



Property & Casualty Insurance Status Update

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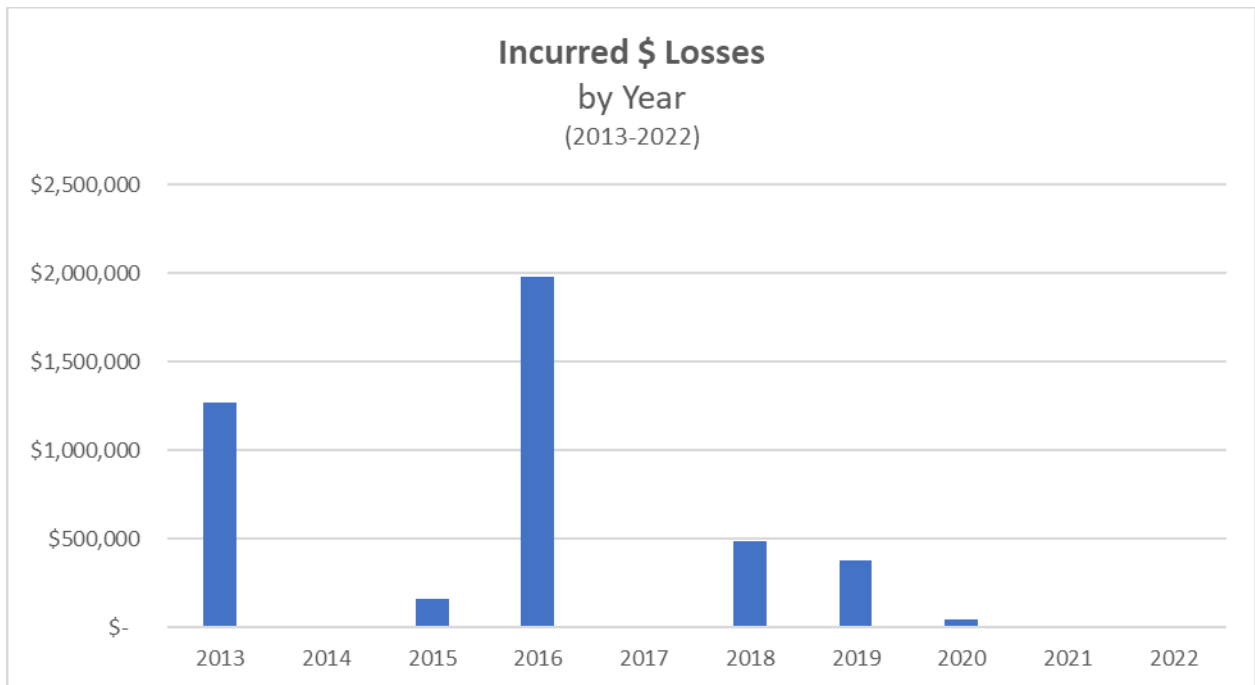
Section I – Claim Data

The following section discusses current and historical claims applicable to the District’s Property and Casualty Insurance program in the following three areas:

- A. General and Auto Liability, including Employment Practices
- B. Property, Including Boiler and Machinery, Earthquake and Flood
- C. Workers Compensation (On the job Injury to employees)

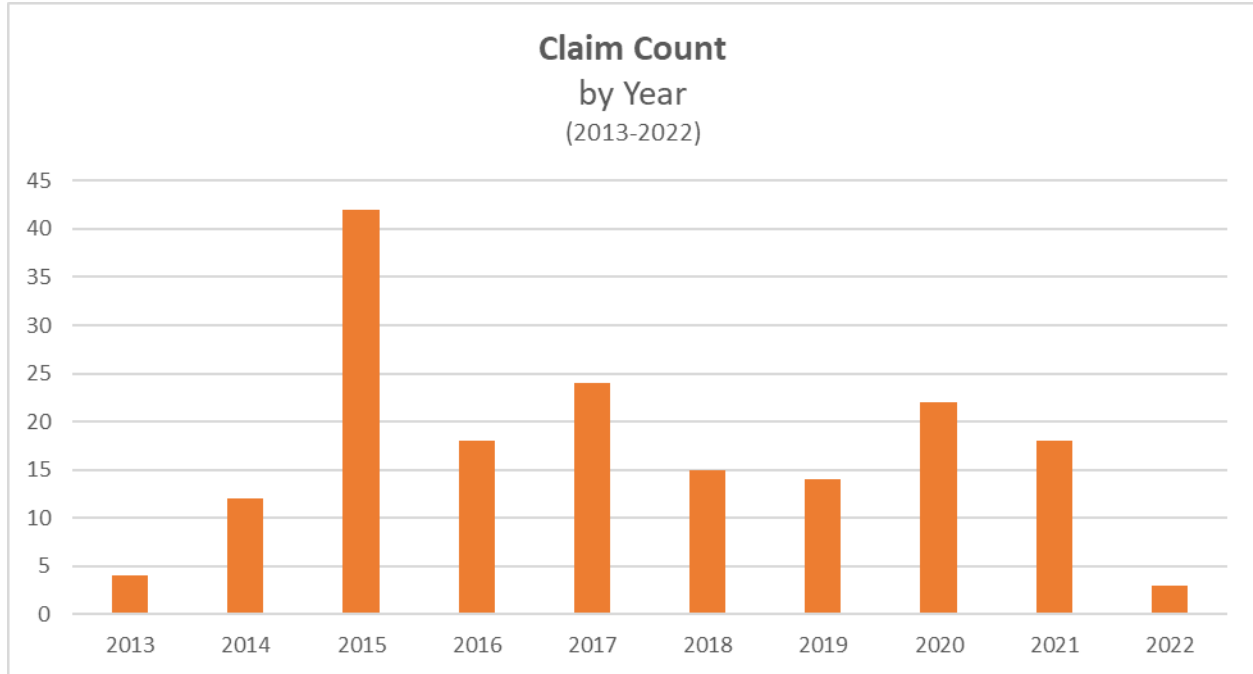
A. General and Auto Liability (Third Party Liability)

The following chart depicts the amount of money paid and claim reserves for GL/Auto claims against OC San from 2013 through 12/2021



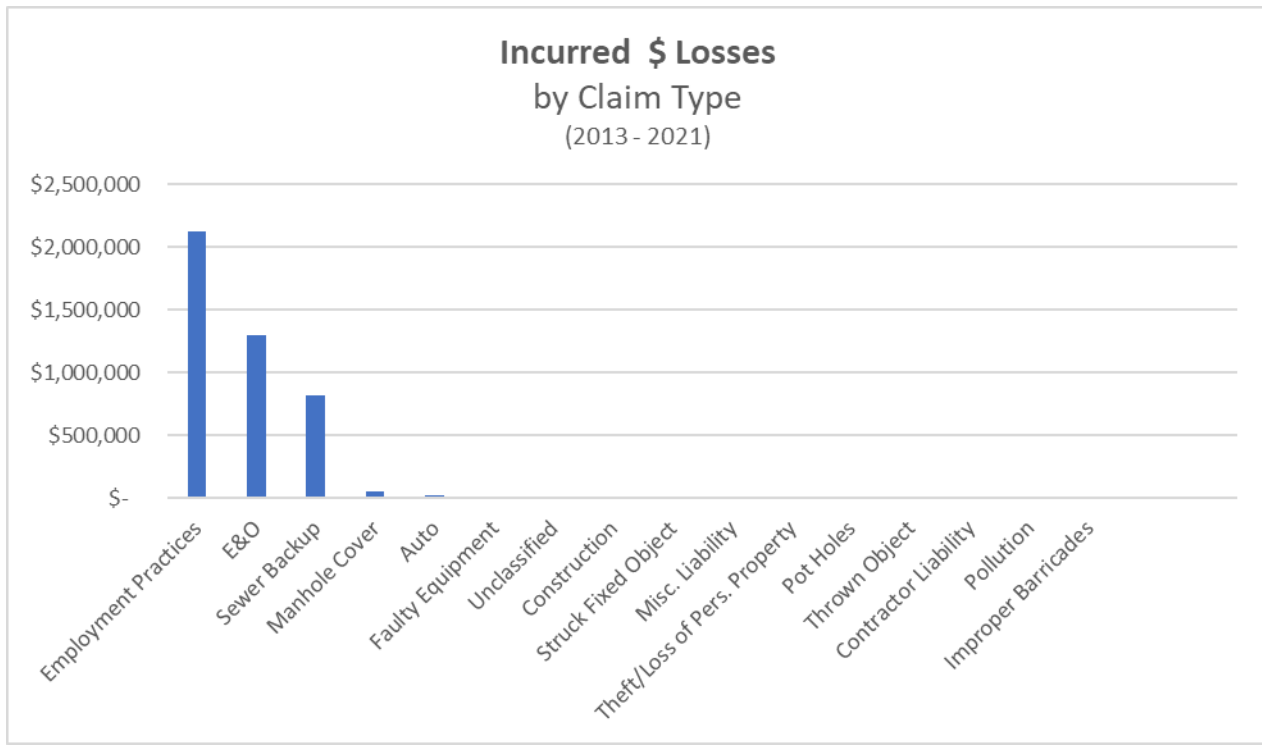
(notes: 2013 one large employment practices claim accounted for nearly all \$ losses for that year; 2016 two large claims, 1-E&O Klean Waters and 1-sewer backup accounted for nearly all \$ losses for that year)

The following chart depicts the number of GL/Auto claims against OC San from 2013 through 12/2021

