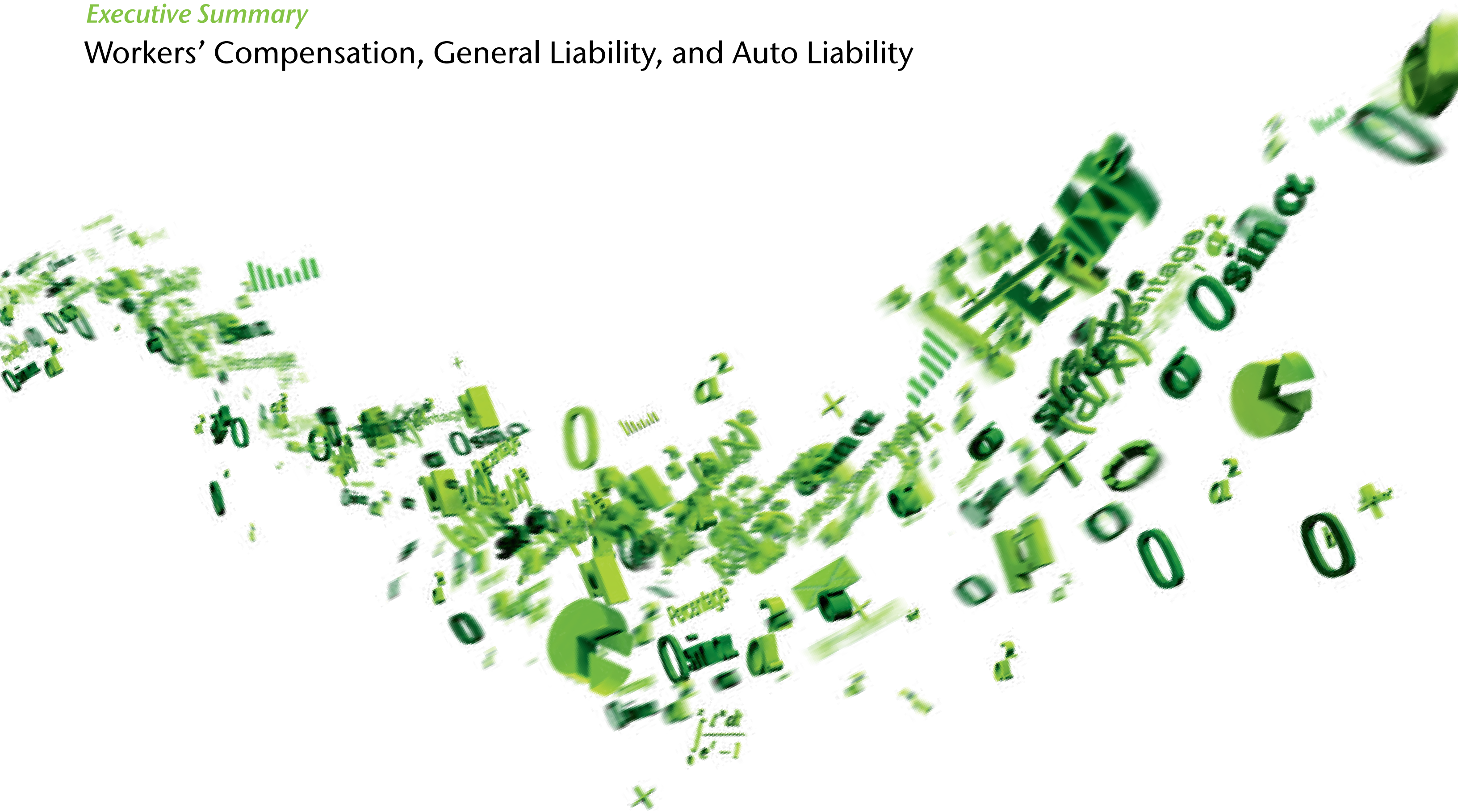
Proprietary

December 2019

2019 Retail Benchmark Analysis

Executive Summary

Workers' Compensation, General Liability, and Auto Liability



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Introduction

2019 Aon Retail Benchmark Analysis

Aon is pleased to present the 2019 edition of our Retail Benchmark Analysis. The purpose of this report is to provide insights on trends in casualty costs to risk managers and financial leaders of U.S. retailers. We hope that you will find this study to be a helpful guide in understanding your organization's cost of risk relative to the various benchmark statistics contained in this report.

