Aon Global Market Insights

Insights from Aon's thought leaders powered by industry-leading data and cutting-edge data science.

Q3, 2020

Table of Contents

A View from the Top

SECTION 1

Virtually no part of the world has gone unscathed by the crises we are currently facing. The risk and insurance industry is no exception. Insurers are facing increasing volatility, growing loss ratios, and shrinking returns while organizations are seeking greater flexibly, coverage for new risk types, and stable premiums. We are at an inflection point. We must listen. We must be smart. We must innovate.

Cynthia Beveridge

President, Aon Broking

"The world continues to reel from concurrent crises – health, economic, social, and political – of epic proportions. Society at large is learning to cope with continued active COVID-19 outbreaks, while working to quell further spread of the virus. Local economies continue to teeter between closing and re-opening. While economic recovery is currently happening in pockets, unemployment remains at record highs in many parts of the world, and most government aid is either due to expire or has already expired. As corporate profits come under more and more pressure, companies have innovated to become more efficient and expanded into new business segments where possible. That said, the employed workforce remains unsettled about what the future may hold. Mental health concerns are growing as suicide rates climb due to isolation and fear. Following months of social unrest ignited by several high-profile racially concentrated abuses of power, acceptance of diversity has become a necessary and important central theme. As the political landscape becomes more divided, people are seeking ways to unify and come together.

These overarching global circumstances have converged with ongoing insurance industry issues to create an increasingly challenging risk and insurance environment. Losses continue to grow in frequency and severity, as social inflation accelerates, an intense storm and fire season continues, and damage from civil commotion has, unfortunately, become commonplace. Low interest rates have pressured investment income, creating more focused insurer appetite and underwriting, with insurers ultimately prioritizing profitability over growth. In the face of increasing volatility, and consequent uncertainty, insurers have become more conservative in their capacity deployment and coverage offerings – a dramatic shift from where the market was 18 to 24 months ago. While our current insurance industry environment has created new challenges, it has also introduced opportunities and served as a catalyst for positive change and innovation. Technology platforms have brought greater efficiency to the way we transact business, and new solutions are being introduced to address rapidly expanding and evermore interdependent risk types, like cyber and credit.

Aon is helping to shape the positive change and innovation that is happening across the industry. We have developed a suite of solutions, featured later in this report, to help businesses recover from the impacts of COVID-19. We are leading a coalition to strengthen communities and drive societal change. We are organizing our teams around a common framework to ensure our clients receive access to the entire breadth of Aon and industry solutions to help them proactively anticipate what is next and prepare for it. Our whitepaper, Helping Clients Navigate an Increasingly Complex World, also reinforces the need for innovation in the industry and underscores how our combination with Willis Towers Watson will accelerate this change to help our clients tackle their most pressing challenges.

Virtually no part of the world has gone unscathed by the crises we are currently facing. The risk and insurance industry is no exception. Insurers are facing increasing volatility, growing loss ratios, and shrinking returns while organizations are seeking greater flexibly, coverage for new risk types, and stable premiums. We are at an inflection point. We must listen. We must be smart. We must innovate. Aon is honored to be a partner with the many organizations who call us their Broker, and we continue confident in our ability to help our clients persevere.

Global Market Overview

SECTION 2

Key Themes

- The risk and insurance environment is very challenging; market hardening has accelerated significantly due to a convergence of market and risk factors.
- Capacity constraints have become a serious concern in some classes and products; e.g., Energy, Power, Food, Construction, Aviation, D&O.
- While courts have generally ruled in favor of insurers on COVID-19 related Business Interruption claims, a great deal of uncertainty remains regarding the impacts of COVID-19 on the insurance industry overall.
- Insurers are overwhelmed with submissions and requests; strong, detailed information is more important than ever.

North America

Rates	Deductibles	Capacity	Insurer Attitudes	Coverage Dynamics	Reinsurance
11-30%	Up	Tightening	Prudent	Restricting	Tightening

- Market firming is accelerating almost across the board but more severely for the long tail products (D&O, Excess Liability), due to a convergence of market and risk factors.
- Losses are skyrocketing due to damages from storms, wildfires, and civil unrest, while COVID-19 judgments thus far have mostly gone in favor of insurers.
- There has been minimal new capacity or capital.
  - (+) New start-up facilities backed by private equity or reinsurers are being formed to provide much needed capital and capacity, although it is taking time to get to the market, due in part to lack of underwriting talent available.
  - (X) Insureds are considering trade-offs to help offset market impacts.

EMEA

Rates	Deductibles	Capacity	Insurer Attitudes	Coverage Dynamics	Reinsurance
11-30%	Up	Tightening	Prudent	Restricting	Tightening

- Market pricing continues to harden across every line of business.
- Insurers are transitioning to centralized underwriting and claims settlement for a growing number of placements.
- There is significant need for support from international markets.
  - (+) There is a flight to quality and an increased level of diligence on industry basics such as policy wording and re-rating of risks.
  - (X) Capacity is severely limited as insurers withdraw or reduce lines sizes on certain classes and lines of business.

Latin America

Rates	Deductibles	Capacity	Insurer Attitudes	Coverage Dynamics	Reinsurance
1-10%	Flat	Tightening	Prudent	Stable	Tightening

- The market has become very challenging. The lines of business experiencing the most difficult conditions are Political Risk, Property and D&O, and the Power and Energy industries.
- Local underwriting authority is reducing as the industry transitions to a more centralized model.
- Before releasing quotes, some underwriters are requiring that all details and questions be fully addressed.
  - (+) Data and analytics are playing a more important role in understanding market dynamics and informing decisions.
  - (X) New underwriting leaders at many insurers are working to establish new protocols and objectives.

Asia Pacific

Rates	Deductibles	Capacity	Insurer Attitudes	Coverage Dynamics	Reinsurance
11-30%	Flat	Tightening	Prudent	Restricting	Tightening

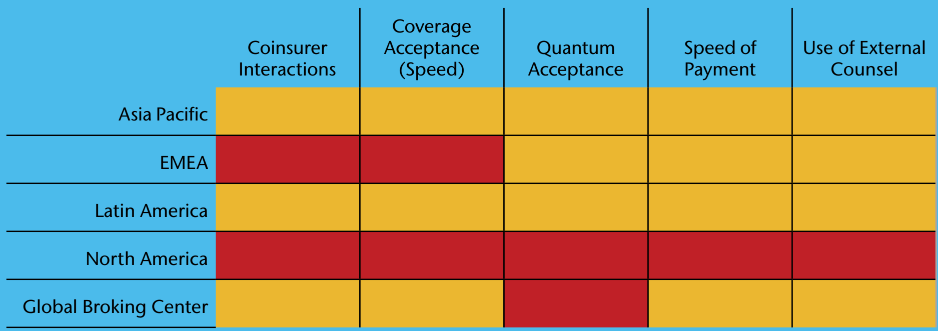
- Insurers continue to focus on return to profitability, even after several years of remediation efforts.
- The prevalence of class actions and claims inflation continues to pressure longer tail lines, especially D&O and Professional Indemnity.
- Coverage is being heavily scrutinized and a number of restrictions are being imposed across the board. Claims settlement amounts are also under intense pressure.
  - (+) Domestic insurers are less impacted by global mandates around coverage, pricing and portfolio remediation than their global counterparts, giving them greater underwriting flexibility.
  - (X) Due to increased demands for information, revised underwriting guidelines and overall bandwidth, negotiations are taking significantly longer.

KEY: (+) = **Positive Development** (X) = **Challenging Development**

Global Claims Trends

SECTION 3

Stemming largely from economic pressures, COVID-19, and resource challenges, securing favorable claims outcomes continues to become more challenging across almost all lines of coverage and geographies. The current environment is expected to continue into 2021.



Issues Impacting Outcomes

At the headline level, securing favorable claims outcomes continues to become more challenging across almost all lines of coverage, in almost all geographies. Macro level themes which underpin this situation include economic pressures, COVID-19 and resource challenges. Additional challenges arise from the increased use of external counsel by insurers, the quantification of business interruption against the uncertain timing of economic recovery, and some long established problematic issues including social inflation.

COVID-19 Business Interruption

Much of the claims world is focused on the topic of COVID-19 business interruption with the test case brought by UK's Financial Conduct Authority (FCA) being in many ways the epicenter of the activity. Regulatory activity is under way in Australia. Other geographies including Ireland and South Africa have seen regulatory interest expressed but no test cases. In the US, over 1,000 lawsuits have been filed on the topic. This issue will continue to be the subject of press commentary and multiple divergent opinions for some time.

Key Observations

In the first party arena, claims resulting from catastrophes – including a massive explosion in Beirut, active hurricanes in the Atlantic, widespread fires along the west coast of the US, European windstorms and Asia floods — have generally been managed well by insurers, despite the fact that we are seeing a trend to centralize payment authority. In the third party arena, coverage counsel, retained by insurers, are driving complexity and cost of settlement, sometimes engaging in ways which reduce the value of long-standing relationships between clients and insurers.

Looking Ahead

We do not anticipate the claims environment changing materially within the short-term. The macro economic environment, as well as the status of the insurance market, brings complexities and realities which will be with us for some time. There will be settlement opportunities, there will be positive intent from many participants, and there will be tremendous examples of resolution and outcomes, but these may be the exception rather than the rule for the remainder of 2020 and for at least the early stages of 2021.

Global Reinsurance Trends

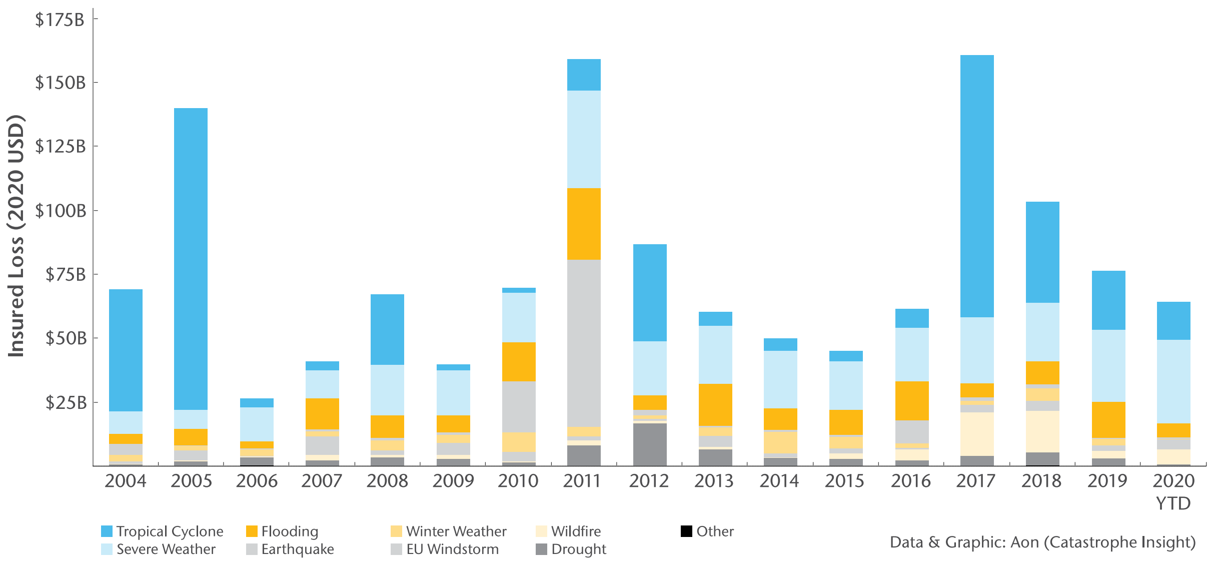
A Focus on Q3 Natural Catastrophe Losses

SECTION 4

Global insured losses have risen to USD65 billion. While still below the USD75 billion incurred in 2019, the Atlantic Hurricane Season has already produced a record number of storms to date and the Western US wildfire season has proven massively destructive so far.

North American Natural Perils Dominate 2020 YTD losses

- Large events thus far in 2020 have shown prolonged loss development as the COVID-19 environment has forced a change in how damage assessments are conducted and the speed by which claims are approved/paid.
- Through the first eight months of 2020, the Severe Convective Storm (SCS) peril resulted in USD33 billion of losses — the costliest cause of loss globally – accounting for 51 percent of insured losses.
- US insurer losses from Severe Convective Storm have topped USD10 billion in every year since 2008, with 2020 marking the 13TH consecutive year.
- Through the middle of Q3 2020, there have been 21 individual billion-dollar insured loss events. All but four were in the United States.



Data & Graphic: Aon (Catastrophe Insight)

Global Health Trends

SECTION 5

In these volatile times it is more important than ever that organizations take a proactive approach to the upcoming renewal of their insured employee benefit programs. Employers need a clear renewal strategy that aligns with their objectives, whether those be premium rebates and low costs or pricing that is more sustainable in the long run. Future year strategies could include profit share agreements over a multi-year period, the use of carrier credits to fund targeted wellbeing initiatives, or improvements in program design with minimal cost impacts. By tapping into Aon's data and analytical insights to better understand claims and employee health risk challenges now and in the future, organizations will be well positioned to achieve the best possible renewal outcomes.

Market Dynamics

Pandemic restrictions across the globe have had a well-documented impact on the provision of non-COVID related healthcare, and consequently, in many countries, short-term claims ratios on medical benefits will be lower in 2020 than forecasted. This decrease in claims will vary by geography, demographics and industry.

While there are many positive innovations and developments, uncertainty remains about health risks and benefits impacts related to:

- Individuals who have not been able to access screenings or treatment for non-COVID related issues.
- How 'long COVID'/'long-haul syndrome' might impact future health costs.
- Future COVID outbreaks and their further effects on health systems.

Looking ahead, employers will remain committed to helping employees improve their health-related behaviors, which should positively impact the resilience of the workforce. Digital health is continuing to expand – whether related to preventive care, case management or remote monitoring. With the increasing popularity of telemedicine during lockdown periods, employers will have a greater opportunity to take a more strategic view regarding the role of digital health and how these services fit into a cohesive offering now underpinned by a positive user experience.

Renewal Discussions

From a medical insurance perspective, the effect of lower-than-expected claims volumes will likely result in surpluses for many insurers. While there is some uncertainty regarding a potential claims bounce back over the coming months, it is important that renewal outcomes strike a balance between taking advantage of the short-term COVID-19 surplus and longer-term pricing stability. Understanding claims surpluses and using effective broking to deliver sustainable pricing and policy terms is key.

With regard to ancillary benefits, such as life and disability, there are some notable concerns. The ongoing challenge around the cost of capital, together with uncertainty about the longer-term impacts of the pandemic (for example, an increase in claims for mental health or musculoskeletal conditions largely driven by factors related to the new working environment, or the knock-on effect of delayed diagnosis and treatments) has led to anticipation of price hardening in many countries. Organizations need to revisit their policies and processes to ensure they are well placed to address these increased risks while at the same time taking the appropriate action to mitigate the impacts of a hardening market.

Global Health Trends

Regional Updates

As a result of COVID-19 restrictions, hospitalizations, office visits, and other medical tests and treatments were avoided, and claims utilization decreased accordingly. There is a general acknowledgment that for medical schemes in several countries, the 2020 claims experience will be better than forecast.

North America

Direct costs associated with COVID-19 testing and treatment are covered by employer plans. While the cost of employer-arranged employee testing does not go through employer plans, such costs are borne directly by the employer. With regard to indirect costs, Aon data demonstrates that claims utilization was down across inpatient, outpatient, and ER services. Such reductions were the largest in late-March and April, when many facilities and physician offices were closed. Though utilization is starting to resume, it remains below originally expected levels.

Medical claims levels in Canada appear to be normalizing. The largest reductions in medical and dental claims due to COVID-19 related lockdowns were in April and May, when all services were shut down except for emergency procedures. By July, Aon data shows that paid claims had returned closer to expected levels, and it remains to be seen whether deferred demand will drive utilization to surpass what would have otherwise been expected. Prescription drugs have steadily represented a large percentage of overall medical costs because pharmacies were deemed essential and supply was not significantly interrupted. On the other hand, expenses associated with paramedical providers and vision care were severely impacted by the requirements to close their operations.

Overall, it is likely that the actual aggregate employer-paid claims in 2020 will be less than initially expected. Clients with fully insured schemes should monitor this closely and factor it into their renewal considerations.

EMEA

Direct costs of COVID-19 on group medical programs have been low. Similar to some other parts of the world, public health systems have generally absorbed the direct costs of COVID-19 testing and treatment.

The region lacks a cohesive COVID-19 strategy, leaving countries on their own trying to strike a balance between protecting public health, while addressing economic, social and non-COVID-19 related health concerns. In many countries, such as France, Italy, Spain and the UK, COVID-19 has had the indirect effect of reducing the volume of claims on privately sponsored group medical plans during the period of most restrictive lockdown measures (March–June). As a result, there is an expectation that insurers may have claims surpluses in 2020, the amount of which will vary by country and client. There is also an expectation that some hospital networks and healthcare providers may be looking to renegotiate their contracts with insurers as they adapt to the new cost environment.

Global Health Trends

Regional Updates

Asia Pacific

The Asia Pacific region was the first to be impacted by the pandemic; however, the direct costs of COVID-19 on group medical programs have been low. In nearly all countries, public health systems have borne the vast majority of the direct costs of COVID-19 testing and treatment. In addition, the restrictive measures taken by most local governments have been effective at limiting the spread of the outbreak thus limiting the incidence of direct costs. COVID-19 has had an indirect effect of reducing the overall volume of claims on privately sponsored group medical plans significantly during the period of most restrictive lockdown measures (February–June 2020). Reductions in both inpatient and outpatient claims volumes relative to 2019 levels have been observed, and differ widely by country and client.

Latin America

Many countries are absorbing the costs of COVID-19 within their public health systems with notable exceptions being Brazil, Mexico, Columbia, and Puerto Rico. While Brazil and Mexico are examples where the government is not bearing the direct costs of COVID-19, the impact on each of their private medical systems is quite different. In Brazil, there have been significant decreases in costs from pre-pandemic levels, due to lower hospital and medical care utilization. Emerging loss ratios for 2020 are dropping from 85% (pre-pandemic) to 65%–70%, which is expected to have favorable 2021 renewal impacts. By comparison, due to the limited nature of lockdowns in Mexico, there has been no drop in utilization and as a result, more challenging renewals are expected.

Featured Differentiator: Aon United Broking

SECTION 6

Benefits to Clients

- Broking results that meet complex, interconnected risk, retirement and health needs.
- Confident decision-making backed by facts.
- Access to capacity from various industry sources irrespective of location.
- Consulting support for organizational and risk strategies.
- Access to a global network.

What is Aon United Broking?

The Aon United Broking approach is a common framework used globally across Aon teams to ensure the full spectrum of Aon and industry products and solutions is leveraged to support the increasingly complex and interconnected risk needs of Aon clients in every segment and industry. Solutions introduced to clients as part of this process, as applicable, include:

- Highly specialized industry expertise.
- Data driven market and risk insights.
- Global Broking Center(s) with access to wholesale and high limit capacity.
- Facultative reinsurance solutions.
- Interconnected, multinational teams in over 120 countries.
- Risk Consulting services to address cyber security & incident response, supply chain management, enterprise risk maturity, M&A, and myriad other technical and strategic risk management matters.
- Traditional captives, captive reinsurance, and pre-formed captive cells to provide alternative risk transfer solutions.

Why is Aon United Broking Important Now?

Following several years of a refocus toward insurer portfolio remediation, the insurance marketplace is now transitioning at an accelerated pace, and the current market conditions have not been seen in decades. Drivers of this change include a rise in loss frequency and severity and uncertainty surrounding the future impacts of COVID-19, evolving weather patterns, social inflation, political transitions, and civil unrest. Now, more than ever, achieving an organization’s risk transfer objectives is difficult to accomplish simply through local market placements with local insurers. Today’s market demands an experienced, connected broking team that leverages a wide range of traditional and state-of-the-art techniques and resources. In a time where prices are skyrocketing and capacity is scarce, the Aon United Broking approach is a key differentiator.

How Can Clients Leverage Aon United Broking?

Continue to share your organization’s current challenges, needs and strategies with your Aon United Broking team. The team will collaborate to understand your risks and objectives and partner with you to solve your toughest challenges.

Aon COVID-19 Strategy and Solutions Update

SECTION 7

In Q1, we focused on creating awareness, educating, and helping clients react and respond to COVID-19.