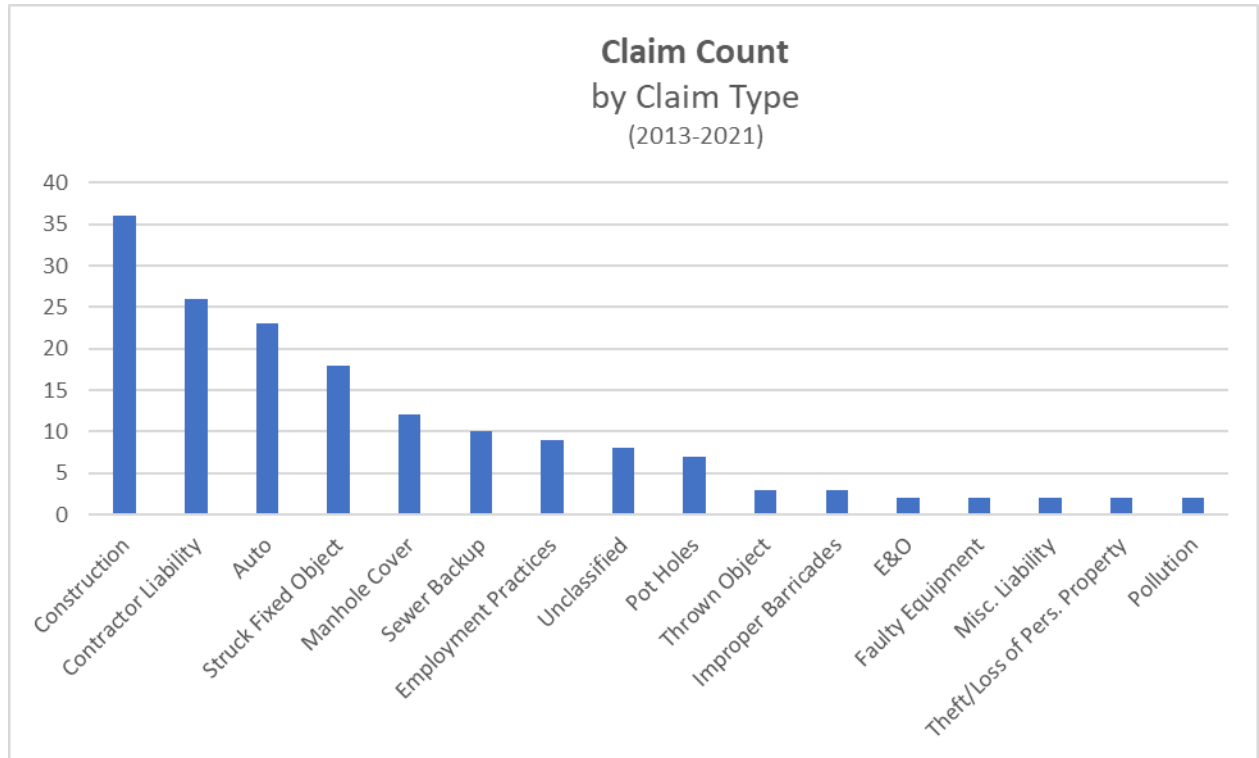


(notes: 2015 large # losses largely due to construction and manhole covers)

The following chart depicts the amount of money paid and claim reserves by type of GL/Auto claim against OC San from 2013 to present



The following chart depicts the number of GL/Auto claims by type against OC San from 2013 through 12/2021



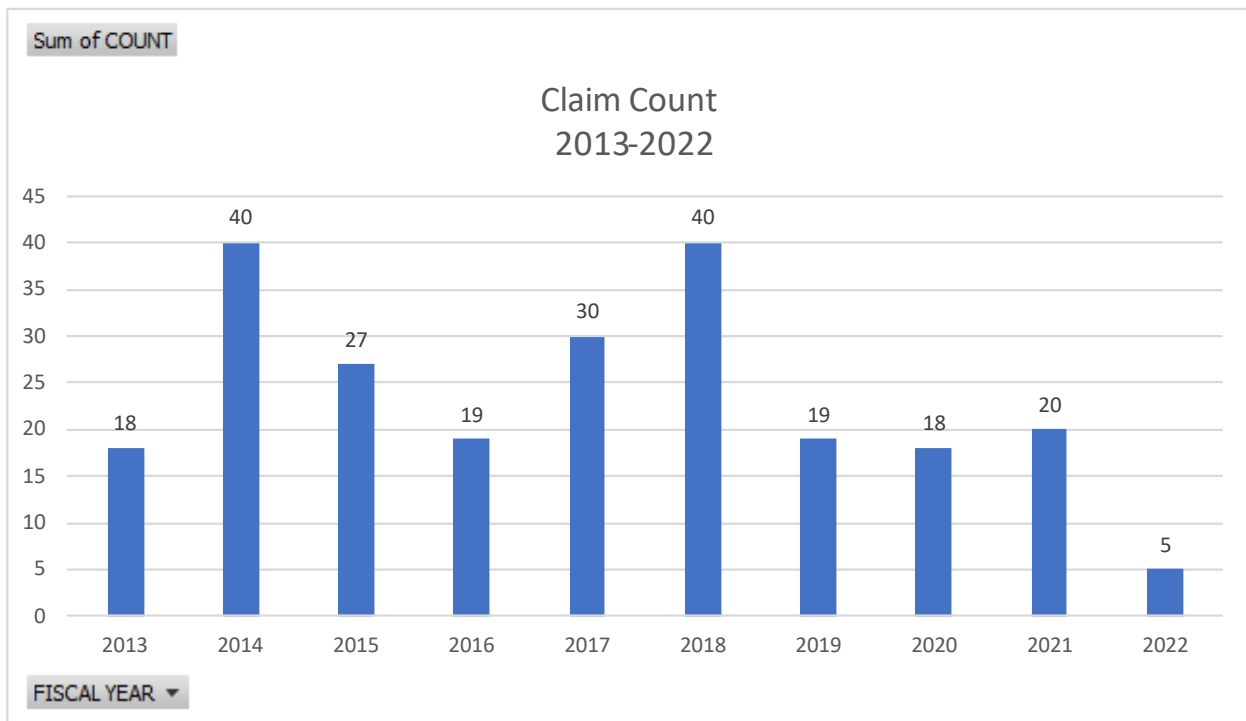
B. First Party Property

Historically between 2013 and 12/2021 there have been virtually no first party pure property claims filed in excess of OC San's \$500K self-insured retention

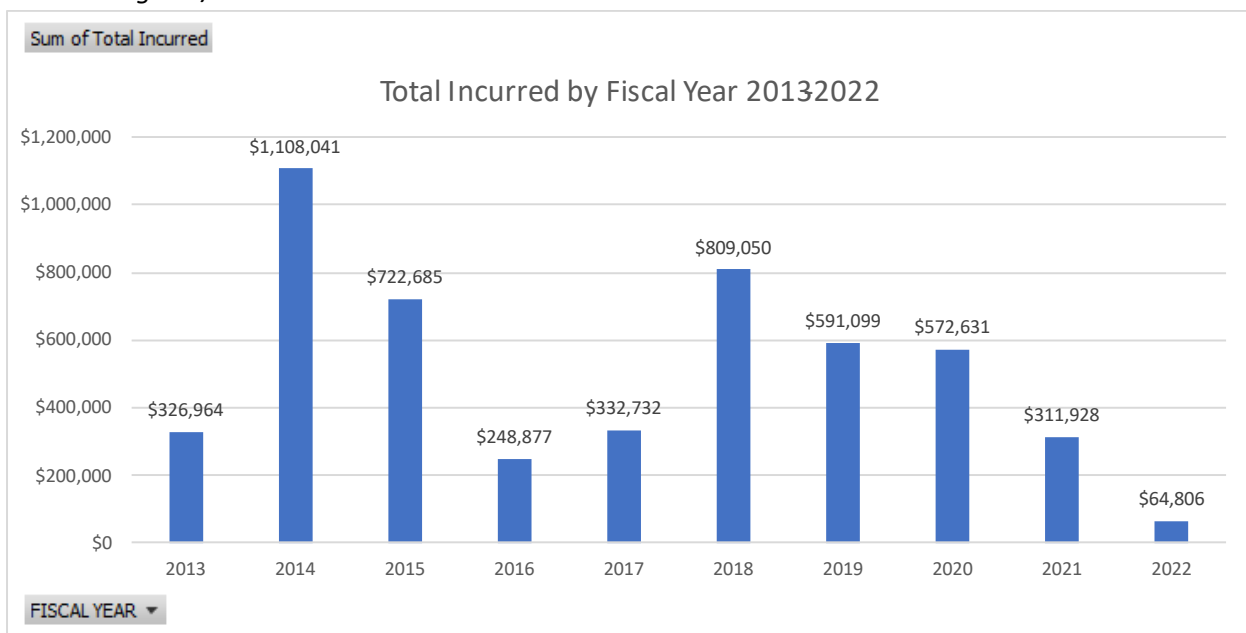
There is one current first party Boiler & Machinery (AKA Equipment Breakdown) insurance claim in process which will exceed the \$25K self-insured retention. This involved the failure of P1 CenGen Cooper-Bessemer Engine 1 crankcase following a contractor's rebuild of the engine. The total loss could range between three and four million dollars. Investigation by carrier is ongoing. If the claim is ultimately accepted, the carrier is expected to subrogate their loss against the contractor.

C. Workers' Compensation

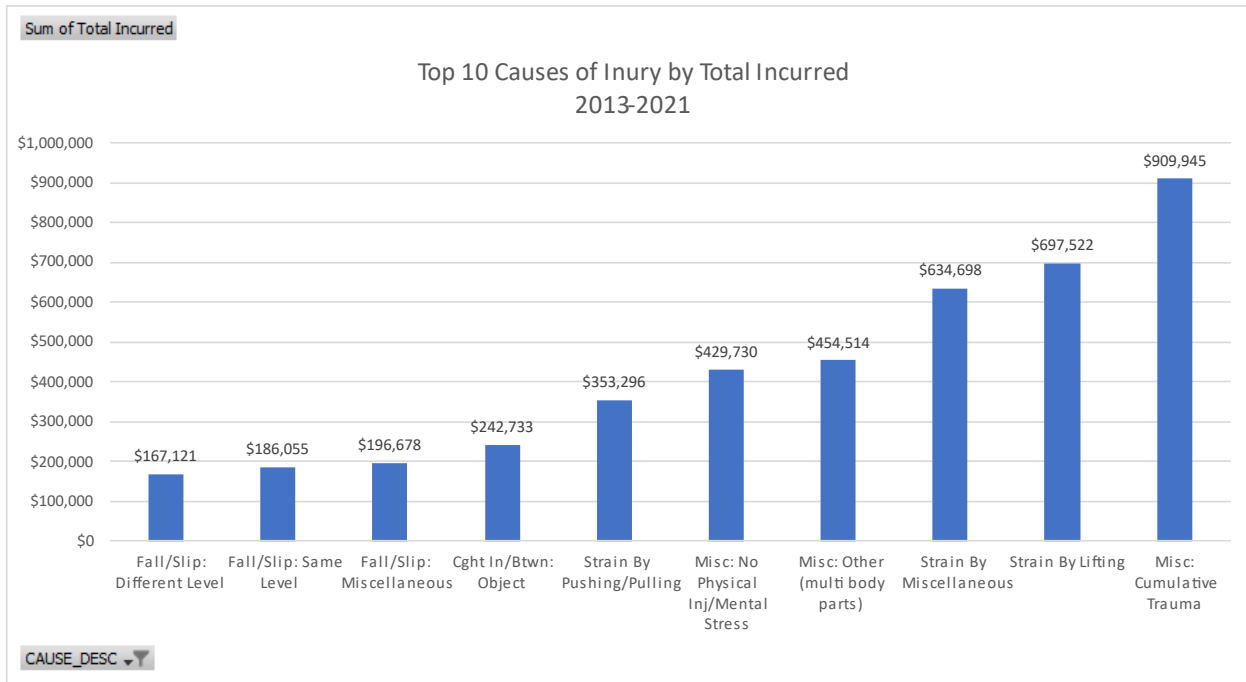
The following chart depicts the number of OC San work comp claims by fiscal year from 2013 through 12/2021



