SAN DIEGO HOUSING COMMISSION
SDHC

INFORMATIONAL REPORT

DATE ISSUED: September 2, 2021 **REPORT NO:** HCR21-062

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of September 9, 2021

SUBJECT: Annual Insurance Report – Fiscal Year 2022

COUNCIL DISTRICT: Citywide

NO ACTION IS REQUIRED ON THE PART OF THE HOUSING COMMISSION

SUMMARY

The attached Fiscal Year (FY) 2022 Insurance Summary details the San Diego Housing Commission (Housing Commission) insurance policies as of July 31, 2021. The report includes both summary and detailed information on all lines of insurance coverage for the Housing Commission. The total insurance expense for FY2021 was $1,708,786. The total insurance expense projected and budgeted for FY2022 is $2,359,362.

	FY2021	FY2022	Difference in $	Difference in %
Total Insurance Expense	$1,708,786	$2,359,362 *	$650,576	38%

* Estimated/Budgeted

The overall 38 percent insurance premium increase directly corresponds to the hardening of the insurance market and the fundamental disruption caused by the COVID-19 pandemic.

With the world battling the novel coronavirus pandemic, the impact has been felt on every sector and everyday life. One of the biggest impacts of this pandemic has been on the financial services industry and the insurance industry. The industry-wide consensus is that the full cost of the COVID-19 pandemic will not be known for up to two years; however, coronavirus-related losses to the insurance sector are expected to be the largest to date.

Housing Commission staff and Alliant Insurance Services, the Housing Commission's insurance broker, are monitoring the situation closely and will provide updates as needed. The Housing Commission's comprehensive insurance coverage contains 11 insurance programs and 27 insurance policies (Table 1):

<u>Table 1:</u>

1. **Property Insurance**
2. **Master Crime Program**
3. **Pollution Program**
4. **Smart Corner Liability**
    a. Smart Corner - Premises Liability
    b. Smart Corner - Excess Liability #1
    c. Smart Corner - Excess Liability #2
    d. Smart Corner - Excess Liability #3
    e. Smart Corner - Excess Liability #4
5. **Fiduciary Liability**
6. **General Liability**
    a. General Liability – Housing Commission
    b. General Liability - Kearny Vista & Valley Vista Apartments
    c. Excess General Liability #1 - Kearny Vista & Valley Vista Apartments
    d. Excess General Liability #2 - Kearny Vista & Valley Vista Apartments
    e. General Liability - Homelessness Response Center
7. **Auto Liability Program**
    a. Primary Auto
    b. Excess Auto
8. **Cyber Insurance Program**
    a. Cyber Primary
    b. Cyber Buy Up Option
9. **Flood Insurance (NFIP)**
    a. Flood - 5077 1/2 Muir Ave.
    b. Flood - 5071 Muir Ave.
    c. Flood - 351 S. 33rd St.
    d. Flood – 355 S. 33rd St.
10. **Directors & Officers Liability**
    a. Primary Directors & Officers
    b. Excess Directors & Officers #1
    c. Excess Directors & Officers #2
11. **Workers' Compensation**
    a. Primary Workers' Compensation Liability
    b. Excess Workers' Compensation Liability

(1) Property Insurance

Property insurance provides the Housing Commission coverage for damage to real and personal property and business income as a result of a covered peril such as a fire. The Housing Commission currently procures its property insurance coverage from Public Risk Innovation, Solutions, and Management (PRISM). The property insurance effective date was March 31, 2021. The Housing Commission renews its property coverage annually.

(2) Master Crime Program

The Housing Commission currently procures its crime insurance coverage from PRISM. The master crime insurance effective date was July 1, 2021. The Housing Commission renews its crime coverage annually. The master crime program manages the loss exposures resulting from criminal acts such as robbery, burglary and other forms of theft.

(3) Pollution Program

The Housing Commission currently procures its pollution insurance coverage from PRISM. This policy provides coverage for pollution conditions and includes first- and third-party coverages. The pollution coverage effective date was July 1, 2021. The Housing Commission renews its pollution coverage annually.

(4) Smart Corner Liability

The Smart Corner liability program is composed of five insurance policies: a) Smart Corner premises liability and b) four Smart Corner excess liabilities. Premises liability provides coverage for claims for damage or injury (caused by negligence or acts of omission) at the Smart Corner location. An example would be a “slip and fall” at the Smart Corner premises. Excess liabilities insurance provides excess coverage specific to the Smart Corner location and follows the primary liability placement. The Housing Commission currently procures its Smart Corner liability insurance coverage from Travelers Insurance Companies (Travelers) and Capitol Indemnity Corp., StarStone National Insurance Company and Trisura Specialty Insurance Company. The Smart Corner liability insurance effective date was July 1, 2021, and it is renewed annually.

(5) Fiduciary Liability

Since the Housing Commission sponsors a retirement and health plan for its employees and is involved with the management of those plans, it is considered a "Fiduciary" and can be held personally liable for what happens to the plan. This insurance provides coverage for losses that arise as a result of alleged errors or omissions or breach of the fiduciary duties. The Housing Commission currently procures its fiduciary insurance coverage from Hudson Insurance Company (Hudson). The fiduciary insurance effective date was July 1, 2021. The Housing Commission renews its fiduciary coverage annually.