In Q2, we pivoted to helping clients prepare to reopen businesses and bring employees back to the workplace as safely as possible.

In Q3, we shifted to helping clients understand how COVID-19 knowledge is evolving and prepare for the benefits and practical challenges the COVID-19 vaccine landscape will introduce.

Our central theme remains: deliver actionable insights and practical solutions that are informed through technical expertise and data and analytics, and help clients implement those solutions in a fluid environment where the horizon is still taking shape.

Aon's fact-based insights inform reopening strategies in a COVID-active world

Aon continues to support organizations who are working to reopen as safely and effectively as possible in a fluid environment where COVID-19 is actively circulating at levels which vary widely based on trends specific to each geography. The environment is complicated not only by the uneven timing of the virus' spikes, but also by an economic landscape that makes investing in new safety measures more difficult for many organizations. Further, with the politicization of the pandemic, there is a growing amount of misinformation and disinformation, which adds decision-making complexity and contributes to "COVID Fatigue". All of this highlights how Aon's fact-based insights, solutions and thought leadership have never been more relevant and important to organizations looking for greater decision-making confidence during this prolonged, complex, and challenging event. Providing this perspective is part of our commitment to being your trusted advisor.

Aon's COVID-19 Vaccine Update identifies practical challenges for consideration

Aon recognizes that organizations need an in-depth, nuanced understanding of the vaccine landscape to plan their recovery. Public discussions are often focused on the development of the vaccine itself and the clinical trial process aimed at evaluating suitable vaccine candidates' efficacy and safety. But the vaccine landscape is more complicated than that. It includes country-specific challenges related to the manufacture and distribution of the successful vaccine(s), employer planning based on uneven timing of vaccine availability to employees, number of vaccinations required for immunity, and many other factors. Aon's COVID-19 Vaccine Update document provides additional insights aimed at elevating organizations' awareness and understanding of the myriad considerations to support decision-making and planning, in the near- and longer-term.

Please see Aon's COVID-19 Vaccine Update document for more information.

Aon's COVID-19 whitepaper facilitates the ability to flex in a dynamic environment

Aon's COVID-19 whitepaper highlights Aon's suggested Pandemic Crisis Management Model for clients and the power of the Executive Leadership Decision-Making Framework to enhance an organization's ability to manage its unique, unfolding COVID-19 experiences. See page 13 for examples of additional Aon solutions.

COVID-19 – What Organizations Should Be Thinking About and Planning For

"You must never confuse faith that you will prevail in the end — which you can never afford to lose — with the discipline to confront the most brutal facts of your current reality, whatever they might be."

The Stockdale Paradox
Words of Admiral James Stockdale, as relayed by the author Jim Collins in the book "From Good to Great".

A vaccination may be our best hope for ending the pandemic, but there are many issues to consider

Waves, or surges, of infection will continue until a vaccine becomes widely available or a treatment protocol is proven effective. As vaccine candidates move through the Clinical Trials Process, it is helpful to understand the near-term challenges, and identify the key planning considerations, including:

Immunity, Dosing & Coverage

- Immunity post-infection
- Immunity post-immunization
- Safe size of dose, as well as number of doses needed for person to achieve immunity
- Frequency of inoculation to maintain immunity level

Manufacturing & Distribution

- Availability and sourcing of supplies and preparation & processing resources
- Shelf-life, storage & shipping requirements
- Regulations

Balancing Demand & Supply

- National & global regulations
- Health & safety oversight
- Hierarchy of population risk (essential workers, underlying health risks)
- Funding and pricing
- Coverage

Please see Aon's COVID-19 Vaccine Update document for more information.

Beware the pitfalls of "COVID–Fatigue"

The increasing levels of politicization around COVID-19, and misinformation and disinformation that has appeared in the public domain, contribute to confusion about the status of the pandemic. This confusion amplifies the challenges of maintaining an alert security posture continuously for long periods of time. Organizations and leadership teams should beware the pitfalls of "COVID Fatigue" which may lead to inadvertently planning based on a presumed COVID-free future, without also keeping one eye on the current, active COVID environment so as not to miss unforeseen inflection points that may require a pivot to avoid danger or take advantage of an opportunity. Additionally, the Stockdale Paradox reminds us that looking forward with optimism without simultaneously grounding ourselves in the cold, hard truth of the current situation may inadvertently demoralize people if and when things do not return to normal in the expected timeframe. We have learned that wellness and mental fitness are important factors in maintaining a resilient mindset, and that leaders incorporating these factors into their resiliency strategies more effectively position their organization to put the best foot forward at every step of the way.

Take a fresh look at what might be possible

As organizations experience an ever-changing COVID-19 event arc, solutions or strategies that might not have been appropriate previously may have new applicability now. We encourage all organizations to continuously refresh their understanding of the available solutions and strategies, and reevaluate their applicability against the current risk profile and business objectives. Please see the next page for a recap of solution examples and visit aon.com/coronavirus to learn more about how Aon can help you mitigate the impacts of COVID-19.

Aon COVID-19 Featured Resources and Solutions for Reopening Business and Returning Employees to the Workplace

Nancy Green, CPCU, ARM
Executive Vice President
Global Client Promise Leader
Co-Leader; Global COVID-19 Task Force

> "Organizations' needs continue to evolve and change. A solution that might not have been needed three months ago may be very relevant now."

Business Priority	Key Business Challenges		Featured Aon Resources & Solutions
Protect People & Assets	Reopening business and return-to-work strategy	→	COVID-19 Business Recovery Tool Kit
	Employee wellbeing	→	24/7 telemedicine plus behavioral and financial coaching through 90-day Assist Program
	COVID-19 testing strategy for employers	→	COVID-19 Testing & Treatment Support Strategy and vendor selection
Balance Sheet Protection	Cash flow & liquidity	→	Aon Credit Solutions, Aon Trade Credit Solutions, and other financial solutions for distressed organizations
	Financial commitments and guarantees (LOCs, contingent liabilities, etc.)	→	Casualty Risk Collateral Review
Maintain or Increase Revenue	Cyber Resiliency Solutions	→	Cyber Security Review/Incident Response
	Risk mitigation/reduction	→	Supply Chain Management consulting
	Loss Warranties	→	Enterprise Risk Maturity evaluation
Cost Management	P&C Insurance program optimization	→	Gap analysis and captive feasibility study; pursue coverage for Loss of Attraction, Special Perils BI, Communicable Disease
	Defined Benefit Plan cost management	→	Aon Retirement Solutions Plan Design Review
	Redeploy resources/activities	→	Talent Impact Modeler
Revisit Business Strategy	M&A and divestment considerations	→	Aon M&A consulting
	Sales compensation impact of COVID-19	→	Sales Compensation Planning Assessment
	Cyber exposure due to remote work	→	CyQu Assessment for remote working cyber risk

Visit aon.com/coronavirus to learn more about how Aon can help you mitigate the impacts of COVID-19.

Geography Trends

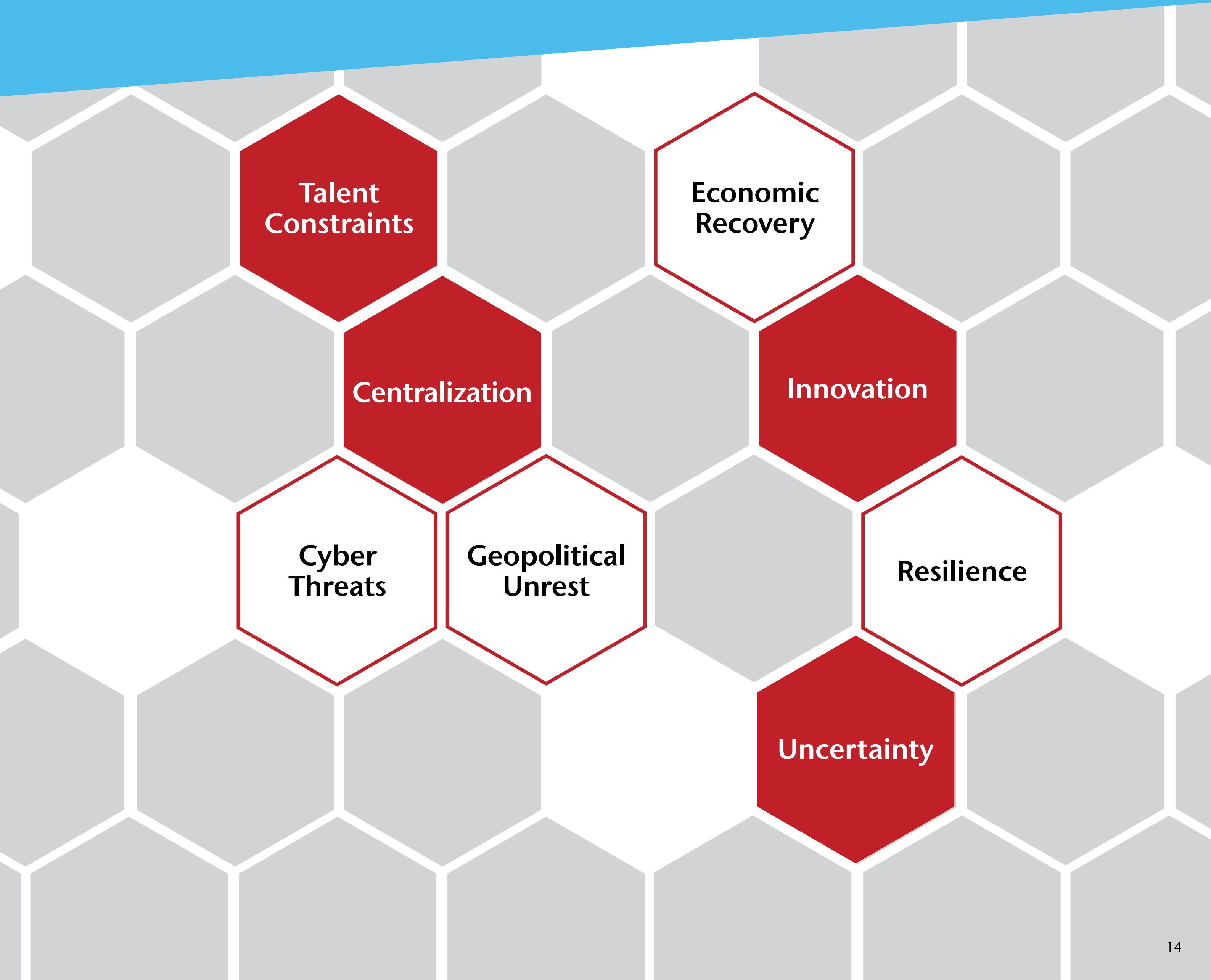
SECTION 8

The impacts of COVID-19 are innumerable – from direct health consequences, to political complications, to an economic crises of epic proportions. Virtually no part of the world has gone unscathed.

- More than 44 million people have a confirmed diagnosis, with many now fighting the long-term impacts of the disease.
- Many whose health is not directly affected are anxious and isolated.
- It is expected that, over the course of 2020, the world will have experienced its deepest economic recession and job contraction in decades.
- The disease – and governments' reactions to it – has been politicized and created unrest.

Many people continue to believe that a vaccine is the most reliable course to restoring health and rebuilding the economy.

Moving forward, the world will continue to be shaped not only by societal, business, and political responses to the global health and economic crisis, but also by our responses to the current geopolitical instability, escalating social tensions, and global climate change, amongst other issues.



North America

Featured Countries

North America Regional Landscape

While the economy is showing signs of recovery from its lows earlier in the year, Q3 remains a period of great volatility, uncertainty and unrest. Disparate back-to-school protocols, continued civil unrest and rioting, wildfires, storms, and a polarized political environment converged to create a very challenging landscape.

The US election looms as a massive event which could have myriad long-term impacts, as well as widespread immediate effects, if the outcome remains uncertain the night of November 3rd, and if the election results are contested. The path ahead – as well as the timing of a return to normal – remains unclear. People and organizations are looking for ways to unify and increase resiliency. Some industries – like the "stay at home" and technology space – have been more successful than others.

Insurance Market & Key Risks

- What was already a firming insurance market has become even more challenged in Q3 as a result of a convergence of factors ranging from increasing loss frequency and severity, to a reduction of capital, to a heightened focus on profitability.
- The impact of these circumstances is a hardening almost across the board, and most severely for long tail products (D&O, Excess Liability).
- New capacity and capital – especially in the Excess Property, Excess Casualty, D&O, Middle Market, Crypto and Cannabis arenas — is expected to come into the insurance industry, although it is taking some time to get to the market. This is likely the only thing that will stop the increased pricing environment.
- Low to zero interest rates are serving to exacerbate the financial distress some insurers are under.
- Losses from major events are growing:
  - Riot and Civil Commotion claims are estimated to be in the $1-3B range.
  - Wildfires continue to burn on the US West coast.
  - With so many storms, the 2020 list of monikers maintained by the World Meteorological Organization was exhausted (at Wilfred) in mid-September. Remaining storms will take the names of the Greek alphabet.

Claims Environment

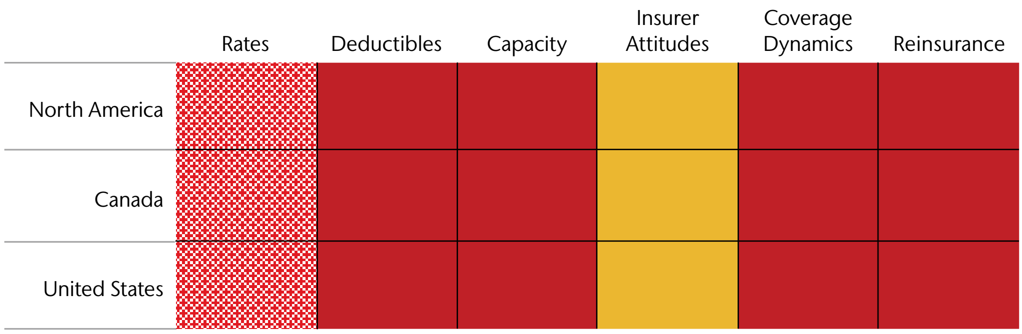
- The confluence of COVID-19, civil commotion, hurricanes (and other extreme weather events), and wildfires is contributing to a challenging claims environment.
- Issues that were bringing complexity and cost into the claims arena prior to COVID-19, including social inflation, continue to be prevalent.
- Trends in claims resolution indicate longer process times due to an increase in internal reviews for compensability decisions, cumbersome requests for information, more frequent use of outside counsel as part of the claims assessment and settlement process, and less decision making authority in the field.
- Policy wordings seem, in some instances, to be subject to reviews predicated on how to avoid, rather than find, coverage — a concerning development which is driven in part by the increased inclination to immediately engage external counsel.
- Clients are seeking additional claims support and oversight as they adopt larger retentions to manage growing premium costs.

Advice to Clients

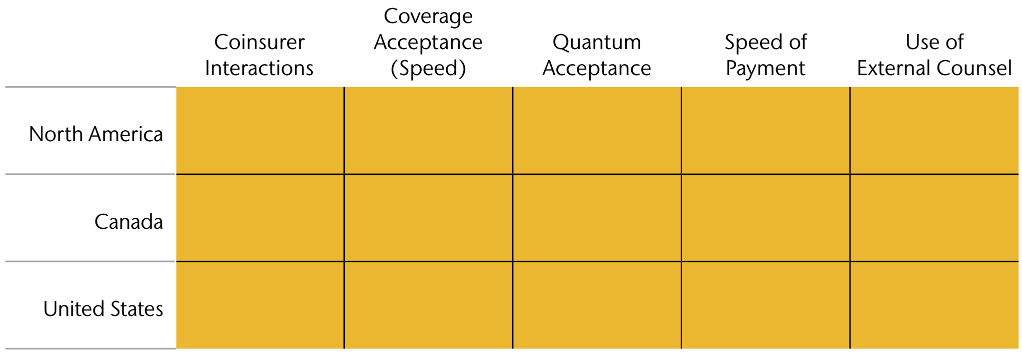
- Consider alternatives. Consider all available options such as captives, alternate program structures, different coverage triggers, and co-insurance. Be open to new ideas and new markets.
- Start early. The current state of the market calls for greater discipline and scrutiny during the underwriting process, and insurers are taking more time to analyze their risk modelling results. Allow time for conversations and difficult negotiations with insurers. Be prepared to respond to COVID-related inquiries.
- Share your plan. If you have experienced losses, clearly articulate your risk management plan that includes commitments to capital expense where required. It is very important to demonstrate the efforts you are making to improve your risk.
- Make informed decisions. Use data and analytics to support risk decisions.
- Set realistic expectations. Establish a budget that is commensurate with today's market.
- Consider other contract terms: Negotiate contracts with suppliers, vendors, etc. diligently with respect to liability limits and hold harmless provisions.

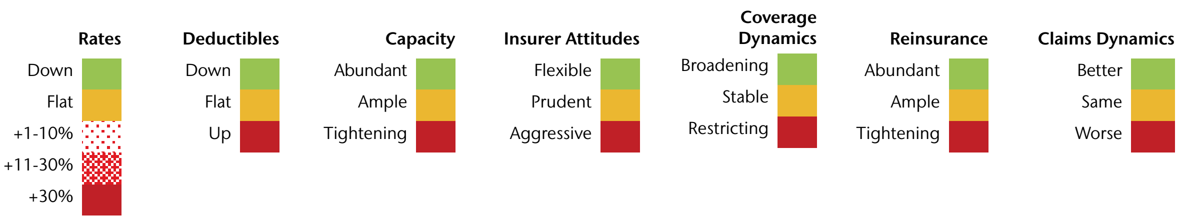
North America
Q3 Market and Claims Dynamics by Country

Market Dynamics

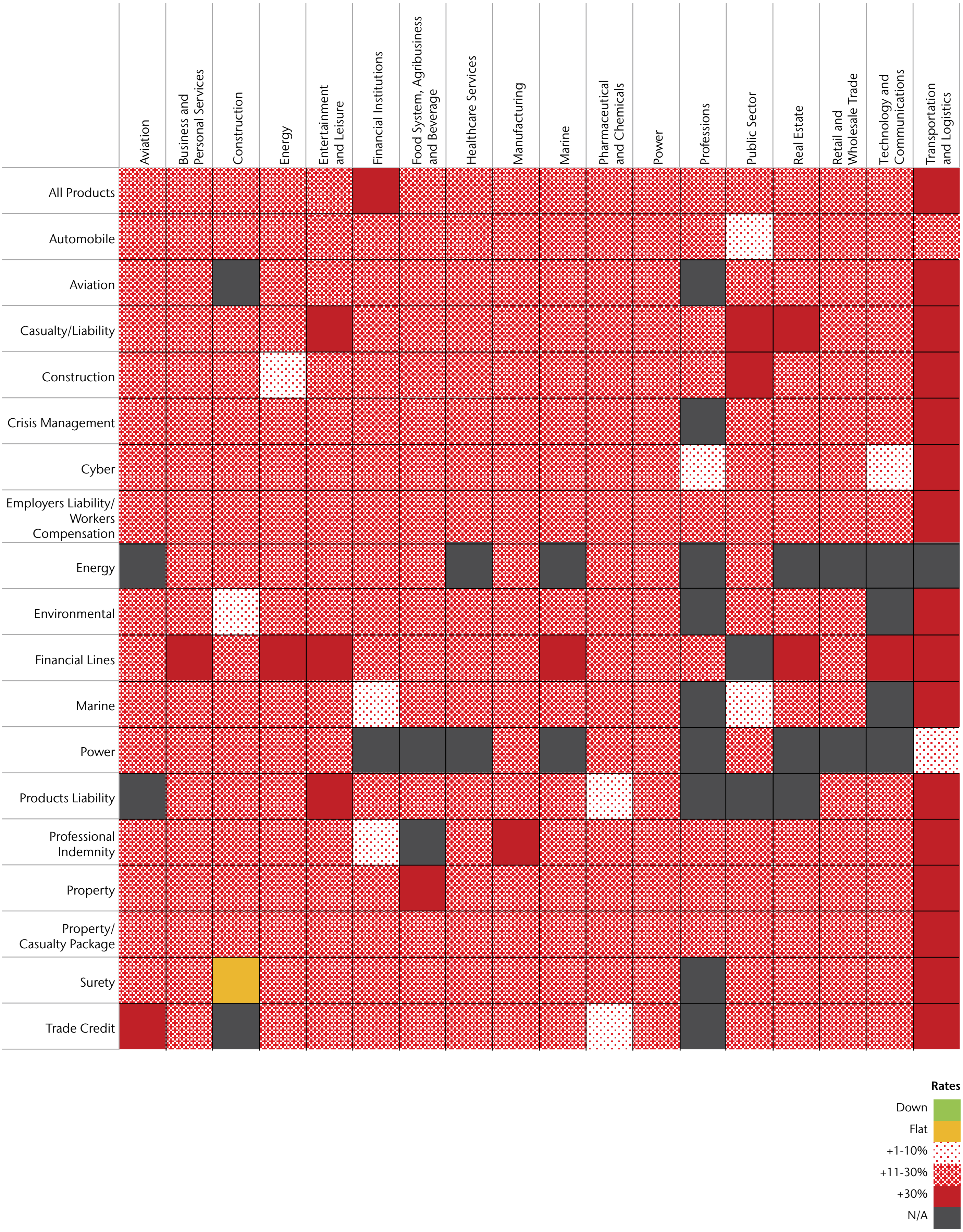


Claims Dynamics





North America Q3 Rate Trends



North America Featured Industries Q3 Overview

Construction

Industry Issues
The construction industry is influenced by government spending, interest rates and general economic conditions, and COVID-19 has served to amplify their impacts in Q3. While some activity has continued (mostly in the government, technology and logistics arenas), many projects have been postponed to 2021 due to disrupted supply chains, subcontractor liquidity issues, slow payments, and social distancing. Commercial (e.g., retail, food, hospitality, travel) and office construction projects have experienced the worst impacts. Many of these businesses and buildings remain empty or closed, leaving investors unwilling to expand or develop.