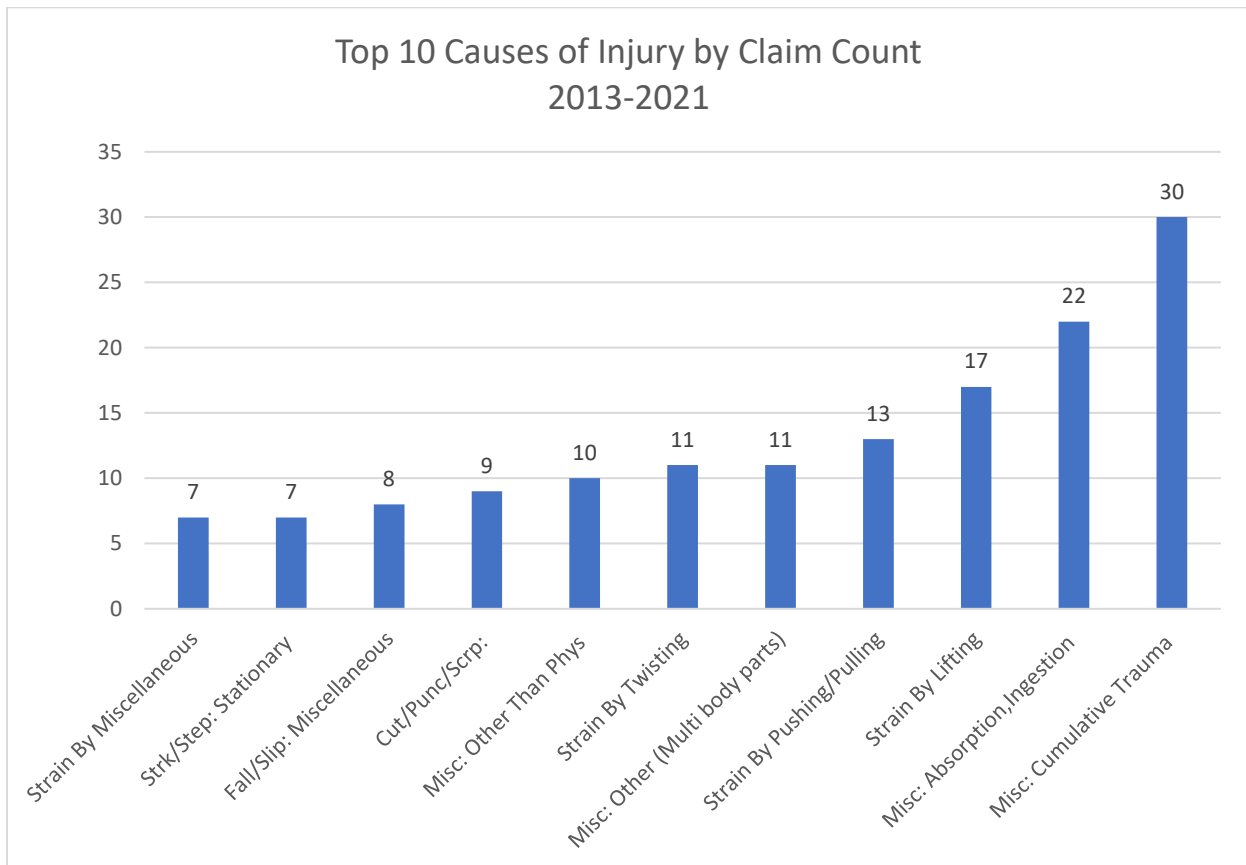
The following chart depicts the amount paid and in reserves on OC San work comp claims by fiscal year from 2013 through 12/2021



The following chart depicts the amount paid and reserves by type on OC San work comp claims from 2013 through 12/2021



The following chart depicts the number of claims by type on OC San work comp claims from 2013 through 12/2021



SECTION II – Insurance Program

A. Market Update

Attached is a PowerPoint presentation entitled “Insurance Market Update & Factors Impacting the Market” that discusses current issues affecting the insurance marketplace. In summary, the industry remains in what is referred to as a “hard market cycle” which is characterized by reduced capacity from insurers and firm pricing for most lines of coverage. The continued frequency and severity of catastrophic losses, along with challenges in containing the explosion in tort liability cases, and issues with cyber liability losses dominate the discussion.

B. Coverages and Retentions

Coverage in place for the current fiscal year are as depicted in the table below:

Coverage	Limits	Retention
"All Risk" Property, including Flood	<p>\$1,000,000,000 All Risk</p> <p>\$25,000,000 Flood Limit - Per Occurrence and in the Annual Aggregate</p> <p>\$25,000,000 Flood Limit for scheduled locations in Flood Zones A & V Per Occurrence and in the Annual Aggregate</p> <p>Not Covered Earthquake Shock</p> <p>Various Sublimits Apply</p>	<p>All Risk: \$500,000 Per Occurrence</p> <p>\$1,000,000 All Flood Zones Per Occurrence excluding Flood Zones A & V</p> <p>\$1,000,000 Per Occurrence for Flood Zones A & V</p>
APIP –Boiler & Machinery	<p>\$100,000,000</p> <p>Various Sub-limits Apply</p>	\$25,000
APIP - Cyber	<p>\$40,000,000 Annual Policy and Program Aggregate</p> <p>\$2,000,000 Insured/Member Annual Aggregate</p> <p>Various Sub-limits Apply</p>	<p>\$250,000 Per Claim for each Member/Insured with Total Insured Value (TIV) greater than \$750,000,000 at the time of policy inception</p> <p>8 Hour waiting period for Dependent/Business Interruption Loss</p>

ACIP Crime	<p>\$5,000,000 Per Occurrence</p> <ul style="list-style-type: none"> • Employee Theft – Per Loss Coverage • Forgery Or Alteration • Inside The Premises – Theft Of Money And Securities • Inside The Premises – Robbery Or Safe Burglary Of Other Property • Outside The Premises • Computer Fraud • Funds Transfer Fraud • Money Orders And Counterfeit Money 	\$25,000 Per Occurrence
PRISM Excess Workers' Compensation Program	<p>\$4,000,000 excess of \$1,000,000 Workers' Compensation and Employers' Liability</p> <p>\$45,000,000 excess of \$5,000,000 Workers' Compensation</p> <p>Statutory excess of \$50,000,000 Workers' Compensation</p>	\$1,000,000 SIR each occurrence
PRISM Pollution Program	<p>\$50,000,000 Policy Aggregate Limit of Liability for all Members</p> <p>\$10,000,000 per Pollution Condition</p> <p>\$10,000,000 per Member Aggregate Limit of Liability</p>	<p>\$250,000 Each Incident</p> <p>5 Days Business Interruption – New Conditions</p>
AD&D Travel Accident	<ul style="list-style-type: none"> • Class 1: 24 Hour Business Travel, Extraordinary Commutation: \$500,000 • Class 2: 24 Hour Business Travel, Extraordinary Commutation: Ten (10) times Salary subject to a Maximum of \$500,000 • Class 3: Business Travel Family, Extraordinary Commutation: \$25,000 • Class 4: Business Travel Family, Extraordinary Commutation: \$10,000 <p>Various Sub-limits Apply</p>	N/A

Builders Risk	\$90,000,000 Combined Single Limit Any One Occurrence Various Sub-limits Apply	\$1,000,000 Physical Damage \$1,000,000 Flood. 10.0% VARTOL, with a Minimum of \$1,000,000 Earth Movement
General Liability - \$10m xs \$750k SIR – 1 st Layer	\$10,000,000 Completed Operations Hazard Aggregate \$10,000,000 Any one Occurrence, Wrongful act or offense for Bodily Injury, Property Damage, Public Officials Errors and Omissions, Employment Practices Liability, or Personal Injury or any combination thereof \$40,000,000 Annual Policy Aggregate	\$750,000
Excess Liability \$15M xs \$10M – 2 nd Layer	\$15,000,000 Each Occurrence \$50,000,000 Policy Aggregate Cap	Follow underlying
Excess Liability \$5M xs \$25M – 3 rd Layer	\$5,000,000 Each Occurrence or Wrongful Act \$5,000,000 Aggregate Limit Where Applicable	Follow underlying
Excess Liability \$10M xs \$30M – 4 th Layer	\$10,000,000 Each Occurrence \$10,000,000 Aggregate Limit	Follow underlying
DIC \$5M p/o \$25M	\$5,000,000 part of \$25,000,000 Primary	CA Earthquake: 5% of the TIV of each unit at the time when such loss occurs, subject to \$5,000,000 minimum per occurrence All other Perils:\$25,000 per occurrence
DIC \$10M p/o \$25M	\$10,000,000 part of \$25,000,000 Primary	Same as above
DIC \$10M p/o \$25M	\$10,000,000 part of \$25,000,000 Primary	Same as above

Ocean Marine - Pollution	\$5,000,000 any one vessel any one accident	N/A
Ocean Marine - Primary	\$600,000 Hull & Machinery \$1,000,000 Protection & Indemnity \$5,000 Medical Payments \$1,000 Personal Effects	\$10,000 Hull & Machinery \$2,500 BI/\$10,000 PD Protection & Indemnity Nil Medical Payments \$250 Personal Effects
Ocean Marine - Excess	\$9,000,000 xs \$1,000,000 each accident or occurrence.	Follow underlying
Special Event Liability	\$1,000,000 Per Occurrence \$2,000,000 General Aggregate	N/A

C. Insurance Program Commentary

The types, amounts, deductibles and other features of coverage purchased (shown above) are reviewed each year through the Committee process as recommended by the District’s broker, Risk Manager and Financial Officers. The coverages, amounts and deductibles are in keeping with what one finds for other large public entity water and wastewater operations.