(6) General Liability

General liability provides third-party coverage for Housing Commission liabilities that occur as a result of alleged negligence or omissions. Coverage includes bodily injury, physical damage and personal injury. The Housing Commission currently procures its general liability insurance coverage from the Housing Authority Risk Retention Group, Inc. (HARRG). In addition, the Housing Commission also procures several separate insurance policies from HARRG, Ascot Insurance Company and Kinsale Insurance

Company for Kearny Vista and Valley Vista Apartments and the Homelessness Response Center. The Housing Commission renews its general liability coverages annually.

(7) Auto Liability Program
The Housing Commission currently procures its auto insurance coverage from Travelers. The auto insurance effective date was July 1, 2021. The Housing Commission renews its auto insurance coverage annually. The auto liability program is composed of two insurance policies: a) primary auto and b) excess auto. Primary coverage provides comprehensive and collision. “Any auto” applies to the Liability and “Owned auto” applies to all other coverages such as medical payments and physical damage. An example would be if an employee is in an accident while driving a Housing Commission-owned vehicle during the course of work. Excess coverage provides excess auto coverage following the primary auto placement.

(8) Cyber Insurance Program
The Housing Commission procures its cyber insurance coverage from PRISM. The cyber insurance effective date was July 1, 2021. The Housing Commission renews its property coverage annually. The cyber insurance program is composed of two insurance policies: a) cyber primary and b) cyber buy up option.
The cyber primary provides first- and third-party coverage for cyber incidents such as liabilities that arise from, but not limited to, a breach of secured data, the notification costs associated with a breach, and taxes and penalties. The cyber buy up option provides dedicated “per life” coverage for notification costs associated to a cyber breach, and this coverage does not erode the limit of liability or program aggregate associated to the primary cyber placement. For example, if the Housing Commission experienced a data breach and 900,000 individuals were effected, the cost to notify the individuals would be covered by this buy up option.

(9) Flood Insurance - National Flood Insurance Program (NFIP)
The National Flood Insurance Program (NFIP), managed by the Federal Emergency Management Agency (FEMA), provides flood coverage for four Housing Commission properties located in zoned flood prone areas. The Housing Commission procures its flood insurance coverage for two of its properties from The Hartford Services Group, Inc. (5077 1/2 Muir Ave. and 5071 Muir Ave.) and two from Wright National Insurance Company (351 S 33rd St. and 355 S 33rd St.). The Housing Commission renews its flood coverage annually.

(10) Directors & Officers’ Liability
The Housing Commission procures its primary directors’ and officers’ liability insurance coverage from the Stratford Insurance Company and excess liabilities from Ironshore Indemnity Inc. and Indian Harbor Insurance Company. The directors and officers liability insurance effective date was December 8, 2020. The Housing Commission renews this coverage annually. This program is composed of two insurance policies: a) primary directors and officers and b) excess directors and officers. Primary liability insurance is payable to the directors and officers of a company as indemnification (reimbursement) for losses or advancement of defense costs in the event an insured suffers a loss such as a legal action brought for alleged wrongful acts in their capacity as directors and officers. Examples could include liabilities that arise from allegations of poor management decisions. Excess directors and officers insurance provides excess coverage following the primary directors and officers placement.

(11) Workers' Compensation
Workers' Compensation provides wage replacement and medical benefits for employees who are injured during the course of employment. It also provides coverage for Employment Practice Liability, which includes wrongful termination. The Housing Commission procures its primary workers' compensation insurance coverage from the California Housing Workers' Compensation Authority and its excess coverage from Local Agency Workers' Compensation Excess Joint Powers Authority. The Housing Commission renews this coverage annually.

Insurance Broker:

Alliant Insurance Services
Alliant was re-selected to be the Housing Commission's insurance broker in a comprehensive procurement process in January 2018. As the broker of record for the Housing Commission, Alliant provides support to all facets of brokerage services for the Housing Commission, including the marketing of all lines of insurance coverage, as well as the administrative support and servicing, loss control, and claims management. Alliant ensures that the Housing Commission has the most effective insurance program design, with the broadest terms and conditions, at the most competitive premium available. As the Housing Commission's risk consultant, Alliant is also responsible for keeping the Housing Commission informed of any changes, trends and emerging risks within the public entity and commercial insurance industry.

FISCAL CONSIDERATIONS

The FY2021 funding sources and uses were approved by the Housing Authority in the FY2021 Budget. The FY2022 funding sources and uses were approved by the Housing Authority in the FY2022 Budget.