Over 40 retailers contributed to the 2019 benchmark analysis by providing their workers' compensation, general liability, and auto liability historical loss and exposure experience. The database underlying the actuarial analysis in this report contains loss and exposure data for ten accident years (2009-2018). By line of business, the database includes:

Workers' Compensation: 676,000 reported non-zero claims, incurred losses of $6.85 billion, and 2018 payroll of $62 billion

General Liability: 375,000 reported non-zero claims, incurred losses of $2.5 billion, and 2018 revenue of $500 billion

Auto Liability: 24,800 reported non-zero claims, incurred losses of $170M, and 2018 vehicle counts of 15,500

Based on data from the Bureau of Labor Statistics, we estimate these participants represent approximately 10% of the U.S. retail industry.

Workers' Compensation

Our actuarial analysis includes workers' compensation statistics for the following:

- Countrywide loss costs, non-zero claim frequency, and non-zero claim severity
- Loss costs, non-zero claim frequency, and non-zero claim severity for 13 select states and by retailer subgroup
- Claim frequency and claim severity statistics for litigated claims versus non-litigated claims
- Claim frequency and claim severity statistics for medical only claims versus lost-time claims

General Liability

Our actuarial analysis includes general liability statistics for the following:

- Countrywide loss costs, non-zero claim frequency, and non-zero claim severity
- Loss costs, non-zero claim frequency, and non-zero claim severity by retailer subgroup
- Claim frequency and claim severity statistics for litigated claims versus non-litigated claims
- Size of loss distributions for claim counts and loss dollars

Introduction

Continued

Auto Liability

Our actuarial analysis includes auto liability statistics for the following:

- Countrywide loss costs, non-zero claim frequency, and non-zero claim severity
- Claim frequency and claim severity statistics for litigated claims versus non-litigated claims
- Size of loss distributions for claim counts and loss dollars

Unless otherwise noted, statistics are defined as follows:

- Loss Cost (limited to $1,000,000 per occurrence)—ultimate loss and ALAE per $100 of payroll (WC), per $1,000 of sales (GL), or per vehicle (AL)
- Non-Zero Claim Frequency—number of ultimate non-zero claims per $100,000 of payroll (WC), per $1,000,000 of sales (GL), or per vehicle (AL)
- Non-Zero Claim Severity (limited to $1,000,000 per occurrence)—ultimate loss and ALAE per ultimate non-zero claim count (i.e., average ultimate loss and ALAE per claim)

We would like to thank the participants for making the 2019 Benchmark Analysis an industry leading resource to understand retail industry claim trends. We hope that you find the benchmark study useful for comparing your casualty loss experience to that of your peers in this study.

Should there be any questions regarding this analysis, we are available to discuss them with you.

Respectfully Submitted,

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Key Findings

Workers' Compensation

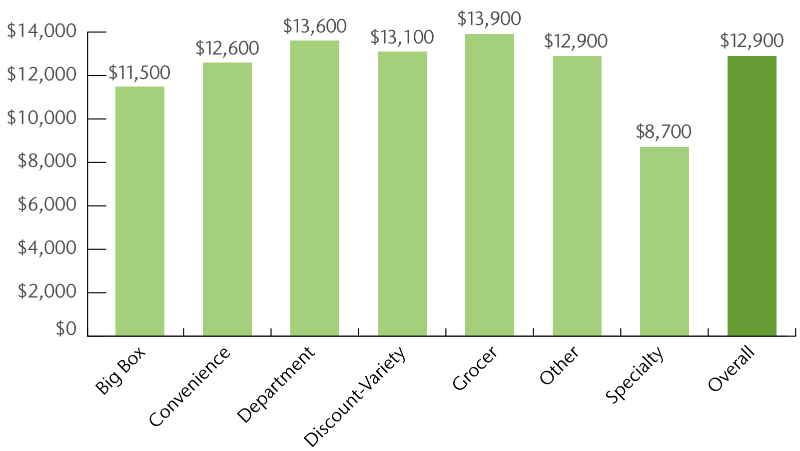
Exhibit 1

WC - 2019 Loss Costs by Subgroup

Countrywide, we project an overall loss rate per $100 of payroll of approximately $1.47 for the accident year 2/1/2019-2020. Significant variations in loss costs exist by subgroup and state. Variations in loss costs by subgroup are primarily driven by claim frequency. Variations in loss costs by state are primarily driven by claim severity.