Currently and historically OC San’s insurance program has consisted mainly of coverage for what would normally be perceived as “catastrophic” events. Meaning largely, programs with high limits and high retentions, as OC San and others similarly positioned, generally have the financial wherewithal to self-fund low dollar, more frequent events. OC San chooses its various retention levels and limits each year based on review of independent actuarial analysis, actual losses, and insurance market conditions.

While OC San could and does consider different program structures, (at least annually) i.e. lower retentions, or higher limits etc., there are practical considerations involved. For some lines of coverage, lower retentions are generally not available in the market to large governmental entities, and no doubt would be considerably more expensive on both a real cost, and actuarial basis. Many California governmental entities participate in risk sharing pools (“JPA’s) to obtain improved services, costs or coverage that may not be available in the commercial insurance market. In fact, OC San does participate in PRISM for its excess workers’ compensation coverage. PRISM is the largest risk sharing pool in the country. CSRMA is another risk sharing pool that OC San is familiar with and is designed for wastewater treatment entities. OC San recently did a comprehensive review of CSRMA offerings, and while CSRMA is a “good fit” from a purely operational point of view, OC San would be by far the largest member of the group, and at this time, CSRMA does not offer meaningful advantages for participation to OC San.

Section III. Topics of Interest

A. Regulation of Insurers – Admitted vs Non-admitted Carriers

Insurance companies are highly regulated at the State level. Often times in large commercial insurance programs for complex operations, especially for operations that are viewed within the insurance industry as being a “difficult risk”, a program will commonly contain a mix of insurers that are regulated in different ways by the different States where they operate. Generally, States designate insurers operating in their State as either “Admitted” or “Non-Admitted” insurers. This is the case in California. The designation of an insurance company by a State’s Insurance Commissioner as “admitted” may seem to give the company a stamp of authority, but this designation is primarily an administrative one, rather than a mark of quality, strength, or stability. Other factors than an insurer’s regulatory status within a particular State are usually more meaningful when selecting carriers for any particular coverage. Key factors would include the carriers’ financial strength, pricing structure for coverage types it offers, and experience in underwriting.

To qualify as an admitted carrier, an insurance company must file an application with each state’s insurance commissioner and be approved. Approval requires compliance with a state’s insurance requirements, including the filing and approval of that company’s policy forms and rates. This process often takes a long time, and lacks flexibility. Once a carrier is licensed to transact insurance business in a certain State as an admitted carrier, the carrier is required to pay a portion of its income into the State’s insurance guarantee association. One of the main selling points of being “admitted” is that the carrier’s liabilities are backed by that state’s “guarantee fund.” If an admitted company becomes insolvent, the state should help pay off policyholders’ claims.

A “non-admitted” carrier is often referred to as an “excess and surplus line carrier”, and operates in a State without going through the approval process required for admitted companies. Non-admitted carriers are not bound by filed forms or rates and therefore have much greater flexibility to write and design policies to cover unique and specific risks, and to adjust premiums accordingly. When admitted markets cannot or will not write a risk, or when an admitted carrier cannot offer the appropriate terms, non-admitted markets are available to fill this gap.

Non-admitted insurance carriers are monitored for State rule compliance by the State Surplus Lines Association, in coordination with the Department of Insurance. Rules and regulations are less invasive than for the admitted markets. The most obvious difference between admitted and non-admitted is that purchasers of non-admitted policies do not have the protection afforded by the state’s guarantee fund, however this concern is usually mitigated by placing coverage only with financially strong non-admitted insurers. Many non-admitted insurers are financially stronger than admitted insurers. Each state does charge taxes against premium for non-admitted insurance, and agents must be licensed in surplus lines to sell non-admitted insurance, collect the tax and remit it to the State.

The designation as “non-admitted” should not be taken as an indication that these insurance carriers are not legitimate or financially stable. In fact, to sell surplus lines insurance, non-admitted insurance companies have to set aside a large monetary reserve or secure adequate reinsurance for their writings.

Given the complexity of OC San’s operations and the overall market dynamics of cost and availability of insurance within the State, a number of OC San’s insurers are, not surprisingly, non-admitted. This is not in any way uncommon, as nearly all large California insurance program placements, and certainly those for public entities, contain a mix of admitted and non-admitted markets.

The regulatory status and financial strength, as indicated by an A.M. Best Rating, of the carriers in the Districts’ Program is as follows:

Insurer	AM Best Rating	CA Status
Great American Excess and Surplus Insurance Co.	A+/XV	Non-Admitted
Gemini Insurance Co.	A+/XV	Non-Admitted
Arch Insurance Co.	A+/XV	Admitted
Great American Assurance Co.	A+/XV	Admitted
Liberty Mutual Insurance Co.	A+/XV	Admitted
General Security Indemnity Co. of AZ	A+/XV	Non-Admitted
CUMIS Specialty Insurance Co. Inc.	A/XII	Non-Admitted
Mercer Insurance Company	A/X	Non-Admitted
National Union Fire Insurance Co. of Pittsburgh, PA	A+/XV	Admitted
Atlantic Specialty Insurance Co.	A+/XV	Admitted
Ironshore Specialty Insurance Co.	A/XIV	Non-Admitted
North American Capacity Insurance Co.	A+/XV	Admitted
Arch Specialty Insurance Company	A+/XV	Non-Admitted
Chubb Bermuda Insurance Ltd.	A+/XV	Non-Admitted
Convex Insurance UK Limited	A-/XV	Non-Admitted
Crum & Forster Specialty Insurance Company	A/XIV	Non-Admitted
Endurance Worldwide Insurance Limited	A+/XV	Non-Admitted
Evanston Insurance Co.	A/XV	Non-Admitted
Fidelis Underwriting Limited	A/XV	Non-Admitted
International General Insurance Co.	A/XV	Non-Admitted
Lancashire Insurance Company (UK) Ltd.	A/XIV	Non-Admitted
Landmark American Insurance Co.	A+/XIV	Non-Admitted
Lexington Insurance Company	A/XV	Non-Admitted
Liberty Surplus Insurance Corporation	A/XV	Non-Admitted
Lloyd’s of London	A/XV	Non-Admitted
National Fire and Marine Insurance Company	A++/XV	Non-Admitted
PartnerRe Ireland Insurance Ltd.	A+/XV	Non-Admitted
QBE Specialty Insurance Company	A/XIV	Non-Admitted
StarStone Specialty Insurance Company	A-u/XI	Non-Admitted
Westport Insurance Corporation	A+/XV	Admitted
XL Insurance America Inc.	A+/XV	Admitted
Beazley	A/XV	Non-Admitted

Non-Admitted carriers predominate the list as very few admitted commercial insurance carriers are interested in writing public entity risks, and those that do will generally charge more in premium and are less flexible on coverage terms.

B. Other Available Coverage Types

While the District has a robust insurance program, other coverages are available in the market that governmental entities are considering. The range of these is large, however some of the more active discussions concern the risk areas of pandemic, active shooter, and parametric earthquake products. Discussion of these, or addressing other perils is always available.

Section IV. Future Considerations

- A. Biannual Liability and Work Comp Actuarial Study
- B. Review of Risk Management functional needs
- C. Program type options investigation

Section V. Report Attachments

- A. State of the Market PowerPoint



Orange County Sanitation District

Insurance Market Update & Factors Impacting the Market

December, 2021

Presented by:
Dennis Mulqueeny

Proprietary & Confidential

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We are in unprecedented times...

We are in the midst of a pandemic that turned our lives upside down

Public trust has eroded

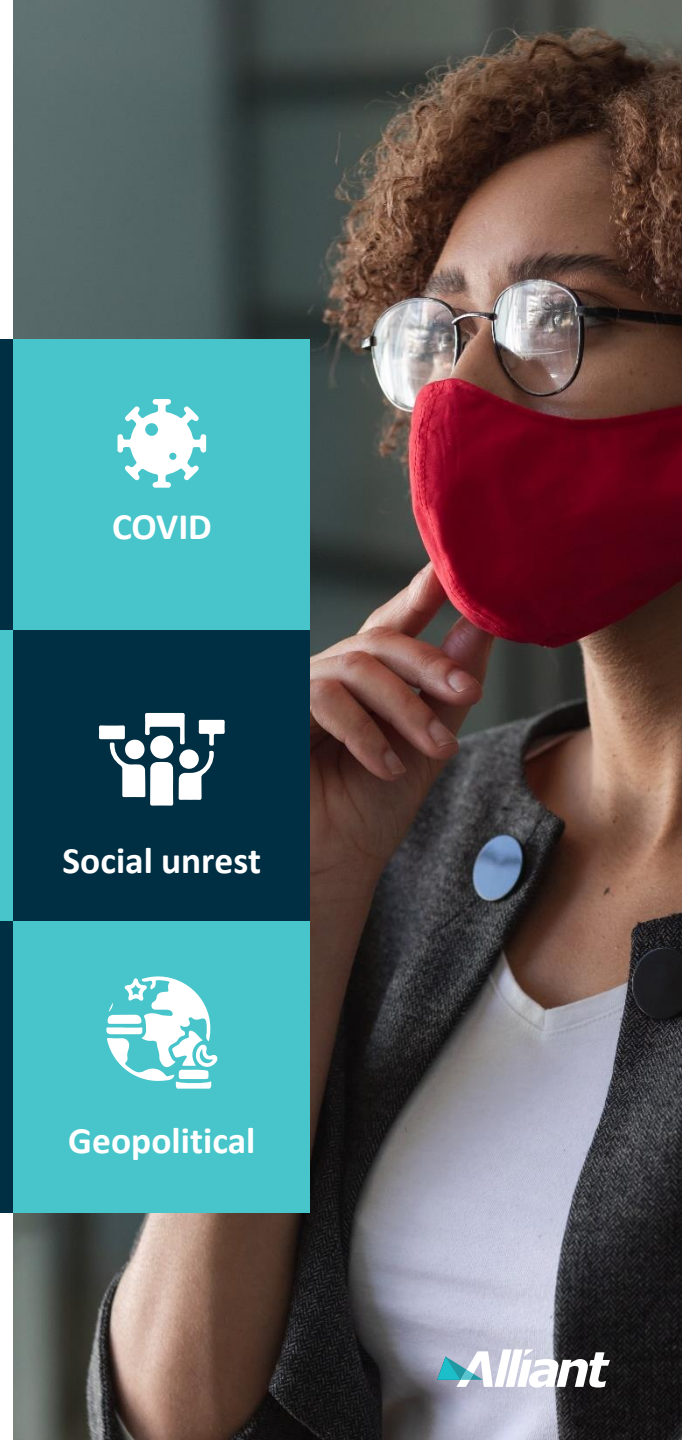
Community trust in law enforcement at historic lows