Market Conditions
Social inflation remains a key headline story for most insurers, driving capacity pull back and increased rates, particularly on Excess Casualty. In addition to mandating Infectious Disease exclusions, underwriters are pulling back on Excess of Wrap-Up coverage and many are more closely managing their Per Project General Aggregate authorizations. Additionally, across Builder's Risk and Casualty, project extension approvals by underwriters can be a challenging proposition; much time and information is required. Underwriters are scrutinizing submissions and asking questions related to COVID-19 strategies and impacts. New capacity is beginning to come into play from markets in Continental Europe but it will take some time for it to be broadly leveraged.

A Look Ahead
The industry will be largely impacted by the extent to which governments utilize construction and infrastructure to re-ignite the economy. The US Presidential Election will certainly play a part in this. In the insurance space, the current hard market conditions are expected to continue throughout 2021.

Energy

Industry Issues
Oil and gas prices remain depressed, driving continued financial challenges for energy companies. During the height of COVID-19 restrictions, oil prices dropped from USD60 per barrel to negative pricing. While prices have rebounded modestly, they remain below the break-even costs for most upstream companies, bringing many companies to bankruptcy, with more filings expected. Firms able to continue operating have substantially curtailed capex and new project developments, which will impact future production levels. In addition to upstream impacts, the fall in commodity prices reduced the demand for drilling and well service operations. Many oil field service contractors reduced staff to survive, but given their fixed expenses and debt service, their ongoing viability is at risk. Downstream companies such as oil refiners and petrochemical plant operators face a different impact. Crude oil and natural gas are feedstocks to their processes, so depressed feedstock prices reduce their costs. But the expected positive financial impact of reduced costs has been offset by reduced demand for refined products. All sectors are under increased scrutiny for ESG issues, particularly around carbon emissions and climate change concerns. ESG issues are often mentioned as one of the highest profile items at the board level among energy companies.

Market Conditions
Insurance pricing began to increase materially about two years ago for the first time in many years – focused initially on Property and Business Interruption for downstream clients. Since then the market has become very challenged, but with significant pricing variations based on loss record, limits purchased, changes in operations, and market capacity. Most recently, Directors & Officers Liability coverage has been hardest hit.

A Look Ahead
Given the dynamic nature of the Energy industry, and the recent volatility in the insurance market, most energy firms will need to continue to reconsider all aspects of their insurance programs – reviewing a wide range of options to be sure they are making the most efficient use of their more restricted cash in this challenging environment.

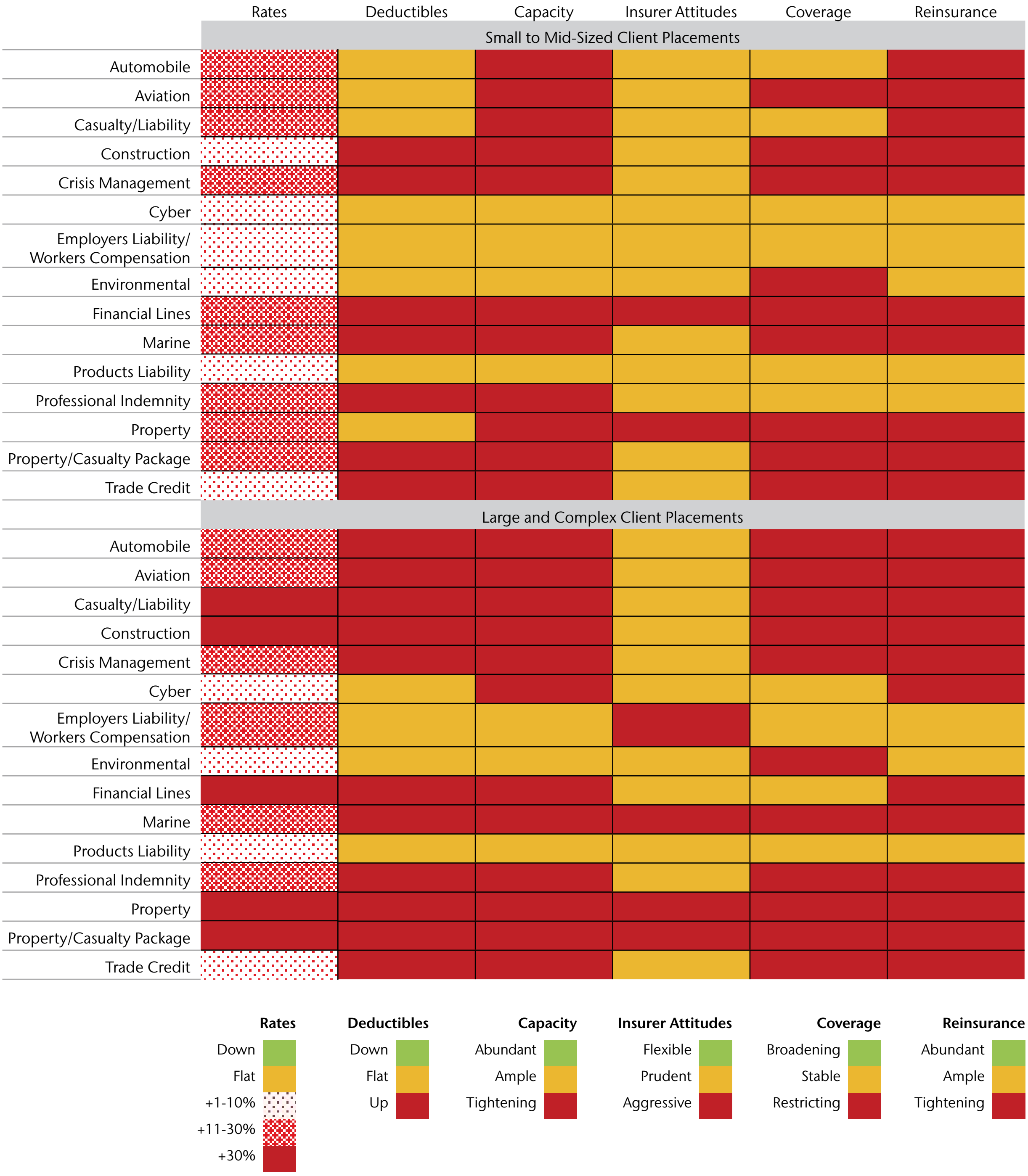
Financial Institutions

Industry Issues
Financial markets and market confidence have largely remained resilient thus far through the current recession due to massive amounts of monetary and fiscal stimulus deployed around the globe. Despite – or perhaps because of – their current stability, financial institution business models and risk profiles are evolving rapidly. Resilience is a dominant theme as digitization strategies have accelerated rapidly due to the pandemic. The fiscal stimulus that has been quickly pushed out through the banking system into the real economy has created execution risk for banks while also expanding their balance sheets and counterparty credit risk exposure. Regulators are leaning on banks to continue to lend, even if doing so impacts their capital adequacy ratios. At the same time, they are demanding prudency in managing that risk, as well as nonfinancial tail risks such as cyber, fraud and climate change. A focus on risk and capital management plans will continue to dominate the financial institution dialogue with global regulators for the foreseeable future.

Market Conditions
Financial Institution insurers are closely watching the economy, with concerns of a potential prolonged recession. Diversity & Inclusion initiatives are giving rise to concerns over Employment Practices Liability and Wage & Hour claims. Plaintiff attorneys have been highly active, in particular in the Public D&O space. From an asset management and banking E&O perspective, claims are ticking up as firms wrestle with economic fallout from COVID-19. These factors have led to an increasingly challenging insurance marketplace. Rates are under pressure, especially for D&O, E&O, EPL, Fiduciary, as well as FI Bonds. Underwriters are requiring detailed updates on remote work arrangements and resiliency initiatives. There is a markedly reduced appetite for Misappropriation coverage.

A Look Ahead
Some traditional insurers have recently withdrawn or are very closely managing their capacity for the remainder of 2020/21. This is balanced somewhat by the introduction of new capital from players in high excess positions on large programs. Q4 pricing will likely see a continued firming, and there will certainly be further scrutiny on coverage language, especially related to physical loss or damage.

Featured Country: United States Q3 Market Dynamics



Landscape

The country is grappling with uncertainty, unrest, and division. COVID-19 has widened the economic divergence between thriving sectors such as technology, healthcare, communications, and consumer staples, and the struggling, non-essential businesses such as travel, restaurants, and personal services, with small businesses experiencing the worst impacts. This has led to a two-speed economy. On one hand, unemployment has reached levels only exceeded by the Great Depression, and the unapproved second round of stimulus will not be available to provide much-needed support for the foreseeable future. Many families are worried and struggling to make ends meet. On the other hand, those able to maintain employment throughout the shut-downs continue to thrive, at least, economically. Socially, frustration continues to escalate over abuses of power and the growing perception that consequences to law enforcement offenders are not adequate. Long-term anxiety and isolation is creating mental health concerns. Confusion over the legitimacy of mail-in voting is complicating an already chaotic political landscape, and people around the country are bracing for the potential impacts of the upcoming presidential election.

The impact of COVID-19 on the insurance industry will likely not be known until 2022. This uncertainty – combined with normal market forces – is leading to more conservative underwriting, an acceleration of rate increases, a further tightening of terms – especially related to communicable disease – and a withdrawal of capacity in some spaces.

Featured Country: United States Q3 Market Dynamics

Featured Products

Auto: The market continues to be volatile. Guaranteed cost policies, as well as placements requiring reinsurance support, are experiencing the most difficult conditions. Underwriters are raising more specific exposure questions, especially related to Hired and Non-Owned. With verdicts often exceeding USD 2 million, there is pressure by Umbrella insurers for insureds with fleets over 100 vehicles to transition to a USD 2 million Combined Single Limit in the primary.

Aviation: Rates are increasing across all Aviation product lines as insurers focus on a return to profitability. In some cases, insurers are requiring minimum premium levels regardless of exposure reductions. Aside from prior market withdrawals causing a reduction in available capacity, insurers remain cautious with capacity deployment. Application of the Data Event Clause Exclusion, as well as reductions in Excess Non-Aviation coverage offerings, has become more consistent.

Casualty: While not having an immediate impact on claims volume, COVID-19 is putting pressure on insurers whose premiums are shrinking due to a reduction in exposures across the portfolio. At the same time, given the long-tail nature of Casualty coverages, insurer profits are diminished by reduced interest rates on reserves. These conditions, combined with social inflation and other factors, have led to a challenging pricing environment. Insurers are also scrutinizing collateral due to the deterioration of financial and credit risk. Mid-term collateral increases remain rare, but are occurring in some cases. Pandemic/Communicable Disease exclusions are required on some policies.

Construction: Insurers continue to pull back capacity, and increase pricing. The number of insurers required to complete tower placements has essentially tripled. Due to abuses of the oldest, only-remaining scaffolding law in the country, New York exposure is a lightning rod issue for underwriters, exacerbating rate, retention, and capacity challenges. Other lightning rod issues include Residential exposure (due to adverse claims development in the construction defect area) and California exposure susceptible to wildfires.

Cyber: COVID-19 related increases in technology usage have given rise to a sharp rise in ransomware events – both in terms of frequency and severity. Claims are now settling at five to ten times previous settlement amounts. Cyber crime and cyber incidents arising from geopolitical risks is also increasing. Underwriters are scrutinizing work-from-home exposure and requiring detailed information as to how this exposure is being addressed.

Employers Liability/Workers Compensation: Where exposures remain flat, the market – especially for small to mid sized risks — continues to be somewhat competitive, with only slight rate adjustments – especially when the placement is marketed. On the other hand, larger risks are experiencing notable rate increases, as are risks where payroll has decreased, as insurers are under pressure to maintain premium levels. While Workers Compensation coverage terms are dictated by statute, there has been a new trend with some insurers to exclude COVID/Communicable Disease claims from deductible aggregate erosion. COVID-related claims are increasing, and insurers are navigating the new state legislation requiring specific COVID-19 reporting and compensability protocols.

Environmental: Exclusions are being broadly applied for COVID-19 – as well as PFAs, GenX compounds, and contaminants. Underwriting requirements are increasing, and there is less tolerance for subjectivity delays.

Financial Lines: Financial concerns (e.g., insured liquidity and financial health) are heightened. The market remains hard, although most insurers are reasonable and measured in their underwriting and negotiations, despite scarcity of competition. Public D&O continues to experience the most challenging conditions. Side A D&O coverage for risks such as opioids and environmental is coming under scrutiny. Underwriters are particularly concerned with employment practices risks related to privacy, disability accommodations, social justice, and reductions in force, with more underwriting scrutiny in these areas.

Featured Country: United States Q3 Market Dynamics

Featured Products

Marine: Prior to the pandemic, the Marine insurance market was already firming. Insurers had sustained large losses over a prolonged period, and profitability was low. In Q3, insurers continued to restrict terms and increase rates. This has come at a difficult time for the Marine industry, which is experiencing an overall reduction in profits and is burdened with supply chain issues arising from a myriad of issues including a reduction in the workforce.

Political Risk: Q3 pricing shows the clear signs of a hardening market, with pricing increases on most programs, particularly those covering emerging markets hit hard by COVID-19 or otherwise perceived as high risk and/or high demand. Examples include Argentina, Ecuador, Russia, Ukraine, Egypt, and much of sub-Saharan Africa. There is also a slight tightening of wording, with insurers increasingly reluctant to include broad or expansive language.

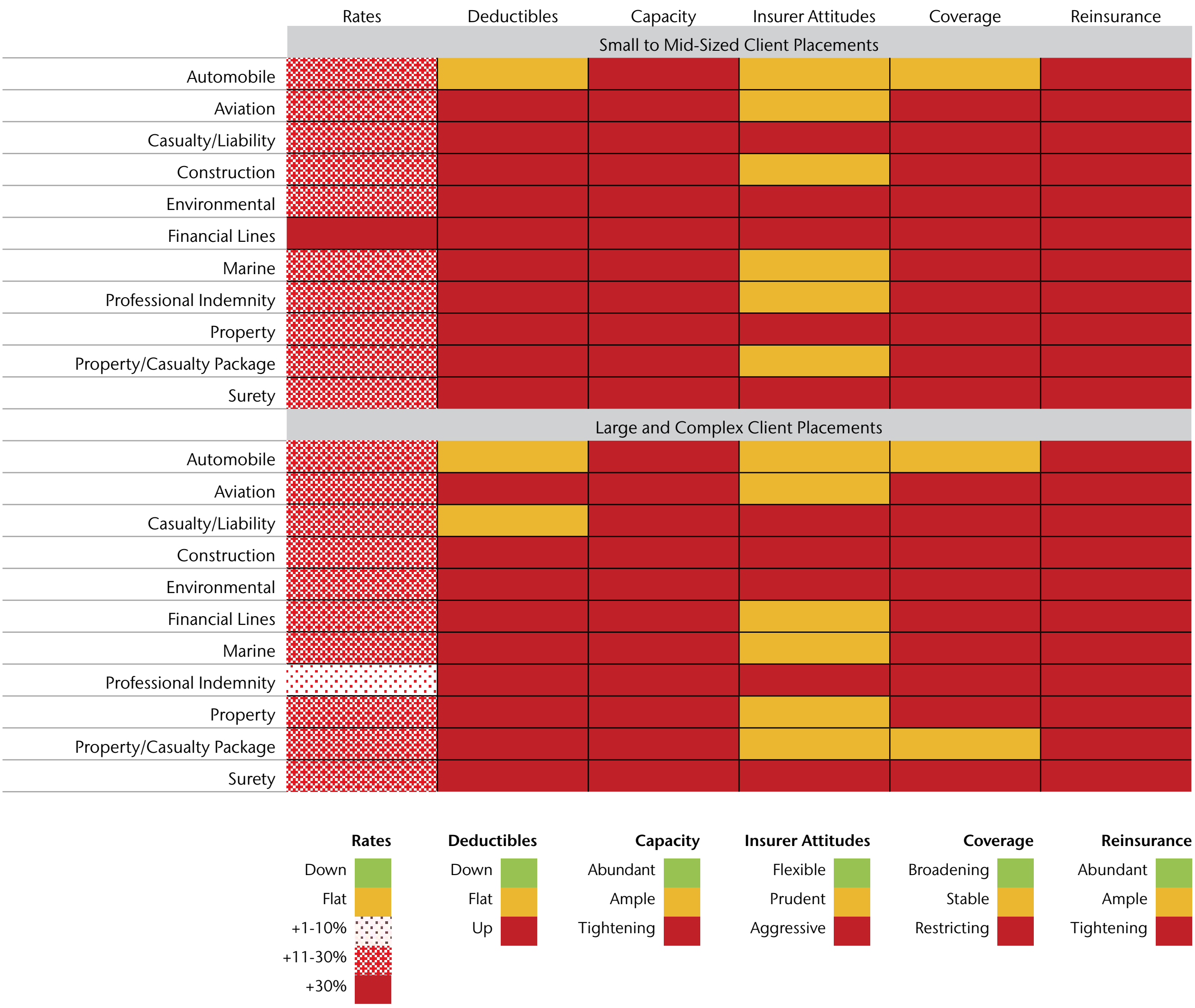
Product Recall and Contamination: Rate escalation has been tempered as underwriters gain confidence of insureds' revenue continuity in the face of COVID-19 related financial challenges. The number of product recalls announced continues to drop amongst most product categories, likely at least partially due to regulatory authorities' relaxed enforcement of onsite inspections due to COVID-19 related travel concerns. New capacity has entered the market, creating competition, and a more favorable rate environment overall.

Professional Indemnity: Underwriting attitudes have become more conservative. New underwriting questions are arising related to PPP loans and COVID-19. Some insurers have begun adding exclusions to Employment Practices Liability and Management Liability policies for claims arising from pandemic-related lay-offs. Insurers are actively managing their capacity deployment, generally reducing it and/or confirming that it is appropriately ventilated on various layers. Some following/supporting insurers are not agreeing to lead pricing.

Property: Challenging market conditions continued in Q3. Larger, complex and shared & layered placements – and difficult occupancies such as food and habitational frame real estate – experienced the most challenging market conditions. Non-Physical Damage related loss, Contingent Time Element, Loss of Attraction, Cyber, and Communicable Disease exclusions are common. Deductibles are increasing in order to better manage attritional loss activity. Many insureds are reviewing limits as a mechanism for dampening the impact of rate increases, although very few insureds are choosing to reduce them. Some sub-limits; however, are being reduced as required by insurers. Insurers remain conservative in deploying capacity and there is a continued contraction for loss-driven classes.

