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# P&C Insurance Market Update and COVID-19

May 28, 2020

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## Agenda

**The Mighty Middle Market - Performance, Challenges, Opportunities in the New Reality -**  
*Tom Stewart and Doug Farren, The National Center for the Middle Market*

**COVID-19 Impact on the P&C Market -** *Jeff Fischer, Commercial Insurance Field Operations Leader*

**Chubb's Response -** *Paul Lewis, Commercial Insurance Industry Practice Leader*

Q&A

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MAY 28, 2020

# The Mighty Middle Market

## Performance, Challenges, Opportunities in the New Reality

Thomas A. Stewart, Executive Director, and Doug Farren, Managing Director  
The National Center for the Middle Market

IN COLLABORATION WITH



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## The National Center for the Middle Market

The National Center for the Middle Market is a collaboration between The Ohio State University's Fisher College of Business and Chubb. It exists for a single purpose: to ensure that the vitality and robustness of Middle Market companies are fully realized as fundamental to our nation's economic outlook and prosperity.

The Center is the leading source of knowledge, leadership, and innovative research on the middle market economy, providing critical data analysis, insights, and perspectives for companies, policymakers, and other key stakeholders, to help accelerate growth, increase competitiveness and create jobs in this sector.

For more information about the Center, visit <https://middlemarketcenter.org>.

### Middle Market Research & Data



Quarterly Middle Market Indicator



Research and Expert Perspectives



Interactive Benchmarking Tools

### Expertise & Outreach



Share Research & Discuss Trends



Executive Programs



Webinars

### Education

# The Mighty Middle Market

## U.S. MIDDLE MARKET DEFINED



Annual Revenues Range from  
**\$10MM - \$1B**



Accounts for  
**60%** of All New  
Private-Sector  
Jobs



Nearly  
**200,000** in All Industry  
Businesses Segments and  
Geographies

Equivalent to the  
**5th LARGEST**  
global economy



Represents  
**1/3** of Private Sector  
GDP and Employment



**85%**  
of Companies  
Are Privately Held



More than  
**\$10 trillion** in annual revenue

# Before Covid: Q4 '19

### REVENUE GROWTH

**7.5%**

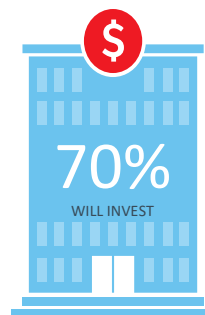
PAST 12 MONTHS

### EMPLOYMENT GROWTH

**5.0%**

PAST 12 MONTHS

### CAPITAL INVESTMENT



### CONFIDENCE

**68%**

GLOBAL ECONOMY



**4.3%**

S&P 500

0.7% SMALL  
BUSINESS 2.3% LARGE  
BUSINESS

**83%**

NATIONAL ECONOMY



**4.9%**

NEXT 12 MONTHS

**3.5%**

NEXT 12 MONTHS

**89%**

LOCAL ECONOMY



# Covid-19: Impacts and Prospects

## About this research

Two weeks after the World Health Organization declared COVID-19 a pandemic, the National Center for the Middle Market surveyed 260 executives of U.S. middle market companies to take the pulse of the most critical segment of the American economy.

All of the survey respondents also participated in the Q4 2019 Middle Market Indicator survey, fielded in December 2019.

The results in this pulse report highlight the current and anticipated future impact of COVID-19 on business operations and reflect how the sentiment of middle market leaders has changed over the past three months due to the coronavirus pandemic.

Participants completed the survey between March 23 and March 25, 2020.