Program	FY2021 Premium	FY2022 Premium	Varience $	Varience %
Property Insurance	$429,320	$720,226	$290,906	68%
Fiduciary Liability	5,614	6,293	679	12%
General Liability *	289,641	406,895	117,254	40%
Master Crime Program	9,870	17,596	7,726	78%
Pollution Program	1,858	8,571	6,713	361%
Smart Corner Liability *	41,852	49,784	7,932	19%
Commercial Auto Liability *	53,439	60,677	7,238	14%
Cyber Insurance *	31,870	68,980	37,110	116%
Flood Insurance - multiple locations **	13,536	15,986	2,450	18%
Director's & Officers Liability **	122,350	177,408	55,058	45%
Workers' Compensation **	648,586	767,681	119,095	18%
Mortgage Bankers and Servicing Agents E&O ***	15,261	0	(15,261)	(100.0%)
Broker Fee	45,589	59,265	13,676	30%
TOTAL	**$1,708,786**	**$2,359,362**	**650,576**	**38%**

* Contains multiple policies
** Contains multiple policies and renewal date is after September 10, 2020 - budgeted/estimated premium
*** Coverage not renewed

CONCLUSION

The market for insurance is cyclical. It fluctuates between the soft market (when premiums hold steady or decrease) and the hard market (when rates increase and coverage is more difficult to find). Unprecedented world events, in tandem with carriers not turning a profit, has resulted in the market remaining hard.

Prior to 2020, rate increases were largely tied to a soft market correction while factoring in increased attritional loss and adverse catastrophe loss development. In 2020, the pandemic, social unrest, rising reinsurance costs, financial market volatility, global recession, and more frequent and severe catastrophes have greatly exacerbated the situation. Unlike previous hard markets, restricted capacity offered by carriers is a result of a reduced appetite rather than capital reduction. Lack of significant new capital flowing into the market (which would help drive competition) points to a sustained hard market.

The hard insurance market has greatly affected the Pollution Program. PRISM Pollution Program reached out to 25 insurers for the renewal of the program. Of these, 24 markets declined the primary layer without any further discussion for reasons including losses and lack of appetite for insuring a large portfolio of risks with shared limits. This is reflected in coverage modifications in the form of a reduced policy term to one year, sub-limits, higher retentions, exclusions and material increases in premiums.

The property market has experienced unprecedented losses, including devastating wildfires that have impacted California. In the last several years, the State has experienced the largest, deadliest, and costliest wildfires in its history. Seven of the largest wildfires in history have occurred in the last three years. In addition to the large natural catastrophe losses, the size and frequency of "attritional" or non-catastrophe related claims, such as fire and water damage, have also been growing. This is seen as an industrywide trend.

COVID-19's impact on the insurance industry is undoubtedly severe. Many specialty insurers operating in long-tail businesses will wait to assess COVID-19's severity. Various coverage areas, however, already feel the impact, and premium rates are rising sharply:

- Business interruption coverage has become a critical area of concern under COVID-19.
- General Liability is experiencing increasing claims brought by third parties for bodily injury or property damage, resulting from an alleged unintentional or negligent failure to protect from the virus.
- Directors and Officers Liability – COVID-19 raises the prospect of lawsuits targeting directors and officers, which are already being filed.
- Cyber Insurance - the loss experience deteriorated, particularly from an influx of ransomware incidents

Housing Commission staff make every effort to obtain the most comprehensive and lowest price coverage available for the agency. The Housing Commission is a member of several directed insurance risk-sharing pools, and with its insurance broker, Alliant, has developed effective risk management solutions to help proactively control losses and prepare for different exposures.

The best practice is to market insurance coverage every three to five years to maintain bidding interest from insurance company underwriters. Due to the novel coronavirus pandemic and the current state of the insurance industry, the Housing Commission did not competitively market Housing Commission coverages this year; however, to follow best practice, the Housing Commission coverages are scheduled to be marketed next year for the policy year beginning March 31, 2022.

Respectfully submitted,

Tracey McDermott

Tracey McDermott
Senior Vice President & Chief Financial Officer
San Diego Housing Commission

Approved by,

Jeff Davis

Jeff Davis
Deputy Chief Executive Officer
San Diego Housing Commission

Attachments:

1. 2021 Insurance Summary
2. Stakeholder Message PRISM Pollution Program
3. Stakeholder Message PRISM Cyber Program Members
4. Stakeholder Message - State of the Property Market

Docket materials are available in the "Governance & Legislative Affairs" section of the San Diego Housing Commission website at www.sdhc.org.

Attachment #1

FY 2022 INSURANCE SUMMARY

Policy	Carrier	Effective Date	Premium	Limits	Deductible/Retention	Description of Coverage
Property	PRISM	03/31/2021	$720,226	$25,000,000	$25,000	Provides coverage for damage to real estate and personal property, and business income as a result of a covered peril such as a fire.
Fiduciary Liability	Hudson Insurance	07/01/2021	$6,293	$2,000,000	$10,000	Provides coverage for losses that arise as a result of alleged errors or omissions or breach of fiduciary duties.
Pollution	PRISM	07/01/2021	$8,571	$5,000,000/ each incident $10,000,000/ aggregate	$250,000	Provides coverage for pollution conditions and includes 1st and 3rd party coverages.
Master Crime	PRISM	07/01/2021	$17,596	$15,000,000	$2,500	Coverage that manages the loss exposures resulting from criminal acts such as robbery, burglary and other forms of theft.
Smart Corner - Premises Liability	Travelers	07/01/2021	$24,365	$1,000,000	$0 Deductible	Provides coverage for claims from SDHC's liability to damage or injury during performance of business. Premises liability coverage only, as operations are excluded.
Smart Corner - Excess Liability #1	Travelers	07/01/2021	$6,763	$5,000,000	$0 Deductible at $1,000,000 att. point	Provides excess coverage specific to the Smart Corner location and follows the primary liability placement.
Smart Corner - Excess Liability #2	Capitol Indemnity	07/01/2021	$3,922	$5,000,000	$0 Deductible at $6,000,000 att. point	Provides excess coverage specific to the Smart Corner location and follows the excess #1 liability placement
Smart Corner - Excess Liability #3	Starstone	07/01/2021	$8,696	$5,000,000	$0 Deductible at $11,000,000 att. point	Provides excess coverage specific to the Smart Corner location and follows the excess #2 liability placement

