Executive Summary

We are very pleased to present Indian River County BOCC with a comprehensive property and casualty insurance proposal effective May 1, 2022 – May 1, 2023. This executive summary provides a high-level overview of our renewal accomplishments and alternatives for consideration. It is broken into the following components:

- Marketplace Analysis – current insurance industry conditions
- Property Program Analysis
- Casualty Program Renewal

Winter Insurance Market Report – February 2022

The big picture

Where we were: 2021

- Like 2019 and 2020, 2021 was a challenging market overall. Our clients faced significant difficulties trying to find coverage, with capacity issues and significant rate increases—for some clients as much as 50%–100% increases, often multiple years in a row.

- A confluence of factors continued to challenge the industry, including social inflation—the trend of rising insurance costs as a result of increased litigation, plaintiff-friendly judgements and high jury awards — increased storm activity and pandemic losses. Additionally, carriers' ability to offset these results through investment income remained a challenge due to the low interest rate environment.

Where we are: What we're seeing now

- Rate increases are moderating for some lines. After three years of substantial rate increases, we're approaching a point of rate adequacy in the market, which is leading to more moderate rate increases.

- The market is trending slightly flatter, though not in every coverage line. Cyber, for example, has kept up sizeable year-over-year rate increases, with median increases of 39%, while Workers' Compensation rates were flat.

- Three years of carriers raising rates, restricting limits and increasing deductibles have generally made the market more attractive to new business. Carriers' combined ratios improved throughout 2021.

Where we're going: Trends we are watching

- With improving rate adequacy comes increased carrier competition. There are a number of new entrants to the market and increasing competition as underwriters look to write new business. We expect this to level off rate increases further into 2022. Exceptions are challenged placements, those with elevated risk profiles, and accounts that have experienced losses.

- Pandemic concerns about how COVID-19 will impact the industry both from a loss and exposure standpoint is starting to ebb, but some uncertainty remains.

- Social inflation remains a concern, with a particular impact on Commercial Auto, General Liability, Errors and Omissions, and Umbrella/Excess insurance. This trend continues to drive rates up, albeit more moderately than in prior years.

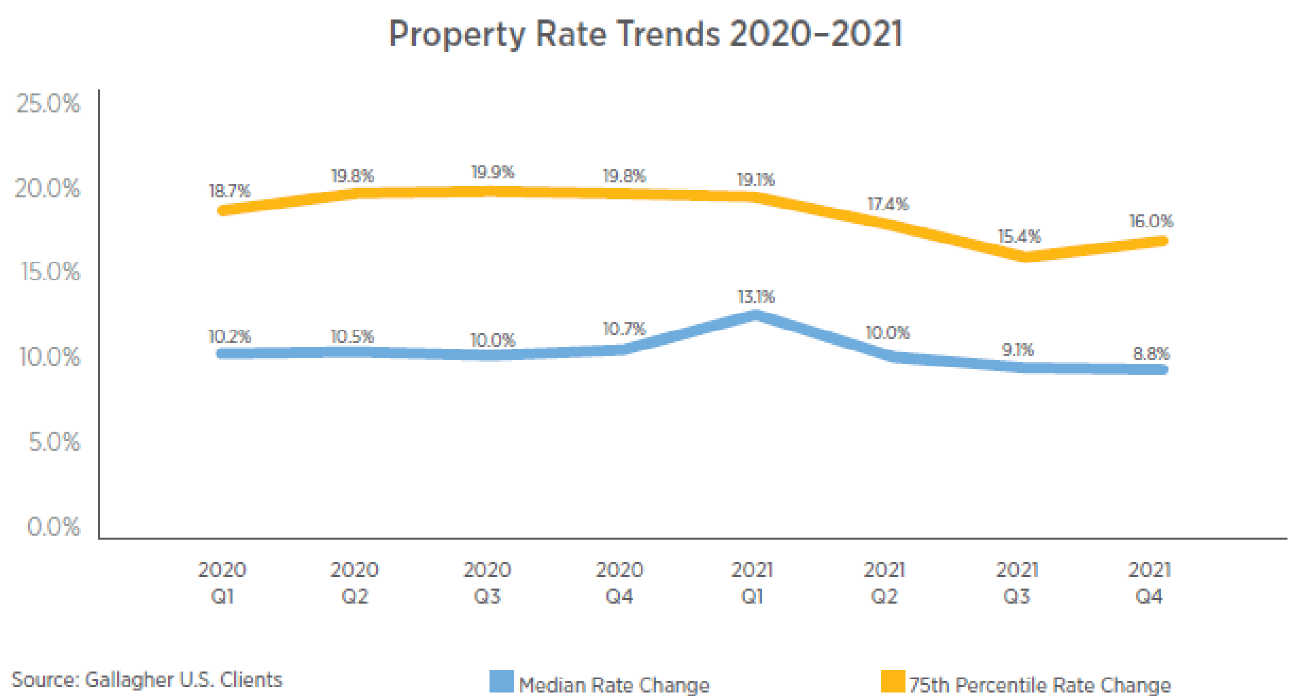
- Modest rate reductions may be attainable for clients with an attractive risk profile that have not been out to market in years.