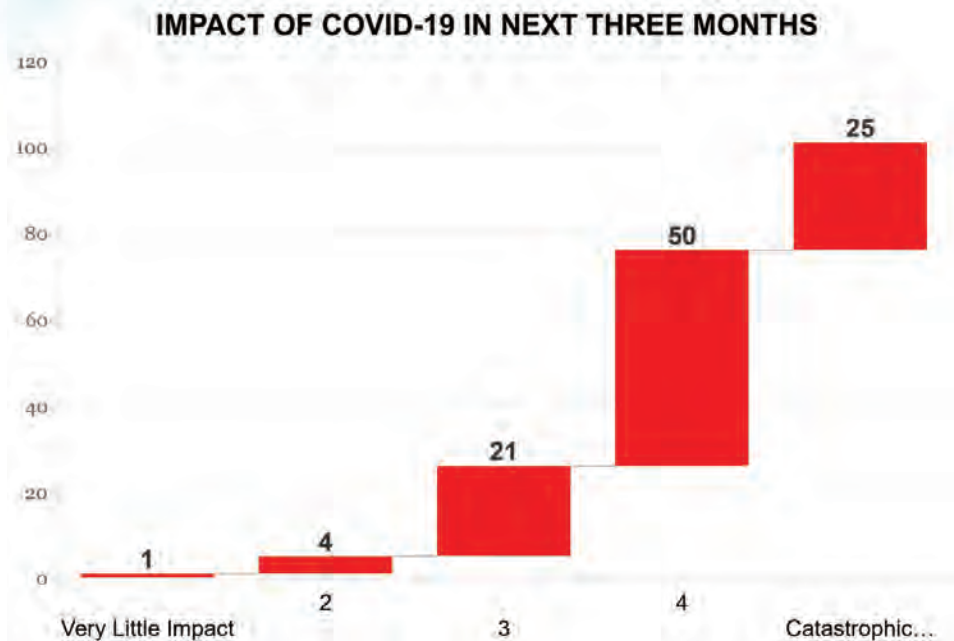
# Headlines

- 1 The Covid-19 pandemic is causing major problems in the middle market, as it is everywhere. Revenue is down, cash is short, operations and supply chains are disrupted. While a few companies will benefit from the pandemic, it may be catastrophic for as many.
- 2 These negative effects have fallen upon companies that, as the year began, were overwhelmingly bullish about the economy and their prospects. In response to the change, they are slashing payrolls and deferring or scrapping expansion plans.
- 3 Executives are bedeviled by uncertainty. Looking at their own effectiveness, they feel best about things within their companies' walls, and least effective dealing with cash, customers, and supply chains. IT and communications are, relatively speaking, bright spots
- 4 Notwithstanding the economic loss, executives retain some confidence in the U.S. and their local economies, and express strong belief in their resilience and ability to get back to work when the crisis ends.

## A severe—even grim—immediate impact

**25%**

BELIEVE COVID-19 WILL PROVE CATASTROPHIC FOR THEIR BUSINESS



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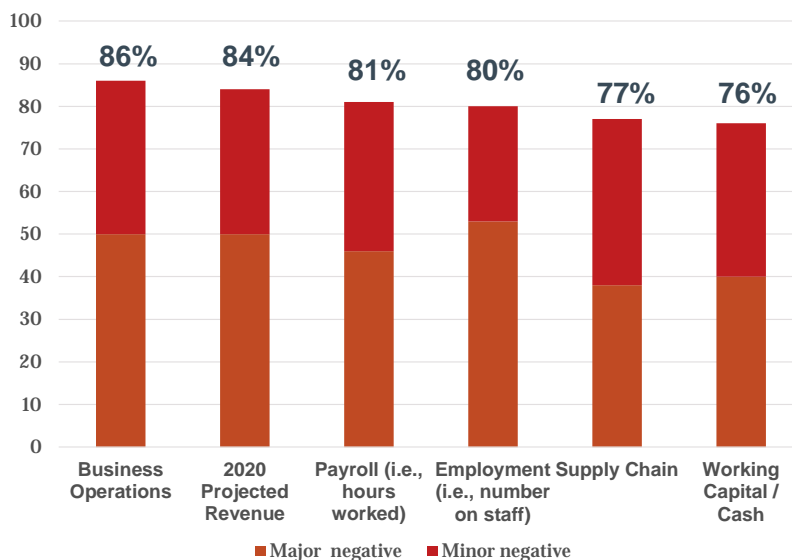
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## Operations and revenue will be hit hardest in short term

**51%**

STATE "ONGOING UNCERTAINTY" IS THE MOST DIFFICULT ASPECT OF THE CURRENT ENVIRONMENT

COVID-19 WILL HAVE AN IMMEDIATE NEGATIVE IMPACT ON



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## Plummeting growth projections: total middle market

DECEMBER 2019

MARCH 2020

**4.9%** Was the 12-month projected revenue growth rate

**78%** Say growth will decline

**3.5%** Was the 12-month projected employment growth rate

**64%** Say employment will shrink

## Plummeting investment projections: total middle market

DECEMBER 2019

MARCH 2020

**51%** Planned to enter new domestic or international markets

**70%** Will pull back on growth initiatives

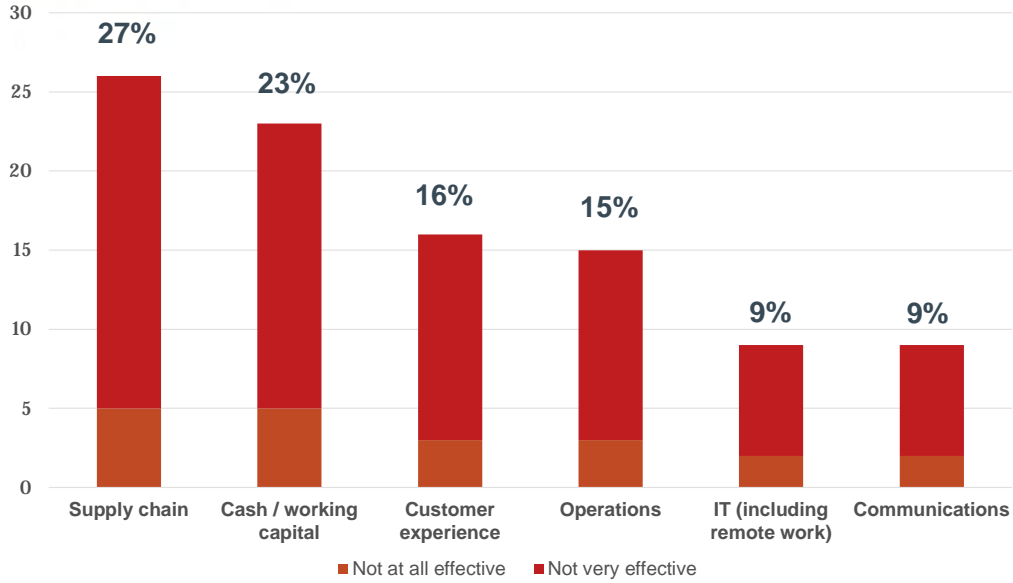
**32%** Expected to build a new plant or facility