Social injustice has caused much angst among citizens and brought about protests pitting groups against each other

The trajectory of social inflation continues to rise steeply

Cyber breaches are impacting every sector

Natural catastrophes are now systemic



Market Conditions

Most challenging insurance market in decades

Most impacted coverage lines:



Property



Excess Liability

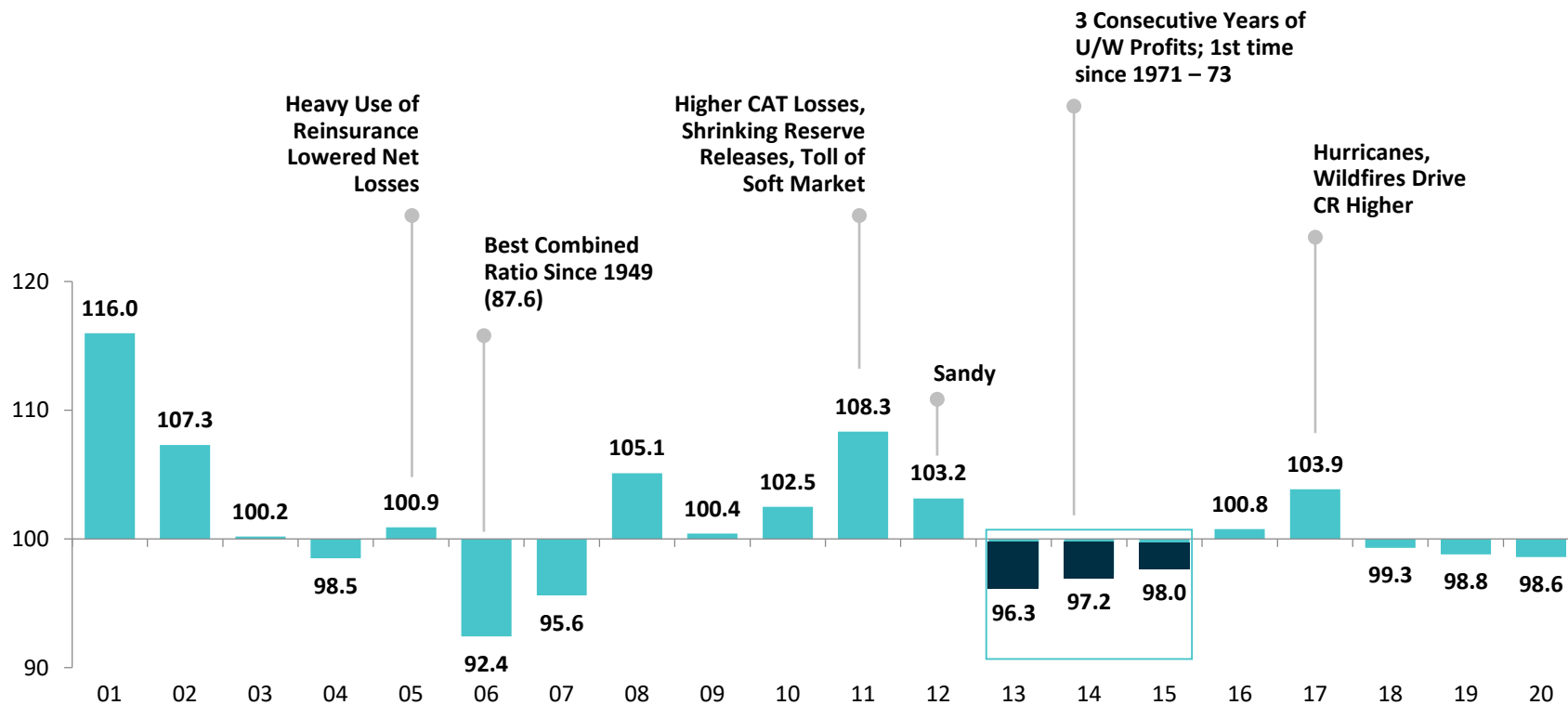


Cyber

- Liability capacity pull back and withdrawals have been significant over the past two years
- Property capacity has stabilized with new capital providers
- Cyber capacity is shrinking and particularly acute for certain industries (Public Entity)
- COVID-19 continues to create uncertainty around its impact on the industry as the Delta variant wave continues cause significant illness and death
- Insurers produced negligible profit in 2020 – \$83b in Global Insured CAT losses
- Workers Compensation remains stable but concerns remains around the development of presumptive legislation for Cancers, PTSD and etc.
- Historically low interest rates have hampered carrier investment returns
- An increased pattern of major property catastrophes such as hurricanes, typhoons, wildfires, etc. over the past 5 years. Is this the new norm?
- Consist increases in attritional property losses (fires, tornados, hail, wildfires)
- Social inflation driving up liability verdicts and settlements
- Litigation financing is driving large claims
- Ransomware cyber losses are systemic
- Industry is well capitalized – \$929B of surplus (all time high)
- New capital is being deployed

Combined Ratio

2001 – 2020 Yearly (All P/C Lines)

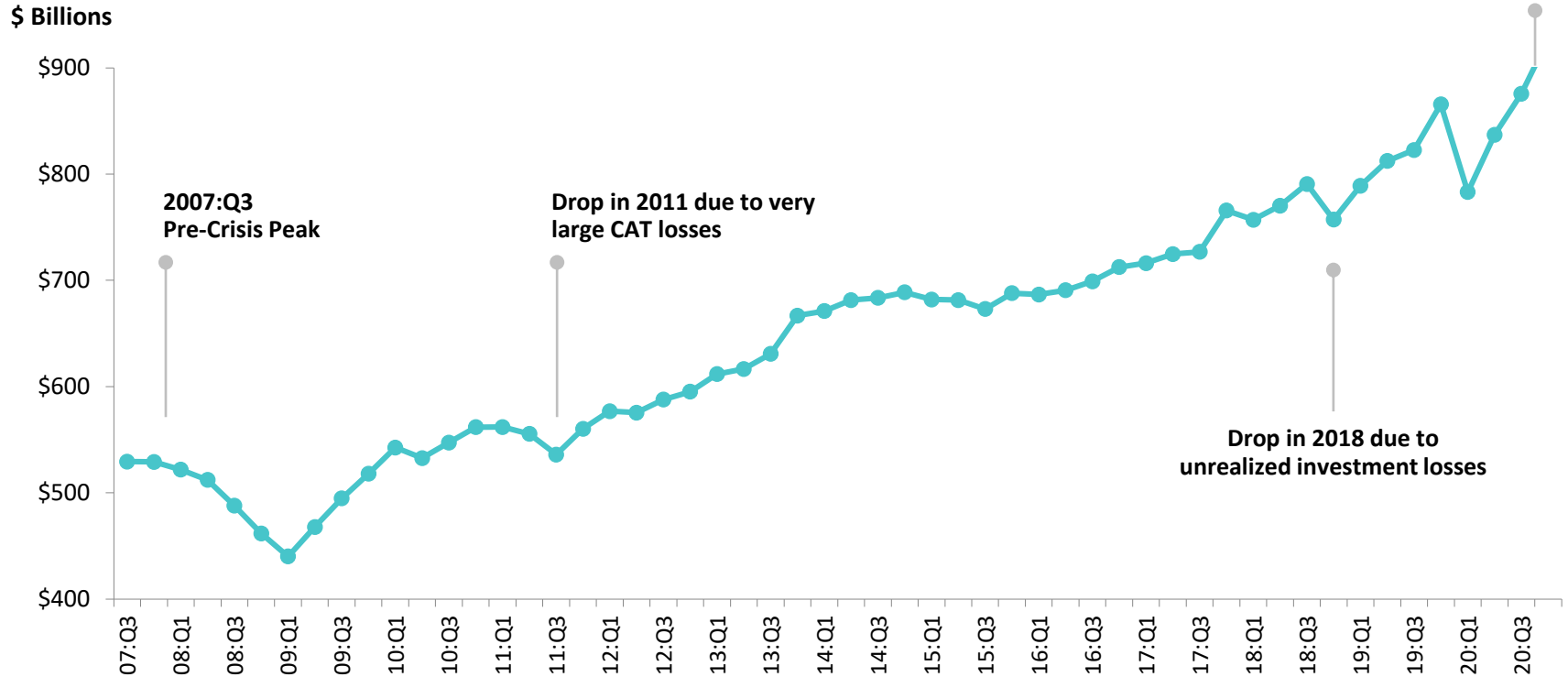


Combined Ratio: Neutral

Sources: NAIC data sourced through S&P Global Intelligence; Insurance Information Institute.

Policyholder Surplus

2007–2020 Quarterly



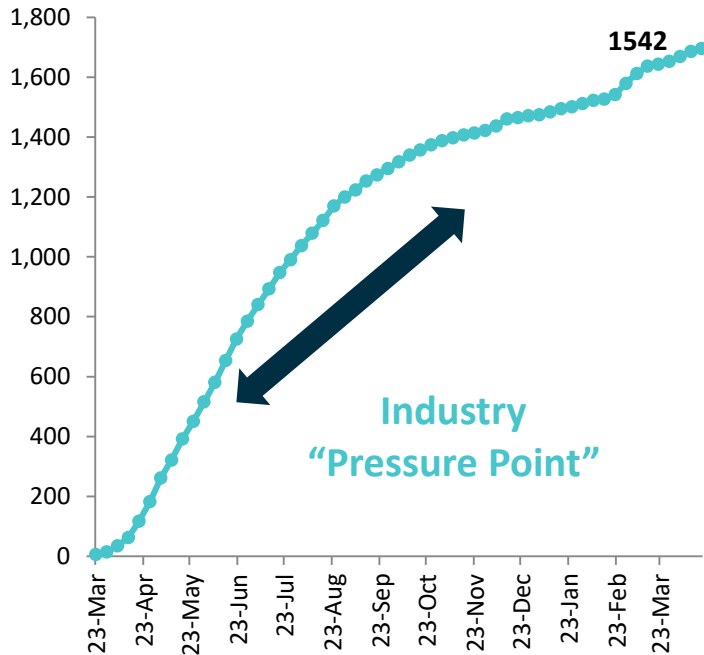
Policyholder Surplus: Positive

Sources: NAIC data sourced through S&P Global Intelligence; Insurance Information Institute.

