BridgePoint Risk Management

MARKET UPDATE

JANUARY 2020

EXPERT GUIDANCE REQUIRED – 2020 CHALLENGES AND OPPORTUNITIES AHEAD

BY JOHN PAOLINI, CEO | JANUARY 22, 2020

In 2018 our agency issued two Market Updates to forewarn clients of 'hard market' conditions. At the time we were hearing from several insurance companies that they needed to respond to adverse claims experience in 2017 and 2018. So, it was no surprise in 2019 that we saw consistent rate increases on Homeowners, Automobile and Umbrella policies in many of the states we operate in (i.e. CT, NY, NJ, NC, FL and CA). Our Client Advisors and Account Executives worked to provide updated competitive analysis and determined the best path forward for our clients.

No state had a more turbulent year than California. Insurance carriers imposed significant rate changes and issued thousands of non-renewals. Many admitted carriers were unable and/or unwilling to respond to the fast-changing market conditions. Capacity for homeowners became scarce and maintaining broad coverage was a major challenge. Ultimately, independent agents were forced to turn to the Excess and Surplus Lines market (E&S), as they scrambled to find competitive solutions.

Our team is now preparing for 2020 and we have a bit more optimistic view. Unfortunately, we anticipate continued disruption in California. However, we also see real opportunities to enhance coverage and better protect our clients' assets.

California – An Introduction to Excess & Surplus Lines Solutions

Residents of California were receiving so many non-renewals that the State Commissioner, Robert Lara, had to issue a request on December 8, 2019 to all insurance companies, asking them to suspend their non-renewal processing as it was beginning to effect real estate and financial lending transactions. He imposed a moratorium on issuing non-renewals simply due to wildfire exposure. While this executive action provides some relief, the insurance carriers are expected to implement significant rate increases and other punitive measures. One particular insurance company has introduced a renewal strategy that imposes double-digit rate increases and double-digit inflation factors on their insured dwelling limits (i.e. annual inflation factors – see below).

Ultimately as capacity restricts within the California insurance marketplace, we expect to see more utilization of non-admitted solutions. We recognize many clients are unfamiliar with the E&S market and that it might carry a negative connotation based upon prior experiences. It was typically considered the 'market of last resort.' These products were mostly used to address difficult to place risks; clients with significant prior losses or difficult driving records, high-risk geographical zones, or unique insurance products.

It is important to point out that there are four primary limitations to non-admitted homeowners insurance.

1. The biggest difference between the admitted insurer and the non-admitted insurer is that the non-admitted insurer does not have any financial backing from the State. In case of insolvency, no guarantee exists that claims will be paid, even if a case is active at the time of business failure.

2. Insurance premiums and rating structures are not filed with each state insurance department and therefore are not regulated or approved by the state. Carriers are free to charge premiums they believe are appropriate and they are able to change their rates upon renewal with very little notice.

3. The insurance policies are also unregulated by the state insurance departments. Non-admitted carriers do not have to comply with state requirements regarding contract coverages and exclusions.

4. If a policyholder thinks his or her case was mishandled, there is no recourse available to the state insurance department.

While these limitations apply, there are some true advantages of non-admitted solutions. We understand that most of the high-net-worth specialty providers (AIG, Chubb, Cincinnati and PURE) will be utilizing E&S products more regularly in 2020. Since non-admitted products are not limited by rating regulations at the state level, they have the freedom to be more creative and responsive about the types of coverage they offer. Underwriters are empowered by E&S solutions and can consider unique characteristics of each risk. They can develop customized policies, including or excluding particular coverages. Underwriters can set specific premiums for each case and can therefore accept new risks where they would not be willing to provide an admitted policy.

So as capacity restricts in California, or in any other state, we fully expect to see a spike in E&S solutions. It will feel foreign to many clients and it will be more expensive. But in many cases the non-admitted solution will likely be the best path forward in the coming year.