**66%** Will delay capital spending



# Where managers feel they are least effective

MANAGEMENT PERSPECTIVE ON ITS EFFECTIVENESS IN MITIGATING PANDEMIC-RELATED PROBLEMS

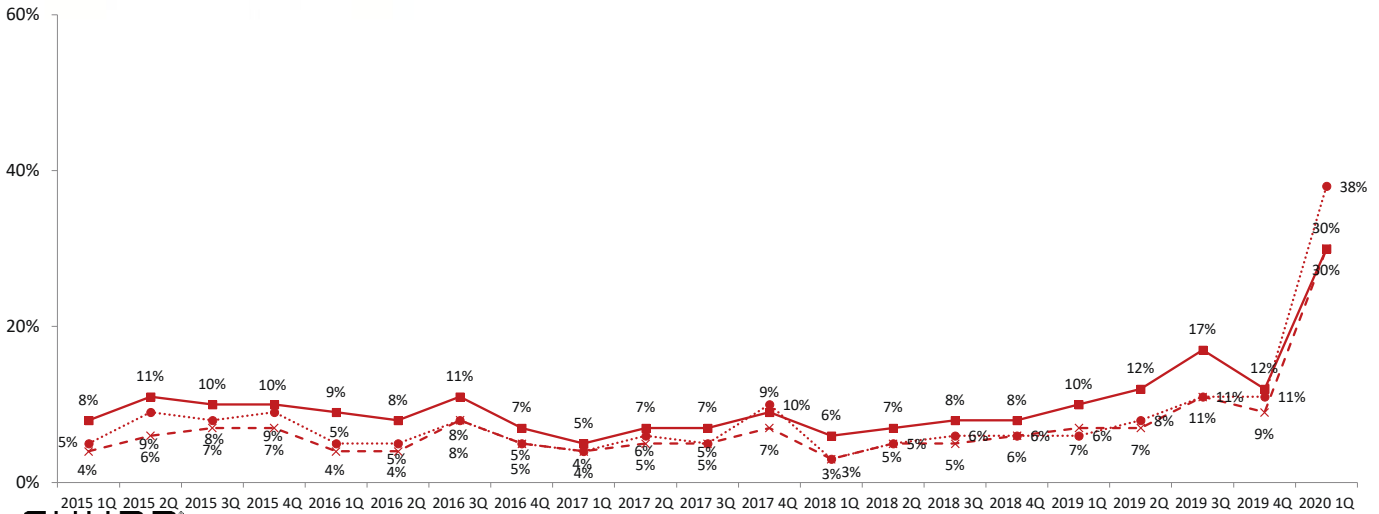


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# Short term: Negatives jump

Short Term Outlook  
(Next 3 Months)

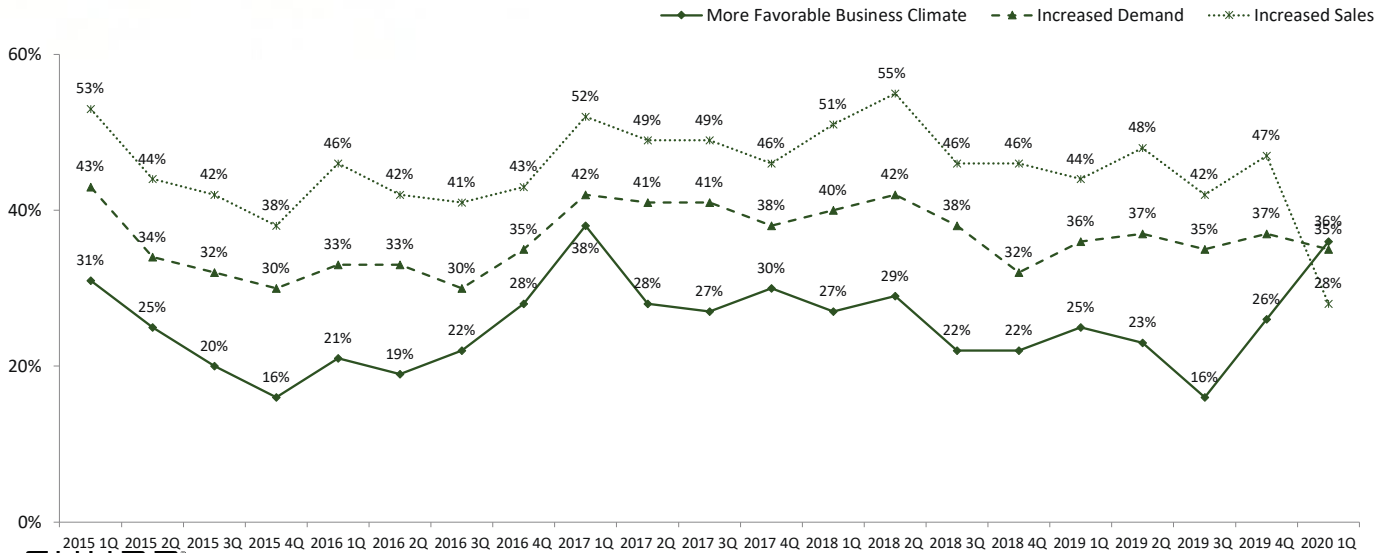
—■— Less Favorable Business Climate —×— Decreased Demand —●— Decreased Sales