Trade Credit: Many insurers are mandating both rate and deductible increases, regardless of program performance, with higher risk sectors (automotive, aviation, consumer retail, energy, and metals) seeing the most difficult conditions. Several key insurers are re-underwriting and de-risking. Appetite for aviation and retail remains very low.

Featured Country: Canada Q3 Market Dynamics



Landscape

Following the reopening of the Canadian economy in Q2, the country had shown signs of a swift recovery. However, as new COVID-19 cases resurged in Q3 – predominately in Quebec and Ontario which together represent 80% of the country's cases and deaths – recovery has now slowed, and optimism for a full recovery by year-end 2021 has diminished. While many companies in the retail, technology, construction and mining industries are stable, others – like aviation, manufacturing and hospitality — continue to experience reduced revenues, slowed production, and lower occupancy. The Regional Relief Recovery Fund has committed to injecting more than USD1 Billion into the economy to supplement federal relief measures, supporting 12,000 businesses and protecting 100,000 jobs. To help accelerate the country's recovery, Prime Minister Justin Trudeau has promised an extension of the border closure between the US and Canada until US COVID cases are more controlled.

The Canadian industry operates profitably relative to its peers with a 98.3% cumulative net combined ratio. Even despite this, capacity remains tight and the insurance market overall continues to harden as corrections implemented so far have not produced the expected level of impact.

Insurers looking to carve back coverage that was increased over the extended soft market are introducing a number of exclusions across various types of coverage. Underwriting appetite has narrowed and underwriters have become much more conservative and particular. The underwriting process is more detailed, with an abundance of questions related to COVID-19 response.

As COVID-19 restrictions eventually subside and business returns to some semblance of normalcy, it is expected that market conditions will become more stable, with pricing and conservatism more similar to the prior two years.

Featured Country: Canada Q3 Market Dynamics

Featured Products

Auto: Despite decreasing exposures (mileage), market pricing continues to increase. Recognizing that premium increases may be difficult to absorb for many companies today, insurers are offering deductible and limit options to help offset increases. Appetite for US trucking-exposed risks is very limited, and when coverage is offered, insurers are requiring detailed underwriting information, high self-insured retentions and stringent risk control measures.

Aviation: COVID-19 has created challenges for the aviation industry including airports, manufacturers, airlines, and commercial operators. There has been a significant reduction in flights and manufacturing production, while cargo operations have remained more resilient. Insurers are working to offer solutions that accommodate the changing needs of the industry, but are generally more conservative and cautious – imposing higher deductibles, coverage restrictions, and additional premium for coverages previously included. There is also considerably less flexibility in rotation-of-the-fleet (flight and ground risks). Many insurers are transitioning to quota share programs.

Casualty: COVID-19 has prompted increased scrutiny on loss control and risk improvement follow through, especially related to customer and employee safety. Underwriting submissions must be timely, detailed and thorough lest underwriters decline to quote. Infectious Disease limitations are being broadly imposed by virtually every insurer.

Marine: Market conditions are very challenged, with insurers applying significant rate increases, even on clean risks. Coverages and limits are being reviewed carefully by insurers. Underwriter response times are slower as local authority has shifted to regional and national offices.

Professional Indemnity: Traditionally, local market insurers have been strong partners offering broad coverage and competitive pricing. However, due to recent court decisions in Quebec, negative loss experience, and economic uncertainty, this market capacity has contracted and is continuing to shrink. Further, coverage is more aligned to what is available in other jurisdictions. International capacity that is still active in this space is best aligned to larger, more complex placements, and the wording and pricing reflect the higher risk. Underwriting processes require additional approvals, underwriting information and premium.

Property: The pricing environment is challenging, even for high-quality, clean risks. Appetite is narrowing and it has become more common for insurers to decline to quote based on capacity concerns. Compliance with risk control recommendations has become paramount, and some insurers are declining to quote where there are outstanding recommendations. Insurers are becoming less comfortable using manuscript wordings. Infectious Disease exclusions are being applied by most insurers; they are also clarifying the exclusion of Non-Damage Business Interruption.

Surety: Contracts continue to become more complex and project sizes are growing significantly. Insurers have focused their appetite and many are not writing new business. The market is now very limited and Aon is working with insureds to identify alternatives. Data and analytics have proven to be a critical component of the process.

EMEA

Featured Countries

EMEA Regional Landscape

Even as the European economy had begun to recover, some countries are now facing a second wave of COVID-19, leading the region back to lock-downs, uncertainty, and further economic woes. Each spike brings more doubt on the best route to reach a "new normal". Many organizations – especially in leisure and tourism, aviation, and retail — are struggling to survive and in many instances relying on government support to remain viable. Concurrently, there is increasing social and political unrest and polarization which, together with the fast approaching Brexit deadline, is creating additional complexity across the whole of EMEA. The insurance environment is, as a result, highly volatile and is attempting to continue to provide client solutions while facing a convergence of economic, political, social and climate risks.

Insurance Market & Key Risks

- The market is hardening across the board, and underwriting appetite is narrowing. Capacity is contracting, and terms and conditions have become more limited. Insurers are imposing higher deductibles and lower limits.
- More and more placements are subject to centralized underwriting and claims authority.
- There is a flight to quality and an increased level of diligence on industry basics such as policy wording and re-rating of risks.
- Given the level of uncertainty in the ultimate number and severity of COVID-19 losses, insurers are looking to clarify coverage terms to remove or minimize future COVID-19 and communicable disease exposure.
- As a result of financial challenges, many organizations are facing difficult decisions around coverage, limit and retention trade-offs, in order to keep premiums manageable.

Claims Environment

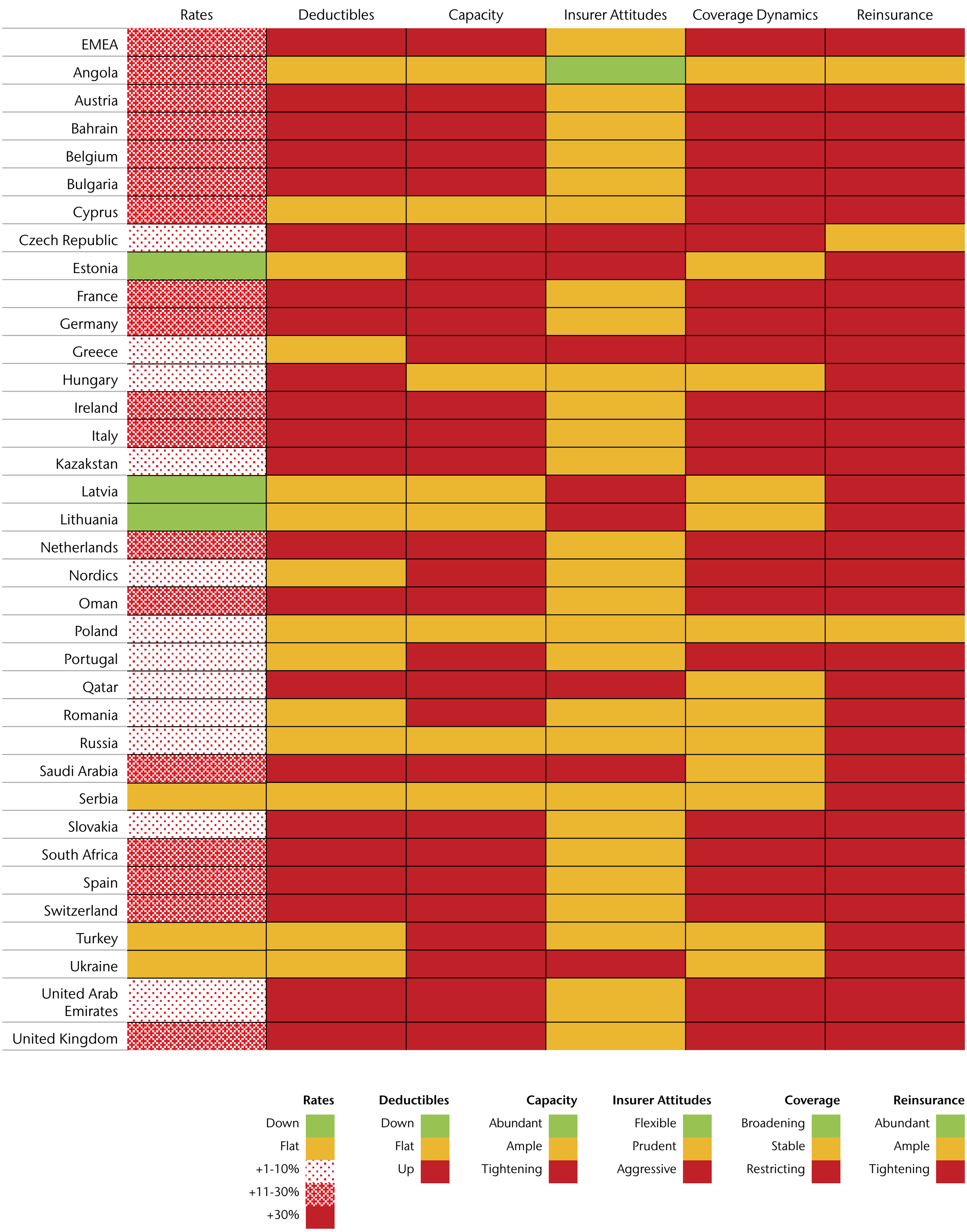
- Europe is facing a second wave of Coronavirus outbreaks, which creates uncertainty and an anticipated recessionary environment. Within the region, the timeline for Brexit implementation continues to proceed, creating additional complexity in the United Kingdom and beyond.
- The impacts of the recent UK FCA test case decision have yet to play out, but are expected to reach well beyond the specific geography (UK) and line of coverage (Business Interruption) that were the focus of the case.
- Most insurers have been able to maintain operations via remote working, but a preexisting shortage of qualified claims professionals in the market has combined with hiring freezes to put claims teams under pressure.
- Insurers are much more restrictive in their interpretation of policies and therefore in their evaluation of possible coverage for claims.
- We see a growing lack of adjuster independence, clearly due to insurer pressure over them, and we perceive greater influence from reinsurers on large claims.

Advice to Clients

- Establish priorities early. Work together with your Aon team to keep your renewal on track and on-time.
- Set a budget. Plan for premium increases and examine where trade-offs can be considered.
- Be thorough. Create a submission that is complete and accurate, and differentiates your risk.
- Review wordings. Work with Aon to review new policies for additional exclusionary language.
- Manage expectations. Use data and analytics to advise your board regarding market changes and their potential impact to your risk and insurance program.
- Be patient. Insurers are working through a backlog of claims. Positions and settlements will take longer in today's environment.

EMEA
Q3 Market Dynamics by Country

Market Dynamics



EMEA
Q3 Claims Dynamics by Country

EMEA Q3 Rate Trends

	Aviation	Business and Personal Services	Construction	Energy	Entertainment and Leisure	Financial Institutions	Food System, Agribusiness and Beverage	Healthcare Services	Manufacturing	Marine	Pharmaceutical and Chemicals	Power	Professions	Public Sector	Real Estate	Retail and Wholesale Trade	Technology and Communications	Transportation and Logistics
All Products	+11-30%	+11-30%	+11-30%	Down	+11-30%	+30%	+1-10%	+1-10%	Flat	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+1-10%	+1-10%	+11-30%	+1-10%
Automobile	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	Down	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	Flat	+1-10%	+1-10%
Aviation	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Casualty/Liability	+1-10%	+30%	+1-10%	+11-30%	+1-10%	+1-10%	+11-30%	+11-30%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	Flat	+1-10%	+1-10%	+1-10%
Construction	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Crisis Management	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	Down	+11-30%	+11-30%	+1-10%
Cyber	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Employers Liability/ Workers Compensation	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%
Energy	N/A	+30%	+30%	+30%	N/A	+30%	+30%	N/A	+30%	+30%	+30%	+1-10%	N/A	+30%	+30%	+30%	N/A	+30%
Environmental	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Financial Lines	+30%	+30%	+30%	+30%	+1-10%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+1-10%	+30%	+30%	+30%
Marine	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	Down	+11-30%	+11-30%	+11-30%
Power	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Products Liability	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%
Professional Indemnity	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+1-10%
Property	+11-30%	+11-30%	Flat	+11-30%	+1-10%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+30%
Property/ Casualty Package	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	Flat	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%
Surety	+30%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+11-30%	+1-10%	+1-10%	+1-10%
Trade Credit	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%

Rates

Down
Flat
+1-10%
+11-30%
+30%
N/A

EMEA Featured Industries Q3 Overview

Construction

Industry Issues
Largely due to continuing governmental investments in infrastructure (as a measure to help offset the economic devastation caused by COVID-19) the construction industry remains resilient. Despite an expected global GDP contraction in 2020 (across all industries), the construction industry is expected to grow, albeit modestly. Margins remain tight across the industry; however, continued investment in innovation and technology is expected to drive efficiency and improve profits.

Market Conditions
The challenging market that began at the end of 2018 and primarily impacted Construction All Risks, Delay in Startup, and Professional Indemnity has somewhat stabilized – with the exception of Single Project Professional Indemnity, where insurers are continuing to pull out, resulting in very limited capacity. In addition, other lines of business – like D&O and Third Party Liability – have recently become more difficult. Pricing is generally firm across the entire industry, and underwriters are focusing on scope of wording. Restrictions are being imposed for tunneling and CAT exposure, and many insurers are excluding Communicable Diseaseand Cyber.

A Look Ahead
It is expected that pricing will likely continue to escalate and sub-limits and coverage restrictions will be applied, as many insurers continue to look to de-risk their portfolios. Many insurers will continue to focus their appetite and tighten their underwriting policies.

Energy & Power

Industry Issues
With oil prices suppressed, and reduced drilling activity, revenues are down for upstream operators. On the downstream side, fuel demand and consumption remains low due in large part to reduced transportation and travel, leading to poor financial performance and in some cases retiring of assets/units. Restarting units comes with risk, so insurers will be watching carefully when downstream operators restart normal operations. There is a continued transition from conventional/fossil related fuels to renewables, as countries and companies continue with decarbonization strategies. Economic conditions are relatively stable in the power sector and petrochemical sectors.

Market Conditions
The market for Energy and Power risks is challenging. Pricing is increasing, higher deductibles are being imposed, coverage terms are tightening, and capacity is constrained – especially for risks with Natural Catastrophe exposure. Some insurers have withdrawn from the market. Even loss free placements are being scrutinized by underwriters and taking longer. Claims negotiations and settlements have become more strained. Vertical placements have become commonplace and insurers are proposing their own terms, leading to tower complexity. Downstream insurers have adopted the broad form LMA5393 COVID exclusion, while upstream underwriters have their own JR2020/016. Two new Business Interruption products for the upstream sector were recently launched.

A Look Ahead
A market correction is under way and it is likely to take at least another 12 months to work through, especially given COVID-19 related uncertainty. In the meantime, insurers will continue to look carefully at coverage for defects with LEG 3; it is no longer considered a standard coverage.

Sport, Recreation & Entertainment

Industry Issues
COVID19 has had a devastating impact on the Sport, Recreation & Entertainment industry. Live events such as festivals, fairs and celebrations have been largely cancelled, and are not expected to resume until 2021. Film and TV productions are suffering new interruptions due to second waves COVID-19 cases. Social distancing rules not allowing for full capacity of stadiums have led to significant drops in revenue from sporting events, with many clubs now exploring cost cutting measures (salaries, leases, etc.). Across the industry, adhering to safety restrictions and protocols is escalating costs and reducing revenues. In addition to direct impacts on the industry, cancellation of events and recreational activities has had a knock-on effect on other industries such as retail, bars and restaurants.

Market Conditions
Insurers have suffered crippling losses. For some lines of business, insurers' COVID-19 losses alone have exceeded losses from all causes in 2019. As a result, several insurers have completely withdrawn from the sector, or are no longer writing Event Cancellation and Entertainment. Remaining insurers are scrutinizing every risk, significantly reducing limits, and raising pricing, especially for Event Cancellation, Crisis Management, and Casualty. Industry leaders are working to create a solution for future pandemic risk, but its cost will be high. Until then, the majority of insurers are specifically excluding civil authority measures, as well as Communicable Disease/COVID-19.

A Look Ahead
Second waves of claims are being declared, and events and activities are not expected to return to normal in the near term. As a result, it is expected that rates and deductibles will continue to increase, limits will decrease, and coverage limitations will continue to be applied. As some insurers introduce minimum premiums; smaller risks will need to evaluate self-insurance or other alternatives to traditional risk transfer.

Featured Country: Germany Q3 Market Dynamics

Landscape

Another wave of COVID-19 has descended upon the country as part of a broader European outbreak, causing a further downgrade in Germany's economic forecast for 2020 and beyond. At the same time, major German industries like auto and energy are undergoing strategic shifts to protect Germany's position as one of the leading export economies in the world. (Asian companies are increasingly looking to acquire majority shares of German companies and their intellectual property.) Losing their dominant position would put at risk the economic recovery and potentially increase unemployment and reduce global purchasing power.

The insurance market is continuing to harden, predominately in Property Damage & Business Interruption, D&O, Employment Practices Liability, and Surety. As more and more businesses face financial hardship and uncertainty, insurance price escalation is not a welcome proposition. Some insureds are considering difficult trade-offs, and have invited their Aon team to Board meetings to explore alternatives and plan the path ahead. Detailed risk assessments and marketing exercises are being conducted to secure the best outcomes.

Due to the huge influx of submissions into the market, some insurers have declined to quote new business, as they simply do not have underwriters available to underwrite the risk. As part of overall operational and financial reviews that have been undertaken, insurers are looking at cash-flow optimization and the collection of outstanding payables.

Featured Country: Germany Q3 Market Dynamics

Featured Products

Casualty: Pricing is increasing significantly, even for high-quality, loss-free risks. Capacity deployment is more conservative, and shrinking. Insurers are requesting more detailed risk information – even on coinsured and/or excess layers. Many insurers are requiring Communicable Disease/Pandemic exclusions.

Construction: COVID-19 is not expected to have a significant impact on construction activities in Germany. A relatively small percentage of projects may be postponed, but investments in infrastructure, housing, healthcare and industrial production are expected to continue, and serve to support the economic recovery. The insurance market is firm; the most notable change is the requirement of Cyber and Pandemic exclusions, especially for combined Construction All Risks and Liability policies.

Cyber: Phishing and network hijacking attempts are increasing. As a result, pricing is modestly firm, and risk profiles are being scrutinized. Insurers are more selective and conservative when deploying capacity. With so much more information to review, and due to increased selectivity, the underwriting process is taking longer. In some cases, insufficient information has led to a reduction of limits offered.

Financial Lines: The market is very challenging – with pricing increases, capacity reductions, and the introduction of coverage restrictions, especially related to insolvencies. Many insurers are overwhelmed with an influx of new, detailed information, and as a result, renewals are taking longer.

Property: The pricing environment is challenging, and underwriters have become more cautious. They are asking more questions, and the underwriting process is taking longer. This has constrained resourcing capacity and some insurers are simply declining to quote – especially new business. Many are excluding Cyber and Silent Cyber from existing language.

Trade Credit: Reinsurance provided by the German government to the Credit insurance market will remain in place until year-end, 2020. This will allow insurers to maintain limits currently in place as part of the agreement with the government; however, as of January 2021, the program will likely end – leaving insurers and insureds in a heightened state of uncertainty about how much capacity will be available and at what price.

Featured Country: Spain Q3 Market Dynamics

Landscape

Not only has COVID-19 created an unprecedented health crisis, it has also taken the country into an economic recession, with key industries such as retail and leisure & tourism leading the way. The decrease in the Spanish GDP was the largest across the whole of the EU. Unemployment increased, primarily for small and medium-sized companies and the self-employed, with many companies closing down or downsizing. As new outbreaks continue across the country, uncertainty grows – creating further knock-on impacts to the economy – as the government anxiously awaits European aid.

The political situation is dominated by the clash of contrasting political views and a decentralized governmental structure. As a result, Spain has not approved a national budget since 2017. Economic uncertainty – combined with political and social challenges such as Brexit, US-China trade relations, and Middle East conflicts – has caused a lack of confidence amongst insurers, leading to a refocusing of appetite, a tightening of conditions and a restriction of capacity.

Featured Country: Spain Q3 Market Dynamics

Featured Products

Casualty: Pricing is increasing, capacity deployment is more conservative, and coverage terms are contracting; however, insurers remain committed to retaining favorable risks through rigorous underwriting and careful pricing. Local decision-making authority is shifting to regional underwriters for more and more risks.