Read on for our analysis of the market conditions for each major line of coverage and guidance that will help ensure a successful renewal outcome.

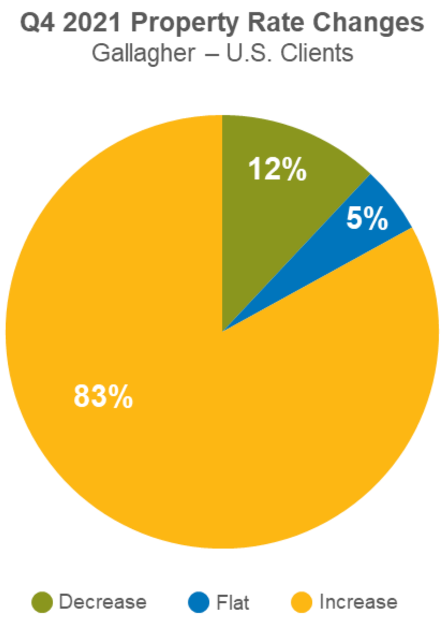
Property

Where we were: 2021

- Between wildfires, civil commotion and major freeze events, carriers responded to 2020 and 2021 events with increased deductibles, reduced capacity, and changes in coverage. For the third straight year, carriers obtained significant rate increases across their Property portfolios.
- Less-modeled and unmodeled risks continued to plague the Property marketplace, such as wildfires, flood and convective storms.
- Carriers scrutinized their clients' statements of value, demanding in many cases that values be raised.
- Carriers required clients to address existing engineering recommendations. In many cases, particularly for clients going to market, carriers required or strongly recommended third-party engineering.



Where we are: What we're seeing now



8.8%

median rate change in Q4 2021*

- FM Global published an overall average annual inflation index (January 2022 v January 2021) of approximately 18% for real property and roughly 7% for machinery & equipment as well as approximately 30% for some specialty engineering equipment. The cost and availability of materials, increased labor costs and sparse contractor availability are driving up higher replacement costs.
- There is rising carrier competition in the marketplace, with carriers looking to write new business now that rates have risen for three consecutive years.
- There are still challenging renewals out there, especially challenging occupancies, lack of third-party engineering reports, and catastrophe-exposed businesses.
- 2021 was a very active year in climate-driven claims, including winter storm Uri in February, which many meteorologists claim was a one-in-1,000-year event.
- Hurricane Ida, which made landfall in August, caused significant damage in the Southeast and Northeastern United States. Carriers are now looking at \$25 to \$35 billion in insured losses in Louisiana and other affected areas.[1]
- The median increase for Property policies was 8.8% in Q4 2021, with 83% taking an increase.
- While the median rate of increase has not changed dramatically since Q3 2020 (10%), the rate increases for the top 25% of companies dropped from 19.9% in Q3 2020 to 16.0% as of Q4 2021 (up slightly from Q3 2021).