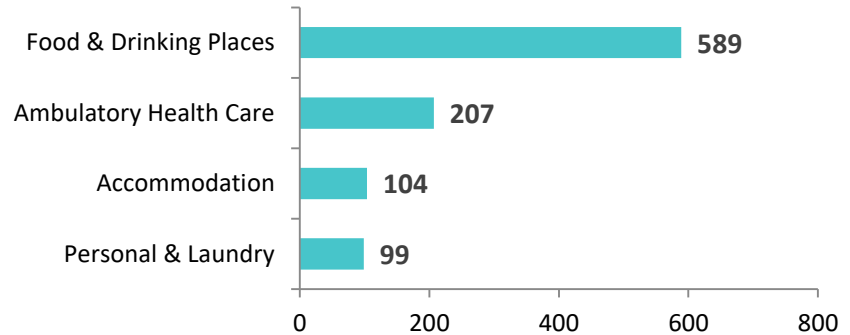
COVID Related Claims

Loss Estimates Circa \$60B to \$70B

Cumulative Filings



Who is Suing?



Insurer Defenses



No physical damage



Exclusion for loss due to virus or bacteria

Average Rate Changes by Line of Coverage

Q2 2021



Property

Property Non CAT with Positive Loss Experience

↑ Up 5% to 10%

Property Non CAT with Poor Loss Experience

↑ Up 15% +

Property CAT with Positive Loss Experience

↑ Up 10% to 15%

Property CAT with Poor Loss Experience

↑ Up 20% +



Casualty

Primary General Liability

↑ Up 5% to 10%

Auto

↑ Up 5% to 10%

Excess Liability

↑ Up 25% +

Workers Compensation

↓ Down 5% to ↑ Up 5%



Cyber

Positive Security Posture

↑ Up 25% to 50%

Poor Security Posture

↑ Up 50% to Over 100%

Property Update



Capacity



- Carriers are still carefully managing their capacity deployment
- New market entrants creating solutions and drive competitiveness on programs for both challenged and non-challenged occupancies



Coverage



- Carriers are still aggressively looking to reduce the amount of manuscript/bespoke policy language
- Continued focus on exclusions for Communicable Disease and Cyber
- Certain occupancies and locations there remains focus on Strikes, Riots, and Civil Commotions



Retentions



- Carriers are continuing to challenge property retentions on specific classes of business
- Underwriters are also still pushing for percentage hail deductibles in hail prone states, with 2% becoming the standard



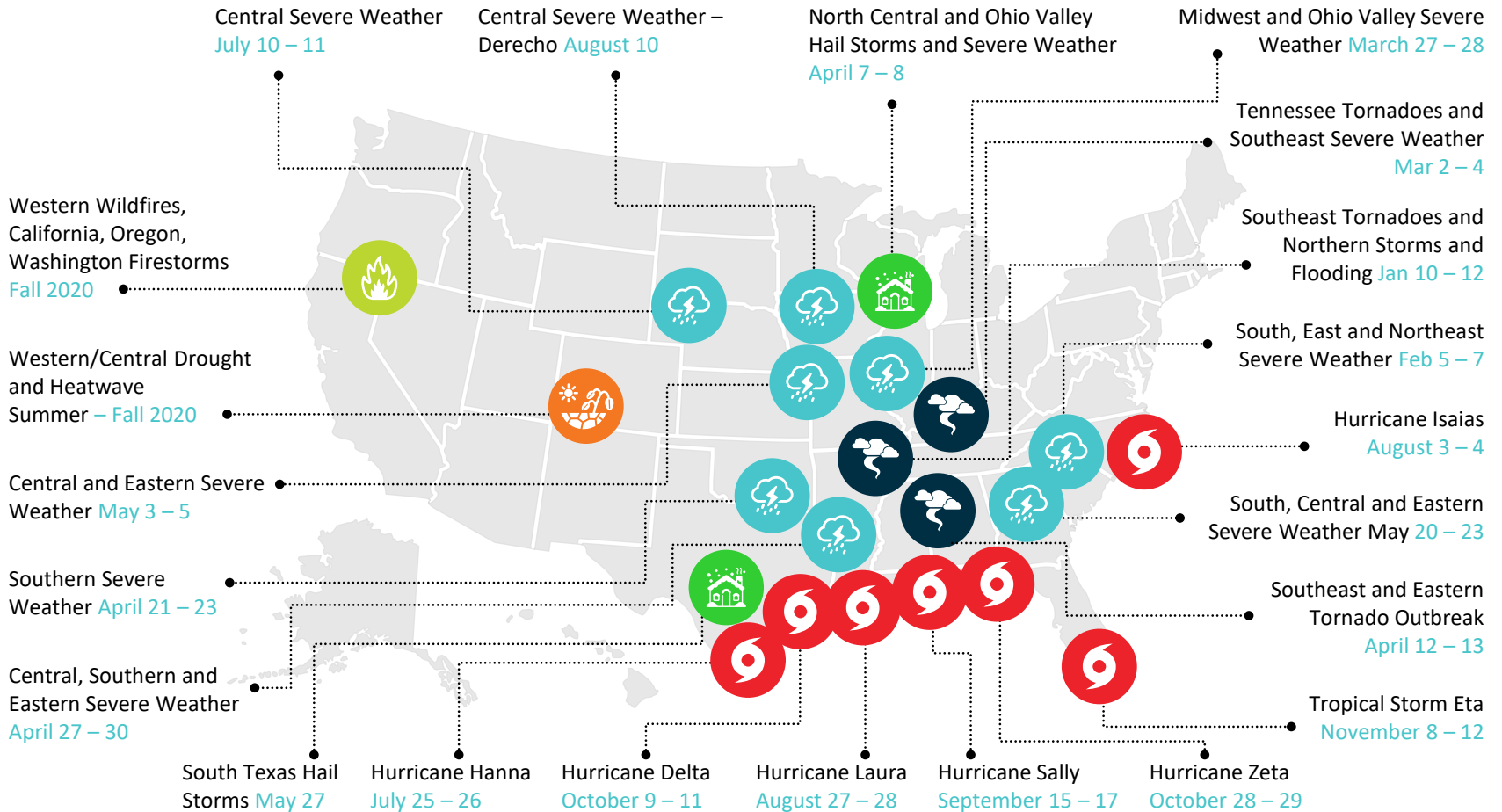
Rate continues to be moderating



- Rate continues to be moderating
- Most carriers have moved through multiple cycles of “book corrections” and now report levels of profitability
- Pricing on large shared/layered accounts see benefits from new markets/capacity
- Flat or single digit rate increases are still reserved for the most competitive accounts with good risk control and loss activity
- Tough occupancies and poor loss histories experiencing rate increases in the double digits, albeit not at the levels experienced throughout 2019 and 2020

Major U.S Losses in 2020

U.S 2020 Billion-dollar Weather and Climate Disasters



Recent CAT Losses

Hurricanes



Record-breaking
30 named storms
in 2020



\$30B+
in insured losses (US)