CHUBB® Middle Market Indicator Report

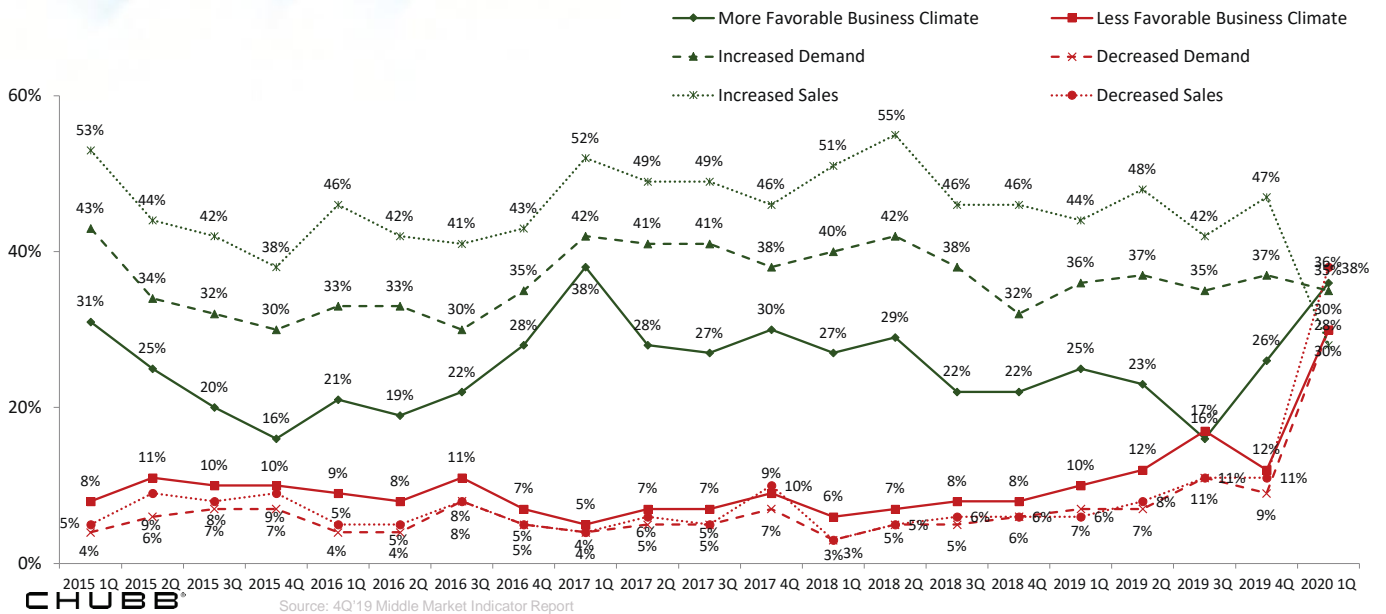
# Short-term: Climate and demand hold up for now