Where we're going: Trends we are watching

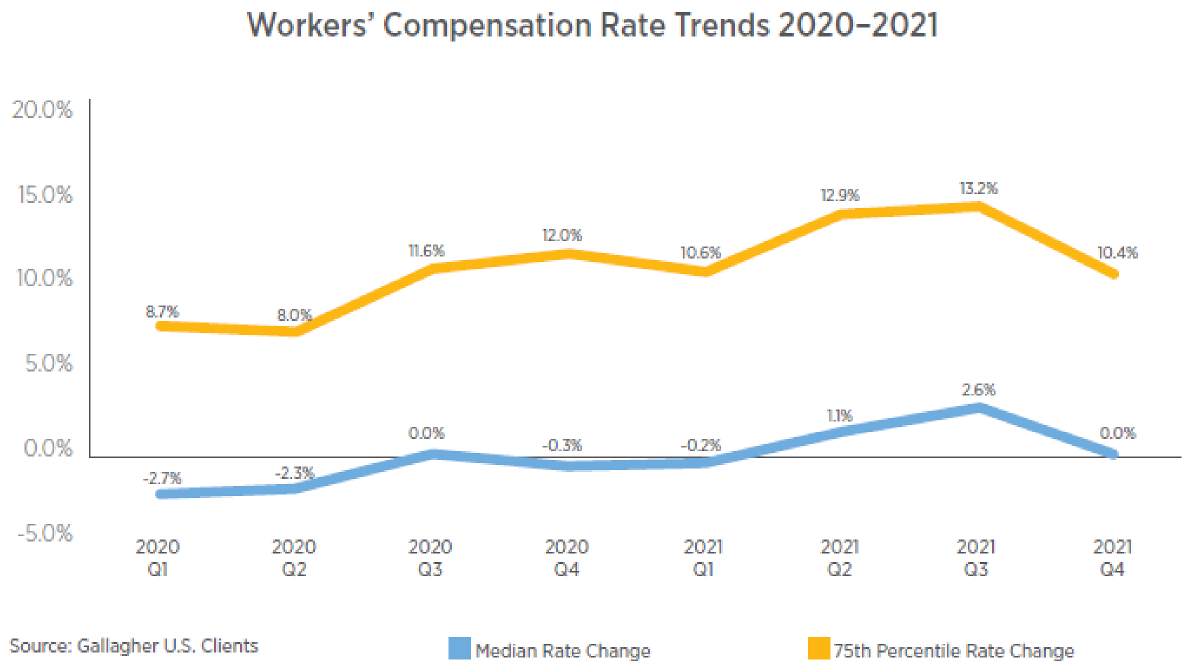
- Companies with challenging occupancies, loss activity and/or CAT-exposed can expect to see rate increases in the higher quartile.
- There are continued changes globally in the frequency and severity of perils such as tropical storms, wildfires and floods. In addition, we continue to watch some of the less well-modeled and non-modeled causes of loss, such as COVID-19.
- Third-party valuations are increasingly useful (and oftentimes required) to ensure adequate valuations. Huge discrepancies between current insured values and the actual replacement cost at time of loss may exist for companies that have not had a third-party valuation of their buildings and contents, such as machinery, equipment or stock in a few years—or sometimes ever. Insured values, without an updated valuation, typically roll over year to year, with an arbitrary inflation factor applied to them.

[1] https://www.rms.com/newsroom/press-releases/press-detail/2021-09-06/rms-estimates-us25-35-billion-in-onshore-and-offshoreinsured-losses-in-the-gulf-of-mexico-from-hurricane-ida

Workers' Compensation

Where we were: 2021

- A drop in claim frequency during COVID-19 has positively impacted the industry's results.
- Favorable loss development in prior years (because loss estimates were initially overstated) continues to positively impact most carriers.



