BridgePoint
RISK MANAGEMENT

MARKET UPDATE

COMMERCIAL | MARCH 2020

2020 1ST QUARTER COMMERCIAL INSURANCE MARKET UPDATE

Business Interruption Coverage

Local business owners are doing everything possible to maintain business operations and limit financial duress caused by the spread of Coronavirus. We have received several calls from clients facing meaningful business disruption, inquiring as to what protections might be afforded by their property and casualty insurance policies. Unfortunately, under normal conditions, Business Interruption coverage does not apply unless the interruption was triggered by a physical property loss.

However, we are facing unprecedented conditions and this is becoming a very fluid situation. There have been some recent press coverage around this issue and they have included suggestions that the federal government might provide financial backstops for insurance carriers. We also see some states attempting to impose political and legal action against carriers. We have also seen a few business owners file formal lawsuits against carriers because they denied their Business Interruption claims. We are watching these state level cases and we will incorporate their findings into our daily client consultations.

We are encouraging our clients to remain patient and to contact our agency if they have experienced a Business Interruption claim. We will assist in submitting your claim as there may be circumstances where your policy could respond. There will be value in timely claim submissions if/when carriers are forced to change their position.

Cyber Insurance

Businesses across the country are working to comply with Social Distancing and in doing so are activating work-from-home policies. With more employees working from their homes, the potential for cyber-related crimes increases. Bad actors will attempt to take advantage of this situation, assuming companies have their guard down as they are working to keep their IT networks running uninterrupted. Protecting confidential information will be more challenging than ever.

Chubb is one of the top providers of commercial and personal cyber insurance. They have recently issued ten tips business owners can take to remain cyber-safe *(see below)*. Proper risk management plans include such loss prevention measures and comprehensive insurance protection. BridgePoint Client Advisors are available to answer your cyber-related questions and would be happy to develop quotes for new cyber policies. High levels of competition now exists for cyber liability, especially for limits less than $5,000,000. It’s critical that clients understand differences in coverage wording as policies vary greatly.

1. **Prepare for IT resourcing issues from both a people and a technology perspective.** When more people are connecting remotely, technology call centers may face a higher call volume than normal, and more resources may be needed outside of standard business hours. Simultaneously, network bandwidth, data storage capabilities, and computing power are put to the test. Despite this increase in traffic, attention to detail cannot falter. Businesses are encouraged to keep a close eye on these needs, prepare a plan to reallocate resources as necessary, and recognize that this dependency may increase over time.

2. **Ensure your network, software, and applications are up-to-date.** Remote access technologies have known vulnerabilities – and are all too often the weak link that bad actors use to gain access to protected information. Make sure all software and applications are updated, and patch any weaknesses that are identified.

3. **Make sure your resources are aligned – before an incident occurs**. Organizations should make sure their business continuity plans, disaster recovery teams, and cyber incident response plans are in alignment. Bad actors know that dependency on your network and its availability is never higher than when more people are accessing it remotely, and will attempt to take advantage of the situation.

4. **Review your existing policies and closely monitor any necessary security exceptions.** When IT resources are stretched, organizations may need to make some exceptions to published security policies, standards, or practices. Implement a thorough review process to ensure such exceptions are closely monitored and solved. Also, most work-from-home policies weren't originally drafted to address a global conversion to remote work; organizations should carefully review those as well.

5. **Only connect to the internet through a secure network.** When connected to a public network, any information you share online or via a mobile app could be accessed by someone else. Always use a Virtual Private Network (VPN) to encrypt your activity. Most organizations provide a VPN to their employees to ensure secure, remote access for work use, and personal VPN accounts are available from various service providers.

6. **Use strong passwords.** Many people use the same or similar version of a password for everything, even between work and home. Unfortunately, this means a single stolen password can be reused on multiple sites to unlock dozens of accounts for hackers. Remembering secure and complex passwords for every account can be difficult, if not impossible. Use password management software to ensure you have strong, unique passwords for everything, because passwords are the foundation of sound online security practices.

7. **Use multi-factor authentication - now is the time to implement if you haven't already.** Traditional user login and password accounts are easy for bad actors to penetrate. Whenever possible, set up multi-factor authentication on your accounts. This requires you to provide at least two authenticating factors, or proofs of identity, before you can access protected data, giving you a second line of defense against criminal activity. This additional level of protection is particularly critical when more people are accessing networks remotely, giving bad actors more entry points to access private networks.

8. **Only click on links, open attachments, and download software from trusted resources.** Most people want to stay informed with the latest information, especially during periods of uncertainty. Bad actors know this, and will attempt to take advantage by masking malicious links as something informative. Once clicked, that malicious link can be used to gain access to an individual's or organization's private information and/or freeze their computers or networks. If you're unsure of the source, go to the organization's website. If it's important, the information will be posted there as well.

9. **Verify website URLs before sharing confidential information.** Bad actors can create fake websites where both the URL and homepage look remarkably similar to a site you trust – such as your healthcare provider, bank, or email provider. Instead of following a link in an email, type the URL in by hand. Also, make sure the site you visit has HTTPS in the URL; these sites are more secure than those with HTTP.