Exhibit 2

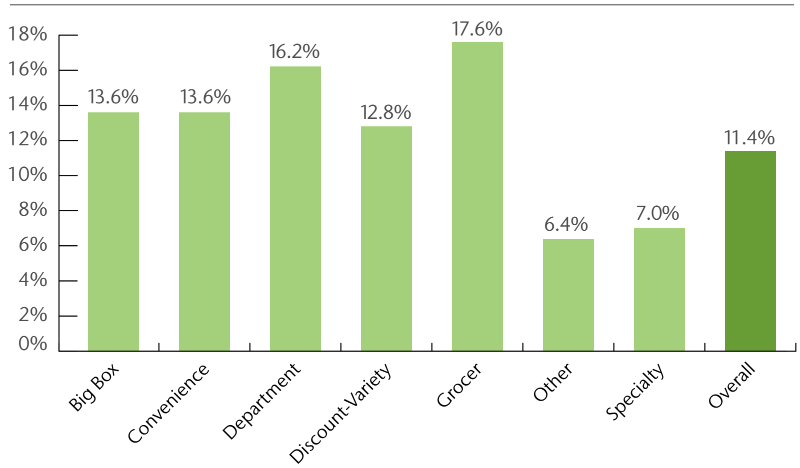
WC - 2019 Claim Severity by Subgroup



Countrywide, we project an overall claim severity of approximately $12,900 per non-zero claim, where individual claims are limited to $1 million. Claim severities do not vary significantly by retailer type, except for specialty retailers that have a claim severity that is two-thirds of the overall average.

Exhibit 3

WC - 2019 Claim Frequency by Subgroup



Countrywide, we project an overall claim frequency of 11.4% which represents approximately 1 claim for every $900,000 of payroll. Grocers and Department Stores experience the highest claim frequency, while Specialty and Other retailers have the lowest claim frequency.