Where we are: What we're seeing now

- Workers' Compensation continues to be a profitable line of insurance for most carriers.
- Claim activity and frequency have declined recently due to more employees working from home. The industry will monitor claim activity if and when many employees return to the workplace.
- The median increase in Q4 2021 for Workers' Compensation policies was 0.0%, with 47% taking an increase. This is nearly identical to a median increase of 0.0% in Q3 2020, with 49% taking an increase. Nearly five in 10 (46%) of respondents saw Workers' Compensation rates drop in Q4 2021.

Where we're going: Trends we are watching

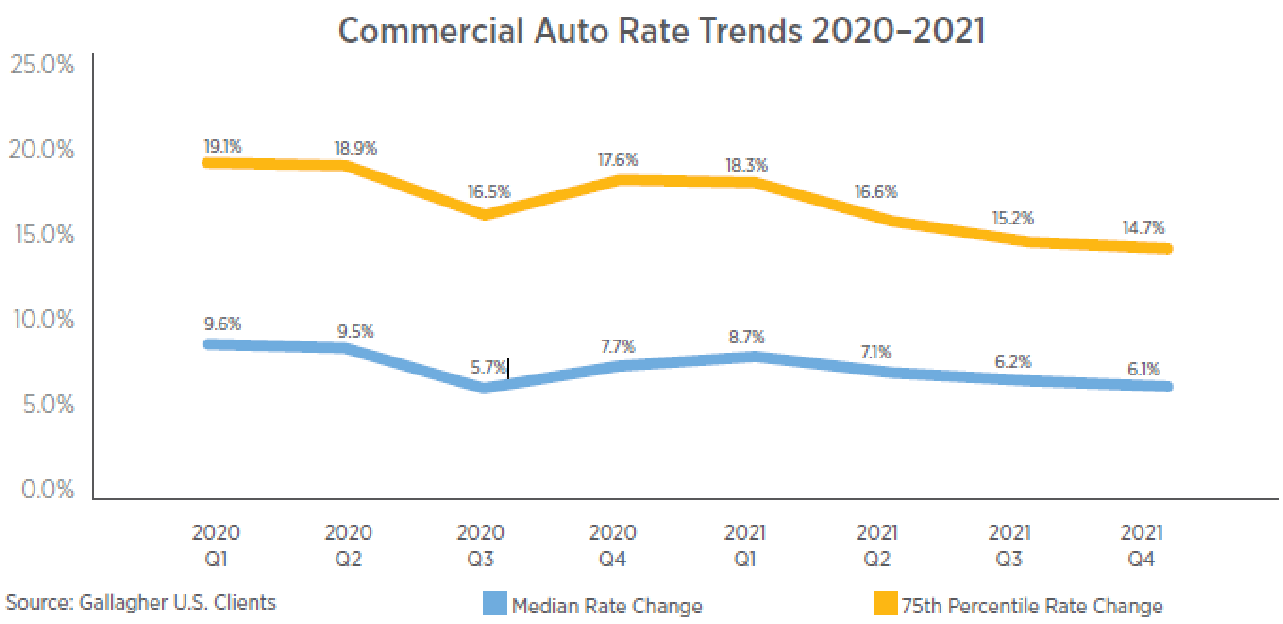
- Rate decreases may be moderating, after several quarters of rate drops for many companies. We have seen signs that the Workers' Compensation market may be firming as employees return to the workplace.
- The long-term impact of COVID-19 on Workers' Compensation remains to be seen.

- As the labor market tightens, claim frequency will likely rise as less experienced workers enter the workforce.
- We will likely see an increase in severity as rising medical costs will negatively impact Workers' Compensation claims.
- Wage inflation may result in increased premiums in Workers' Compensation. The rise in wages (and corresponding rise in premiums) could help offset the likely increase in claim frequency and severity.

