

July 2020

Risk & Insurance Insight

FEI Austin Chapter



Time Magazine Cover
March 26, 1986

With you today

- Steve Andeson, Marsh Advisory (Dallas)
- Lauren Culp, Financial & Professional lines (Dallas)
- Tom Fuhrman, Cyber Risk Consulting (Washington, DC)

Our conversation

- Risk management environment
- Impact of coronavirus
- Observations by line of coverage
 - Property
 - Casualty
 - Financial & Professional liability
- Evolving cyber risks
- Steps we suggest
- Open discussion

Risk management environment

“Research shows clear rise in ‘nuclear verdicts’ against trucking firms...”

“2020 Atlantic hurricane season projected to be well above average...”

“Multiple brands of hand sanitizer recalled due to methanol risk...”

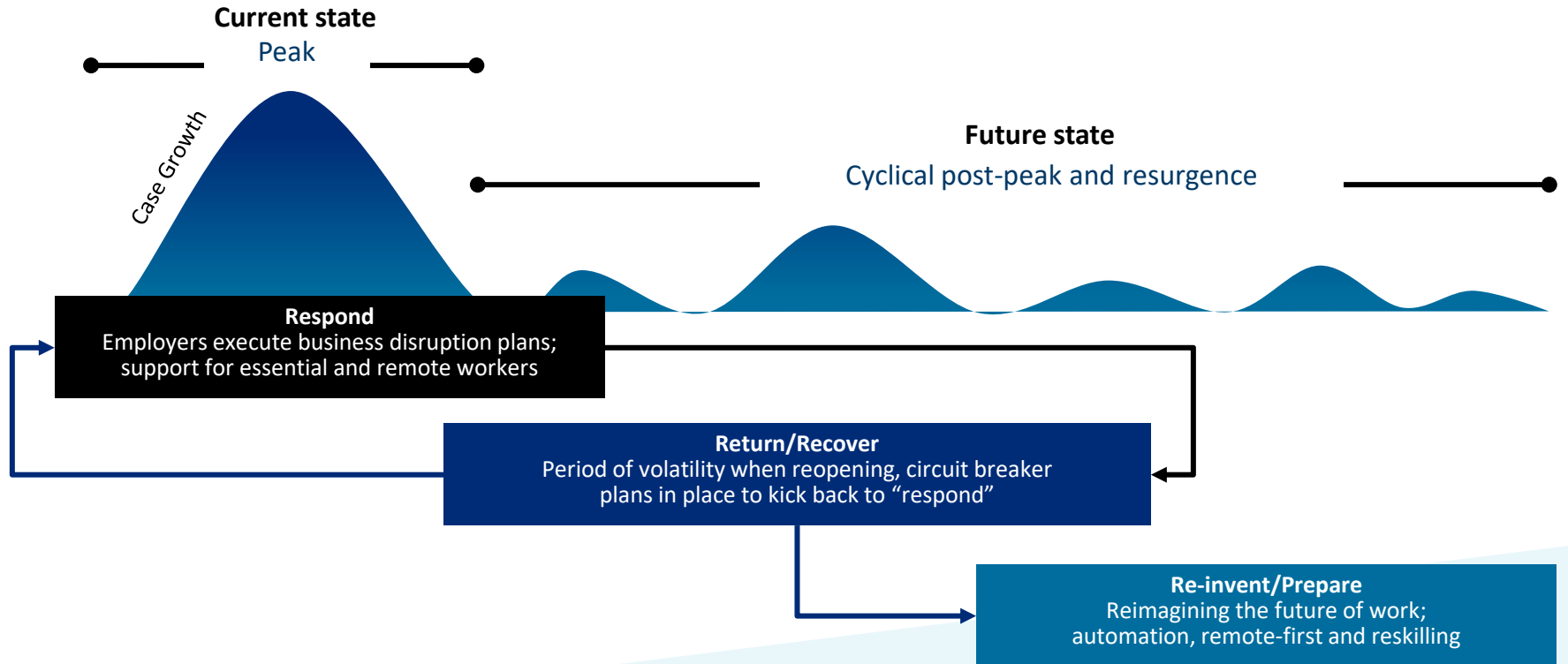
“Employers find COVID-19 testing employees more trouble than it’s worth...”

Impact of coronavirus

- Liability insurance
 - Concern over potential claims by customer, guests, visitors.
- Workers' compensation insurance
 - Compensability presumptions (varies by state).
- Property insurance
 - Disruption to site risk assessment visits.

