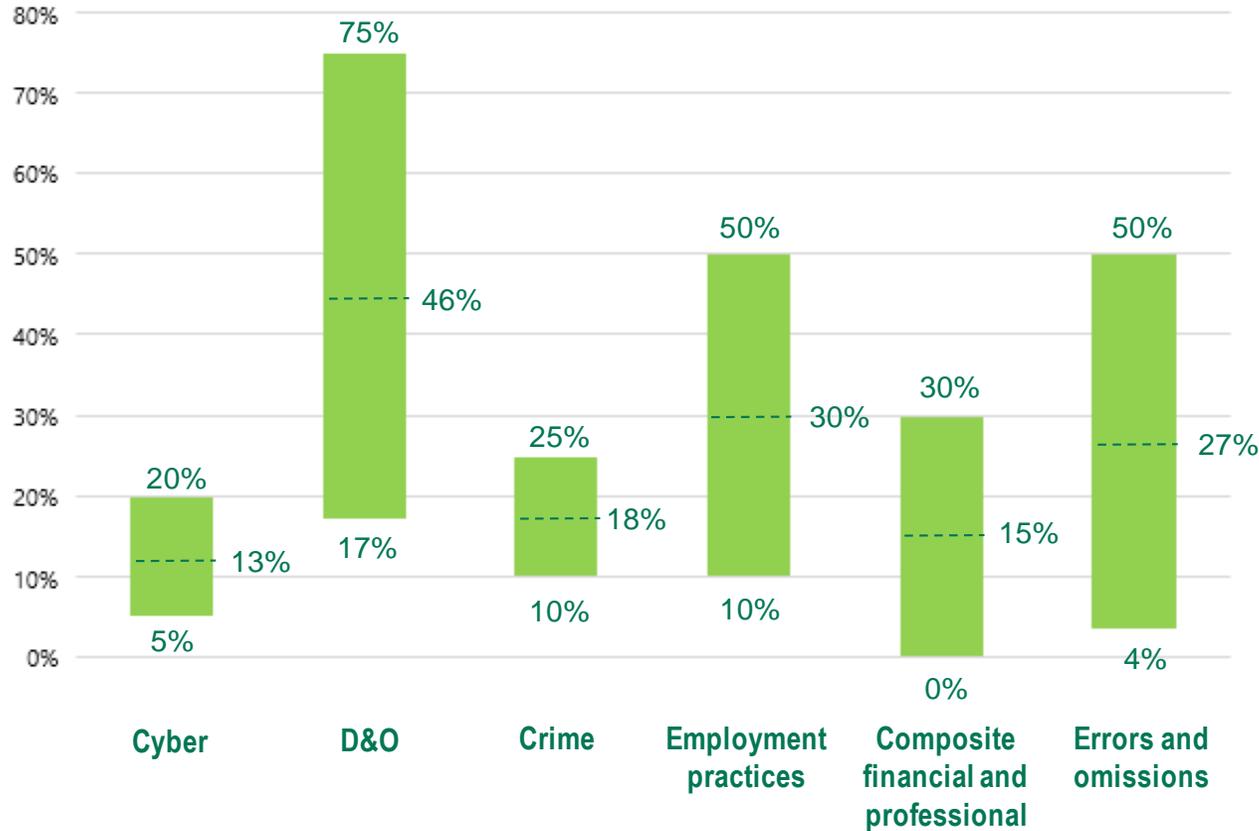
Data as of 3Q 2020.

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### Specialty Lines

Overview of the current insurance market

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#### Specialty lines

- While the full impact of COVID-19 on the insurance market is still unknown, the pandemic has hastened the pace of premium increases and retention rates.
- Heightened cyber risk concerns continue due to the overall increase in remote work, related threat activity, and stressed supply chains. However, the rate of first-time buyers of cyber insurance has leveled off as businesses focus on maintaining core business operations.
- We anticipate that Directors & Officers premiums will continue to rise, as will claims activity.
- COVID-19 has caused demand for Employment Practices Liability. This increase is likely due to businesses' desire to protect themselves should an employee contract the virus.

Data as of 3Q 2020.

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## Historical View

15-month view 3Q 2019 - 3Q 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*
<b>Third quarter 2020</b>	11.0%	1.5%	14.2%	6.7%	22.9%	11.3%	7.7%	16.1%	10.1%	4.4%	9.6%
<b>Second quarter 2020</b>	9.6%	0.7%	13.3%	6.8%	20.0%	10.0%	6.5%	16.8%	9.4%	3.5%	9.1%
<b>First quarter 2020</b>	9.6%	-1.2%	12.0%	5.7%	17.3%	8.7%	4.4%	8.0%	5.5%	2.3%	5.1%
<b>Fourth quarter 2019</b>	10.5%	-1.9%	9.7%	5.8%	13.6%	7.5%	2.9%	7.0%	4.6%	2.2%	4.2%
<b>Third quarter 2019</b>	9.1%	-2.7%	8.8%	4.6%	9.8%	5.9%	1.4%	5.0%	3.2%	2.6%	3.1%

\*Management liability

### 15-month view

- Across all lines of business, the average increase of premiums was 11.3%, compared to 10.1% in 2Q 2020 and 8.7% in 1Q 2020
- The most significant increases in premiums were observed in Umbrella and D&O, which recorded premium increases of 22.9% and 16.1%
- With more lines of business approaching or breaking double-digit increases, the market continued to harden in the third quarter

Data as of 3Q 2020

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## Sourcing

Data captured as of December 2020

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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 3Q 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/resources/q3-p-c-market-survey-2020/>

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