**Short Term Outlook**  
(Next 3 Months)



# Short-term: Putting it together

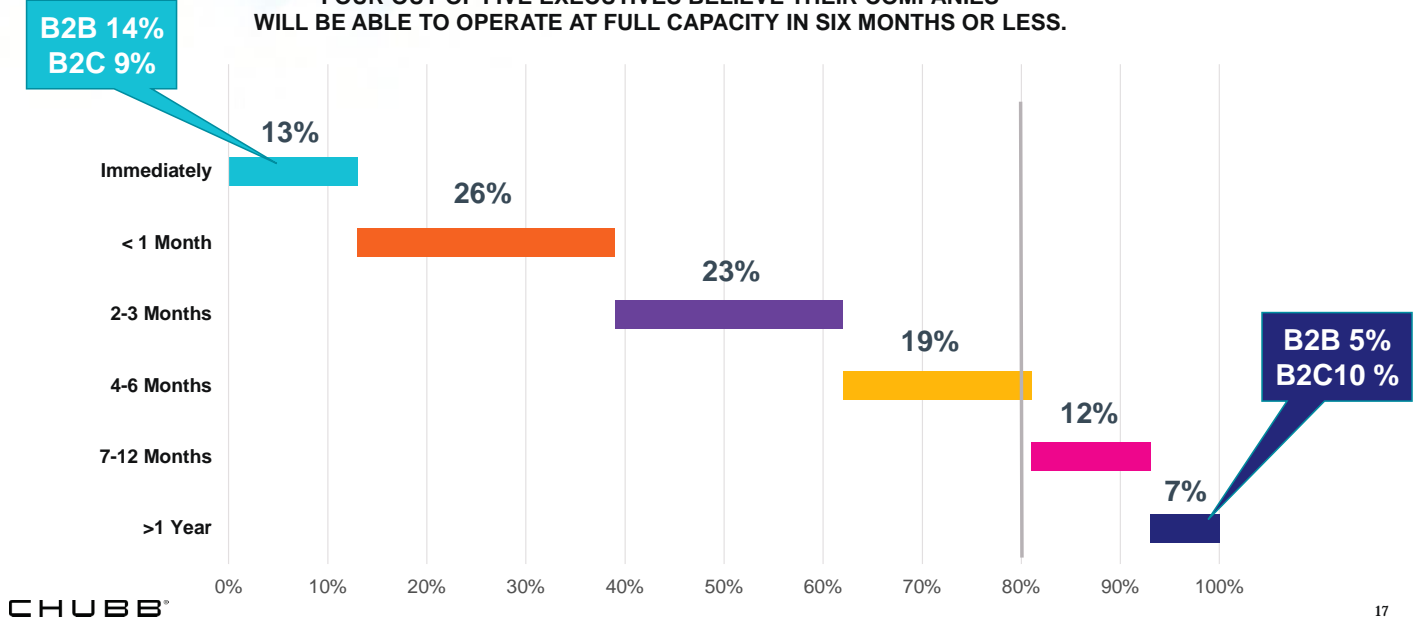
**Short Term Outlook**  
(Next 3 Months)





# Resilience when the crisis ebbs

FOUR OUT OF FIVE EXECUTIVES BELIEVE THEIR COMPANIES WILL BE ABLE TO OPERATE AT FULL CAPACITY IN SIX MONTHS OR LESS.



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# Insights on business impact and risk

## CHUBB® COVID-19 and the Middle Market Insights on Business Impact and Risk Implications

In late March, soon after coronavirus shutdowns took effect, Chubb and the National Center for the Middle Market surveyed executives of mid-sized U.S. businesses to assess the impact COVID-19 is having on their operations. The following features key insights from the survey along with associated risk and insurance considerations. Business owners/leaders are encouraged to review their current risk profile with their insurance agent or broker.

### Insights 1 & 2: Most are seeing immediate negative impacts, with growth projections tumbling

While most survey respondents were confident, investment-minded, and anticipating growth going into 2020, they are now facing their most challenging period in a decade. Half of more of respondents are experiencing a major impact to their operations and employment, with significant majorities see growth declining and staffing levels shrinking for the year.

**Risk management implications:** It's natural to assume that reduced operations or moving offsite decreases exposure to risks. Slowing sales and shifting work to home may lead to a decline in some exposures, such as commercial auto, to the extent fleet usage declines. However, other risk areas remain, such as workers compensation—even if the number of work shifts has been reduced or employees are working at home. Employees may not have an appropriate home workspace, which can lead to accidents and injuries such as carpal tunnel syndrome. As a result, businesses should ensure that employees have properly equipped and ergonomically sound workspaces, regardless of location. For employees who continue to interact with co-workers or customers, safe practices such as social distancing, sanitizing, and proper use of personal protective equipment (PPE) are needed.

Property exposures also remain, and may increase, if buildings are empty. Significantly reduced use and occupancy of business locations could present challenges in the absence of regular activity. For example, reducing or shutting off heat may cause pipes to freeze and burst. Unmonitored fire suppression systems may increase the risk of a significant fire loss.

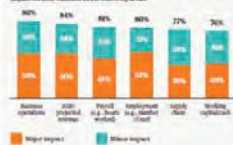
A reduced security presence may result in increased intrusion and resulting stolen or vandalized inventory or arson. Deferring routine risk management programs and maintenance protocols could increase the potential for incidents with higher loss frequency or severity. Poorly lit areas, unprotected floor openings, unmonitored chemicals, or flammable materials can make it dangerous for those entering the building or fighting a fire.

In some cases, businesses may have changed their operations to respond to critical needs in their communities, such as manufacturing PPE. In those situations, it's important to consult your risk management advisors to determine if there are increased liability or other risks and what mitigation measures can be taken to reduce them.