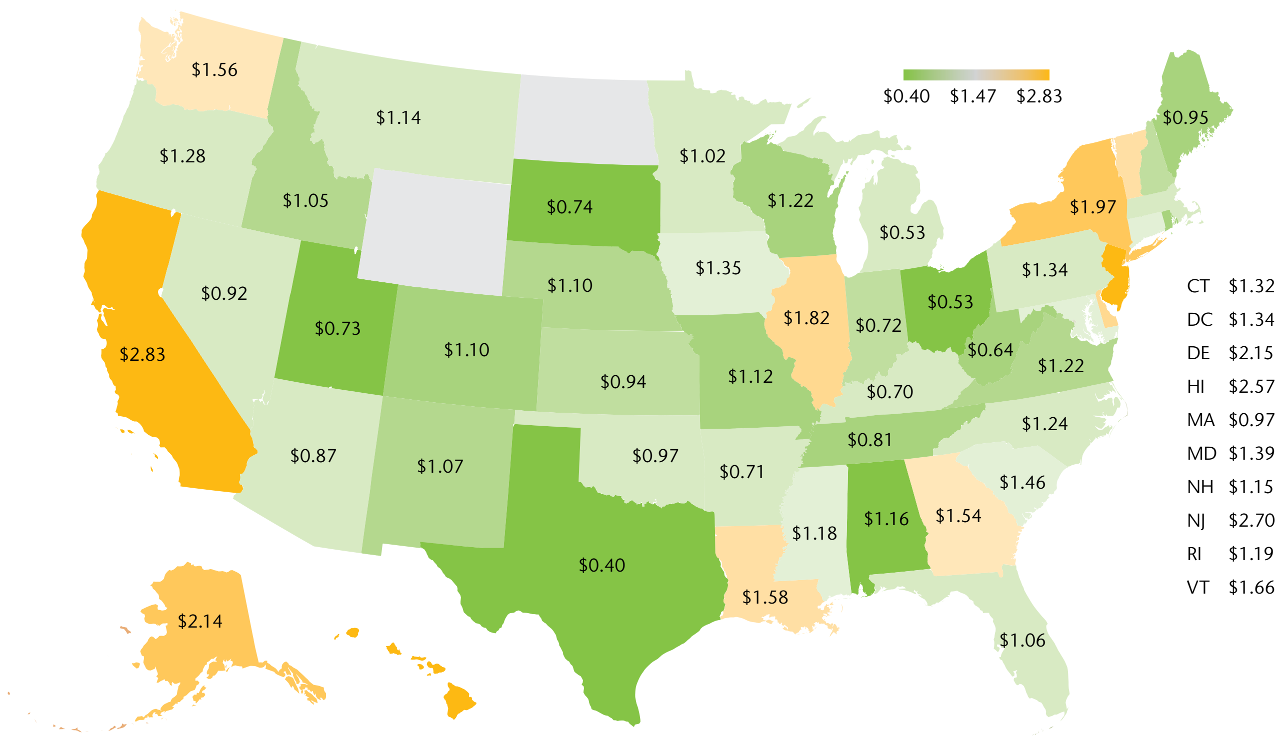
Key Findings

Continued

Workers' Compensation

Exhibit 4

WC - 2019 Loss Costs per $100 Payroll



Loss costs for retailers in Alaska, California, Delaware, Georgia, Hawaii, Illinois, Louisiana, New Jersey, New York, Vermont, and Washington are higher than the national average for the retailers participating in this study. Texas continues to have the lowest loss cost.

Additional findings

- The average cost of a litigated WC claim closed in 2018 was approximately $80,500.
- The average cost of a non-litigated WC claim closed in 2018 was approximately $5,400.
- Overall, approximately 10% of WC claims are litigated; Grocers experience the highest rate of litigated claims at 14%.
- Claim severities for litigated and non-litigated claims do not vary significantly by retailer subgroup.
- The average medical only WC claim closed in 2018 was approximately $1,215.
- The average lost-time WC claim closed in 2018 was approximately $28,000.

Key Findings
Continued

General Liability

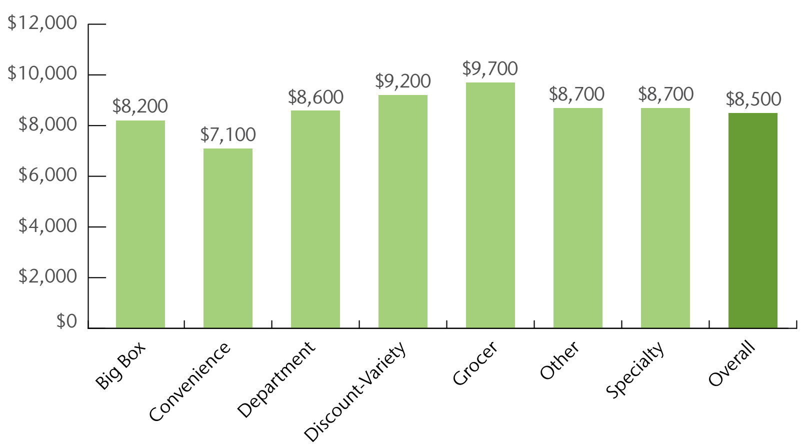
Exhibit 5

GL - 2019 Loss Costs by Subgroup

Countrywide, we project an overall loss rate per $1,000 of sales of approximately $0.77 for the accident year 2/1/2019-2020. Significant variations in loss costs exist by subgroup and state. Variations in loss costs by subgroup are primarily driven by claim frequency. Variations in loss costs by state are primarily driven by claim severity.

