

2021 Crane Agency Property & Casualty Outlook

When you place your trust in us, one thing is certain...

Crane is Your Advocate in an Uncertain World®

Overview

The insurance marketplace saw significant increases in premium in 2019 and 2020. This trend will continue for the conceivable future. It is referred to in the industry as a “hard market” and is almost always caused by a lack of capacity. Capacity is defined by the Insurance Risk Management Institute (IRMI)^[1] as the total amount of insurance or reinsurance available from a specific insurance company or the marketplace as a whole. It is determined by financial strength and can also refer to the amount of business that can be written based on excess and unused capital. While there is still capacity available, the current economic climate and increased losses are driving this upward pricing trend.

Warren Buffett, Chairman and CEO of Berkshire Hathaway made his fortune investing in the insurance industry. Berkshire Hathaway’s holdings include Geico and General Reinsurance. Mr. Buffett stated that the Insurance Industry is a simple business: Insurance companies collect premiums and pay claims. The difference represents the available reserve or amount of funds a company has available once premiums are collected but before they are obligated to pay claims. Unfortunately, in the current economic climate, that space does not generate sufficient income.

Three factors are driving current market conditions:

- Interest rates are at historic lows for the foreseeable future.
- Insurance losses remain volatile.
- Unsustainable return on capital.

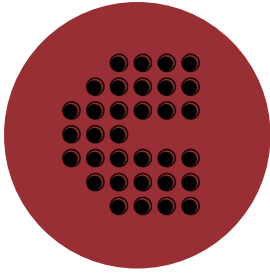
Without a surplus of funds available to make insurers profitable, they are forced to increase premiums and tighten underwriting guidelines to reduce risk and limit capacity. To survive an economic downturn, insurance companies must take a conservative approach to risk. Evidence of this trend can be found in the significant increases we see today in rates and deductibles. Changes in coverage terms and conditions are less notable on the surface. Some insurers are also attaching more restrictive endorsements to their policies, which may not become an issue until a loss occurs.

“With interest Rates being close to zero for the foreseeable future, insurance companies must focus more intently on profitability. As a result, they will approach underwriting with a renewed sense of conservatism.”

^[1] IRMI Glossary: Capacity - <https://www.irmi.com/term/insurance-definitions/capacity>

Insurance Marketplace

In addition to the economic factors driving premium increases, there are several outside pressures that have a significant influence on future pricing trends in the insurance marketplace today.

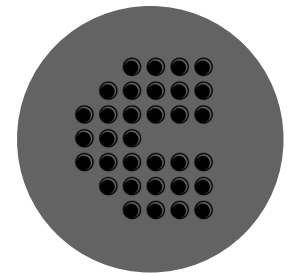


Reinsurance Increases

Like businesses, insurance companies also purchase insurance to protect their books of business, which is called reinsurance. It is designed to help insulate an insurer from the unusually high loss ratios that are associated with catastrophic losses. While it is still available, reinsurance companies are also taking a more conservative underwriting approach as they update their modeling to reflect an increase in risk. Further, insurance companies are seeking increased levels of reinsurance, which could affect overall capacity.

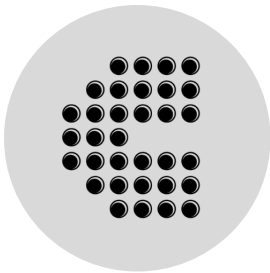
Social Inflation

An aggressive plaintiff's bar is taking advantage of the evolving attitudes of younger jurors. They have different attitudes towards corporate responsibility, social justice, and redistribution of wealth, which have given rise to higher jury verdicts. This environment has led some insurers to settle out of court for higher amounts to avoid trial.



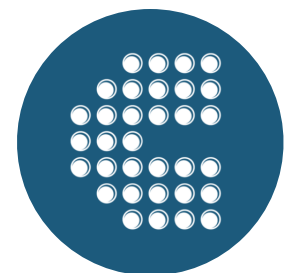
COVID-19

The pandemic has drastically affected our economy over the past year. The lack of economic activity and a significant number of failed businesses resulting from large-scale shut-downs have taken an incredible toll. Further over 1,100 lawsuits have been filed to date against insurance companies seeking coverage for Business Interruption due to the pandemic. In the US, many of these cases have been denied because almost all Business Income coverage applies to losses suffered due to physical damage to property resulting from a covered cause of loss. Also, many policies have virus exclusions that have been a standard part of property insurance language for decades. However, barring any liability protection from legislatures, the effects of these suits will linger with insurance companies for years to come.