Annual Dwelling Inflation Factors – A Blessing and a Curse

While the California homeowner market is very challenging, we are also experiencing homeowner premium increases across the country. Some insurance carriers are filing rate increases in most markets plus applying a larger inflation factor to each renewal. Many of our clients raise concerns about the annual inflation factors as they directly impact renewal premiums.

The reality is that every major homeowner insurance company applies an annual inflation factor to the insured dwelling limit. This is commonly applied upon renewal and it's designed to maintain adequate coverage for our policyholders, based on research from both internal and trusted external sources. External interviews with local contractors who specialize in building high-value residences plays a significant role. The carriers also analyze their claim trends based upon multiple claims across the country.

The high-net-worth specialty carriers are committed to conducting this research on an annual basis and most account for state level nuances. Based upon 2018/2019 data, most of these companies are applying inflation factors in the 3% - 6% range.

External research will often include several different factors:

- Labor has risen on a year over year basis 3.0% (2018 ENR).
- Overall residential construction material costs have increased by 4% (Bureau of Labor Statistics PPI 2018).
- Individual materials commonly include:
  - » Concrete products are up 6.3%
  - » Metal products are up 11.4%.
  - » Wood products are up 7.25%.
  - » Petroleum products are up 1.0%.
  - » Gypsum products are up 7.0%.

Internal claims research will typically highlight other considerations:

- Many clients make periodic renovations and improvements to their homes, impacting the replacement cost and potentially rendering existing dwelling limits inadequate.
- When working to replace a total loss, the carriers are eager to move swiftly and that usually removes a competitive bid process, raising costs above those found on the open market.

- Rebuilding a single home instead of multiple new homes reduces a builder's economy of scale on labor and materials, increasing costs.
- Carriers must take into account requirements that homes be rebuilt to comply with current building codes, including more efficient energy codes and more stringent fire codes.
- With regard to average interior reconstruction costs, companies must consider the impact of the involvement of specialists such as architects, interior designers and reconstruction consultants. The participation of the noted specialists can increase standard fees by as much as 20-60% according to the MSB cost guide.
- More recently insurers must account for the inflated costs of "smart home" technology, complex audio/ visual systems and the increased concern for environmental issues by many clients with respect to construction materials and practices.

It is our responsibility to help educate our clients on the various construction trends and added costs of reconstructing a home based upon the various coverages afforded under these specialty policies. Ultimately, the annual inflation factors are truly designed to help maintain adequate coverage and ensure a fast and fair claims process.

Cyber Coverage – Are You Properly Protected?

The media has helped raise awareness of various cybercrimes, as they report on breaches impacting individuals and large scale corporations. While awareness is high, and insurance protection is more available than ever, very few families are taking appropriate precautions to prevent cyber losses.

Chubb recently published a study that provides some interesting facts regarding cybercrime and cybersecurity.

- 50% of individuals report to being "somewhat" or "very concerned" about cyber breach.
- But only 9% have cyber insurance to protect against such threats
- 78% are concerned about their financial accounts being compromised, despite the fact that most financial institutions will reimburse lost funds
- Only 27% are concerned about their medical records falling into the wrong hands, even though cyberattacks in the healthcare industry have increased 1,800% in 10 years
- Just 31% regularly change online passwords and only 30% use multi-factor authentication.
- 59% of teens have been harassed or bullied online
- Over 90% of breaches were attributed to successful phishing attacks
- 38% of malicious email files were Microsoft Office formats
- Routers and connected cameras represented 90% of Internet of Things (IoT) attacks in 2018
- Nearly 80 million Americans have been affected by identity theft

Our team is committed to educating our clients of the evolving perils they face as part of their active and often complex lifestyles. We have seen unfortunate cyber attacks and we have helped a few clients who experienced significant financial losses due to cybercrime. We have even counseled a couple of clients as their children were accused of cyberbullying.