Pandemic response lifecycle

Supporting the workforce



Texas COVID-19

(as of 07-13-20)

USA State	Total Cases	New Cases	Total Deaths	New Deaths	Active Cases	Tot Cases/ 1M pop	Deaths/ 1M pop	Total Tests	Tests/ 1M pop
USA Total	3,479,483	+65,488	138,247	+465	1,791,767	10,512	418	43,252,833	130,672
New York	428,303	+665	32,445	+42	209,034	22,017	1,668	4,724,882	242,880
California	336,037	+8,350	7,096	+45	239,829	8,505	180	5,544,365	140,320
Florida	282,435	+12,624	4,277	+35	244,868	13,150	199	2,642,613	123,040
Texas	274,712	+9,156	3,340	+80	134,953	9,474	115	2,820,803	97,283
New Jersey	181,366	+451	15,639	+30	84,042	20,419	1,761	1,700,385	191,438
Illinois	155,931	+883	7,394	+6	32,698	12,305	583	2,012,994	158,856
Arizona	123,824	+1,357	2,245	+8	106,325	17,012	308	899,994	123,647
Georgia	120,569	+3,643	3,026	+25	98,358	11,356	285	1,293,302	121,809
Massachusetts	111,827	+230	8,330	+5	9,150	16,224	1,209	1,040,987	151,032
Pennsylvania	100,378	+584	6,963	+5	19,694	7,841	544	931,474	72,760

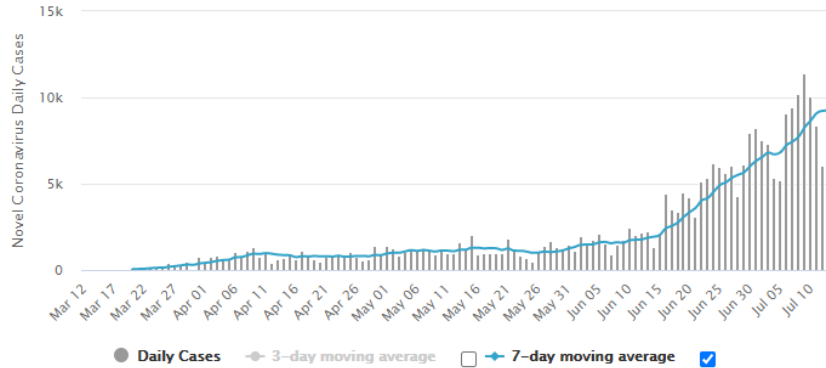
Texas COVID-19

(as of 07-13-20)

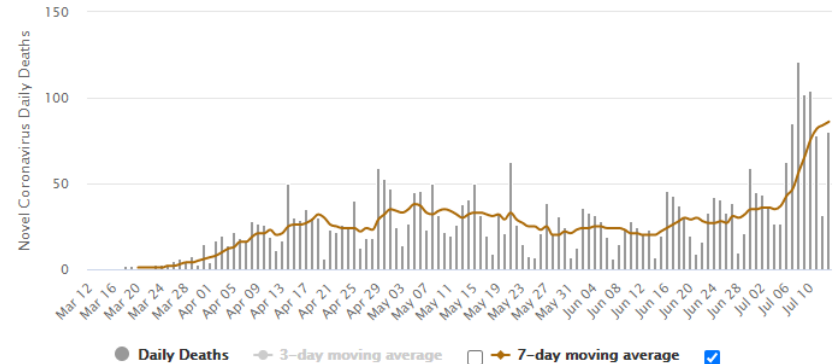
County	Total Cases	New Cases	Total Deaths	New Deaths	Active Cases	Total Tests
Texas Total	274,712	+9,156	3,340	+81	134,953	2,820,803
Harris	47,369	+2,001	466	+8	32,559	401,269
Dallas	34,914	+1,114	457	+6	16,587	251,776
Bexar	20,213	+565	195	+11	12,132	122,755
Tarrant	18,483	+322	272		9,476	140,667
Travis	15,445	+657	172	+3	3,411	89,628
El Paso	9,716	+206	152	+1	3,685	111,700
Hidalgo	8,040	+313	150	+8	4,874	61,257
Nueces	6,428	+253	58	+4	5,804	24,254
Galveston	6,201	+328	54		4,411	82,664
Fort Bend	5,015	+216	63		3,117	126,354
Collin	4,685	+152	58	+2	946	61,573

Texas COVID-19 (as of 07-13-20)

Texas Daily New Cases



Texas Daily Deaths



Returning to the workplace



Property insurance

- 18 months into hardening market.
- Many carriers reevaluating capacity, geographic concentration, attachment layer.
- Some reducing/exiting certain industry classes.
- Greater underwriting scrutiny.
 - Property schedule
 - COPE information
 - Valuation
 - Nat Cat modeling
 - Business interruption loss projections

+	Conventional perils
+	Natural catastrophe
+	Business Interruption

Casualty insurance

- Workers' compensation largely neutral.
- General liability challenges.
- Auto liability hard market continues.
- Excess liability (Umbrella) volatility seen in 2020.