Civil Unrest and Climate Change

If effective action is not taken, there is a likelihood that our economy could be impaired for the longer term. Along with it, the ability for businesses to provide employment opportunities. These uncertainties could bring about more social unrest. In addition, we continue to see an increase in the frequency of extreme weather-related events, including wildfires, tropical cyclones, severe storms, inland floods, and droughts as a result of climate change.



Coverage Insights



Stresses caused by multiple socioeconomic factors have caused uncertainty in the marketplace and forced insurers to take a conservative position in offering policy terms, conditions, and pricing. Why these changes are taking place and how they will affect your business over time can vary by line of coverage.

Commercial Property

The property market has seen rate increases for the last 12 consecutive quarters. The steady rise in weather-related claims increased reinsurance pricing, and civil unrest has also forced insurance companies to restrict terms and raise deductibles to reduce exposure. Weather-related claims continue to be a challenge globally. Catastrophic wind and hailstorms are becoming more common throughout the United States and the frequency and severity of these storms continue to increase, which is concerning for insurers.

Liability Insurance

Unfavorable economic conditions, increased loss severity, and overall uncertainty continue to be factored in pricing General Liability, Auto Liability, and Umbrella/Excess Liability insurance. Social inflation and pandemic-related liability suits are just two factors that are driving double-digit increases in General Liability. Increased theft rates, higher repair costs, and insurance fraud have negatively impacted Auto results for the last several years. The resulting premium increases can be expected anywhere between 10-20%. Umbrella and Excess Liability coverage are among some of the most significant increases. Depending on the type of risk, some businesses could see a premium increase and a reduction in available limits. In addition, most insurers are offering new and renewal terms with mandatory exclusions for infectious and communicable diseases.

Coverage Insights

Workers' Compensation

Consider this line of coverage on the 'watch list' for 2021. For the past five years, this coverage has been a favorable exception within commercial lines. However, combined ratios are sitting at almost 100%, indicating that rates are not adequate to maintain profitability. Closed businesses, layoffs, and high unemployment due to the pandemic have reduced collected premiums, which will also be a factor in future pricing.

Cyber Liability

The market for Cyber Liability is active but stressed due to the unexpectedly large losses from Ransomware. The increase in Ransomware attacks has grown by 700% over 2019. It is an easy crime to commit with the software weapons readily available. Exposed industries could see increases over 10%, and Insurers will be mindful of the limits they provide to minimize their exposure.

Management Liability

- **Directors & Officers:** Low Investment Return, economic uncertainty, and challenging political and social environments have affected D&O coverage. The loss activity in this line of coverage has surpassed the years-long trends in rate and retention increases.
- **Employment Practices:** The recent trends in harassment claims have emboldened plaintiffs, leading to rising settlement costs.
- **Fiduciary:** More stable than the other lines of Management Liability. However, more modest rate increases are becoming evident for this line of coverage.
- **Commercial Crime:** Employee theft and social engineering claims continue to increase in number and severity. Rate increases are standard, and condition changes can be seen as well.

In any economic climate, it is of the utmost importance to partner with an insurance broker who has the experience and resources to suggest ways to mitigate risk. Implementing effective long-term risk management strategies can help businesses become more desirable to insurance companies in a difficult market and sometimes even assist in negotiating better coverage terms and pricing. At Crane Agency, we understand our clients' needs because our organization was built by business owners and families just like you. We can help you prepare for uncertainty by suggesting the types of insurance products and services to help support your commercial and personal needs.

Why Choose Crane?

Crane is one of the oldest independent insurance agencies west of the Mississippi and is currently ranked as one of the country's largest privately held insurance agencies. We conduct business in all 50 states and have strong relationships with the insurance companies we represent, some lasting more than 100 years. Some of our insurance and risk management solutions include:

Business Insurance

- ☛ Risk Management Consulting
- ☛ Loss Control Services
- ☛ Claims Consulting
- ☛ Commercial Marketing
- ☛ Surety & Fidelity

Employee Benefits

- ☛ Employee Benefits Consulting
- ☛ Group Health Plan Design
- ☛ Plan Analysis & Administration
- ☛ Executive Succession Planning
- ☛ Life Insurance

Whether you are a local small business or a global corporation, Crane Agency can suggest solutions to fit almost every need. We are fiercely independent, and clients can rest assured of our continued growth and stability, not because of our history but because we are focused on the future. When you combine a 135-year legacy with a personal approach, you get much more than an insurance broker – you get an advocate. Crane is your advocate in an uncertain world.®

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