Cyber: The transition to working from home was slow and bumpy, as many businesses were not equipped to do so. This has led to myriad knock-on effects, including reputational threats and increasing cyber exposure. Concurrently, ransomware losses continue to escalate. As a result, the Cyber market is hardening, with widespread premium increases coupled with significant reductions in capacity.

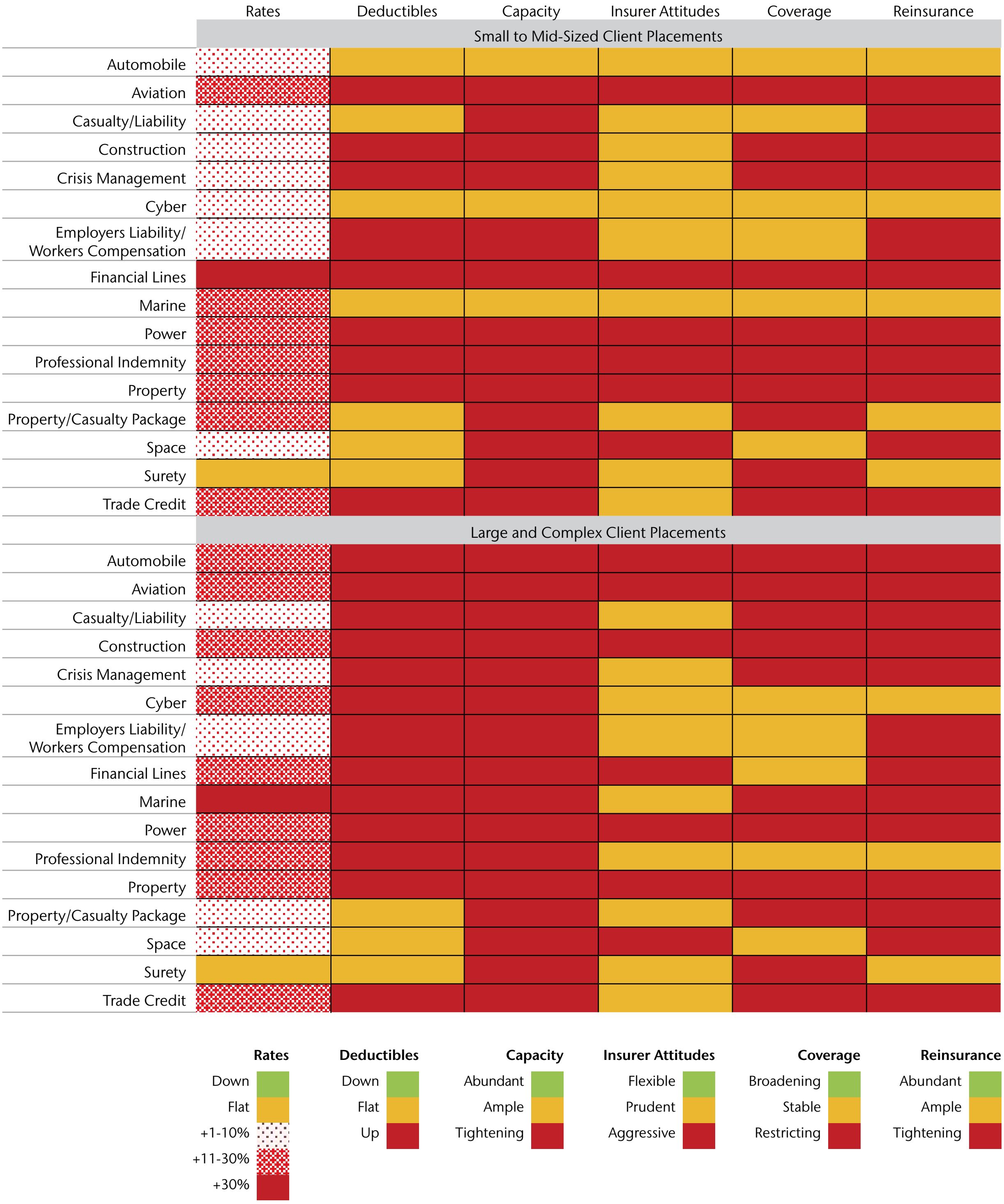
Financial Lines: The market continues to harden and less capacity is available. Underwriting appetite has become more focused; in Q3, there is little interest in aviation, automotive, retail, and hospitality. There are limited options for these risks, especially for D&O coverage. Distressed companies and US listed companies are also experiencing a limited marketplace, and serious capacity reductions. Insolvency exclusions have become commonplace.

Marine: A few sub-sectors, such as transportation, are permitted to continue operations despite COVID-19 related restrictions; however, most of the marine industry is faced with significant business disruptions and consequent revenue decreases. The insurance market is hardening overall, and there have been some notable withdrawals of local Insurers from this space, while others have significantly reduced their portfolio. Remaining insurers are imposing deductible increases and more restrictive coverage terms, especially related to COVID-19.

Property: COVID-19 has served to accelerate the market hardening, with very challenging market conditions across the board. Local decision-making authority has been centralized to regional decision-makers. For any risk to be considered, underwriting information must be complete. Compliance with loss control recommendations has become non-negotiable. Traditionally, the end of the year created an urgency amongst insurers to meet their annual budget targets; so far, it appears this trend will not continue in 2020. Instead, the current level of insurer selectivity is expected to continue.

Trade Credit: Unlike the situation in other EMEA countries (e.g., UK, France and Germany) Spanish Trade Credit insurers are not receiving governmental support, leaving local insurers very concerned about the impact of rising organizational bankruptcies. Claims are increasing, and loss ratios are being carefully monitored. In turn, insurers have limited appetite for new business and have significantly reduced their capacity deployment. Economic volatility is expected to continue in Q4, 2020, which will set the tone with insurers for 2021.

Featured Countries: United Kingdom & Ireland
Q3 Market Dynamics



Landscape

Despite positive signs of potential economic recovery following the reopening of the economy, parts of UK and Ireland find themselves again in various tiers of lock-down as the virus resurges across Europe. Already, many businesses have closed their doors, and others teetering financially may follow – causing further economic ripples. Some sectors, like food & beverage and grocery retail, have proven resilient, while others, like hospitality and aviation, have experienced greater hardship.
It is expected that more than three million workers will be unemployed by the end of the year as employees come off the furlough scheme. The impact of Brexit remains unknown as the UK's exit deal is still being negotiated. Prolonged uncertainty is leading to fatigue and frustration.

Featured Countries: United Kingdom & Ireland
Q3 Market Dynamics

Featured Products

Auto: The market remains competitive for favorable risks that are well-presented through detailed underwriting documentation. While attempts at fraudulent claims by 'crash for cash' groups continue to elevate the risk environment, vehicle telematics and cameras are serving to help combat fraud.

Casualty: On the whole, the market is trending modestly upward. Renewals and remarketing of placements has been largely uneventful. There are no blanket rate increases; risks are being underwritten on an individual basis. Communicable Disease and COVID-19 exclusions are being addressed on a case-by-case basis.

Construction: Projects are progressing, with private home and residential apartments driving demand while development in the commercial office space and build-to-rent sectors has been paused. The insurance market is firm-to-hard, depending on risk type and profile, with some capacity contraction. COVID/pandemic exclusions are being broadly proposed.

Crisis Management: Firms are reconsidering their exposures to acknowledge heightened volatility and the expected post-COVID-19 risk environment. The market is firming, and there is less appetite, with insurers shifting their capacity toward traditional Political Risk coverages such as Confiscation, Expropriation & Nationalization, and Contract Frustration. Coverage is being limited for certain countries.

Cyber: There has been an increase in frequency and severity of ransomware incidents, leading to insurance premium escalation. Insureds are evaluating adequacy of limits, and many are opting to increase them. Although COVID-19 restrictions are not being broadly applied, insurers are still asking for specific information around the how the business has been affected and what has been done to mitigate or protect against losses/attacks. In-depth underwriting information is required across the board.

Financial Lines: The market is very challenging. Insurers are imposing large pricing increases, higher deductibles, more restrictive terms, and are pulling back capacity. Public D&O continues to dominate as the most challenging line of business – particularly for pharma/life science and any companies traded in the US or Australia. Private company coverage is less fraught, but not without its challenges as insurers resist offering Side C, pull capacity, and seek double-digit rate increases. Employment Practices Liability, Crime, and Pension Trustee Liability are now experiencing similar challenges; as prior year claims manifest, capacity is contracting and rates and deductibles are increasing.

Marine: The primary concern related to COVID-19 is indirect loss/expenses potentially incurred as a result of supply chain disruption; for example, port closures, delays due to inability to access cargo, and unavailability of conveyances to carry the cargo. There is greater emphasis on detailed exposure information and breakdowns of values, and a focus on natural catastrophe risk modelling. Pricing is increasing according to individual risk profiles; across-the-board rate increases are not being applied. Exclusions are being added for Communicable Disease and Strikes, Riots and Civil Commotion, particularly for US retail companies.

Professional Indemnity: Pricing is escalating and capacity is contracting, primarily due to large technology E&O losses. Insurers are now asking for more detailed underwriting information and are more conservative in their decision-making. Long Term Agreements are no longer being offered.

Property: Insurers are increasing rates, providing less capacity, reducing coverage, and taking a firm stance on requiring that insureds make significant capital investments and commitments to improve, rebuild, and fire-protect their premises. Risk management updates are essential. Timely, detailed renewal information is required to enable thorough underwriting, especially because local authority levels are being reduced and there is more referral activity required for sign off of terms and capacity. Faced with increasing reinsurance costs, some insurers have rescinded Long Term Agreements.

Trade Credit: Claims have risen sharply since mid-2018; insurers are currently seeing levels on par with those of the last recession, nine years ago. As a result of rising claims, and continued uncertainty related to COVID-19 impacts, premiums are increasing significantly, even for favorable risks. Limit underwriting requires the most up-to-date financials for increases to be considered or proposed reductions to be appealed. The success of the recently implemented government support scheme is not yet known; insurers continue to work out what it actually means for their books/risk exposures. In any event, there is already concern in the market about the impact to capacity if and when the scheme eventually winds down.

Asia Pacific

Featured Countries

Asia Pacific Regional Landscape

The Asia Pacific region is leading the world in COVID-19 response and recovery. Indeed, parts of the region are approaching a return to normal. However, the region is socially, politically and economically diverse, and this is evident in the wide range of COVID-19 recovery success. Parts of the region have reopened with COVID-19 under relative control, while other areas (e.g., Victoria, Australia) remain in a sustained and complete lock-down.

With few exceptions, the Asia Pacific economies continue in a recession, with negative GDP growth, the notable exception being the world's second largest economy, China, posting GDP growth of 4.9%. Economic recovery is widely expected in 2021.

Australia's relations with China continue to worsen, with tit-for-tat actions – including trade sanctions – now almost a weekly occurrence. Despite recent civil unrest in Hong Kong – which has largely abated – and well publicized political unrest in Thailand and, to a lesser extent, Indonesia, the Asian political environment overall is relatively stable.

Insurance Market & Key Risks

Australia

- The market is challenging across the majority of products and industries.
- Despite almost four years of remediation, insurers continue to struggle to return to profitability.
- The lines of business experiencing the most difficult conditions are long tail lines including D&O and Professional Indemnity, due to the continued prevalence of class actions and claims inflation, and Property, where rates are now well above technically required levels yet combined ratios generally remain above 100%.
- Competition is increasing in parts of the market where insurer appetite has become more and more aligned, such as mid-market Property risks with good risk quality.

Asia

- COVID-19 and related impacts have accelerated the market firming, especially with international insurers.
- International insurers continue to report loss ratios and combined ratios that are not sustainable, driving further pricing escalation.
- Domestic insurers have been more flexible and favorable in their approaches, but are now beginning to restrict appetite, increase rates, and reduce limits and coverages.

Claims Environment

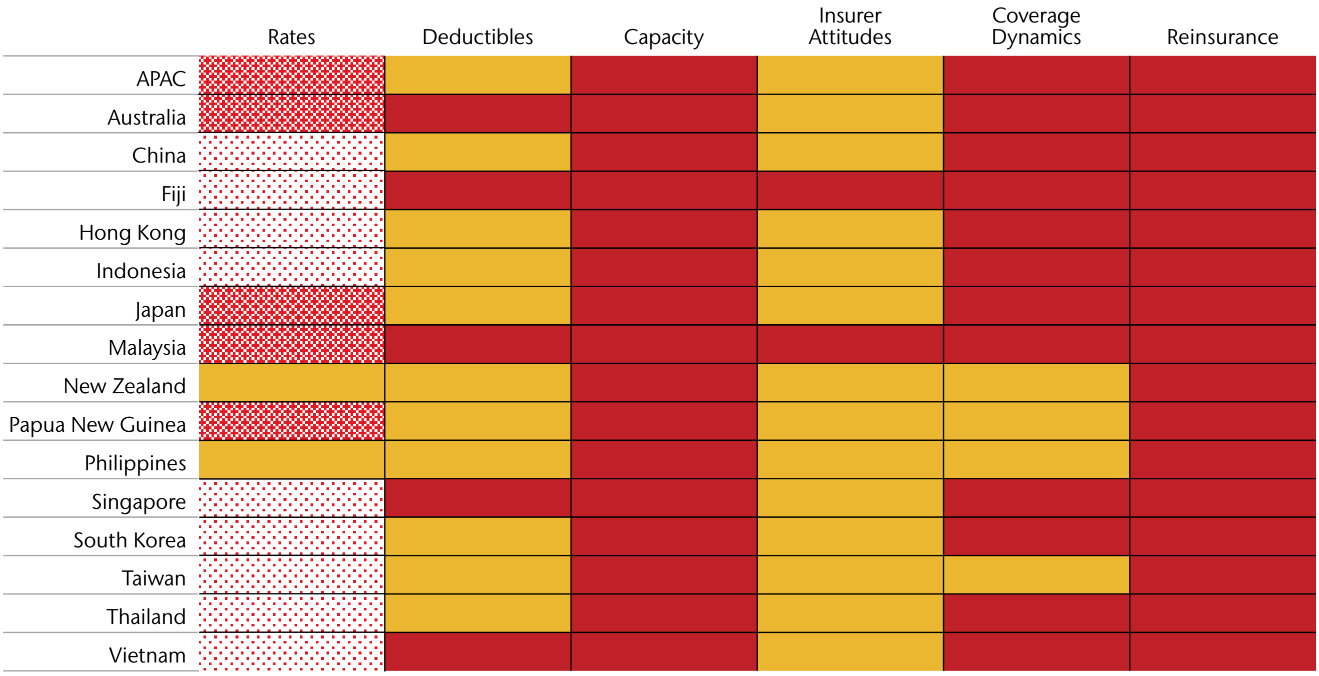
- Australia's regulators have begun a process which, while narrower in scope than the test case brought in the UK by the FCA, will impact claim resolution and decisions related to COVID-19 business interruption.
- Insurers are engaging external counsel, seemingly without always providing oversight and scope of engagement. Insurer reputations will be harmed if external counsel firms are used to disintermediate the insurer from discussions and negotiations with policyholders.
- We are seeing delay tactics from insurers in their response times and claims settlement times. This is partially due to strict policy interpretation as well as a focus on obtaining all outstanding premiums before claims can be resolved.

Advice to Clients

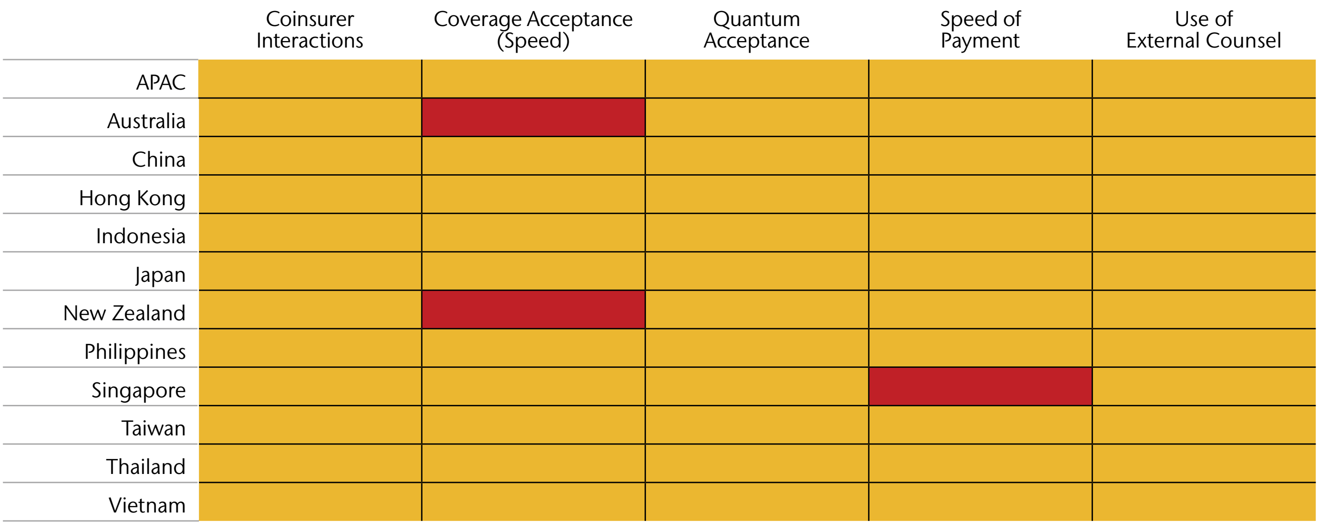
- Evaluate exposure for add-ons. Over the past 15 years, wordings have broadened significantly at little to no cost. As insurers look to better manage their portfolios, they are starting to price for these extra coverages. Consider carefully the coverage versus your exposure to ensure adequacy of coverage when needed but not paying for coverage that is not required.
- Leverage relationships. Relationships remain important, but avoid over-reliance on them. This has become more important as insurers transition to centralized management and withdraw from some segments.
- Differentiate your risk. Identify key points of differentiation that make you a better risk. Provide robust, detailed underwriting and loss control information.
- Have a plan B (and C). Share your priorities and buying criteria with your Aon team and collaborate to explore alternatives. Budget for increases to your risk transfer costs. Manage internal expectations.
- Start renewal discussions early. Be prepared to answer questions, especially related to your COVID-19 response.