Commercial Auto

Where we were: 2021

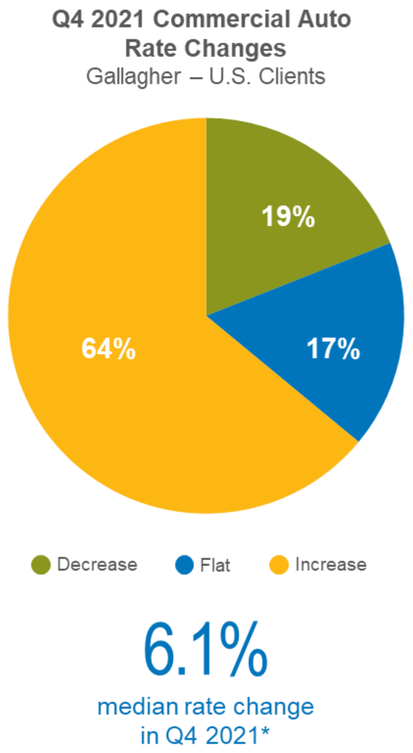
- Frequency of claims associated with the economic shutdown were down in 2020. Miles traveled, which is highly correlated with claim frequency, rebounded in 2021.[2]



[2] https://enlyte.com/sites/default/files/2021-10/Enlytened-2021-Trends-Report.pdf

Where we are: What we're seeing now

- Commercial Auto claim frequency is almost back to pre-pandemic levels.
- Large jury awards in Commercial Auto insurance, with penalties in excess of $10 million, are becoming increasingly prevalent.[3]
- Social inflation is leading to larger and catastrophic claims, particularly affecting companies with large fleets.
- The median rate change for Auto policies was 6.1%, with 64% taking increases in Q4 2021. This is a slight increase from Q3 2020, when the median rate increase was 5.7% and 66% saw increases.



Where we're going: Trends we are watching

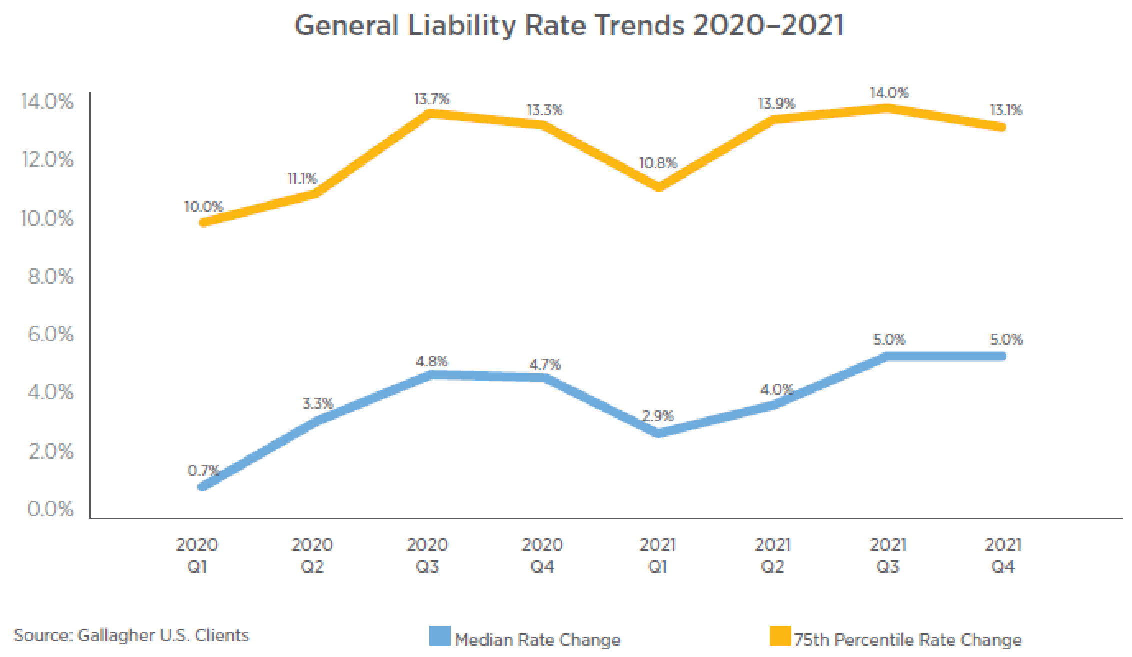
- Companies with large fleets or poor loss history may experience more significant rate increases.
- Carriers insuring large fleets are looking to attach excess layers above $1 million.
- Expect to see more and more Umbrella/Excess carriers require clients to put up a $2/$5 million primary Auto Combined Single Limit (CSL). In very rare cases, we have seen clients put up a $10 million CSL.
- If a carrier will not increase their primary limit, clients may have to find an additional carrier to put up a buffer layer, adding frictional costs.
- Inflation, driven by higher parts prices, supply chain imbalances, and in increase in the cost of raw materials has impacted the Commercial Auto space. The inflation in the used car marketplace has increased dramatically, essentially increasing the value of every car on the road.