+	Workers' Compensation
+	General liability
+	Automobile liability
+	Excess liability (Umbrella)



Financial & professional liability

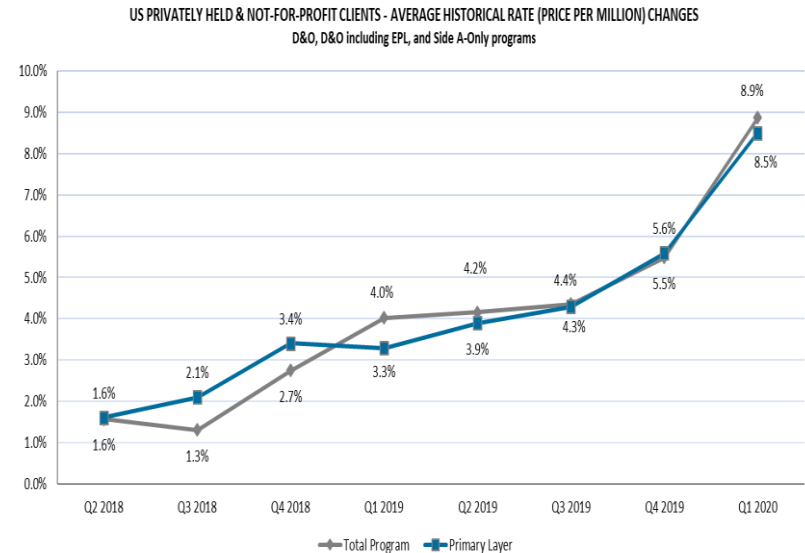
- Recent D&O volatility (price & capacity).
- EPL programs face growing challenges.
- E&O market varies by profession.
- Cyber coverage remains competitive.

+	Directors & officers
+	Employment practice liability
+	Errors & omissions
+	Cyber

Financial and professional liability

Market outlook

- Professional lines are in a hard market.
- Clients with good risk profiles are seeing significant increases:
 - April: 10% - 20%
 - May: 20% - 30%
 - June: 30%+
- Carriers are conservative with limits, offering reduced capacity with increased retention.
- Carriers are scrutinizing financials and asking more questions related to COVID-19.
- Clients in high-risk class, financially distressed or entering Bankruptcy are hard to place. Some carriers adding Creditor or Bankruptcy exclusions.
- For companies in distress, carriers are analyzing financials.

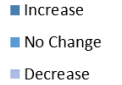


Cyber insurance market viewpoint

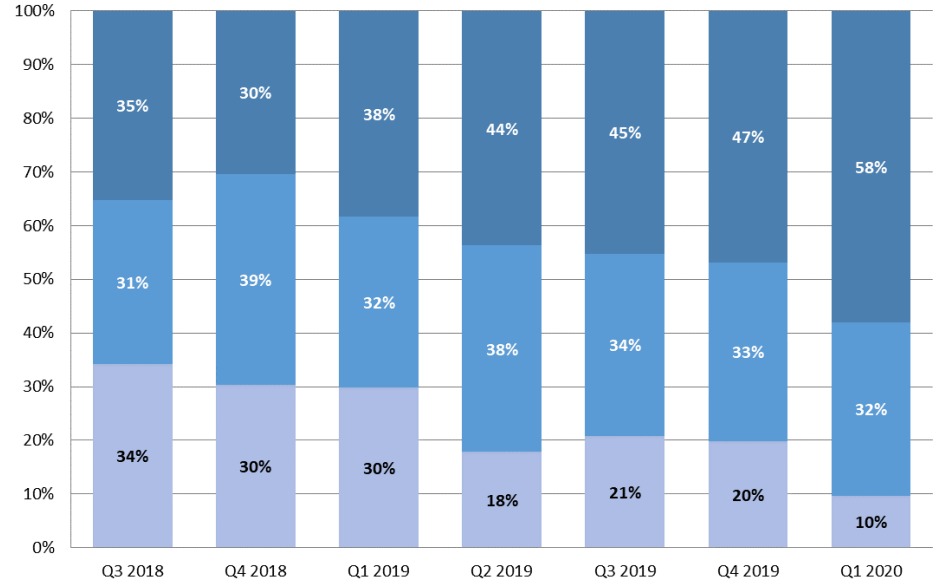
All industries

Macro Trends

- 42% of Marsh clients purchased cyber insurance in 2019 compared with 38% in 2018.
- Rate increases largely due to increases in frequency and severity of ransomware claims. Middle market segment in particular.
- Excess layer pricing is increasing at a faster rate than Primary layer.
- Not yet seeing COVID-19 exclusions for standalone cyber policies, but insurers are asking additional underwriting questions.