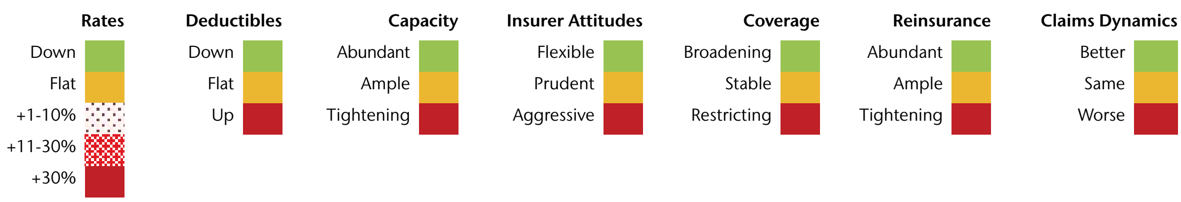
Asia Pacific Market and Claims Dynamics by Country

Market Dynamics

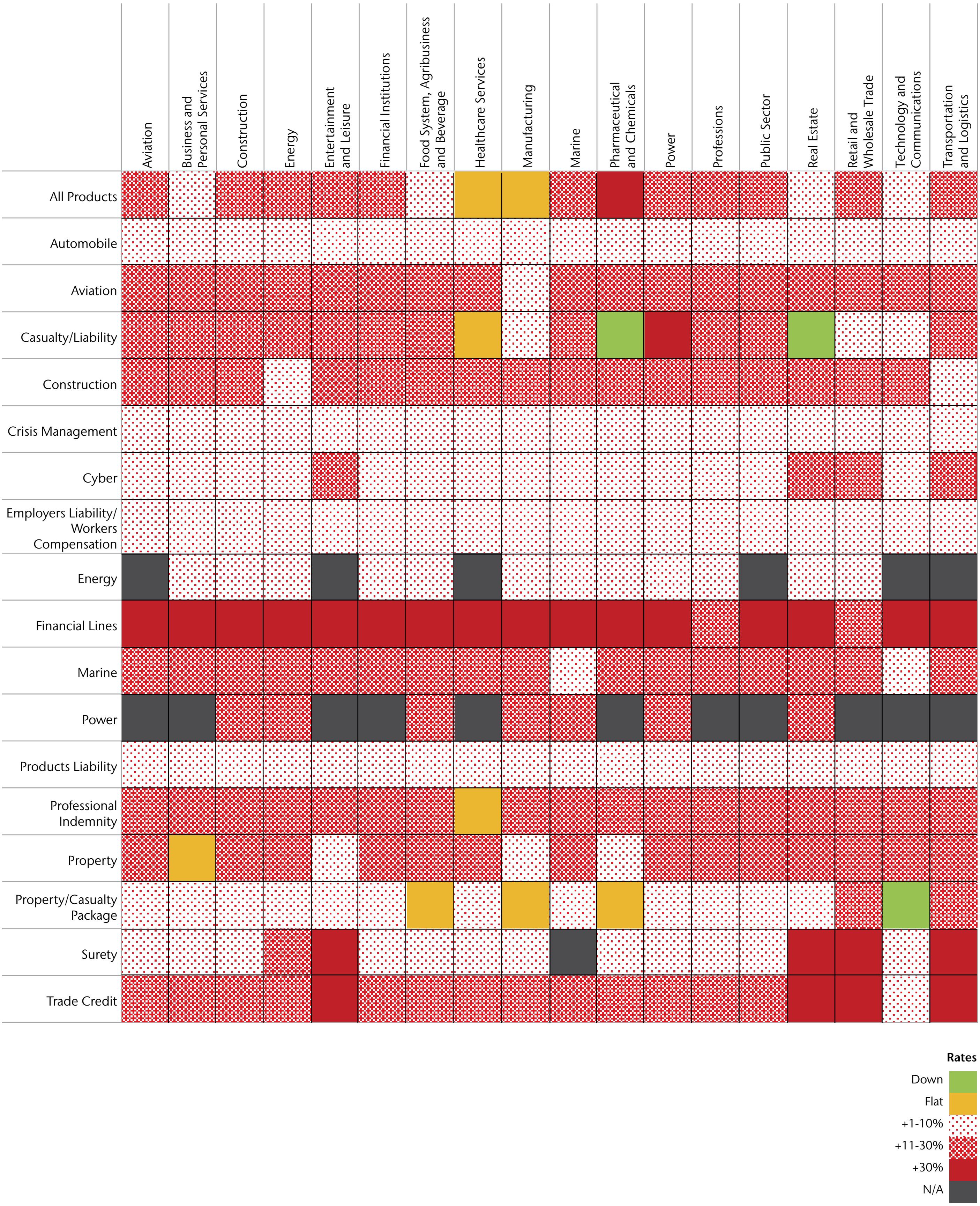


Claims Dynamics





Asia Pacific Q3 Rate Trends



Asia Pacific Featured Industries Q3 Overview

Construction

Industry Issues

COVID-19 has significantly impacted the construction sector, with many projects suspended or delayed due to labor shortages stemming from closed borders, supply chain disruptions, and new safety requirements such as distancing and testing. With some parts of the region in the recovery phase, governments are looking at how they can accelerate investments in new projects to create jobs. In the major infrastructure arena contractors are shying away from bidding on projects as the risk versus reward is proving not to be sustainable on the larger, more complex projects.

Market Conditions

The market remains challenging, with rate increases, coverage restrictions, and a reduction in capacity. Areas seeing the most difficult conditions are Professional Indemnity, Delay in Startup coverage, Defects coverage, and major projects — particularly for projects located in natural catastrophe exposed locations. Underwriting decisions are taking significantly longer, primarily because underwriting authority is being centralized to regional and global head offices/referral points.

A Look Ahead

Governments will continue to invest in projects to stimulate the economy. Insurance market pricing will likely continue to be firm as new capacity is unlikely to enter the market. The underwriting process will be more rigorous, with particular attention to COVID-19 and related measures.

Financial Institutions

Industry Issues

The deteriorating global economic conditions, impacted by COVID-19 and US-China trade disputes, have slowed investments, heightened regulatory interest, and created a very challenging landscape for the financial institutions industry. Financial institutions have reacted aggressively – mobilizing their Business Continuity Plans to enable operations and meet customer needs in new, technology-driven ways. Months later, as the region's economy continues to struggle, banks and other financial institutions are faced with instability and uncertainty as they carefully monitor their loan portfolios and borrower repayment behaviors.

Market Conditions

Pricing and deductibles have increased. Many insurers are moving up the tower, participating in higher excess layers, and putting up less limit. Insolvency exclusions are being introduced. An increase in work-from-home, and associated technology activity are elevating cyber risk across the industry.

A Look Ahead

Rates will likely come under more pressure as losses mount. Insurer appetite will continue to tighten, reducing capacity. There are no indications of new capacity coming into the market.

Marine

Industry Issues

COVID-19 has had a major impact on global shipping markets, with the slump in demand for goods from China having a ripple effect on everything from container ships to oil tankers. At the same time, aging fleets are being replaced by new, larger vessels, creating more capacity at a time when it is not needed. Compared to prior years, shipowners are experiencing higher profitability due to reduced bunker pricing.

Market Conditions

The market is hardening, with higher premiums and deductibles as well as coverage reductions. While capacity is tight on most lines of coverage, given the current pricing environment, there are still insurers with an appetite in this space. COVID-19 and Cyber exclusions are becoming commonplace. Insurers have become more focused on profitability over growth and many are reducing line size on renewal regardless of the quality of the fleet or the claims record. Due to political tensions in the Middle East, War Breach coverage is very costly.

A Look Ahead

Losses are expected to continue to rise. As a result, the market is expected to continue firming, with further capacity contraction.

Featured Country: Australia Q3 Market Dynamics

Landscape

The impacts of COVID-19 continued to ripple across the economy; however, business confidence is generally rising and the late-quarter unemployment rate was not as high as anticipated. A two speed economy is expected in the short term, as areas which remain restricted continue to struggle while the unrestricted parts of the country slowly recover. Across the country, the hardest hit industries include tourism and entertainment. A proposal has been put forward by the government for additional tax cuts and spending on roads and infrastructure in an effort to boost the economy, create jobs, and end the country's first recession after nearly 30 years of GDP growth. China relations in Australia continue to worsen and, for the first time in decades, there are no Australian mainstream journalists in China.

Businesses getting back on their feet are carefully managing costs, while insurance market pricing – following a period of unprecedented flooding, bush fires, and of course, COVID-19 claims – continues to rise across most lines of coverage. Insureds are looking to Aon to help them identify alternative solutions and creative ways to manage premium spend. Insurer authority is being pulled up higher into the organization – often offshore – leading to quoting and servicing delays. More and more insurers are declining to quote unfavorable, challenging, or work-intensive risks.

Featured Country: Australia Q3 Market Dynamics

Featured Products

Auto: Market pricing has been trending up. Appetite is strong for well run risks with a favorable loss history. COVID-19 restrictions have driven down loss ratios and as such, the market is expected to become more competitive in 2021.

Casualty: Combined ratios have deteriorated, exacerbated by rising claims costs resulting from increasing litigation, broader definitions of liability, more plaintiff-friendly legal decisions and larger compensatory jury awards. Rate corrections across both primary and excess have been underpinned by inadequate historical pricing. There are early signs of a potential threat of legal cases related to COVID-19, with a suggestion of class actions against various parties. Whether or not they are successful, legal costs in defending these actions will be incurred. Current market trends are expected to continue throughout 2020 and well into 2021.

Cyber: Insurers continue to aggressively target Cyber. More insurers are entering the market and established players are continuing to look for portfolio business rather than individual risk writing. Wordings have broadened over the last year, including the addition of coverage for non-cyber events like social engineering.

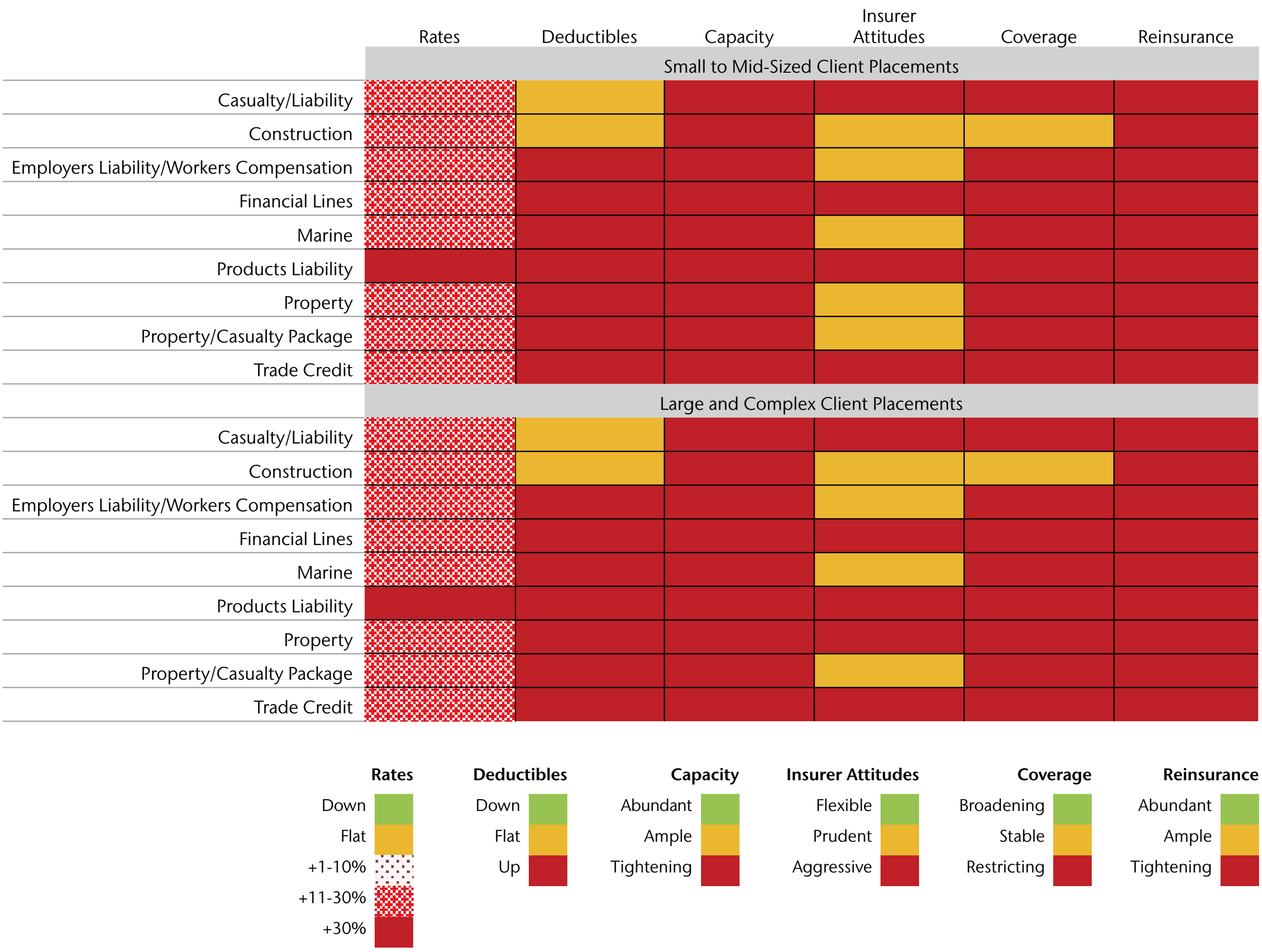
Workers Compensation/Employers Liability: While there have been relatively few claims for the disease itself, COVID-19 related restrictions are expected to have a significant impact on the market. Reduced premiums due to a drop in declared wages will converge with escalating claims costs due to the unavailability of suitable duties at workplaces that have been forced to scale back or close and the postponement of treatments required to facilitate injured workers' recovery. For the time being, impacts have been somewhat mitigated by the JobKeeper program; however, this scheme will soon be scaled back. In some cases insurers are scrutinizing risks due to credit issues which principally impacts the program structures and payment terms offered, given that coverage cannot be refused.

Financial Lines: Premiums are increasing as insurers seek a return to profitability in the face of ongoing class action lawsuits and widespread uncertainty associated with COVID-19. Capital deployment is being reduced across the book, with some insurers withdrawing completely, especially from financial institutions risk. There is a pronounced lack of appetite for primary positions and Side C coverage. Given the long-tail nature of Financial Lines, it is likely that current market conditions will continue, especially as new capacity does not appear to be entering the market.

Property: There is continued rate escalation, and insurers are pulling back coverage (especially for non-damage Business Interruption, Cyber and Infectious Disease) and limits in a number of areas where insurers do not feel they can adequately quantify the exposure. Insured values have remained relatively stable despite the impacts of COVID-19. With organizations' budgets under pressure, many insureds are more price sensitive, and working closely with Aon to explore alternatives such as increasing retentions to maintain current premium levels. Over the past 15 years, a Q4 renewal date has been helpful for many insureds as underwriters look to meet year-end targets, but this trend seems to have reversed over the past 2 years with annual insurer premium budgets met months ago.

Professional Indemnity: The market firming that began 2019 has continued to accelerate into 2020, exacerbated by COVID-19 and the associated global economic downturn. This has been a marked change from the oversupply of insurance capital that has dominated the past decade, leading to years of competitive pricing and broad coverage terms. Long term profitability is now the focus, and current market conditions have driven a more centralized decision-making process for some insurers aimed at controlling the balance across their portfolio.

Featured Geography: Hong Kong Q3 Market Dynamics



Landscape

COVID-19 restrictions were lifted in September, giving a long-awaited boost to many industries which had been hit hard by the impacts of the pandemic, such as food & beverage, tourism and retail shops. For many; however, it was too late. Even despite government aid, unemployment remains high, some businesses have permanently shuttered, tourism is minimal, and the economy is in a serious slump. Social unrest has diminished investor confidence, which may stall economic growth even after pandemic has passed.

The insurance market has transitioned to become more challenging. Coverage restrictions are being proposed – especially related to Infectious Disease – limits are being reduced, and deductibles are increasing for most lines of business. Pricing is escalating significantly, especially for loss-active risks. Underwriting has become less flexible and in some instances, insurers are simply declining to quote.

Featured Geography: Hong Kong Q3 Market Dynamics

Featured Products

Casualty: Pricing remains firm, with some reductions available for favorable, loss-free risks. Local underwriters have less authority, and are increasingly working under the direction of global underwriting teams. While local underwriting remains somewhat flexible, global teams generally have a narrower appetite, charge higher rates, and are willing to put up less capacity.

Construction: Appetite has narrowed considerably, and pricing has become challenging, especially for Construction All Risk and Construction Employees' Compensation.

Employers Liability/Workers Compensation: The economic downturn has reduced exposures (number of employees), so insurers are proposing significant rate increases, in order to avoid premium decreases across the portfolio. Loss active risks are experiencing the most significant increases, while some well performing risks may renew with only slight premium increases. During these challenging economic times, insureds are carefully managing costs; many are partnering with Aon to explore alternatives. Given the rise in remote working, there has been a notable increase in client requests for Work-from-Home coverage extensions and Restricted Business Travel.

Financial Lines: Weak economic conditions have given rise to increased risk related to insolvency and US securities class actions. The stock market is fluctuating, capital has plummeted, and Financial Lines premiums are increasing accordingly. Nervous insurers are looking to participate in excess layers instead of the primary. Insurers have become less flexible and some are requiring Insolvency Exclusions. Insurers are scrutinizing every risk and asking more questions than ever.

Property: Pricing correction continues following losses sustained over the past two years related to typhoons, social unrest and COVID-19. Appetite has become more focused, and there is very little interest in textile and garment manufacturing risks. Capacity – especially for the lead – is tight. Coverage is more restrictive; Strikes, Riots, and Civil Commotion, Communicable Disease, and Non-Damage Business Interruption exclusions are becoming commonplace. Cyber and Terrorism are excluded from traditional PDBI programs and must arranged on stand-alone basis.

Trade Credit: COVID-19 financial impacts led to a significant reduction in capacity, as well as pricing increases. Some non-renewal activity has occurred for high risk industries. There is very little appetite for new business.

Featured Country: Malaysia Q3 Market Dynamics

Landscape

Q2 saw a rapid and severe economic contraction fueled by COVID-19 restrictions (and a resultant spending drop-off) and low oil prices. While some early Q3 indicators pointed to a slight rebound, the economy overall continued to contract. The government continues to fund various stimulus packages aimed at growing the economy, but many businesses continue to struggle, and unemployment remains high. Expectations for 2021 are much more favorable, but risks loom: trade wars, commodity price volatility, and of course, the continuing public health crisis.

The insurance market had already shifted following a significant increase in claims. Today, pricing continues to escalate. Insurers have become more conservative and vigilant in their underwriting process, especially towards large risks. Coverages are tightening, and new exclusions are being introduced, especially related to insolvency and communicable diseases.

Featured Country: Malaysia Q3 Market Dynamics

Featured Products

Construction: The industry has slowed – especially for large projects – due to the COVID-19 related economic slowdown and difficulty finding project financing. The insurance market is challenging, with a firming of pricing and tightening of coverage. COVID-19 exclusions have become mandatory.

Cyber: Following the rapid increase in remote working, many organizations are changing their perceptions of Cyber coverage. Once deemed non-essential, Cyber coverage is now viewed as a "must have".

Financial Lines: Following a prolong period of soft market conditions, the insurance marketplace has shifted to become more difficult. Pricing and deductibles are increasing, while at the same time, coverage terms are restricting, especially related to COVID-19.

Property: COVID-19 has sent ripples through the property marketplace. Insurers have become very cautious and conservative, and many have introduced exclusions for Non-Damage Business Interruption and Infectious Disease (although insurers with year end treaty renewals tend to be more flexible in this regard). Pricing is up significantly, as are deductibles – especially for large and complex risks. Smaller risks may experience a more tempered market. Insureds are exploring options to avoid paying the same price – or more – for more restricted coverage.

Trade Credit: The combination of increasing claims – especially for steel and papermill risks – and uncertainty related to COVID-19, has caused pricing to escalate and limits to decrease. These conditions are expected to continue through the remainder of 2020.

Latin America

Featured Countries

Latin America Regional Landscape

As the number of COVID-19 cases grows across the region, the political, social and economic environment remains difficult; continued quarantines and business restrictions are having major impacts. There is a widespread sentiment that politics, rather than science, is dominating the region's actions. State intervention is putting individual and social rights at risk in some ways, leading to concerns that an escalation of social unrest may occur when quarantines are lifted. There is a growing polarization and political instability, and concern over increasing public debt figures.

Insurance Market & Key Risks

- The market has become very challenging. The lines of business experiencing the most difficult conditions are Political Risk, Property and D&O, and the Power and Energy industries are also very challenged. Risks in these areas, and/or with poor loss history, are facing a tightening of coverage terms, a reduction of limits, and price escalation.
- Local underwriting authority is reducing as the industry transitions to a more centralized model. As a result, market relationships are not having the same impact they once had. In general, underwriting is more rigid, especially related to COVID-19. Before releasing quotes, some underwriters are requiring that all details and questions be fully addressed.
- COVID-19 exclusions are being broadly applied by some insurers across all lines of business.