10. **Don't respond to requests for information from unknown sources – especially if the request is for personally identifiable information or passwords.** Bad actors will attempt to con people into sharing confidential information by pretending to be someone you know or work with. Take extra care in identifying who you're sharing information with – even if you think the request came from a trusted resource or organization. Don't feel rushed; take the time to research the request and whether it's appropriate before responding.

2020 First Quarter Market Summary

The first quarter of 2020 indicates ongoing rate increases and capacity reductions that were introduced in the fourth quarter of 2019. Most property and casualty commercial lines are showing rate increases of 10% - 20% for clients that have good loss history, while those clients with poor loss history are realizing rate increases of 25% - 65%.

Deteriorating property and casualty loss trends, characterized by increased frequency of severity losses, has caused markets to exit certain lines, reduce capacity and raise rates considerably. These activities cut across all industries regardless of tenure with markets or past loss history. Overall, insurance carriers are highly scrutinizing North American property and casualty business and will continue adjusting capacity, rates and underwriting requirements based upon client segmentation and types of coverage.

Commercial Real Estate: Multi-family real estate sector continues to show the most robust growth compared to office, industrial, retail, and hospitality exposures. The hottest markets are located in larger municipalities. The southeast and western regions of the U.S. account for the largest demand for rental unit investments. Lessor's Risk Only (LRO) rates have increased slightly on the property insurance side. This is, of course, outside of the always volatile coastal regions of Florida, Texas and California where wildfires have decimated both the physical and insurance landscapes. In stark contrast, liability rates in this sector have seen a considerable rise in the marketplace. There are fewer carriers willing to underwrite the larger real estate portfolio schedules. Those underwriters who remain are re-evaluating the class and placing more restrictions on coverages. All this is making it harder to keep the larger portfolio programs intact and competitive. On certain portfolios, restructuring, including insuring the best properties on a stand-alone basis, may be the best alternative to achieve the overall cost benefits.

Restaurants: Prior to the Coronavirus the economy was roaring and the opening of fast casual and full service restaurants dotted the U.S. landscape. Insurance carriers were doing a good job maintaining capacity for most lines of coverage and rate reductions were common. Due to an upward trend in liability claims (slip and falls, food poisoning, and assault & battery claims) insurers have made moves to shore up the fragile pricing models. In addition, workers' compensation losses over the past 10+ years lead to inflated pricing in almost every state. Many carriers have made the move to totally eliminate coverage for exposures such as liquor liability and employment practices liability, increasing the need for specialty insurance markets. Restaurants are also seeing increased underwriting scrutiny in the era of hired and non-owned auto liability as owners increasingly contemplate food delivery services to compete with online delivery services such as DoorDash and Grubhub.

Construction: The construction insurance marketplace has remained very active with moderate premium increases. Casualty market capacity has, overall, been adequate to support the demand for both commercial and residential contractors. After almost a decade of sustained growth and continued expansion of the construction market, general liability pricing has remained relatively stable and competitive. Exceptions include New York, where rates remain high due to limited carrier options. Other states, such as Florida, South Carolina, Louisiana, Texas, California, Colorado, and Oregon, have underwriting concerns with residential construction and are operating in legal environments that are challenging with construction defect claims.

Directors & Officers Liability: Escalating litigation and regulatory risks present growing challenges. Event driven exposures such as securities class actions, cannabis, cyber security, environmental, and corporate and governance failings have emerged. Carriers seem to be scrambling to accurately assess, underwrite and price for these exposures. High loss settlements and growing defense costs prompted underwriters to raise D&O rates in early 2018. Upward pricing trends continue into 2020 for public D&O, healthcare, technology, life science and financial institutions. Policy terms and conditions will continue to tighten as underwriters reconsider their appetite and limit profiles for underwriting difference types of public, private and non-profit companies. Accounts with adverse loss history will have fewer options, as underwriters introduce higher premiums and work to avoid Side B (Director & Officer Indemnification) and Side C (Entity) risk exposures.

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Excess Liability: Underwriters are quoting smaller limits, creating the need to incorporate additional markets to create a layered excess program. The lead carriers are now commonly reducing the 'lead layer.' In addition to reduced capacity, we are seeing increased premiums on first quarter renewals. Clients with difficult underwriting classes and/or poor loss history should anticipate more dramatic rate increases. We are suggesting that clients prepare for 20%-30% increases over expiring premiums. We will be sure to highlight our clients' investments in safety and risk mitigation in an effort to secure competitive pricing from underwriters.

Summary

In order to maximize the best results and differentiate our clients in this firming marketplace, BridgePoint will continue to deliver a well-thought-out strategy; one that paints your business in the best possible light and tells your success and safety to the underwriter. This starts with transparent client communications and taking full advantage of our long standing relationships with our carrier partners. BridgePoint Advisors will establish realistic pricing and coverage expectations, which encourages competition amongst underwriters. Throughout the negotiation process, we keep our clients informed of market response and potential options as they begin to materialize. In the end experience, flexibility, creativity and the consistent communication makes BridgePoint the right choice for navigating hard market conditions.

Your BridgePoint Client Advisor and Account Executive will proactively contact you in advance of policy expirations to fully align around specific renewal strategies. We value your business and appreciate your ongoing trust in BridgePoint. Please continue to be safe and do not hesitate to call us for assistance during this trying time.

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