

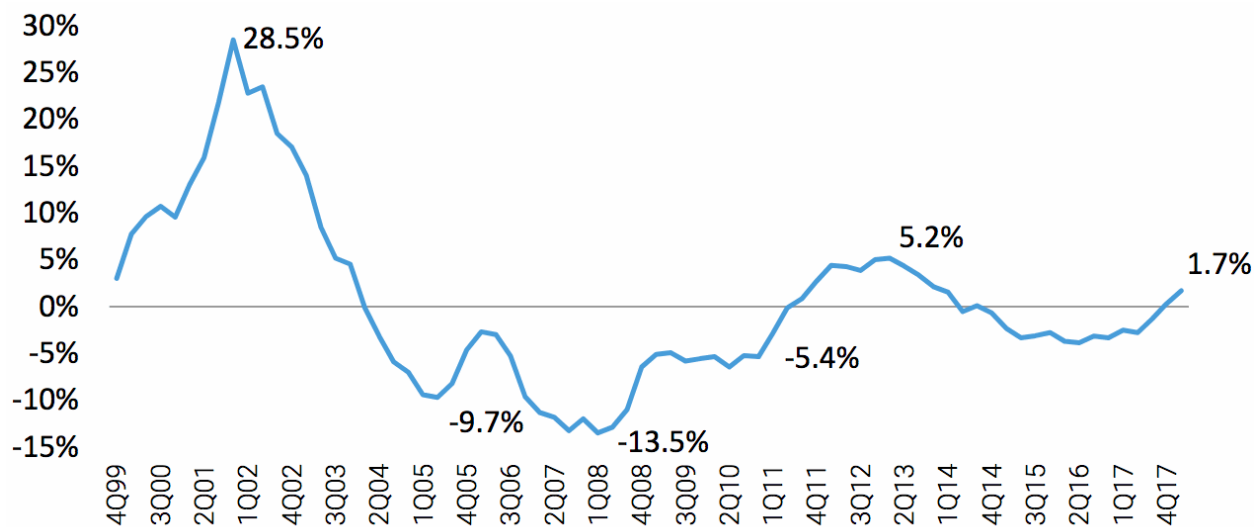


2019 Commercial Insurance Outlook

Introduction

Like most financial markets, the property and casualty market is cyclical, with peaks and valleys. The peaks represent a hard market, while the valleys represent a soft market. During a hard market, premiums increase and underwriting tightens, whereas a soft market sees suppressed pricing a less stringent underwriting or risk.

The graph below illustrates quarterly pricing changes in the property and casualty industry. The last decade has been a soft market, characterized by warnings of the market hardening, while never materializing. We remain in a soft market today, which is beneficial to the consumer.



Disclaimer

The information enclosed is provided for informational purposes, and Business Insurance Associates is not liable for how this information is used. This report in no way constitutes an agreement to secure products and/or services as at particular price, Alaska is unique and while figures based on nationwide anticipated results are useful, we also need to keep in mind that Alaska results will vary from nationwide results.

For questions, comments or more information please contact our office at (907) 274-4142 or info@businessinsuranceassociates.com.

Market Availability

Market availability has been pretty stable over the last few years in Alaska, with most businesses being able to secure commercial insurance for their operations. There are certain industries that might have more limited options based on the underwriting dynamics, and may only have a single choice or two for some lines of coverage, but by in large most businesses have multiple options for coverage on the various lines.

There have been several changes that effected business in 2018 and going into 2019, including Foremost Specialty Insurance selling off their small business unit to the Hartford, and the Hartford subsequently not renewing the small business in Alaska. This small business unit once belonged to Zurich, who sold it to Foremost in about 2012, and underwriting restrictions quickly reduced the overall premium performance for Alaska.

In the assigned risk pool, Berkley Riverport withdrew after participating for only 1 year, and AMGuard was the replacement carrier.

Umialik Insurance Company, owned by Western National Mutual Insurance Co. out of Minneapolis, has continued to expand their multi-line product offering giving more business owners the opportunity to consolidate insurance coverages with a single carrier.