Policy	Carrier	Effective Date	Premium	Limits	Deductible/Retention	Description of Coverage
Smart Corner - Excess Liability #3	Trisura Specialty	07/01/2021	$6,039	$5,000,000	$0 Deductible at $16,000,000 att. point	Provides excess coverage specific to the Smart Corner location and follows the excess #3 liability placement
General Liability	HARRG	07/01/2021	$284,985	$20,000,000	$10,000	Provides third party coverage for SDHC liabilities that occur as a result of negligence or omissions. Coverage includes bodily injury, physical damage and personal injury.
General Liability - Kearny Vista & Valley Vista Apts.	HARRG	11/24/2020	$21,243	$1,000,000	$10,000	Provides third party coverage for SDHC liabilities that occur as a result of negligence or omissions. Coverage includes bodily injury, physical damage and personal injury for Residence Inns (Hotel Circle & Kearny Mesa).
General Liability - Kearny Vista & Valley Vista Apts. Excess #1	Ascot Ins.	11/24/2020	$28,252	$5,000,000	$0 Deductible at $1,000,000 att. point	Provides excess coverage following the primary general liability placement for - Kearny Vista & Valley Vista Apts.
General Liability - Kearny Vista & Valley Vista Apts. Excess #2	Kinsale Ins.	11/24/2020	$29,253	$5,000,000	$0 Deductible at $6,000,000 att. point	Provides excess coverage following the excess #1 general liability placement for - Kearny Vista & Valley Vista Apts.
General Liability - Homelessness Response Center	HARRG	02/18/2021	$2,525	$2,000,000/ each incident $4,000,000/ aggregate	$10,000	Provides third party coverage for SDHC liabilities that occur as a result of negligence or omissions at Homelessness Response Center. Coverage includes bodily injury, physical damage and personal injury.

Policy	Carrier	Effective Date	Premium	Limits	Deductible/Retention	Description of Coverage
Commercial Auto	Travelers	07/01/2021	$50,226	$1,000,000	$1,000	Provides comprehensive and collision. Liability and all other coverages such as medical payments and physical damage.
Excess Auto	Travelers	07/01/2021	$10,452	$9,000,000	$0 Deductible at $1,000,000 att. point	Provides excess auto coverage following the primary auto placement.
Cyber	PRISM	07/01/2021	$20,969	$2,000,000	$100,000	Provides first and third party coverage for cyber incidents such as liabilities that arise from but not limited to a breach of secured data, taxes and penalties.
Cyber Buy Up Option	PRISM	07/01/2021	$48,011	1M Notified Individuals		Provides dedicated "per life" coverage for notification costs associated to a cyber-breach, and this coverage does not erode the limit of liability or program aggregate associated to the primary cyber placement.
Director's & Officers	Western World	12/08/2020	$71,326	$3,000,000	$100,000 Agt. C,D $150,000 Agt. A $250,000 Agt. B	Liability insurance payable to the directors and officers of a company as indemnification (reimbursement) for losses or advancement of defense costs in the event an insured suffers such a loss as a result of a legal action brought for alleged wrongful acts in their capacity as directors and officers.
Excess Director's & Officers #1	Indian Harbor	12/08/2020	$42,569	$4,000,000	$0 Deductible at $3,000,000 att. point	Provides excess coverage following the primary Director's & Officers placement.
Excess Director's & Officers #2	Ironshore Inc.	12/08/2020	$8,455	$1,000,000	$0 Deductible at $7,000,000 att. point	Provides excess coverage following the excess #1 Director's & Officers placement.

Policy	Carrier	Effective Date	Premium	Limits	Deductible/Retention	Description of Coverage
Flood - 355 S. 33rd Street	Wright Flood	02/21/2021	$3,466	$500,000 building $100,000 contents	$10,000 building and contents	Provides mandated flood (NFIP) coverage for the 355 S. 33rd Street location.
Flood - 351 S. 33rd Street	Wright Flood	02/21/2021	$1,897	$500,000 building $100,000 contents	$10,000 building and contents	Provides mandated flood (NFIP) coverage for the 351 S. 33rd Street location.
Flood - 5071 Muir Ave	Hartford Ins.	11/30/2020	$3,811	$250,000 building $11,200 contents	$2,000 building and contents	Provides mandated flood (NFIP) coverage for the 5071 Muir Ave location.
Flood - 5077 1/2 Muir Ave	Hartford Ins.	10/04/2020	$3,615	$250,000 building	$2,000 building	Provides mandated flood (NFIP) coverage for the 5077 ½ Muir Ave location.
Workers' Compensation	CHWCA	01/01/2021	$648,586	$750,000	First Dollar	Form of insurance that provides wage replacement and medical benefits for employees that are injured during the course of employment. Also provides coverage for Employment Practice Liability to include wrongful termination.
Workers' Compensation	CHWCA - LAWCX	07/01/2021	No additional premium	$5,000,000	$0 Deductible at $750,000 att. point	Provides excess coverage following the primary Employment Practice Liability placement.