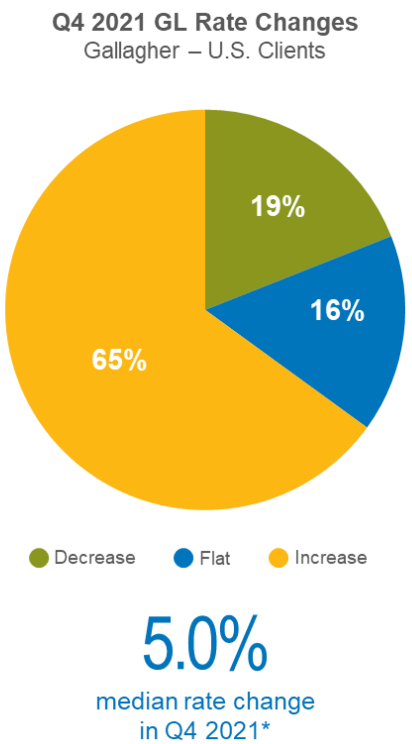
[3] https://www.propertycasualty360.com/2022/02/09/social-inflation-is-a-major-driver-of-commercial-auto-rates/

General Liability

Where we were: 2021

- The economic shutdown was responsible for a decline in claim frequency during 2020.
- Because primary General Liability's policy limits have not changed in 25+ years, carriers remained largely insulated from the severity trends (largely social inflation) associated with some of the other lines of insurance, such as D&O, Auto, Umbrella/ Excess, etc.





Where we are: What we're seeing now

- Umbrella/Excess carriers are asking for higher retentions and limits in General Liability. In lieu of the traditional $1 million limit that has been the norm for the past 30 years, carriers are now asking for $2 million. The Umbrella/Excess market is driving this trend.