Wildfires



2020 wildfires set record
Burned over
9,000,000 acres



\$16B
in insured loss



Texas Freeze



Over **110** deaths
associated

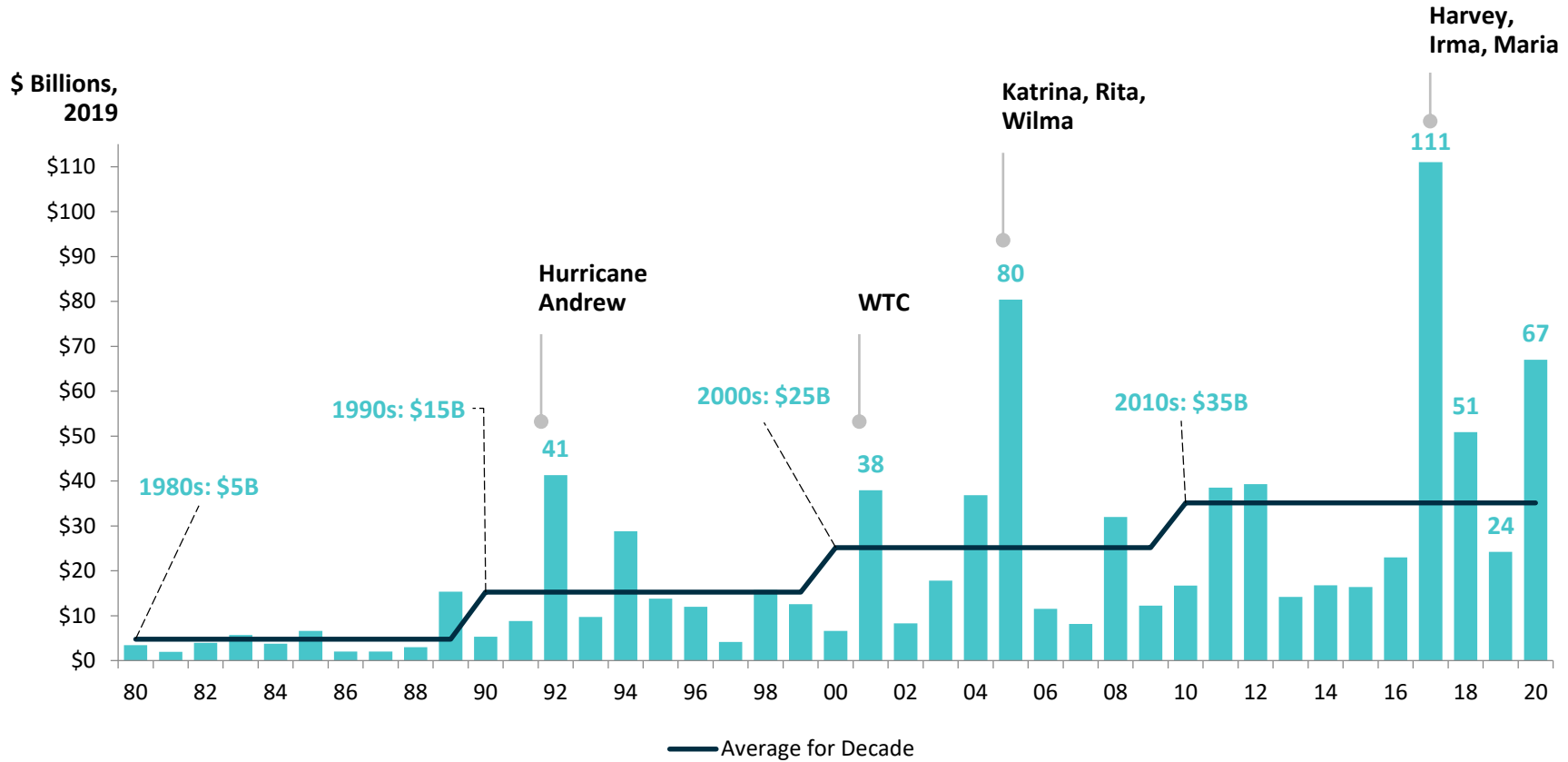


Estimated **\$20B+**
insured losses

Estimated to be the largest
Q1 loss record



U.S. Inflation-Adjusted Insured Cat Losses



Insured Cat Losses Are Increasing At An Alarming Rate – Nearly 700% Since 80's

*Sources: Property Claims Service, a Verisk Analytics business; Insurance Information Institute.

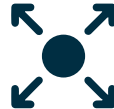
Casualty Update



General



- Umbrella and Excess Liability market remains challenging
- Significant Umbrella and Excess rate increases and coverage decreases remain common. Underwriting authority is shifting, causing some underwriting delays
- Auto Liability remain under rating pressure, exacerbated by a number of insurers exiting the auto liability market or declining to offer mono-line auto liability
- Workers' Compensation continues to exhibit consistency and stability
- Claims frequency and severity remains high driven by social inflation/nuclear verdicts and natural catastrophes



Capacity



- Capacity continues to be constrained for difficult risks
- New market entrants have very limited appetites, generally offering capacity in less challenged specialties.



Coverages



- There is an increased focus on clarifying or excluding certain coverage for chemicals, energy, communicable disease (COVID-19 specifically), abuse and molestation

Casualty Market Major Disruptors



Auto Liability

- Cost of Vehicles/ Technology
- Distractive Driving – Cell Phones
- Fatality Trends
- Frequency and Severity Trajectory



Workers Compensation

- Opioids
- Tele Medicine
- Aging Workforce
- Cancer & PTSD Presumption
- Medical Cost Inflation
- Workplace Violence
- COVID



General Liability & Excess Liability

- Increase in Catastrophic Losses
- Litigation Financing
- Organized Plaintiff Bar
- Personal Injury Trends
- Punitive Damage Awards
- Aging Infrastructure
- Sexual Misconduct
- Excessive Force

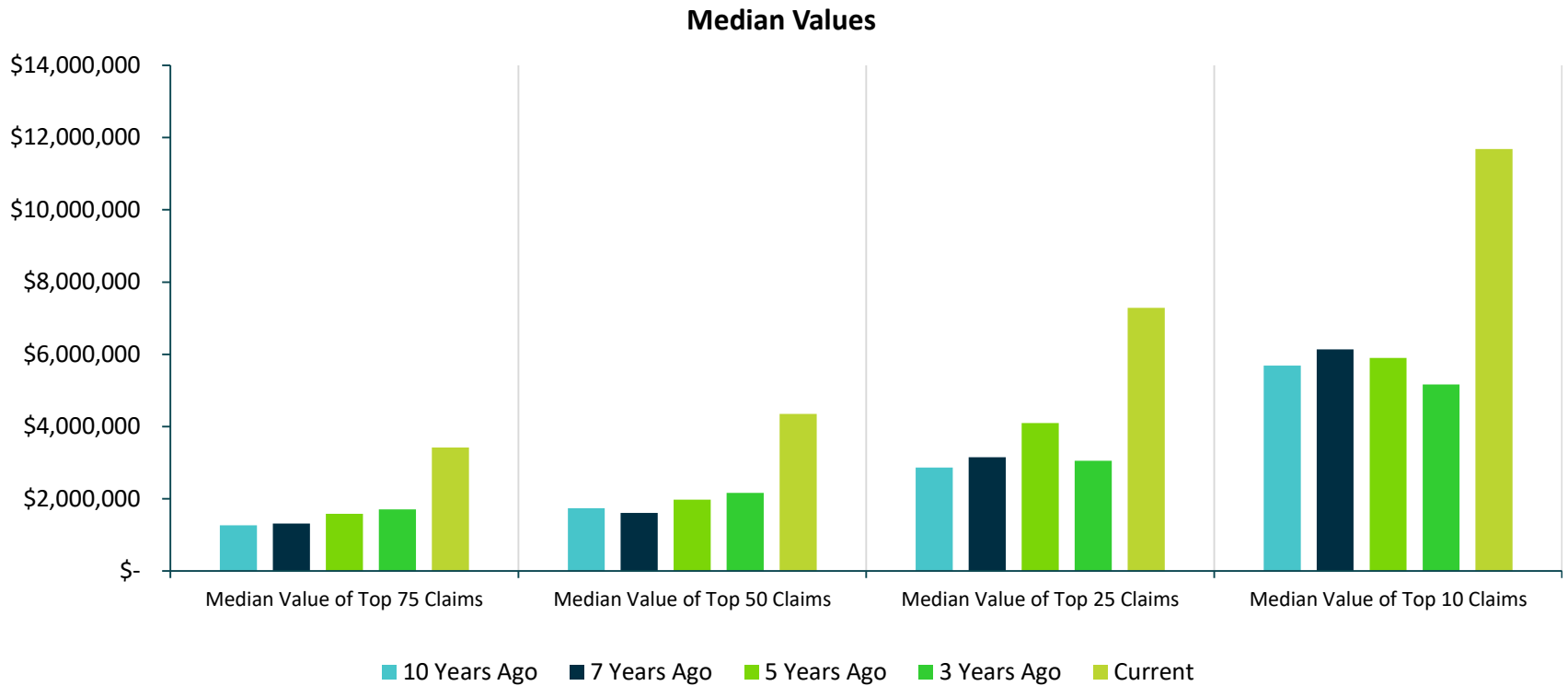
Upward Trend in Liability Claims

Billions



Sources: NAIC data sourced from S&P Market Intelligence; Insurance Information Institute.

Median Value Large Liability Losses

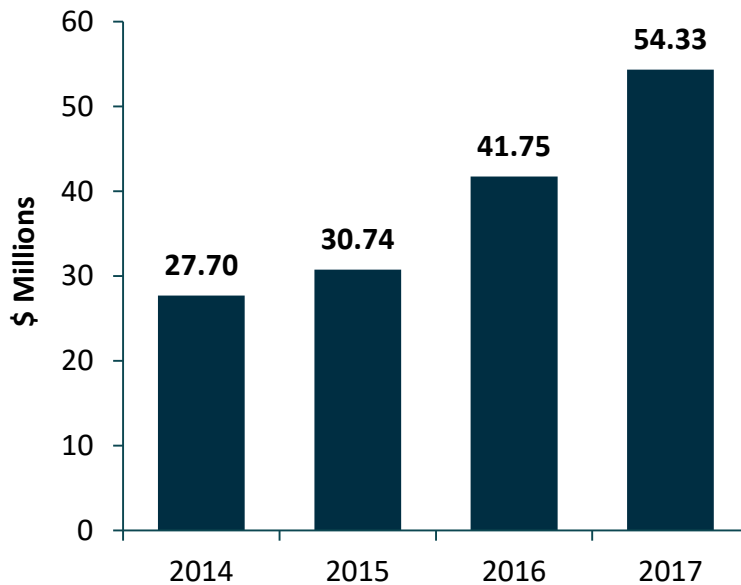


The Changing Legal Environment



Anchoring: “Jackpot Justice”

Median, 50 Largest Jury Verdicts

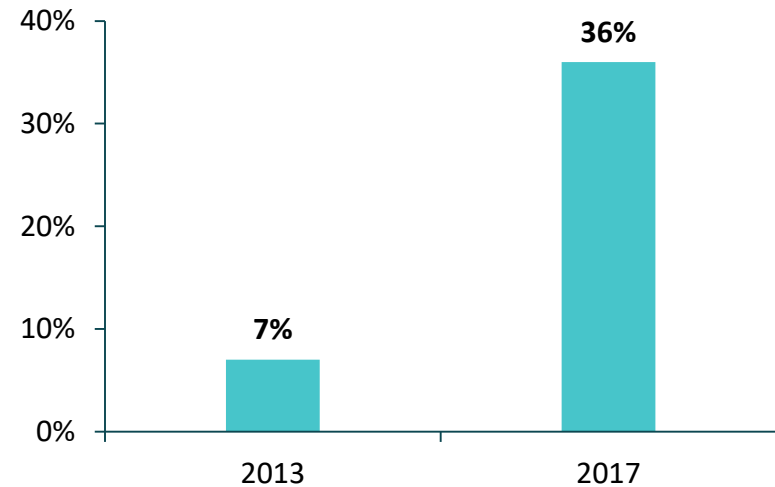


Litigation Financing

Percent of US Law Firms Using Litigation Financing

Litigation is a financeable asset.

– **68%** of US Law Firms



Hyper-Social Inflation



Social Inflation is a uniquely American phenomenon because the United States is the only country in the world that routinely uses jury trials for civil cases. Jurors have unconscious biases derived from the culmination of their life experiences.