PRISM
Public Risk Innovation, Solutions, and Management

May 11, 2021

To: PRISM Pollution Program Members

From: Gina Dean, CEO

Re: Stakeholder Message PRISM Pollution Program

Purpose: This memorandum is to inform the members of the PRISM Pollution Program ("Program") of the current pollution marketplace and how this affects the Program. Included herein is background information on the state of the market and the status of the PRISM Pollution Program.

Pollution Market Update: The public entity sector within the pollution marketplace is currently experiencing a hard market cycle. While there are over 40 markets writing pollution legal liability (PLL) coverage, there are currently only a handful that are willing to underwrite public entity programs and this number continues to dwindle for primary players on large public entity programs. Across the marketplace and across the country coverage terms have been impacted by a combination of high profile mold incidents, rising legionella claims, claims for contaminated water supplies and a growing focus on new and emerging contaminants such as perfluoroalkyl and polyfluoroalkyl substances (PFAS/PFOAS). As a result we are experiencing restrictions on coverages for mold, legionella, sewage backup, PFAS/PFOAS and products pollution (contaminated water). Deductibles continue to increase and multiyear terms are seldom offered (exceptions made on a case-by-case basis on accounts with exceptional loss ratios only).

These changes are being driven by many different risk factors. The frequency of PLL claims continued to increase in 2019 and 2020 mostly due to the microbial matter exposures afflicting the habitational, hospitality, healthcare and education industries. We have seen an uptick in losses related to mold and legionella due to long term building closures associated with COVID-19 shutdowns. Losses related to contaminated water supplies and sewage backup have also increased. The top five global risks identified by the 2020 World Economic Forum are environment-related (extreme weather events, climate change, human-made environmental disasters, biodiversity loss, and natural disasters). Many of these risks and the resulting remediation and tort exposures associated with these events are addressed by pollution policies, leading markets to prepare for a continued increase in frequency and severity of pollution losses.

PRISM Losses: Program losses are the main factor driving premium and structure changes for this renewal. Over the past six years we have experienced both frequency and severity of claims. On the 2015-2018 policy with Philadelphia Insurance, there were 132 claims and $5,043,025 in paid claims. Four claims are still open and the reserves exceed $1M. For the current 2018-2021 expiring Chubb program there are currently 195 claims, 45 still open and the reserves again exceed $5M. This would equate to a 154% loss ratio for the program over the past twelve years. The largest payouts are related to claims for mold, sewage backup, and asbestos.

Marketing Effort: In 2021, we reached out to 25 insurers for the renewal of the PRISM Pollution Program. Of these, 24 markets declined the primary layer without any further discussion for reasons including losses, lack of appetite for insuring a large portfolio of risks with shared limits, and for coverages requested for water and sewage. We explored many different structures including primary and excess layers and quota shares among carriers and still, markets declined. We have a single market, Ironshore, that is willing to quote, and their pricing and coverage changes reflect the significant losses on the expiring program and those within the public entity sector. These changes are reflected in coverage modifications in the form of a reduced policy term to one year, sub-limits, higher retentions, exclusions and material increases in premiums. Ironshore has agreed to revisit all of these at the 2022 renewal provided the frequency and severity of losses decreases over the upcoming year.

Member's Response

There are several steps that can be taken during these turbulent times:

1. First, communicate the state of the market to all of your stakeholders, so there is an understanding that this is a combination of an industry problem and a Program specific problem related to a high frequency and high severity of losses experienced in the industry and amongst the members.
2. Within the program we have been able to identify a pattern and areas where we are seeing the most claims among members. Once coverage is bound, we intend to partner with Ironshore to provide training and resources for addressing and mitigating claims related to mold, sewage backup, and asbestos. Please take advantage of these best practices and services over the upcoming year to help improve your risk and coverage in the future.
3. Anticipate an increase in premiums and deductibles; and coverage to move to an annual term.
4. Report claims as soon as possible. Work very closely with your insurance claims manager during a claim, and obtain prior consent from the carrier before testing, investigation or remediation of any pollution incident (except in the event of emergency response).

As always, if you have questions or need additional information to better understand the current environment or to communicate to your internal management and governing officials, please let us know.

PRISM
Public Risk Innovation, Solutions, and Management

April 6, 2021

To: PRISM Cyber Program Members
From: Gina Dean, CEO
Re: Stakeholder Message PRISM Cyber Program Members

This memorandum is to inform the members of the PRISM Cyber Program ("Program") of the current cyber insurance marketplace, how this affects the Program, and a general view of program loss activity and marketing efforts.

The cyber insurance industry is in a hard market cycle, which is impacting every cyber insurance carrier and insured across the nation, across all sectors, and now especially it is affecting public entities. As PRISM members begin their budgeting process, I want to take this opportunity to provide some background information on the state of the market and the status of the PRISM Cyber Program. Also attached are talking points and an information sheet that we hope you will find useful in communicating to your stakeholders.