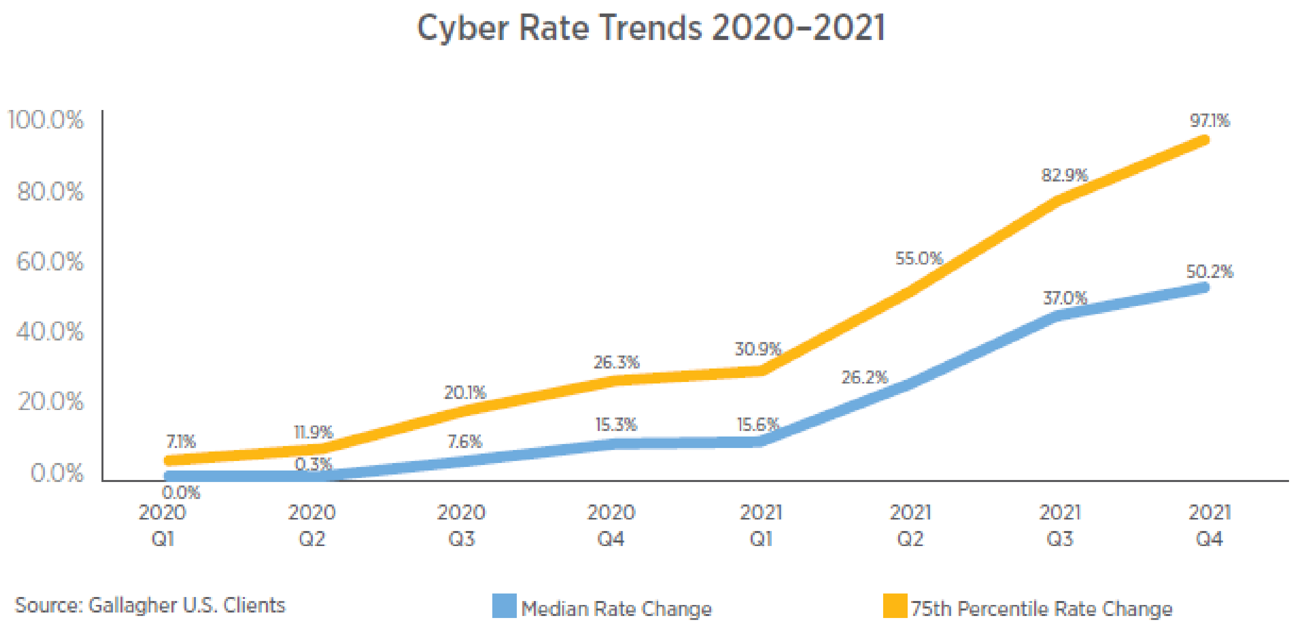
Where we're going: Trends we are watching

- Most policyholders will encounter rate increases but because the primary General Liability limits have by and large remained stagnant, the rate increases will likely remain in the single-digits.
- Expect to see more and more Umbrella/Excess carriers require clients to put up $2 or $4 million in primary limits.
- If a carrier will not increase their primary limit, clients may have to find an additional carrier to put up a buffer layer, adding frictional costs.

Cyber

Where we were: 2021

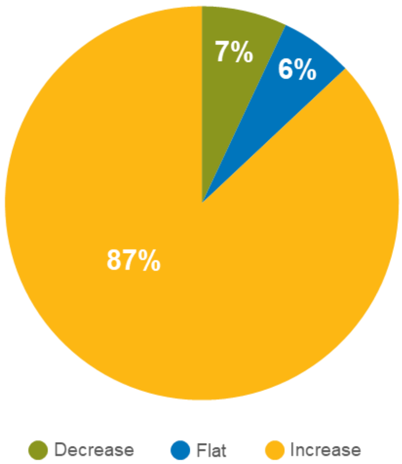
- With the rise in ransomware attacks across the U.S. and increases in carrier reported losses, the Cyber insurance market hit an inflection point in 2020.
- Carriers became pressured due to the increasing frequency and severity of cyber claims and a more stringent regulatory environment at the state, federal and international levels.
- 2020 began with the first real signs of a hardening market as the larger, more sophisticated risks in specific industry sectors became subject to greater underwriting scrutiny and ultimately increased premiums. In fact, in 2021, even those clients with optimal data security controls were seeing rate increases in the 25%–50% range. Less attractive risks saw 75% and greater increases, if they were offered terms at all.
- Ransomware attacks are a significant contributing factor to the hardening of the Cyber market.
- Carriers are responding with higher rates, higher retentions and coinsurance requirements.
- Social engineering losses also continued to mount. According to the FBI's IC3 2020 Internet Crime Report, 2020 saw a record 69% increase in cybercrime from the prior year's report, with business email compromise losses accounting for half of all losses.