Types of Cybercrime

- Identity Theft
- Viruses, malware, worms, trojans
- Theft for take-over of data-bearing devices
- Web-based attacks
- Phishing scams
- Ransomware or social engineering
- Cyberbullying
- Hacking into smart devices
- Breach of privacy

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We have been very impressed by the proactive measures taken by the high-net-worth specialty insurers. These progressive carriers have been introducing new coverages and loss prevention services to help protect clients from cyber related losses. Our Account Executives will be promoting cyber coverage and identity theft protection throughout 2020 as they deliver annual renewal reviews. We welcome client inquiries and we encourage other trusted advisors to help us raise awareness with our mutual clients.

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BridgePoint Risk Management – Listen. Advise. Exceed.®

Our team has extensive experience managing risk across the United States, including catastrophe-exposed communities. We have long maintained significant books of business with the specialty providers who actively serve successful families. We are fully prepared to help our clients navigate the hardening markets and to maximize innovative coverages that are constantly being introduced to the marketplace.

We are currently working with our admitted carriers and Excess and Surplus lines wholesalers to provide creative solutions for our existing and prospective clients. We have also developed a few unique loss prevention and claims response services to further assist our clients when they need us most.

Our standard renewal service anticipates market changes. We will continue to contact you in advance of your renewal date to provide current updates and alternative options for your consideration. Please remain confident knowing your BridgePoint Client Advisor and dedicated Account Executive have your best interests in mind, always.

I want to thank you once again for choosing BridgePoint Risk Management as your preferred insurance advisor. As always, please do not hesitate to call us with any immediate questions or concerns.

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Chubb Cyber Insurance: Broad Protection with Some Scope to Customize

Chubb cyber insurance, available as an endorsement to the Chubb Masterpiece homeowners insurance policy, offers protection for three categorizations of cyber events at five different levels of limits, allowing its policyholders to adjust coverage as they see fit. The flexibility provides homeowners the option to pay as little as $127 per year for coverage of up to $25,000 in damages. Conversely, homeowners concerned about the vulnerability can get covered up to $250,000 in damages for $577 per year.

Cyber extortion coverage limit	Cyber financial loss coverage limit	Cyber personal protection coverage limit	Max limit for all covered events per policy period	Premium
$5,000	$25,000	$25,000	$25,000	$127
$10,000	$50,000	$50,000	$50,000	$200
$15,000	$100,000	$100,000	$100,000	$316
$25,000	$150,000	$150,000	$150,000	$421
$25,000	$250,000	$250,000	$250,000	$577

- **Cyber extortion:** Covers the cost of cyberattacks involving threats to release personal information, cause failure to personal computer networks or restrict access to personal data.
- **Cyber financial loss:** Reimburses policyholders for stolen account funds, fraudulent charges or lost salary while resolving your claim and attorney fees.
- **Cyber personal protection:** Covers breaches of privacy, cyber bullying and cyber disruption, the latter referring to events that prevent you from accessing your home or interrupting a small business you run from your home.

As with other cyber insurance policies, Chubb will cover policyholders for the consequences of the event and not just the event itself. For example, if cyber bullying results in your wrongful termination from work or a false arrest, you'll be covered for related expenses, such as foregone salary or costs of being held in custody, up to policy limits.

AIG Cyber Insurance: Cyber Coverage Customized to Your Needs

AIG offers cyber insurance as an endorsement to homeowners insurance through the AIG Private Client Group. This valuable option is named Family CyberEdge and offers four types of cyber protection, with coverage limits adjustable within each category to either $50,000, $100,000 or $250,000. AIG also includes identity monitoring services for a flat fee of $80 per person.