Background

The cyber insurance market has shifted considerably in the last 12-18 months and is presumed to continue to be volatile for the foreseeable future. The top 10 carriers, who control an estimated 65%-75% of the U.S. standalone insurance market, are being overwhelmed with cyber incident claims. SolarWinds, Microsoft Exchange, and other attacks have left no class of business immune to the attacks.

The large increase in the severity of claims is driven by the size of the ransoms being demanded and paid, as well as business interruption and system rebuilding costs. The norm, 18 to 24 months ago, was for ransoms to be tens to hundreds of thousands of dollars. The new norm is in excess of a million dollars. Public entities are a large and frequent target for hackers, for several reasons. The IT infrastructure and training budgets for public entities are generally smaller than their commercial counterparts. Public entities are seen as a vulnerable target due to the necessary services provided to the general public.

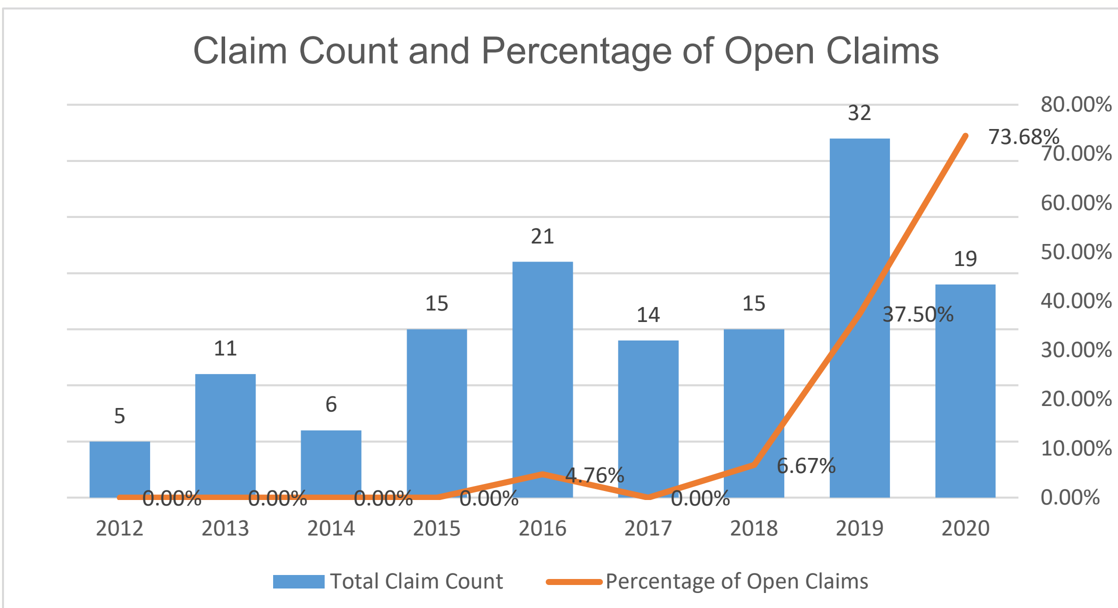
Program losses are one of many factors driving premium and structure changes for this renewal. Cyber insurers are requesting more underwriting information, requiring more senior level oversight, increasing premiums dramatically, and reducing capacity/appetite in all sectors, most notably for large public entities.

Our broker, Alliant, reached out to 50 insurers for the renewal of the PRISM Cyber Program; 47 markets declined the primary layer without any further discussion due to lack of appetite for the public entity sector and two are pending a response. The one market that is willing to quote is the incumbent, Beazley. Their pricing and coverage changes;

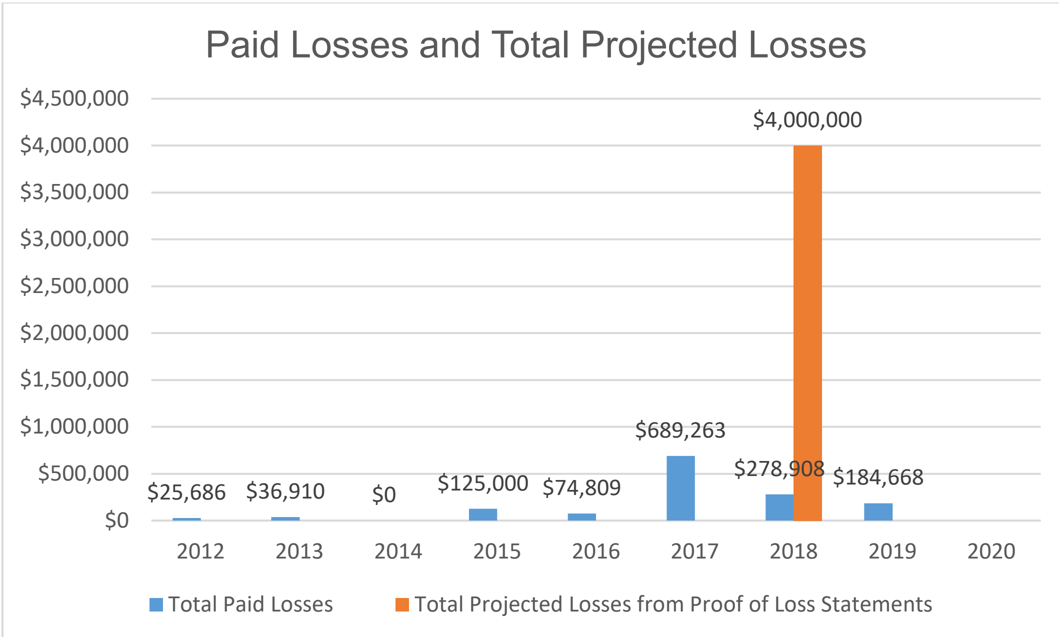
however, reflect the sentiment towards the public entity sector in the cyber insurance marketplace. More and more we are seeing coverage modifications either in the form of sub-limits, reduced limits, higher retentions, and/or material increases in premiums. At the same time and for the same reasons, self-insured and pooled programs across the state are seeing a depletion in funding. This trend is affecting all public entities: counties, cities, schools, and special districts.