Claims Environment

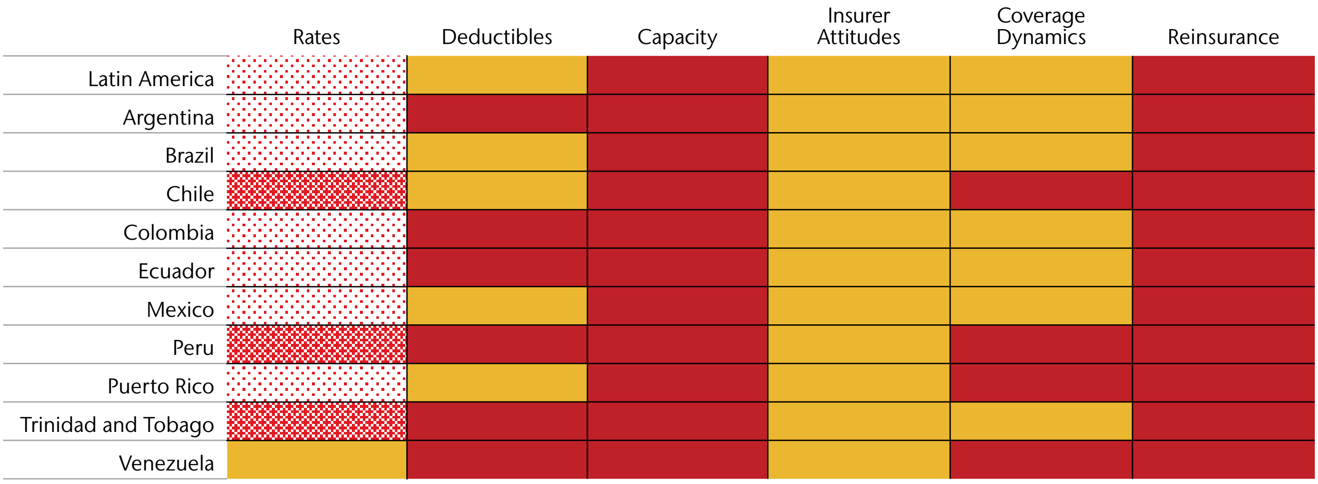
- Insurers are increasing coverage determination times, and declining claims more frequently with arguments based on their interpretation of policy conditions.
- Insurer attitudes have become more conservative, especially during the initial discussions related to a claim. This early posturing can complicate and impede constructive dialog over the lifecycle of the claim.
- An increased use of external attorney firms by insurers early in the claims process has been creating a risk of litigation in advance.
- There is much discussion regarding the reasonableness of attorney fees and also in relation to the values of settlement because the policies terms and conditions are not clear regarding their definitions.
- Some insurers have begun limiting local and regional authority levels as they transition to a centralized model. This is leading to some delays as local teams begin the process but in the end, do not have the authority to agree to the payment.

Advice to Clients

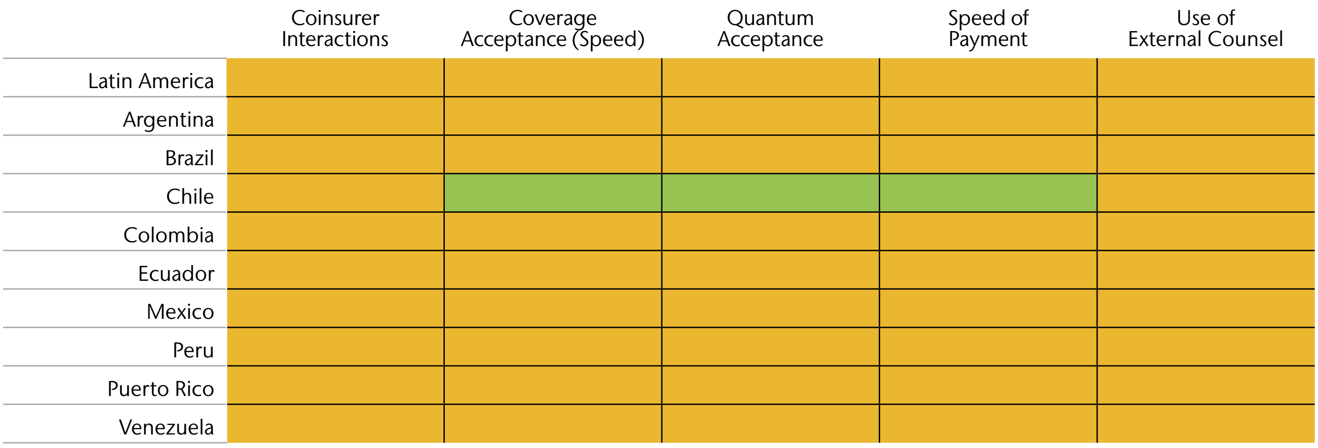
- Evaluate risk: It is understandable in today's environment that an insured may look to reduce coverage and/or limits in order to keep costs down; however, this could lead to unintended downstream consequences. Work with Aon to conduct a thorough risk assessment before reducing coverage or limits.
- Set realistic expectations. We are in a difficult market environment. Adjust budgets accordingly. Recognize that COVID-19 has created a new reality.
- Be open-minded. Together with your Aon team, explore alternatives to help meet your risk and insurance objectives.
- Be responsive. Where risk improvement measures have been recommended, promptly implement the required changes and renovations.
- Use Data & Analytics. Work with Aon to elevate your understanding of what is happening in the market and what your peers are experiencing. Leverage data and analytics to inform your decisions.

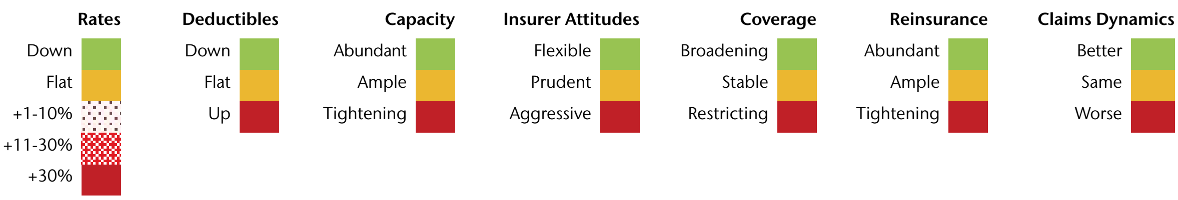
Latin America Market and Claims Dynamics by Country

Market Dynamics



Claims Dynamics





Latin America Q3 Rate Trends

	Aviation	Business and Personal Services	Construction	Energy	Entertainment and Leisure	Financial Institutions	Food System, Agribusiness and Beverage	Healthcare Services	Manufacturing	Marine	Pharmaceutical and Chemicals	Power	Professions	Public Sector	Real Estate	Retail and Wholesale Trade	Technology and Communications	Transportation and Logistics
All Products	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%
Automobile	+1-10%	+1-10%	+1-10%	Flat	Down	Flat	+1-10%	+1-10%	+1-10%	+1-10%	Down	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	Flat
Aviation	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Casualty/Liability	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	Down	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Construction	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	+1-10%	Flat	Flat	Flat
Crisis Management	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%
Cyber	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+11-30%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%
Employers Liability/ Workers Compensation	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	Down	+1-10%	+1-10%	Down	+1-10%	Flat
Energy	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Environmental	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%
Financial Lines	+11-30%	+11-30%	+11-30%	+30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	Flat	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	Down
Marine	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	Down	+1-10%	+11-30%
Power	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Products Liability	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	Flat	+1-10%	+1-10%	+1-10%	+1-10%	N/A	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%
Professional Indemnity	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Property	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+11-30%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+11-30%
Property/ Casualty Package	+30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%
Surety	+11-30%	+11-30%	+30%	+30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	Flat	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Trade Credit	N/A	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	N/A	+11-30%	+11-30%	+11-30%	+11-30%	N/A	+11-30%	+11-30%	+11-30%

Rates

Down
Flat
+1-10%
+11-30%
+30%
N/A

Latin America Featured Industries Q3 Overview

Energy/Power

Industry Issues
Major reductions in oil prices and energy consumption have impacted cash flow across the sector and resulted in a reduction of capex commitments, as well as delays of new projects and exploratory campaigns. When activities resume, operating costs will be higher due to COVID-19 compliance requirements. Some power generation plants are experiencing issues with their maintenance programs, leading to an escalation of claims.

Market Conditions
In recent years, losses have ticked up, resulting in a correction of the market. Insurer appetite has refocused and underwriting is much more detailed and demanding – especially for global insurers. Local insurers tend to be less conservative and more flexible. Coverages are tightening. Low Business Interruption waiting periods (e.g., 30 days) are no longer available. Strikes, Riot and Civil Commotion, Communicable Disease, and Cyber exclusions are being required with minimal buy-back options. There is also a focus on declared Business Interruption Values, with BI Volatility clauses being required more often.

A Look Ahead
2019 losses are still being adjusted and expected 2020 losses so far do not look favorable. Also, economic and industry uncertainty will continue for the foreseeable future. As such, further market conservatism and correction is expected.

Financial Institutions

Industry Issues
The region's economy was already weak and the impacts of COVID-19 only exacerbated the situation. With the region in a recession, financial institutions have been plagued with ongoing loan defaults. They are facing increased regulatory scrutiny and are transitioning to new, tech-reliant operational models.

Market Conditions
In Q3, insurers took different approaches to addressing the strains of the financial institutions industry. Some introduced across-the-board decreases for existing clients. Others were more targeted in their approach, recognizing long-term relationships by providing pricing reductions, especially for favorable risks. And others maintained existing pricing approaches. With a limited number of markets, it has been necessary to leverage reinsurance more often – especially for D&O, E&O, Financial & Professional and Bankers Blanket Bonds – despite its higher pricing and less favorable terms. With a significantly elevated cyber risk, many clients are exploring and purchasing Cyber coverage.

A Look Ahead
The combination of increasing loss ratios and lower interest rates will likely continue to pressure insurers. This is expected to lead to further pricing escalation, reduced capacity and higher deductibles.

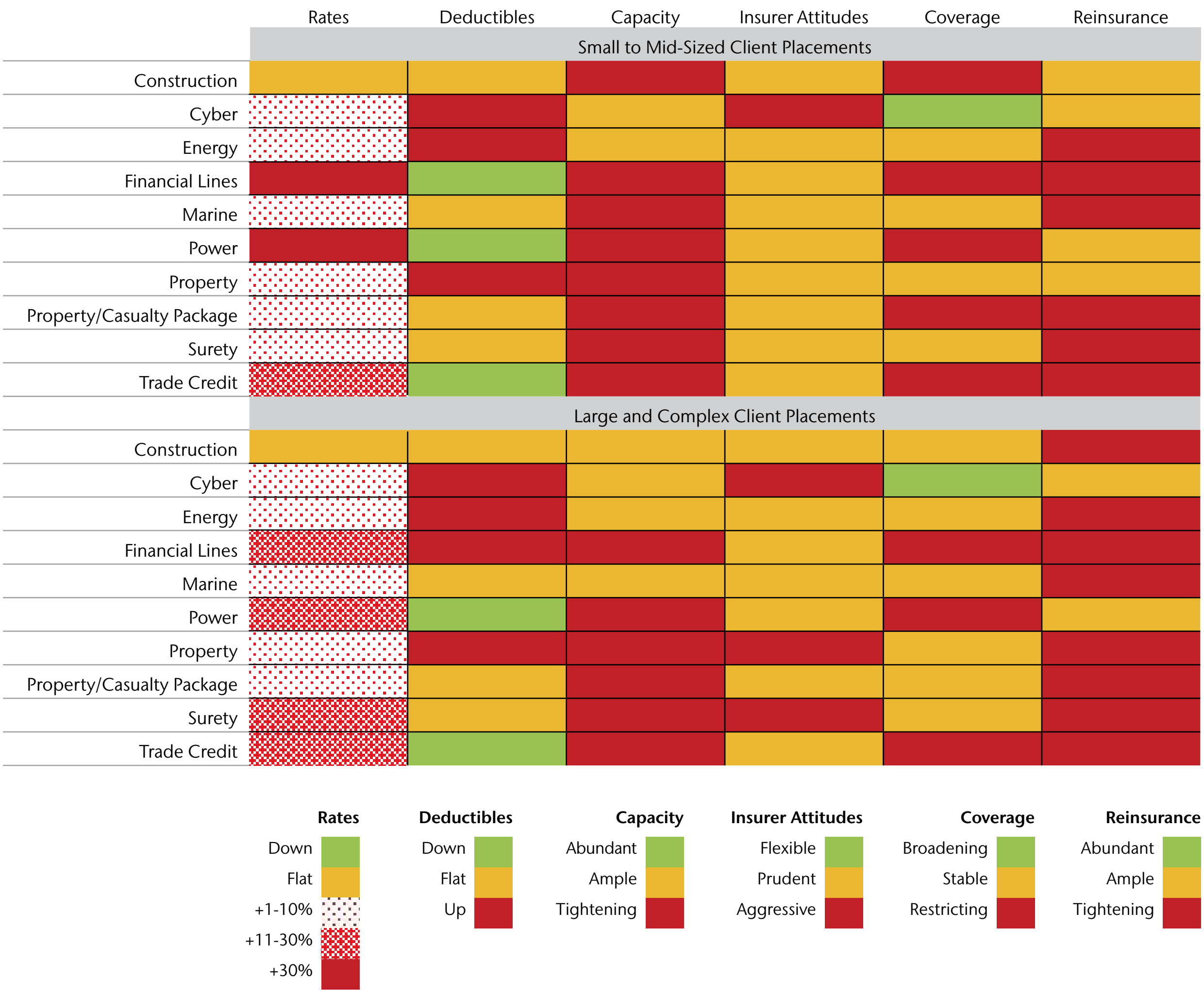
Construction

Industry Issues
Private investments have been significantly reduced, mainly due to high transaction costs, regulations, low government support, and technical risk. As a result, many projects and activities have been suspended at least until early 2021. The economic slowdown has not impacted infrastructure projects in the same way it has impacted other industry activities; however, it has created a heightened focus on leveraging lower cost materials across the industry at large.

Market Conditions
The market is hardening, with elevated pricing, restricted coverages and a narrowing of appetite. Insurers are requiring more information about risks and insureds' risk control measures. Non-renewals have become more common, especially with some offshore insurers. On the positive side, insurers and other capital providers are looking for ways to accommodate special risk and insurance needs caused by the current environment, including the introduction of new reinsurance capacity from Chinese investors, and new product offerings.

A Look Ahead
The industry is expected to quickly recover when COVID-19 restrictions are finally lifted. New local and international capacity is likely to enter the market in 2021 and beyond.

Featured Country: Brazil Q3 Market Dynamics



Landscape

Brazil's 2020 economic contraction is expected to be less severe than initially estimated. The government – after unprecedented spending to support COVID-19 recovery – is now under pressure to reduce further aid, and indeed spending in general, to raise investor confidence in the country's ability to control its debt. With that as the backdrop, the country is grappling with the balance between public welfare and fiscal controls. The economic impacts from COVID-19 restrictions continue to affect industries with low resilience such as aviation, entertainment, and retail, which are focused on their access to capital, protecting cashflow, and cost reductions. On the other hand, e-commerce, food & beverage, and technology companies remain focused on growth and operational improvements.

The insurance market is firming, especially for loss active risks and/or risks which require international capacity. Many organizations are requesting coverage extensions for new/changing risks, premium payment flexibility, and lower costs. Given the challenging state of the market, Aon is working with these companies to explore alternatives.

Specific pandemic exclusions are now commonplace; however, some insurers may be willing to offer the coverage on a stand alone basis. Industries such as Aviation, Marine, Energy, and Mining are experiencing a continuation of the hard market environment that started last year. Trade Credit, as well as D&O and Liability with US exposure, are also facing challenging market conditions.

Featured Country: Brazil Q3 Market Dynamics

Featured Products

Cyber: Cyber threats have increased significantly as a result of COVID-induced remote working and digitization. Many organizations which had previously viewed Cyber insurance as discretionary now see it as essential, and are working with Aon to assess risks and secure appropriate coverage. The Cyber market is still developing in Brazil, and pricing, as well as terms and conditions, are still somewhat favorable.

Financial Lines/D&O: With the country's difficult economic landscape, and a continued escalation of losses, the Financial Lines market is getting harder and more challenging. Appetite is more focused and some insurers are declining to quote new business. Underwriting has become more conservative and cautious, and more information is being required – especially related to COVID-19. Capacity is constrained for D&O (especially US listed companies) and E&O.

Marine: The market is firming; however, flat renewals are possible for favorable risks, where reinsurance treaties are in place. On the other hand, many insureds – especially where facultative reinsurance is required – are experiencing significant pricing increases. There is little appetite for loss active risks. Despite a challenging pricing environment, many policies are renewing at the same terms and conditions as expiring without new restrictions being imposed. As local underwriting continues to transition to regional and global headquarters, there is some expectation that the market could become more difficult.

Property: The market is less flexible and more restrictive. Underwriting authority is shifting to global and regional teams, especially for complex risks and/or those requiring significant capacity. Limits, pricing and deductibles are being scrutinized, and the general effect is a reduction of participation, pricing increases, and elevated deductibles. Coverages; however, have not changed materially. Appetite has narrowed and technical underwriting information has significant weight in underwriter decision-making. Negotiations are more complex and taking longer. With the withdrawal of some insurers, there are fewer markets available.

Surety: Given the current economic and financial crisis, insurers have become more cautious and conservative. There has been a shift to replace existing guarantees (cash, credit letters, other collateral) with bonds, and insurers have been helpful in enabling this transition.

Featured Country: Mexico Q3 Market Dynamics

Landscape

The economy is expected to contract significantly for 2020, despite a slight bounce-back in Q3 from a record-breaking GDP collapse earlier in the year. Investment has fallen at record rates. Unemployment is high and wages are low. In Q3, the country lost more than 12 million jobs. Economists estimate GDP to decrease in 2020 around 10%. The country recently unveiled a mostly privately funded infrastructure plan, which will provide some relief once implemented. In the meantime, more insolvencies are expected in Q4 and into 2021. Social unrest is escalating as frustration grows over Mexico's high COVID-19 mortality rate and lack of fiscal stimulus.

The insurance market remains stable; however, COVID-19 impacts have triggered an increase in premiums and deductibles as well as the introduction of new exclusions. Many clients which are struggling financially are working with Aon to explore alternatives to help offset premium escalation.

COVID-19 required that insurers, like many businesses, adopt technology-driven remote working practices. The rapid transition created challenges for some insurers; some even declined to participate in RFPs due to processing concerns.

Featured Country: Mexico Q3 Market Dynamics

Featured Products

Auto: There is pressure to transition to usage-driven rating, given the reduction in driving/vehicle usage (i.e., exposure) during the pandemic. Given the required actuarial analysis, the market has yet not shifted in earnest but a gradual change is expected. The market remains stable with ample capacity, despite increasing truck theft and security issues stemming primarily from organized crime. Deductibles are increasing as a result.

Casualty: The market remains competitive. Insurers are focused on retention and growth so are working to maintain current pricing models. To do so, they are implementing coverage restrictions, and requiring higher deductibles. New industry-specific products have been developed and will soon be introduced; for example, the market is working on a product for Life Sciences companies working on a COVID-19 vaccine.

Construction: Projects have been stalled due to COVID-19 related funding challenges. Insurance pricing has seen a modest uptick. Despite reasonably favorable pricing, coverage restrictions – especially for pandemic – are being required. Underwriting has become more rigid and conservative, and response times are high.

Cyber: Following the rapid increase in remote working, many organizations are changing their perceptions of Cyber coverage. Once deemed non-essential, Cyber coverage is now viewed as a "must have". The insurance market is stable overall.

Financial Lines: Economic conditions and remote working have led to an increase in claims activity. The market has responded by accelerating pricing increases, elevating deductibles, and implementing coverage restrictions. COVID-19 is broadly excluded.