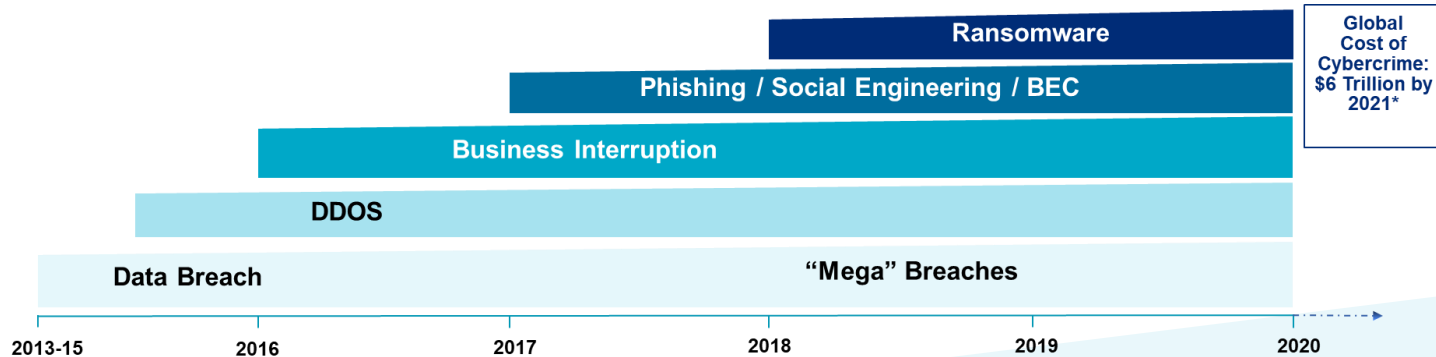
PERCENT OF US CYBER CLIENTS WITH PREMIUM PRICING CHANGES
All Industries



Macro cyber and privacy viewpoint

Shifts in information security landscape

- 1 Cybersecurity spending is at an all time high, and growing.
2012-2019: up 70% / + \$62B to ~\$150B
2019-2028: up 65% / + \$98B to ~\$250B
- 2 Technological and cyber threats are the #1 concern for executives in North America.
- 3 The frequency and severity of cyber events are increasing exponentially.



Sources: Gartner data on cybersecurity spending; 2019 Marsh Microsoft Global Cyber Risk Perception Survey for top threats.

Cybersecurity

2020 megatrends

+	Ransomware
+	Cloud security
+	Business interruption & extortion
+	COVID-19 induced stresses
+	Broader cyber threats (2020 election)

Ransomware attacks

Increasing across many industries

What are the potential losses in a ransomware event?

- Loss of data

- Business Interruption

- Restoration

- Reputation

Often the largest impacts

Vulnerability in the cloud

As companies move to the cloud, so do hackers

- Misconfiguration of cloud-based servers is often the cause.
- Enterprises are responsible for the cybersecurity of their cloud-based data and operations.
- Impacts can range from data breach to business interruption.
- Reputation.



COVID-19 increased cyber risk

- Increased “attack surface” due to widely expanded work-from-home.
- Hackers are using COVID-19 as hooks in phishing attempts.
- Personal and family use of company equipment introduces risk.
- Corporate privacy and VPN policies may have been relaxed.
- Cyber incident recognition & response is more difficult with a distributed workforce.

Suggested steps

Property

- Discuss market conditions and renewal expectations with your broker.
- Start planning early (5 months out).
- Anticipate requests for additional underwriting information.
 - Risk engineering reports, diagrams, fire protection tests
 - Status of carrier loss control recommendations
 - Describe your best practices – what sets you apart from your competitors
 - Explain loss experience, lessons learned, subsequent improvements
- Demonstrate an interest in close collaboration.

Suggested steps

Casualty

- Know your loss experience (claims analysis, experience modifier).
- Status of carrier recommendations.
- Prepare to provide additional information.
 - Written safety program
 - OSHA recordkeeping
 - Fleet safety program
 - Driver selection, background checks, MVRs, training, incident reporting
 - Vehicle inspection, preventive maintenance
 - Telematics, incident investigation

Suggested steps

Financial and professional liability

- Talk with your broker
- Consider financial likes you may not have purchased in the past
- Revisit cyber coverage in your property program... carriers are changing terms
- Cyber risk insurance is increasingly essential

Suggested steps

Cyber risk mitigation

- Ransomware
 - Build backup capability in anticipation of a ransomware threat
 - Enhance phishing awareness across your organization
 - Be ready to quickly respond to a data breach
- Cloud Security
 - Understand your security responsibilities
 - Control access
 - Manage configuration of your servers in the cloud
- COVID-19
 - Adapt your cybersecurity to a post-COVID reality
 - Improve security of remote access
 - Enhance cyber incident detection and response

Open discussion



Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.

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