Coverage type - All premiums reflect a $1,000 deductible	Premium with $50,000 limit	Premium with $100,000 limit	Premium with $250,000 limit
Cyber extortion	$27	$50	$97
Data restoration	$149	$277	$532
Crisis management	$230	$426	$820
Cyberbullying	$27	$50	$97
Identity monitoring services	$80	$80	$80
Total premium	$513	$883	$1,626

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Clients can opt for the lowest coverage limits of $50,000 within each category and pay as low as $433 per year. But they can also select different limits for each category to balance coverage and price, and their final cyber insurance premium will be a sum of their coverage for each category. Selecting maximum limits of $250,000 in each category would result in an annual premium of $1,546. The bulk of the cost of Family CyberEdge is made up by data restoration and crisis management coverages, which combine to make up almost 90% of customer premiums if limits are held consistent across coverage types.

AIG defines the coverage provided by its four categorizations of cyber threats as follows:

- **Cyber extortion:** Reimbursement for money paid to terminate or end an extortion threat and for investigation into its cause.
- **Cyberbullying:** Expenses incurred from cyberbullying, ranging from psychiatric services to lost salary from wrongful termination.
- **Crisis management:** Expenses incurred by a service provider to minimize the damage to the covered policyholder's reputation after a cyberattack or extortion.
- **Data restoration:** Expenses incurred by a service provider in recovering lost data after a cyberattack or extortion.

PURE Cyber Insurance: Extra High Limits for High Net-Worth Homeowners Concerned About Cyber Threats

Homeowners policyholders sold with PURE will be able to add a personal cyber insurance endorsement, called PURE Starling, to their policies. Coverage under this endorsement is split into three categorizations: cyberattack, cyber extortion and fraud. Coverage levels for these individual categorizations can't be customized. With PURE, policyholders simply select between three overall limits: $100,000, $250,000 and $1 million. And cyberattack events will only ever be covered up to a $100,000 sub-limit.

Cyber coverage limit	Cyberattack sub-limit	Deductible	Premium
$100,000	$100,000	$500	$250
$250,000	$100,000	$1,000	$625
$1,000,000	$100,000	$1,000	$2,500

Those who select the highest limit will have to maintain an active cybersecurity monitoring service for their devices. This includes continuous monitoring of data exchange on the insured's smartphones, tablets and computers to enhance the individual's cybersecurity and preempt damaging cyber threats.

PURE defines the coverage provided by its three categorizations of cyber threats as follows:

- **Cyber extortion:** Professional assistance in handling an extortion threat and payments (with prior approval from PURE) in response to a threat.
- **Cyberattack:** Costs of restoring data and systems following unauthorized use, access or perpetration of malware attack on a qualifying electronic home device.
- **Fraud:** Costs of identity theft or unauthorized use of bank cards or checks perpetrated through a qualifying electronic home device.

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CINCINNATI Cyber Insurance: Extra High Limits for High Net-Worth Homeowners Concerned About Cyber Threats

Homeowners policyholders sold with Cincinnati will be able to add a personal cyber insurance endorsement, called Cincinnati Personal Cyber Protection, to their policies. Coverage under this endorsement is split into three categorizations: cyberattack, cyber extortion and online fraud. Coverage levels for these individual categorizations can be customized. With Cincinnati, policyholders simply select between overall limits between $25,000 and $250,000.

Cyber coverage limit	Deductible	Premium
$50,000	$500	$100
$100,000	$500	$200
$250,000	$1,000	$500

Those who select the highest limit will have to maintain an active cybersecurity monitoring service for their devices. This includes continuous monitoring of data exchange on the insured's smartphones, tablets and computers to enhance the individual's cybersecurity and preempt damaging cyber threats.

Cincinnati defines the coverage provided by its three categorizations of cyber threats as follows:

- **Cyber extortion:** Provides payments and professional assistance in responding to cyber extortion demands based on a credible threat to damage, disable, deny access to or disseminate content from devices, systems or data including ransomware attacks.
- **Cyberattack:** Pays to recover data and restore systems that have been lost or damaged due to a cyber-attacks.
- **Online Fraud:** Covers online fraud that results in a direct financial loss, including counterfeit currency, forgery, illegal bank and credit card transfers, and phishing schemes.