Exhibit 6

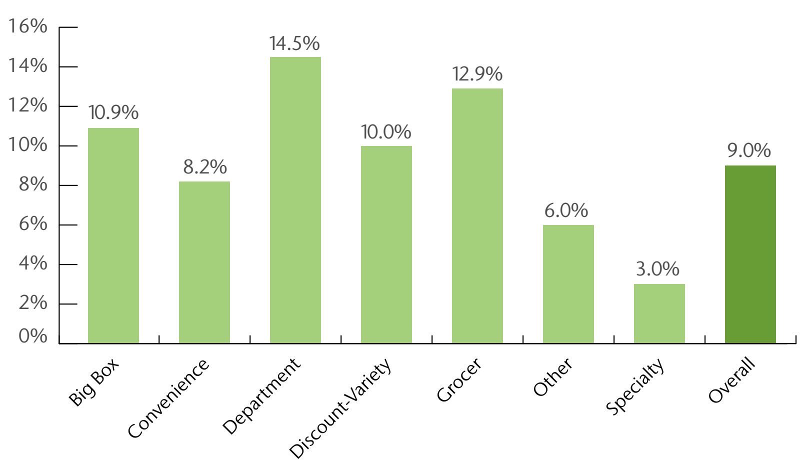
GL - 2019 Claim Severity by Subgroup



Countrywide, we project an overall claim severity of approximately $8,500 per non-zero claim, where individual claims are limited to $1 million. Claim severities do not vary significantly by retailer type.

Exhibit 7

GL - 2019 Claim Frequency by Subgroup



Countrywide, we project an overall claim frequency of 9.0% which represents approximately 1 claim for every $11 million of sales. Grocers and Department Stores experience the highest claim frequency, while Specialty retailers have the lowest claim frequency.

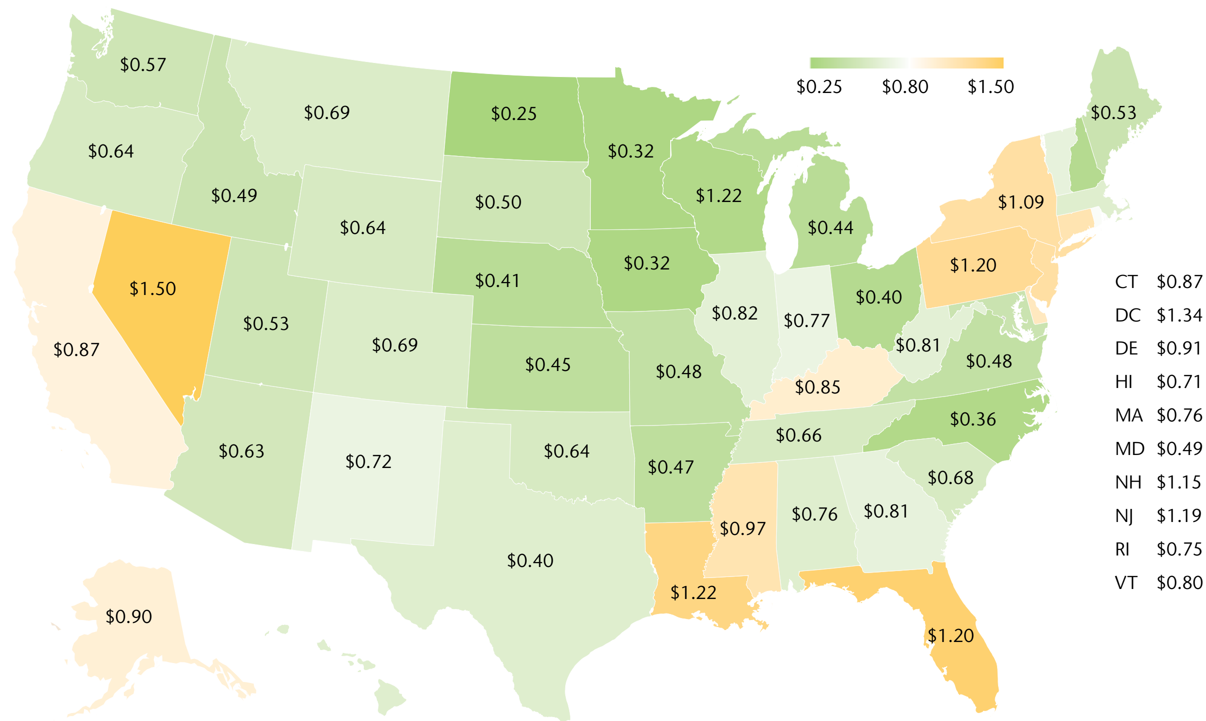
Key Findings

Continued

General Liability

Exhibit 8

GL - 2019 Loss Costs



Loss costs for retailers in Alaska, California, Connecticut, Delaware, Florida, Illinois, Kentucky, Louisiana, Mississippi, Nevada, New Jersey, New York, and Pennsylvania are higher than the national average for the retailers participating in this study. The lowest GL loss costs are concentrated in the upper Midwest.