Where we are: What we're seeing now

- The ransomware and cybersecurity risk trends we saw in 2020 continued to plague the Cyber insurance market throughout 2021.
- Cyber claim frequency and severity continued spiraling upward, which led to a swift response from the Cyber insurance market. Carriers imposed significant limitations of capacity, narrowed the scope of coverage terms, heightened underwriting scrutiny and significantly increased rates.
- Nearly all carriers now require attestation of at least some preventive controls, which likely include multifactor authentication, remote desktop protocol, data backup practices, segregation of networks, encryption, patch management, privileged account management, employee training and a host of others.
- Rate increases were experienced across most industry sectors, with larger companies subject to greater increases and higher underwriting scrutiny.
- Companies without best-in-class data security are likely to see rate increases in the 100%–200% range, and in some cases as high as 300%. Even those that comply with all underwriting required security controls are seeing increases in the excess of 75%.

Q4 2021 Cyber Rate Changes
Gallagher – U.S. Clients



50.2%
median rate change in Q4 2021*

- Most Cyber insurance buyers are feeling the impact through time consuming and complex renewals, with many obtaining less coverage at a higher cost.
- The median increase in Q4 2021 for Cyber companies was 50.2%, with 87% taking an increase.

The top 25% of companies saw **Cyber rate increases of 97.1%** in Q4 2021.

Where we're going: Trends we are watching

- The Cyber underwriting community has responded to 2020 and 2021 loss data and Cyber claim trends with a laser focus on data security controls when evaluating risks.
- We expect even greater underwriting scrutiny of cybersecurity controls in the Cyber insurance market throughout the remainder of 2022, with capacity continuing to shrink.
- Insurance products will reflect decreasing carrier appetites to fully cover ransomware costs, as they push for cost-sharing in the form of ransomware coinsurance and sublimits.
- Rate hikes show no real signs of leveling off in the near term.

- This will likely force insureds to offset these costs by assuming greater self-insured retentions and taking an even greater role in actively managing cyber risk.

Maximizing renewal success

We recommend the following actions and considerations in preparing for a successful renewal. These tips and best practices apply to all lines of coverage:

- Start early; build in time for delays in the quoting process. We recommend four to six months ahead of your renewal date to begin gathering data.
- Communicate early and often with your internal and external stakeholders.
- Create a thorough underwriting submission that is accurate and up-to-date, including narrative regarding lessons learned from losses and steps you are taking to prevent future losses. Risk managers need to be willing to change and evolve with the times or will face an uphill battle with regard to renewal.
- Take the opportunity to strengthen your risk readiness by identifying and remediating vulnerabilities. Showcase positive risk factors.
- Be proactive with providing information such as third-party valuation reports, third-party engineering reports, information on assets, lists of tenants in a warehouse, outstanding recommendations from their incumbent carrier, operations, loss mitigation and loss prevention plans, etc.
- Be ready for supplemental applications that may involve highly specific questions around specialized areas such as Cyber. For example, a Cyber renewal may have dozens of questions around controls specifically designed to prevent or mitigate the effects of ransomware attacks.
- If a carrier offers free or discounted risk management services such as employee training; incident response planning; and technology scans to flag known vulnerabilities, identify intrusions and address security flaws, take advantage of the opportunity. Many Cyber insurance carriers offer these types of services.
- Develop relationships with underwriters, including your incumbent and alternatives.
- Align primary and excess marketing strategies to maximize options. If appropriate, consider leveraging ancillary lines or alternative structures, such as captives and other layered and shared solutions.

While market conditions have begun to stabilize, make no mistake: this remains a challenging marketplace overall. We expect to see rate increases continue to moderate in many lines throughout 2022. Gallagher has expert leaders in all industries and coverage lines to provide solutions for our clients in this marketplace.

About our data

Gallagher Drive® is our premier data and analytics platform that combines market condition, claims history and industry benchmark information to give our clients and carriers the real-time data they need to optimize risk management programs. When used as part of CORE360®, our unique comprehensive approach to evaluating our client's risk management program, Gallagher Drive creates meaningful insights to help them make more informed risk management decisions, find efficient use of capital, and identify the top markets with the best solutions for their risks.

Rate changes in this report were calculated by using the changes in premium and exposure of Gallagher clients renewing in Q4 2021.