### 1. The immediate impact of COVID-19 is negative for most and catastrophic for some middle market businesses.

More than half out of five companies report at least some immediate negative consequences for operations, revenue, and employees. Nearly as many say their supply chain and cash flow will take a hit in the near term.

Percent of respondents saying COVID-19 will have an immediate negative impact on their business in the following areas:



### 2. Growth projections have plummeted.

Compared to the earlier 2019, the majority of business growth has changed dramatically and will affect key business decisions in 2020.

Long term expectations



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# COVID-19 Impact on the P&C Market

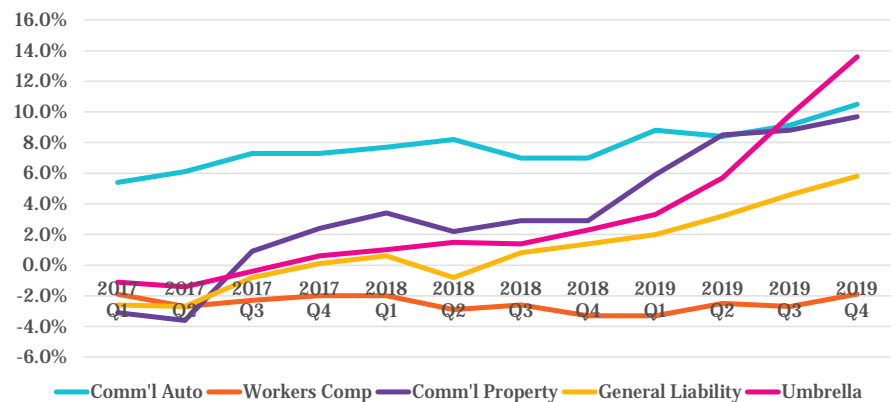
**Jeff Fischer**  
 Executive Vice President  
 North America Commercial Insurance Field Operations Leader

## Acceleration of Hardening Market Trends

### Drivers of firming pre-COVID:

- Social inflation driving tort costs higher
- Medical and cost of goods sold inflation driving Claims costs
- Challenged lines and weakening reserves
- Low interest rates pressure underwriting income
- Reduction of risk capacity for large limits, carriers retracting
- Increasing severity and frequency of non-modeled weather

Commercial P&C Rate Trends  
 2017-2019  
 CIAB



## What's Happening in the Market: COVID

### Earnings Pressures:

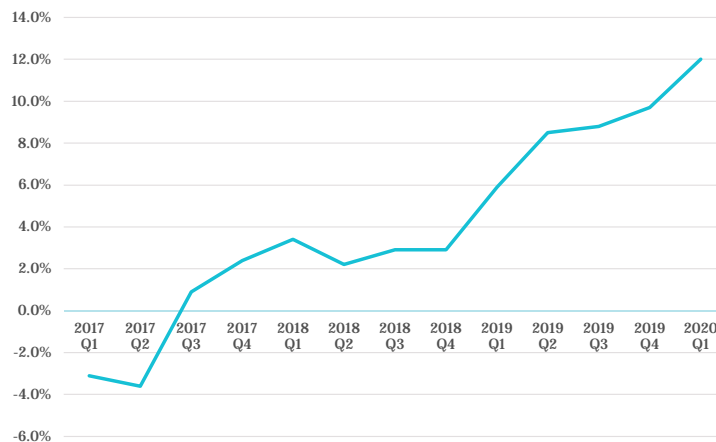
- Low interest rates, volatile markets pressure investment earnings
- Q1 CATs, continued rising loss trends impact cash flow and highlight importance of liquidity
- Uncertainty regarding COVID spread, impact and reopening process

## What's Happening in the Market: COVID

### Property

- Severe weather in Q1
- Underlying loss trends continue
- Tightening reinsurance market
- Potential increase in losses due to moral hazard, vandalism and increased severity in unoccupied premises; along with higher loss payments because of delays in repair or replacement of lost or damaged property by covered causes of loss (such as fire)
- Premium impacted as property value growth slows

Property Rate Trends  
2017-2020 Q1  
CIAB



## What's Happening in the Market: COVID

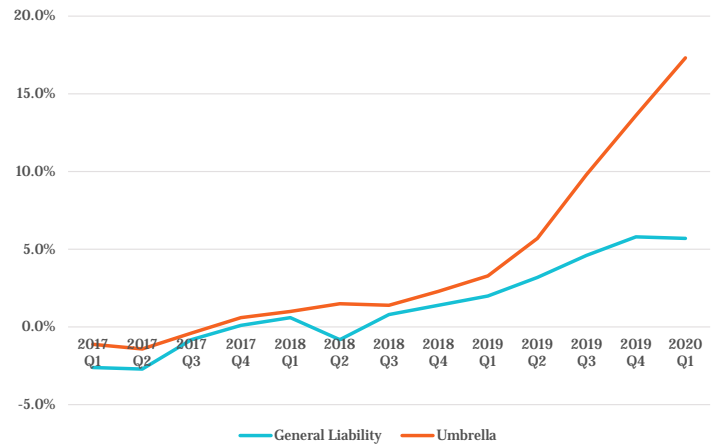
### General Liability

- Premium decreases with exposure base (revenue) shrinking
- Possible slowdown in claim closures and increase in settlement costs due to delayed medical procedures, physical therapy treatments and legal proceedings
- Possibly offset by claimants more willing to settle quickly to replace lost income