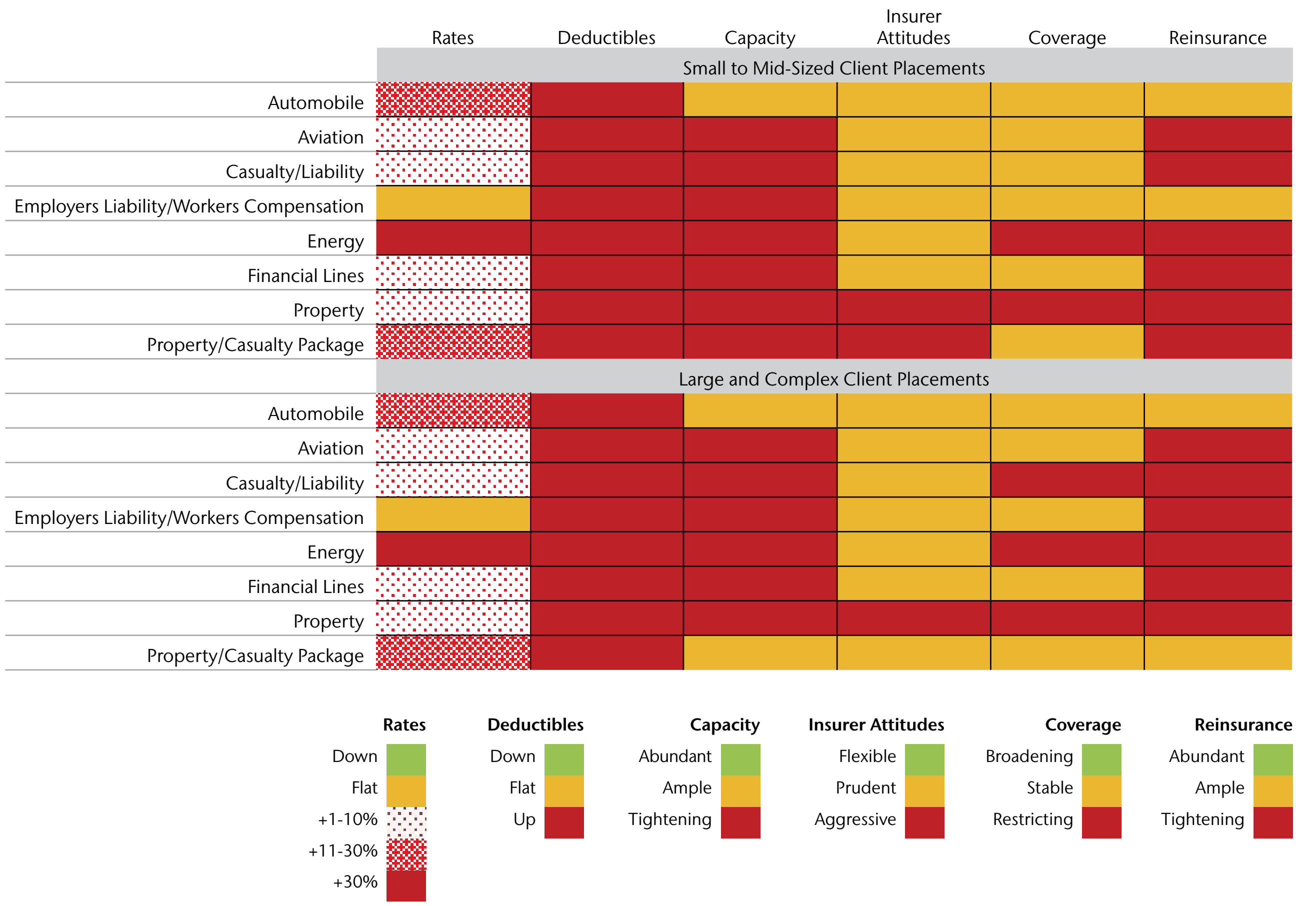
Property: Pricing is stable to modestly up, but insurers are deploying less capacity and many are transitioning to coinsurance/sharing arrangements. Higher deductibles are being imposed. Exclusions for pandemic and/or all diseases related to COVID-19 are now included in virtually all policies. Riot, Strike, and Civil Commotion is being excluded or sub-limited. Insurers are asking for pandemic contingency plans and heightening their focus on engineering recommendations and inspections.

Marine: Criminal activity continues to escalate, and losses are following suit. As a result, insurers are imposing higher deductibles and mandating security measures. Premiums are aligned with each client's loss experience.

Surety: The surety (contractor's) sector depends mostly on public investment, so as long as current conditions continue, surety products will continue in low demand. Nervous underwriters are implementing changes to their underwriting policies; they are scrutinizing financial details and have become more selective.

Trade Credit: Driven by global and local economic concerns, insurers are requiring detailed, updated financial information. But in a market where such information is not public, some underwriters remain uncomfortable. Pricing is higher overall, even for favorable risks, and a reduction in credit limits has become common.

Featured Country: Argentina Q3 Market Dynamics



Landscape

The Argentina National Government continues to extend the COVID-19 quarantine, which has already been in effect for more than 200 days and is devastating the economy. In parallel, there is widespread concern and uncertainty related to national and international debt and overall economic policy. Poverty and associated health risks remain high.

The depreciation against the dollar, and an inflation rate higher than 40% in the last 12 months, has triggered an increase of sums insured, rates, and deductibles. While insurers are aiming to moderate pricing to maintain their portfolio, inflationary increases are unavoidable. As a result, many clients are looking for ways to reduce their total cost of risk, even if trade-offs are required. Some insureds have experienced reduced exposures as a result of COVID-19, providing some offset to pricing increases.

Featured Country: Argentina Q3 Market Dynamics

Featured Products

Auto: Insurers continue to be aggressively focused on growth. Despite this, high inflation rates and escalating costs of replacement parts have driven up insurance pricing. In addition, insurers are requiring higher deductibles.

Casualty: There has been a notable decrease in capacity, along with coverage restrictions, especially by reinsurance markets. In addition, pricing and deductibles have increased.

Employers Liability/Workers Compensation: There has been an influx of COVID-19 claims. Despite the ongoing uncertainty as to how these claims will be resolved, some insurers have agreed to maintain existing rate structures. Other more conservative insurers have escalated their pricing.

Financial Lines: Market conditions are moderately firm; trending up across rates and deductibles. The market has been reduced to only a few insurers, making reinsurance a more popular option. The reinsurance market; however, generally offers less favorable terms and conditions.

Property: While the market is flexible and stable overall, modest pricing increases are being applied, and coverage terms are being tightened. Exclusions are being introduced for Strikes, Riots & Civil Commotion, and clarifications are being applied for Contingent Business interruption. Placements requiring reinsurance are experiencing more challenging conditions than those placed in the local/primary markets.

Global Broking Center

Global Broking Center Landscape

Insurance Market & Key Risks

- Difficult market conditions continue, driven by a continued escalation of claims frequency and severity, a prolonged period of insurer unprofitability, loss cost inflation, and now COVID-19 impacts. Virtually no risks – even those that are clean and well managed – have been spared the impacts of the current market conditions.
- Terms and conditions are tightening, insurer appetite is more focused, and there are further reductions in capacity, especially for D&O, Crime, Aviation, Professional, and Casualty, as well as broadly across the Financial Institutions and Power sectors.
- Underwriters are requiring more detailed information, and asking a lot of questions. Underwriting authority is shifting.
- Placements are more complicated and taking longer to fulfill, straining the entire chain.

Claims Environment

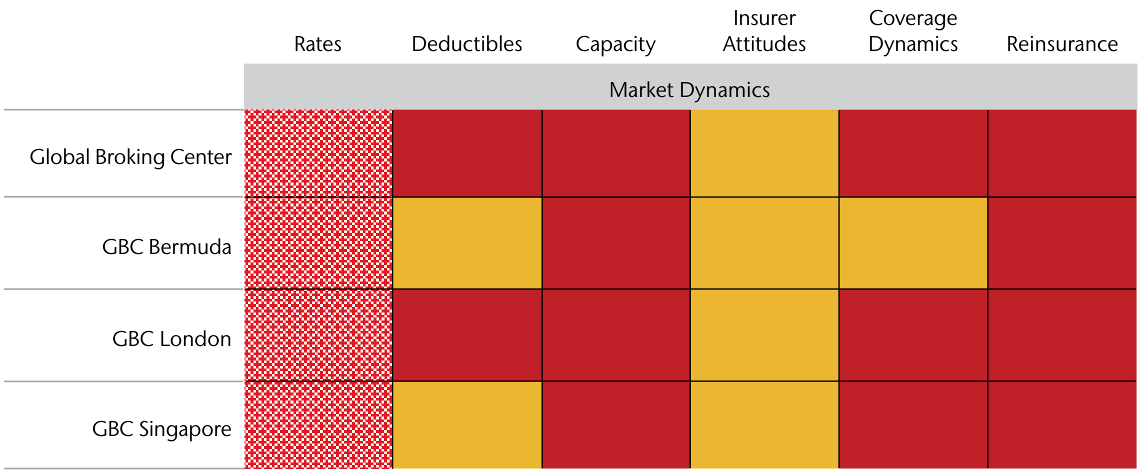
- COVID-19 has had a considerable impact. Many insurers have focused resources and time dealing with the consequences of the pandemic. In certain lines of business we are seeing an increase in the time taken to make decisions on coverage.
- On complex losses there is a greater scrutiny from market members than seen previously, which slows the decision-making process.
- Insurers are becoming more cautious, using external counsel, not only for individual losses, but across their portfolio to drive a consistent approach on key claims clusters such as COVID and riots.
- There has been a marked increase in claims volume and claims complexity, and more books of business are being placed into run-off, resulting in a strain on existing claims resources.
- Business Interruption and Contingent Business Interruption claims continue to be met with significant scrutiny. Questions around quantification of loss sustained continue.
- Reinsurers have become much more stringent, diving deep into specific information and documents despite thorough claims assessment and expert engagement by ceding companies.

Clients Should Consider

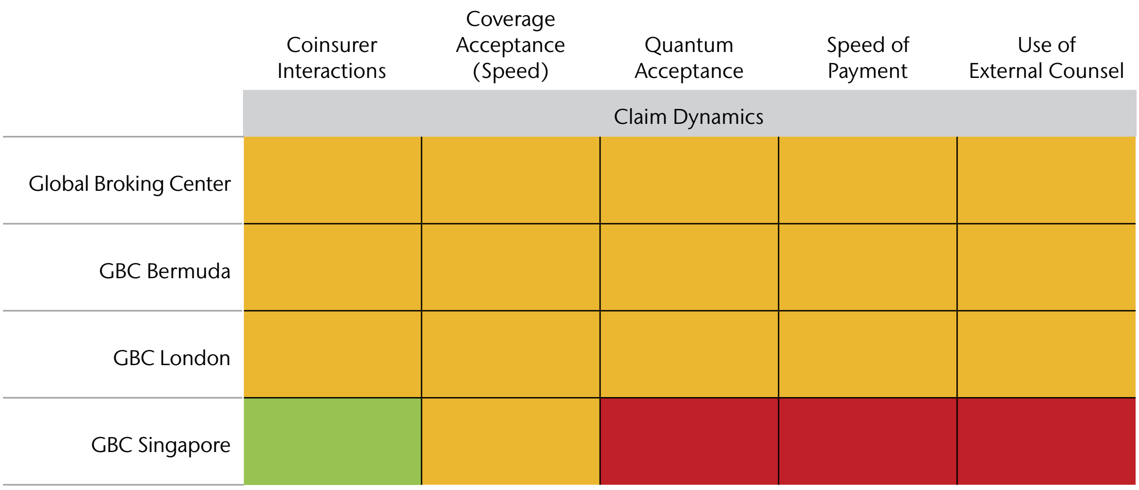
- Develop partnerships. Be collaborative and open. Keep insurers up to date. Meet in person or virtually to foster relationships with decision makers.
- Start early. With tightening capacity and more detailed underwriting, the process is taking longer.
- Review contracts. Given today's risk environment, carefully consider coverage terms and adequacy of limits.
- Explore alternatives. Engage with all viable insurers to hedge against unexpected challenges. Be prepared to explore tradeoffs to help offset premium increases. Explore with your Aon team alternative capital, risk transfer, and risk financing options, including captives and MGAs/MGUs.
- Differentiate your risk. Prepare comprehensive underwriting submissions. Highlight risk management measures and other positive differentiators.

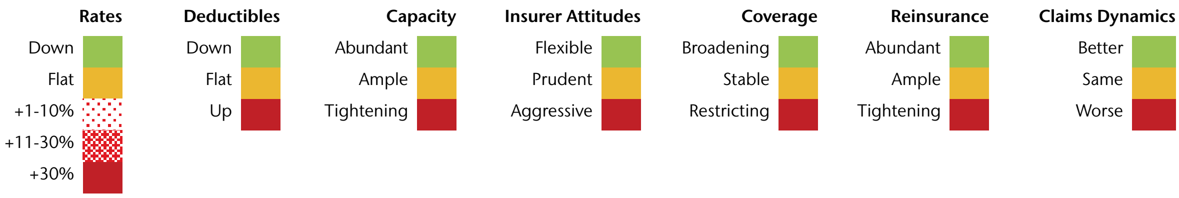
Global Broking Center
Q3 Market and Claims Dynamics by Location

Market Dynamics



Claims Dynamics





Broking Center Q3 Rate Trends

Rate Change

	Aviation	Construction	Energy	Entertainment and Leisure	Financial Institutions	Food System, Agribusiness and Beverage	Healthcare Services	Manufacturing	Marine	Power	Professions	Public Sector	Real Estate	Space	Transportation and Logistics
All Products	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Automobile	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%
Aviation	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Casualty/Liability	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Construction	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Crisis Management	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+1-10%
Cyber	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%
Employers Liability/ Workers Compensation	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Energy	N/A	+30%	+30%	+30%	+30%	+30%	N/A	+30%	+30%	+30%	+30%	+30%	+30%	N/A	+30%
Environmental	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%
Financial Lines	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%	+30%
Marine	+11-30%	+1-10%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%
Power	N/A	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	N/A	+11-30%	N/A	+11-30%	+11-30%	+11-30%	+11-30%	N/A	+11-30%
Products Liability	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	N/A	+1-10%
Professional Indemnity	+11-30%	+11-30%	+11-30%	+11-30%	+1-10%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Property	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Property/ Casualty Package	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%	+11-30%
Space	+1-10%	+1-10%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	+1-10%	N/A	+11-30%	N/A
Surety	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%	+1-10%

Rates

- Down
- Flat
- +1-10%
- +11-30%
- +30%
- N/A

Global Broking Center Featured Industries Q3 Overview

Aviation: The industry has absorbed the full strain of travel bans and lockdowns imposed by governments across the world in their attempts to control the spread of COVID-19. This has particularly affected airlines, airports, air traffic control and airport ground services. The insurance market is getting smaller as more insurers who have paid significant losses reduce capacity or withdraw altogether. This compounds the impact of the marketplace that was already reduced following 2019 withdrawals. This is all contributing to a more difficult pricing environment as insurers seek to increase premium levels to meet losses. Of the insurers that remain in this space, the underwriting talent pool is lacking experience and knowledge from previous hard markets.

Construction: Insurer appetite is tightening. Risks requiring Delay in Startup coverage have become difficult to place. Deductibles are under pressure, and generally increasing. Some insurers are starting to propose Silent Cyber restrictions, and many are requiring absolute exclusions with no write back for Professional Services. Insurers are conducting more internal due diligence and in some cases, an onerous sign off process is required. Consequently, underwriters require much more detailed information in order to satisfy their underwriting process.

Energy: Modest rate increases remain typical for offshore exposures. This cannot be said for Onshore /Midstream Property and Salt Water Disposal, which have seen significantly higher rate increases. This does not appear to be directly linked to the pandemic, but is in relation to onshore well blowouts and contractors' equipment losses. Underwriters are focusing on the accuracy of Business Interruption valuation, and there has been an increased emphasis on catastrophe modelling, as markets look to achieve maximum return for aggregate deployed. It is vital to also consider the price of oil, which recently dipped to its lowest point in years. This has a direct impact on upstream underwriters who are evaluating the risk profile changes associated with a reduction in drilling activity, changes to Business Interruption sums insured, suspensions of rig fleets, and postponing of construction projects. We are in the midst of an unusual situation whereby there is technically less demand (and an over-supply of capacity) but underwriters are being firm and consistent on their requirement for rate increase.

Entertainment: 2020 event postponements have transitioned to become 2020 full cancellations, having a massively negative impact on claim reserves. In response to continued mounting losses across virtually all parts of the industry, market pricing has increased. At the same time, coverage restrictions are being imposed, and there is far less flexibility on bespoke policy language. Underwriting is becoming more centralized. Market capacity has reduced by about 20%.

Financial Institutions: There is uncertainty surrounding the timing of a recovery for the Financial Institutions industry and concerns over falling profitability and balance sheet impairment, combined with increased regulatory involvement and a shift toward tech-centric operations. The insurance market is showing significant contractions in capacity and risk appetite. Rates continue to increase, often substantially, with some underwriters declining risks that do not fit their risk appetite or, if they do, fail to attract adequate premium rate. There has been greater scrutiny of coverage wordings.

Manufacturing: COVID-19 has caused a downturn in revenue across the industry, with supply chains severely impacted by national lock downs, especially in Asia, EU and USA. The insurance market is moderating. Premiums are still increasing; however, some new capacity is being introduced, keeping pricing at reasonable levels. Insurers are introducing coverage restrictions and exclusions for Strike, Riot & Civil Commotion, cyber and Communicable Diseases.

Space: A number of satellite operators have suffered the effects of COVID-19, as they provide communication capacity to the Aviation and Marine markets. However, the Arianespace Launch Centre in French Guiana has now resumed launches as have all other global launch sites. The Space business has now started to move forward again with renewed global economic activity. The insurance market has hardened dramatically over the past 12 months following significant losses; however, in Q3, some stabilization occurred, which is expected to continue.

Global Broking Center Featured Products Q3 Overview

Casualty: Social inflation – amongst other factors, continues to increase the size of awards and settlements under Casualty programs, particularly in the United States. Coupled with restrictions in capacity as insurers cut back their limits, this is leading to significant increases in rates and tightening of terms. COVID or Communicable Disease exclusions, as well as Cyber exclusions, are being applied to most risks. Excess Auto, in particular, is under pressure from USA/Canada losses in terms of coverages and limit availability. There is a market reset for excess layer price per million of limit. For best results, robust, clear underwriting information is key. Tower placements are generally requiring more insurers to fill limits.

Crisis Management: There is a further tightening of long established markets in the Product Recall/Product Contamination space; however, this is offset by new entrants into the space. The Product Recall market is being impacted by COVID-19-related food packaging concerns, which is leading to the discontinuation of imports from food producers in specific countries, even despite reassurances from authorities that the risk of transmission through food is negligible. The Terrorism insurance market is faring well, although pricing continues to escalate. No new coverage exclusions or enhancements are being broadly introduced/required.

Cyber: Claims frequency and severity have increased notably, with ransomware posing the most significant challenge to insurer profitability. As a result, pricing and capacity are under pressure and market resiliency is being tested.

Environmental: More and more insurers are applying contaminant specific exclusions, primarily for new and/or difficult contaminants, including PFAS materials. Insurers are also requiring more detailed underwriting information, especially for challenging risk types.

Financial Lines: There is continued loss deterioration from prior policy years, including on US listed and International portfolios. Poor loss results, combined with uncertainty related to COVID-19 impacts, has led to the continued remediation of insurer portfolios. Appetite is tightening – especially for new business. Capacity continues to contract as insurers reach their stamp capacity. Premium and deductibles are increasing, and coverage terms are becoming more restrictive. Referral underwriting has become commonplace, and there are insurer resourcing shortages, leading to slower processing times. Transaction Liability has not experienced the same market conditions; however, following recent insurer withdrawals, and in anticipation of more difficult 1/1 reinsurance renewals, this line of business is being watched carefully for a potential shift. Clearly the wider M&A landscape, in the context of an uptick in insolvencies and restructurings, will have a significant impact.

Marine: The Cargo market is in a continuing cycle of poor performance and losses. COVID-19-related issues have led to a tightening of coverages (particularly on extra expense type issues). The underwriting process is taking longer. Pricing is increasing and capacity is being deployed more selectively.

Property: While the market remains hard, in general, the extent of rate increases, capacity limitations and coverage restrictions varies widely by risk type and industry. Even loss-free, favorable risks can expect to see a firm market. Cyber and Pandemic exclusions are being imposed on all business – new and renewal. Transitioning single insurer placements into the open market following a shift in appetite is challenging. Reinsurance has become more challenging to place as uncertainty surrounding COVID-19 claims runs high.
The current market trends are expected to continue as COVID presents unknown quantums of possible losses.

Surety: Sureties are nervous about COVID-19 related financial impacts – especially for retail and contractor risks. Some have restricted their appetite and are escalating pricing. That said, favorable risks where appropriate controls have been put in place, are seeing only modest increases.

Key Contacts

SECTION 9

About Aon: Aon plc (NYSE: AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights aimed at reducing volatility and improving performance.

www.aon.com

Powered by Aon Risk/View

Cynthia Beveridge

President, Aon Broking, Commercial Risk Solutions
cynthia.beveridge@aon.com

Neil Harrison

Global Chief Claims Officer, Commercial Risk Solutions
neil.harrison@aon.com

Tracy Hatlestad

Executive Managing Director, Reinsurance
tracy.hatlestad@aon.com

Tucker Sharp

Global Health Chief Broking Officer, Health Solutions
tucker.sharp@aon.com

Hugo Wegbrans

Global Chief Broking Officer, Commercial Risk Solutions
hugo.wegbrans@aon.com