Additional findings

- The average cost of a litigated GL claim closed in 2018 was approximately $65,800.
- The average cost of a non-litigated GL claim closed in 2018 was approximately $2,500.
- Overall, approximately 8% of GL claims are litigated; Department stores experience the highest rate of litigated claims at approximately 11%.
- Claim severities for litigated claims do not vary significantly by retailer subgroup.
- Litigated GL claims account for approximately 70% of all loss and ALAE dollars paid.

Key Findings

Continued

Auto Liability

Exhibit 9

Auto - All States: Loss Costs per Vehicle

Countrywide, we project an overall loss rate of approximately $1,485 per vehicle for the accident year 2/1/2019-2020. About half of the participants were able to provide auto liability data for the study and the volatility of the auto results reflects the smaller data set. Loss costs have been increasing at an approximate 3% average annual rate since 2012.

Additional findings

- The average cost of a litigated auto claim closed between 2014 and 2018 ranged from $94,000 to $139,000.
- The average cost of a non-litigated auto claim closed between 2014 and 2018 ranged from $3,200 to $4,800.
- Overall, approximately 4% of auto claims are litigated, accounting for 58% of loss and ALAE dollars paid.

Data Collection

The data call for the 2019 Aon Retail Benchmark Analysis was distributed by e-mail in May of 2019. The following data items were collected from participants and used in our analysis:

Loss Data

Participants submitted claim-by-claim detail in electronic format valued as of a recent valuation date (12/31/2018 or later) for workers' compensation, general liability, and auto liability.

The following informational fields were requested: coverage, coverage code/claim type, claim identifier/claim number, occurrence number, loss date, report date, state, location code, and claim litigation indicator (Y/N).

The following financial fields were requested: both paid and incurred, broken out by medical, indemnity, expense components, and recoveries (if paid/incurred are not already net of recoveries).

Exposure Data

Annual payroll data by state and by class code was requested for the workers' compensation analysis. Annual total sales and total vehicle counts were provided for the general liability and auto liability analyses, respectively.

Methodology

Performing an actuarial analysis involves developing a qualitative understanding of the risk and applying actuarial techniques and methods to the available data. These methods attempt to project unpaid and/or unreported losses to their ultimate settlement value. Each method requires certain underlying assumptions and varies in its responsiveness to loss data. As a result, not all methods are appropriate for use in all circumstances. For each unique situation, actuaries assess the strengths and weaknesses inherent in the results of each method in producing reasonable estimates of ultimate loss and ALAE.

A number of methods were used to estimate unpaid loss and ALAE for accident years 2009 through 2018. Various methods were also used in estimating ultimate expected loss and ALAE for the 2019 accident year. For each year, estimates of ultimate loss and ALAE were selected based on the relative merits of the various methods. These methods include the Loss Development Methods (i.e., Chain Ladder and Case Reserve), the Bornhuetter-Ferguson Methods and Frequency-Severity Method, which are all standard actuarial methods.

Conditions and Limitations

The projections contained in our analysis rely on methods and assumptions that are in accordance with standard actuarial practice. The results of the analysis are based entirely on the loss and exposure data provided to us by the retailers included in this study. Readers of this report should keep the following observations in mind:

1. We have relied on this loss and exposure information without detailed verification or audit other than checks for reasonableness. We do not assume any responsibility for errors or omissions in the data or material provided to us.
2. We have assumed that losses reported to us in the aggregate will develop to higher ultimate amounts by the time all claims arising from incidents that have occurred in the historical period under study are reported and eventually closed. In accordance with this assumption, the benchmarks presented in this report are based on ultimate developed losses unless otherwise noted. This assumption is based on the historical industry reporting patterns for workers' compensation and general liability lines of business and is in accordance with standard actuarial practice. Individual claims will likely develop more or less than the percentage of the aggregate development.
3. We have assumed that the losses reported to us represent the unlimited amount of loss and ALAE paid and reserved as of the report date. To the extent losses have been limited, our loss projections may be understated.
4. The losses in this report are on a nominal, undiscounted basis. They represent the actual dollars expected to be paid by the time all claims are closed. No recognition of the time value of money or the cost of capital has been included in our projections.
5. The loss projections presented in this report are based strictly on the claim listings provided to us and, therefore, are a function of the exposure characteristics of the individual retailers included in the study. These characteristics may vary significantly by retailer, depending on such factors as the retailer's location, specialty, and size.

The above withstanding, we believe that the projections in this report are reasonable and are based on sound actuarial methods and assumptions. Any results or conclusions are subject to the ordinary limitations involved in any actuarial analysis and must not be viewed as absolute or guaranteed results. All recipients of this report should be aware that Aon Global Risk Consulting associates that signed the report are available to answer questions about it.

Definitions

The following definitions are provided to help the users of this report fully understand the analyses presented and the resulting conclusions.

ALAE

ALAE is an abbreviation for allocated loss adjustment expense. ALAE refers to costs, in addition to loss payments and reserves, that are incurred in handling claims. Typically, these costs are comprised of legal fees paid by the insured entity in investigating and defending claims. Much of the claim data used in this study contained a separate field to identify ALAE costs separately from loss costs. Whether separately identified or not, allocated loss adjustment expenses are included in the reported loss information and loss projections contained in this report. All references to "loss" or "losses" throughout our report and exhibits include ALAE except where noted otherwise.

Defense (Legal) Costs

In the context of this report, defense costs include attorney's fees and other directly allocable costs associated with defending a company against liability claims.

Exposure

Actuaries select an exposure base such that the incidence of claims will tend to vary directly with the exposure of the entity at risk. The actuary must consider both the historical loss level and the corresponding exposures in evaluating historical claim liabilities and expected future costs. It is important to choose an exposure base measure that is relevant to the unique situation of each risk group.

For workers' compensation we use an exposure base of payroll; for general liability we use an exposure base of sales; for auto liability we use an exposure base of vehicle counts. These are standard exposure bases for these lines of business and work well for the retail industry.

Frequency

Frequency is the ratio of the number of claims divided by exposures. We measure frequency on an annual basis as the number of claims projected for the given time period by every $100,000 of payroll (WC), every $1,000,000 sales (GL), or every vehicle (AL) for that same time period.

Limit of Liability

A limit of liability is the maximum amount of coverage provided by an insurance transaction. Limits of liability may be expressed on a per occurrence basis or an aggregate basis.

Loss Cost

Loss cost is the cost per exposure of settling and defending claims. Loss cost is calculated as the ratio of total losses (loss and ALAE) to total exposures for a given period of time. In this report, exposures are selected to be $100 of payroll for WC $1,000 of sales for GL, or vehicles for AL and the time period is one year. Consequently, a loss cost represents the annual amount per $100 of payroll for WC, $1,000 sales for GL, or vehicle for AL expected to be paid to settle and/or defend claims arising from incidents occurring during the respective year.

Lost-Time Claims

In this report, lost-time claims refers to WC claims that include indemnity amounts along with any corresponding medical and/or ALAE components as part of the settlement value.

Medical Only

In this report, medical only refers to WC claims that include medical expense and corresponding ALAE as the only components of the settlement value.

Severity

Severity refers to the total dollar amount of a claim including loss and ALAE. In this report, we measure the average severity for a given year by dividing the total dollars of loss and ALAE for all claims incurred in the year by the total number of non-zero claims.

Trend

Loss trend is the change in claim frequency and/or severity from one time period to the next. Factors that affect the frequency and severity of claims are constantly changing over time. Examples of causes include inflation, societal attitudes toward legal action, and changes in laws. Actuaries use trend factors to adjust historical loss experience to comparable levels.

About Aon

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