### Umbrella

- Affected by GL impacts and earnings pressures leading to capacity constraints
- Severity trends remain elevated, market dynamics unchanged
- Market disruption – appetite, capacity, program changes, higher attachment points – as carriers develop positions
- Loss severity was on the rise, (social inflation) will accelerate

General Liability  
and Umbrella Rate Trends  
2017-2020 Q1  
CIAB



Source: The Council of Insurance Agents and Brokers, Commercial Property/Casualty Market Index, Q4 2019  
Deloitte, COVID 19 impact to property and casualty industry, Actuarial perspective on 2020 loss reserves and pricing,  
Willis Towers Watson Insurance Marketplace Realities Spring 2020

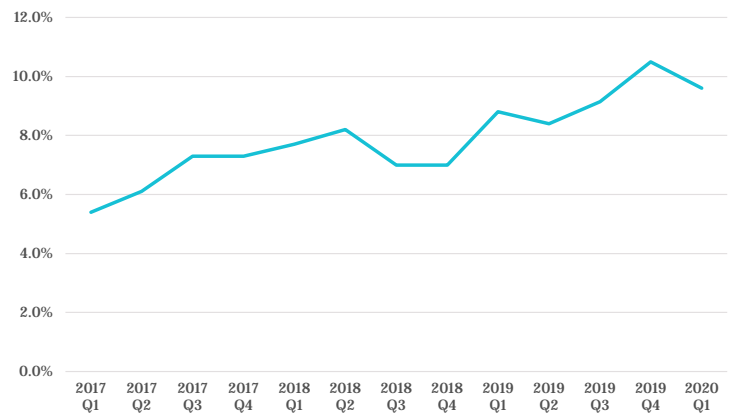
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## What's Happening in the Market: COVID

### Auto

- Underlying industry profitability issues remain
- Decreased frequency with fewer vehicles on the road, may be offset by lower gas prices
- Companies redeploying vehicles and drivers to generate revenue
- Cost per claim may increase, depending on reopening speed as service centers may be closed, necessary parts unavailable, etc. Also fewer vehicles => higher speeds => more costly accidents
- Life of claim may be extended for many of the reasons outlined for general liability (for auto liability) and for property (for auto physical damage), plus any bodily injury may take longer to receive treatment – as facilities are closed or if open have a backlog of patients
- Carriers reviewing Hired and Non Owned exposures

Auto Rate Trends  
2017-2020 Q1  
CIAB



Source: The Council of Insurance Agents and Brokers, Commercial Property/Casualty Market Index, Q4 2019  
Deloitte, COVID 19 impact to property and casualty industry, Actuarial perspective on 2020 loss reserves and pricing,  
Willis Towers Watson Insurance Marketplace Realities Spring 2020

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## What's Happening in the Market: COVID

### Workers Compensation

- Underlying industry issues remain – a profitable line but increasing medical inflation
- Anticipated decline in WP (23%+ decline 2007-10), magnitude dependent upon recovery speed/vigor
- Impact varies by industry; salary decreases do not necessarily decrease exposure
- Claims frequency impact unclear at this time because of Work from Home, change of tasks and potential legislative actions
- There may be a timing shift – for those cases that were prior to COVID, surgeries and treatment are being delayed. Once the economy reopens, the costs will be incurred
- Uncertainties driven by Gig worker rulings, state stance on presumption

### Workers Compensation Rate Trends 2017-2020 Q1 CIAB



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Source: The Council of Insurance Agents and Brokers, Commercial Property/Casualty Market Index, Q4 2019  
Deloitte, COVID 19 impact to property and casualty industry, Actuarial perspective on 2020 loss reserves and pricing,  
Willis Towers Watson Insurance Marketplace Realities Spring 2020

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## What's Happening in the Market: COVID

### Impact:

- Pricing continues to firm, particularly in Property, Excess and Umbrella
- Carrier review of terms, conditions, deductibles, attachment points
  - Address attritional losses from water, weather, as well as increasing social, medical and cost of goods sold inflation
- Tightening of capacity, particularly in CAT prone areas including non-modeled CAT wind
- Forecast of continuing rate acceleration
- Flight to quality
- Tightening reinsurance
- Liquidity management