As these issues affect the insurance industry, they also affect PRISM. We are experiencing an issue of both frequency and severity of claims. The following two graphs depict the frequency and severity of claims by PRISM over the last 9 years.

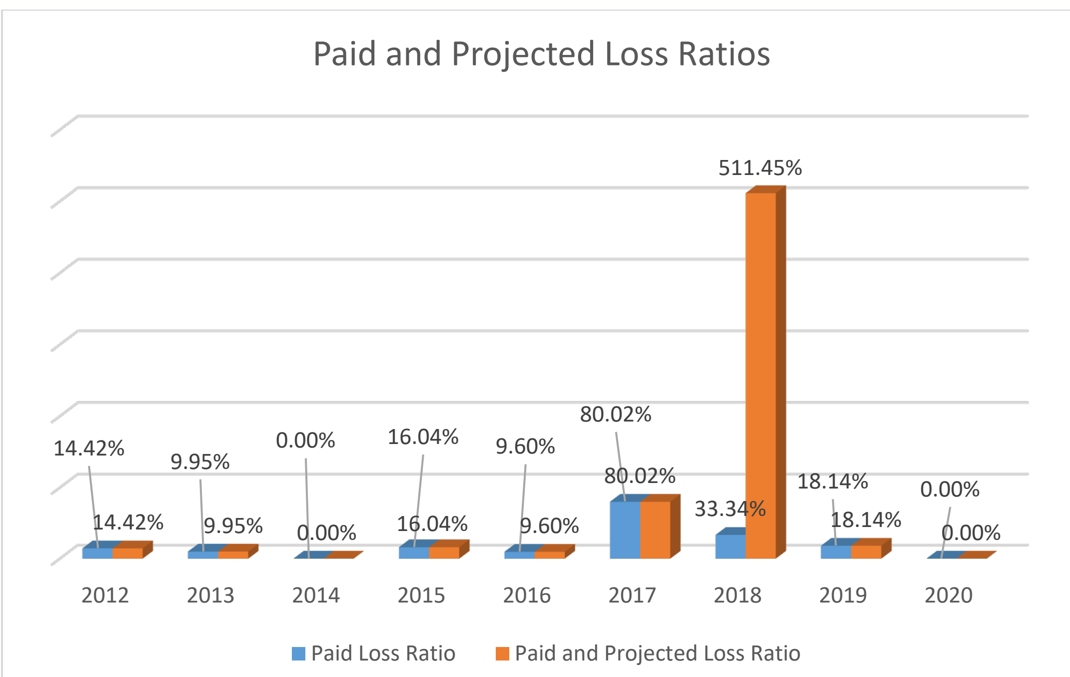
The first graph highlights the fact that until two years ago, the frequency of claims is what you would expect as a "normal" trend; however, the significant increase in frequency since 2019, was certainly unforeseen by the industry.



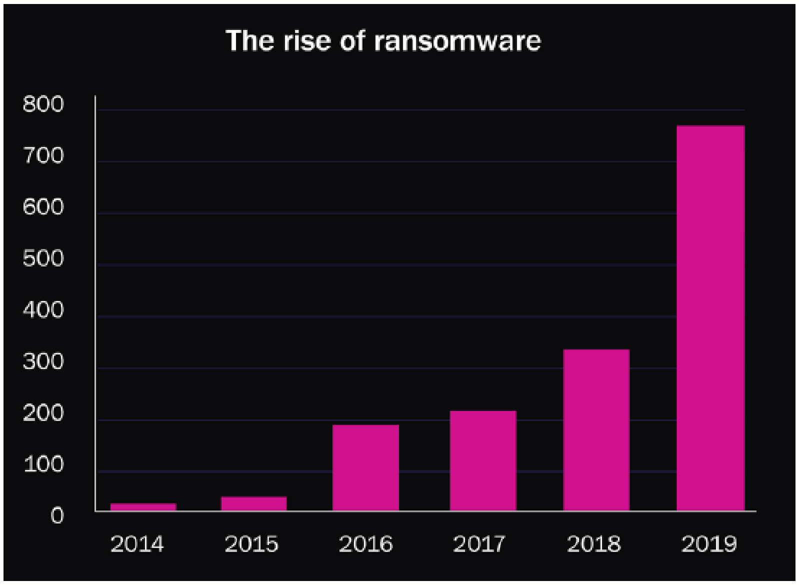
The second graph highlights the uptick in severity over the past 3 to 4 years. It also shows how volatile losses in cyber insurance can be, and that any year can have losses which are multiple times larger than any historical losses seen by the Program.