The Assisted Living home market has undergone changes, with tightening underwriting requirement, notably the use of state inspections/surveys in the underwriting process, and some carriers exiting the markets (Lloyd's CDF & NAS). While most industries have seen a reduction or flat renewal insurance prices, this segment has seen increases across the board.



Catastrophic losses from hurricanes, tornadoes, and other naturally occurring events like hailstorms and wildfires continue to be a key component of pricing in the market, and a major consideration as we go forward.

Certain lines of coverage, such as personal and commercial auto and property, are more likely than other lines of coverage to be effected from these type of events.

Commercial Property

Catastrophic losses around the country and increased construction costs will see moderate increases in pricing across the board in commercial property. In 2018, commercial property rates increased an average of 4%, and a similar trend is expected for 2019. According to Moody's Investor Services, commercial property rates will increase by "low single digits."

Commercial Auto

Despite continued increases in commercial auto pricing since 2012, it remains one of the worst performing property and casualty insurance lines for carriers, with loss ratios running well over 100% (premium collected vs. losses paid). After 6-8 percent increases in both 2016 and 2017, estimates put anticipated increases for 2019 around 5 percent. Alaska continues to be a challenging auto insurance market.

Moody's Investor Services notes what some of the driving factors are, "increased miles driven, higher attorney involvement in claims, a jump in large claims (over \$ 10 million), and a tight labor market with transportation firms hiring inexperienced drivers."

Workers Compensation

Alaska has historically seen workers compensation rates among the highest in the nation for years. This pricing is driven by the high cost of medical care in Alaska, fewer market options for coverage in the voluntary markets, and the fact Alaska has more higher risk type environments (ie. logging, mining, construction, oil and gas, fishing, etc) than many other state do.



On average, rates in 2018 decreased about five percent, and as a result of several legislative changes the rates are expecting to decrease even more in 2019 in Alaska. Across the nation, work comp rates dropped 2 percent in 2018. One major consideration remains a tight labor market, where more employers are hiring inexperienced workers, which typically results in an uptick in claims and loss ratios.

Moody's Investor Services notes that "insurers have been cautious about growing their workers compensation books given the uncertainty in medical costs." As an example, AIG has reduced its market presences from third largest carrier in 2014 to ninth largest today.

Commercial General Liability

General liability remains readily available with numerous market options for most businesses. While stand alone coverage is available, this line of coverage is often combined with property coverage for a commercial package, or is secured through a business owners policy.

In 2018, general liability rates largely remained flat. Moody's Investor Services notes 2.5 percent decreases across the nation in 2018 overall. Rates haven't moved more than one percent for the two prior years, so by in large this line of coverage has been very static and flat.

Certain components of the general liability coverage are vulnerable to pricing increases going forward, notably with slip and fall premise liability claims increasing with increased involvement of attorneys who pursue "aggressive litigation against insured parties."

Professional Liability

Professional liability rates increased about two percent in 2018 after slight declines in 2016-2017. The rising cost of errors and omission claims is driving loss ratios higher, with 2019 facing expected loss ratios of 104 percent (premium collected vs. claims paid). Rates will continue to increase slightly in 2019 for professional liability, with higher expected rate increases in medical related fields and assisted living. Again litigation cost increases remains a key concern.

Summary

Insurance companies anticipate higher loss ratios in 2019, which will drive slight rate increases in some lines of coverage. Commercial auto coverage remains one of the most challenging lines of coverage, particularly in Alaska, and will see the biggest pricing increases in 2019 of any line of coverage. If you only have a few vehicles, the increase will likely be negligible in the overall cost of doing business, but if you own a large fleet of vehicles the continued rising auto costs are likely to be of greater concern.

Workers compensation is expected to decrease a fair amount in 2019. We've seen estimates anywhere from 5 to 15 percent, which qualifies as a significant decrease. After a 5 percent decrease in 2018 across the board, business owners are looking at lower workers compensation rates that at any point in recent time. At the same time, the State of Alaska continues to crack down on the misclassification of employees as independent contractors, most recently with the passing of Alaska House Bill 79.