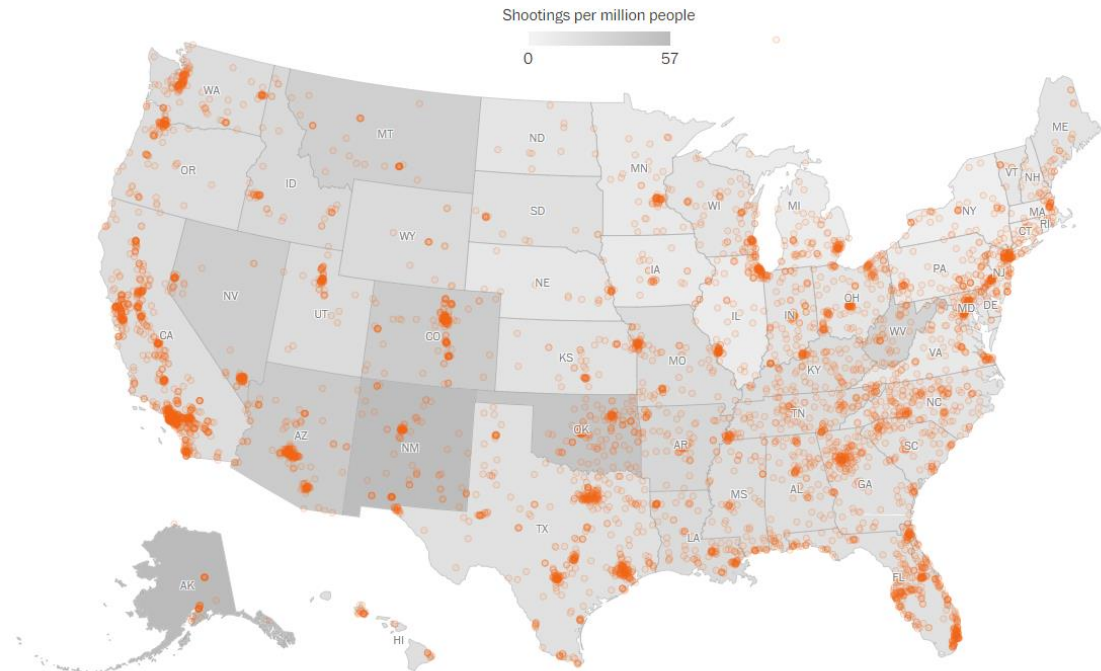
Loss Year	Description	Total Paid
2018	Sexual Abuse (Class Action)	\$500,000,000
2017	Sexual Abuse (Class Action)	\$215,000,000
2015	Methane Gas Leak	\$120,000,000
2015	Bus Shelter Collapse (Single Plaintiff)	\$115,000,000
2014	Child Abuse/Foster Care	\$113,400,000
2011	Police Shooting/Wrongful Death	\$97,000,000
2014	Dangerous Condition/Landslide	\$71,500,000
2016	Vehicle Accident/Fire Ambulance	\$65,750,000
2016	Wrongful Death	\$60,000,000
2015	Strip Search (Class Action)	\$53,000,000
2012	Dangerous Condition/Bridge Fire	\$50,000,000
2017	Vehicle Accident/Motorcycle vs Auto	\$46,000,000
2015	Vehicle Accident/Sherriff Vehicle	\$42,000,000
2011	Wrongful Conviction	\$40,000,000
2014	Dangerous Condition/Vehicle Accident	\$32,500,000
2015	Sexual Abuse	\$31,000,000
2016	Dangerous Condition/Vehicle Accident	\$30,000,000

Evolving: Officer Involved Shootings 2020

The Washington Post

The Washington Post is tracking this national figure best, with

999 in 2019
and
976 in 2020.



There are 290 shootings with unverified locations that are not shown on the map.

Sample Market Capacity Reductions



2015 (\$ Millions): **25**
2020 (\$ Millions): **5**



2015 (\$ Millions): **10**
2020 (\$ Millions): **5**



2015 (\$ Millions): **10**
2020 (\$ Millions): **5**



2015 (\$ Millions): **10**
2020 (\$ Millions): **2**



2015 (\$ Millions): **5**
2020 (\$ Millions): **5**



2015 (\$ Millions): **10**
2020 (\$ Millions): **5**



2015 (\$ Millions): **10**
2020 (\$ Millions): **10**



2015 (\$ Millions): **10**
2020 (\$ Millions): **2**



2015 (\$ Millions): **5**
2020 (\$ Millions): **5**



2015 (\$ Millions): **5**
2020 (\$ Millions): **3**



2015 (\$ Millions): **10**
2020 (\$ Millions): **5**



2015 (\$ Millions): **10**
2020 (\$ Millions): **5**



2015 (\$ Millions): **10**
2020 (\$ Millions): **5**



2015 (\$ Millions): **20**
2020 (\$ Millions): **10**



2015 (\$ Millions): **10**
2020 (\$ Millions): **5**



2015 (\$ Millions): **10**
2020 (\$ Millions): **5**

2015 (\$ Millions) Total

170

2020 (\$ Millions) Total

83

Cyber Conditions



Capacity



Carriers have been extremely conservative with their deployment of capacity. As an example, many cyber insurers have cut their available capacity from \$10 million down to \$5 million.



Coverage



Coverage generally remains intact for asset managers with mature information security programs and strong operational resilience. However, leading Primary carriers are pushing for 50% co-insurance provisions or other coverage restrictions for ransomware losses where companies are less secure.



Retentions



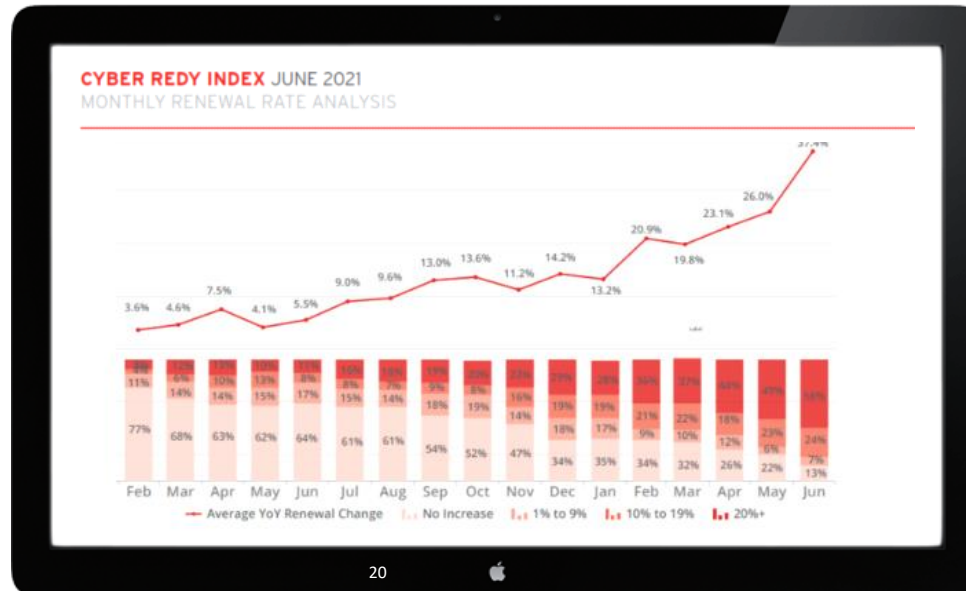
Excess markets are following Primary increases and in many cases are pushing for higher percentage increases on certain attachment points. Continued pressure on primary retentions and waiting periods for business interruption losses.



Pricing



Abrupt pricing correction due to the uptick in severity of claims. Market leaders have consistently secured primary increases of 40% – 50% on their renewals during 2021.



The Ransomware Epidemic



Ransomware surged in recent years, and there is no foreseeable slowdown. All industry segments were impacted. Manufacturing and professional services were particularly hard hit, followed closely by healthcare, education, and government entities.



Estimated global damage from ransomware.

2018	2019	2020
\$8 Billion	\$11.5 Billion	\$20 Billion



Recent Ransomware Losses



Colonial Pipeline was hit with a devastating cyberattack earlier this month that forced the company to shut down approximately 5,500 miles of pipeline in the United States, crippling gas delivery systems in Southeastern states. The FBI blamed the attack on DarkSide, a cybercriminal gang believed to be based in Eastern Europe, and Colonial reportedly paid a **\$5 million ransom** to the group.



JBS SA, a leading food company and the largest meat producer globally, had to shut down production at multiple sites worldwide following a cyberattack. The incident impacted multiple JBS production facilities worldwide over the weekend, including those from the United States, Australia, and Canada. The FBI attributed the attack to REvil, a Russian-speaking gang that has made some of the largest ransomware demands on record in recent months.



Royal Dutch Shell became the next victim of the Clop ransomware gang. The gang exfiltrated sensitive data from a Accellion file transfer service used by the oil giant and later leaked the stolen data online to prompt them to pay a ransom. Some of the leaked data included employee visa and passport information.



US based insurance giant **CNA** were victim of a ransomware attack using a new variant called Phoenix CryptoLocker, possibly linked to the Evil Corp hacking group. Sources familiar with the attack have told BleepingComputer that over 15,000 devices on their network were encrypted and remote employees logged into the VPN were also affected. It's been reported that CNA paid the **\$40 million demand** but the loss is likely to be north of \$100 million after business interruption and data restoration costs are taken into account.

Liability Renewal Outlook



Excess liability continues to be a challenge



Specific Problem areas:

- Aggregate limits – Many carriers are looking to cap their exposure on pool programs
- Attachment point/Retentions are being closely examined
- Particular emphasis on Law Enforcement and Sexual Abuse/Misconduct coverages



Pricing expectations based on Q2 results for 2021 = +10% to +20% – based on losses



Engage incumbent carriers early to gain commitment on renewal

Property Renewal Outlook



**Increased scrutiny of data
(SOV, COPE, ITV with Increased
Construction Cost)**



**Increased retentions and caps
on certain types of exposure**

- Windstorm & Hail
- Strikes, Riots and Civil Commotion



**Rate increases expected
but tempered from 2021 –
+5% to +15% dependent on
loss experience**



**Underwriter submission
activity remains high –
imperative to engage early
and access global market**

Cyber Renewal Outlook



Leading insurers have indicated that renewals in 2022 will see:

- 25% to 35% increases, at a minimum, for “good” risks and most starting much higher
- Lower overall capacity deployment
- Increased per-claim, self-insured retentions across the board
- Increased waiting periods (i.e. time element deductible) before electronic business interruption (EBI) cover kicks in
- Potential coinsurance percentages added ransomware
- Further limitation on ransomware limit



Requirement to evidence security posture:

- MFA
- Data Backups
- Employee Education & Training Programs



Thank you!

Questions?

*Please contact us if you would like
a copy of this presentation.*