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## Chubb: Stability During Times of Uncertainty

|  |  |  |
|--|--|--|
| <b>Scale</b> <ul style="list-style-type: none"> <li>• Top five global insurer</li> <li>• World's largest publicly traded P&amp;C insurer (market capitalization of \$49 billion)</li> </ul>  | <b>Conservative investment portfolio</b> <ul style="list-style-type: none"> <li>• 94% in fixed income securities, of which 84% is investment grade with an average credit quality of A (S&amp;P) and a duration of ~four years</li> </ul>    | <b>Low debt leverage</b> <ul style="list-style-type: none"> <li>• Conservative capital structure with relatively low financial debt leverage (23%) vs. U.S. commercial peers (26%) - creates additional capital flexibility</li> </ul>                                 |
| <b>Exceptional financial strength</b> <ul style="list-style-type: none"> <li>• \$67 billion total capital (largest among U.S. peers)</li> <li>• \$52 billion shareholders' equity</li> <li>• \$173 billion total assets</li> </ul> | <b>Substantial cash flow and liquidity</b> <ul style="list-style-type: none"> <li>• ~\$6 billion of annual cash flow</li> <li>• \$1 billion+ of available credit</li> <li>• Significant monthly liquidity in investment portfolio</li> </ul> | <b>Rating</b> <ul style="list-style-type: none"> <li>• Highly rated by rating agencies, confirming Chubb's exceptional financial strength</li> <li>• S&amp;P – AA, Stable    • AM Best: A++, Stable</li> <li>• Fitch: AA, Stable    • Moodys: Aa3, Positive</li> </ul> |

*"Chubb Limited's operating performance is very strong and consistently exceeds peers.*

*Fitch believes any losses and disruptions [from the Coronavirus] will likely be an earnings issue rather than a capital event as the company prudently deploys risk mitigation efforts, has high levels of liquidity and very strong capital.*

*Fitch believes loss reserves are adequate and well managed... The company has very strong capital, evidenced by its moderate financial and operating leverage." – Fitch, April 2020*

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## Chubb's Response

**Paul Lewis**  
 Executive Vice President  
 Industry Practice Leader Commercial Insurance



## Chubb's Response: Continue to deliver



**Broad Product** set aligned to **Industry-specific** solutions and expertise, supported by Risk Engineering, Claims



**Skilled underwriters** in both product and industry practices acting in concert



**Disciplined, Standardized Sales Processes**



**Data and Analytics**



**Distribution and Customer relationships**



**Global Capabilities with Local Knowledge**



**Agility, Execution- and Solutions-Orientation**



**Consistency, Capacity and Financial Strength**

## Growth Opportunities



Manufacturing



Professional Services  
Financial Institutions



Renewable Energies



Life Sciences



Technology

### Lines of Business:

- Property
- Package
- Excess Umbrella
- Multinational

## Change of Operations



Hand Sanitizer



Face Masks



Other PPE



Ventilators

## Services

### Risk Engineering

- ✓ Virtual Surveys
- ✓ Remote Ergonomic Surveys
- ✓ Thought Leadership:
  - Reduced Occupancy and Premises Shutdown
  - Checklist for Shutdown
  - Coming out of Shutdown
  - Checklist for Changing Premises Operations in the Fight Against COVID-19

### Virtual Claims

- ✓ 7 second average response time
- ✓ 24/7 service
- ✓ Hundreds of virtual inspections

### 2020 Advisen Claims Satisfaction Survey



## Our Actions – Month 1

### For Our Agents:

- ✓ We have one of the broadest and most flexible agency agreements, including provisions regarding credit management.
- ✓ Chubb's extensive professional development and continuing education programs are now being delivered virtually and have been updated to include content specifically addressing the current environment.

### For Employees:

- ✓ Will not conduct any layoffs while in the midst of the pandemic.
- ✓ Introduced a series of resources and learning sessions with behavioral health experts to support employees' well-being during this time.

### For Our Mutual Commercial Customers:

- ✓ Temporarily suspended policy cancellations for commercial clients who cannot pay their premiums on time due to events related to the pandemic.
- ✓ Announced automatic exposure reductions to help support our retail U.S. small business clients.
- ✓ To assist our middle market and large account clients, our teams have detailed guidelines in place for how to address changes in exposures due to this event.
- ✓ We're proud to take a lead role insuring nearly 100 businesses who have quickly retooled their operations to assist in pandemic response efforts.
- ✓ Quickly instituted virtual risk inspections
- ✓ Created online resources for managing risks in this environment.

### For Our Communities:

- ✓ Our commitment to fighting COVID-19 spans the globe and began at the earliest days of the outbreak.
- ✓ In January, Chubb committed pro-bono clinical trial insurance coverage to support Chinese firms developing a vaccine.
- ✓ Pledged \$10M to pandemic relief efforts around the world.
- ✓ Donated nearly 100,000 masks to support healthcare workers in New York City and Toronto.
- ✓ Purchased \$1M in gift cards from small business clients, which will be donated to healthcare workers and other first responders on the front lines of the pandemic in the communities they serve.

# THANK YOU

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# Q & A

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