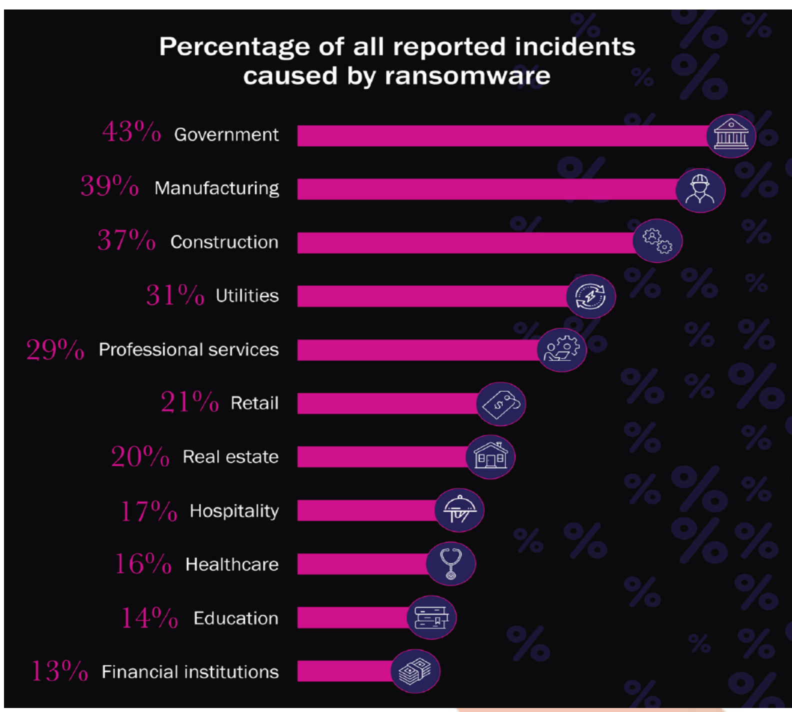


In addition to the increases in claims frequency and severity, the following graph highlights the increase in the paid and projected loss ratios of claims in the PRISM Cyber Program over the last 9 years. Again, the graph highlights the uptick in loss ratios, which changed significantly starting 4 years ago, with 2019 and 2020 too early to determine where loss ratios may end up.



Two final graphs depict ransomware claims in the general marketplace. The graphs are from the 2020 Beazley Breach Briefing, which discusses many industry trends including the rise of ransomware claims and the percentage of reported ransomware incidents by industry sector. Note that governmental agencies are at the top of the list. Overall, the graphs show ransomware claims have doubled from 2018 to 2019, with cyber extortion claims comprising of 43% of all reported claims for governmental entities in the dataset.





Safety in Numbers

Thankfully for members of the PRISM Cyber Program, our size offers economies of scale that could not be realized without being in a pool. We are able to leverage the volume we bring to the markets to benefit all Program members.

That being said, the PRISM Cyber Program will see extraordinary rate increases this year, which are a reflection of our own losses and of the market. The amount of increase for individual members is dependent upon your entity's claims experience and size. If you are one of the lucky ones who have not yet experienced this new reality in claim trends, you can expect to see extraordinary increases, but to a lesser degree. The PRISM Committees and Board of Directors have dedicated time and resources to ensure premiums are equitable amongst the members, based on an allocation that takes into consideration each individual member's potential exposure *and* claims experience.

The Big Picture

If we have learned from history, we know that joint powers authorities (pooling) have been the answer to turbulent markets. By staying the course, we will all benefit from our economies of scale and our sharing of best practices to help manage risk and hard markets.

While PRISM's premiums will increase for 2021/2022 policy year, the premiums are still less costly than an entity would likely be faced with outside of PRISM. We have spoken with 10 markets on various sized members, with losses and without, to test the PRISM Cyber Program pricing and competitiveness. Of the members tested, we requested indications for $7M to $12M in limits. The results were 37.5% of the members received full declinations, and 62.5% received indication ranges for limits of $2M to $5M. There were no indications provided for over $5M in limits, even when requested. The lowest premium indication received for $2M in limits and $75k in retention for the smallest member in the group marketed was $17,000. The largest member in the group marketed received an indication of $180k for structure of $2M in limits and a $1M retention. All pricing indications we received in this marketing effort are non-bindable without a full review of a cyber application and ransomware supplement, with the potential of additional underwriting information being requested.

Member's Response

There are several steps that can be taken during these turbulent times:

1. First, communicate the state of the market to all of your stakeholders, so there is an understanding that this is an industry-wide problem.
2. The severity of claims is on the rise. Please consider ongoing cyber security training for staff, as well as strengthening your cyber security

practices and systems.

3. Anticipate an increase in your own SIR funding.
4. Fill out an application on the Alliant Cyber Public Entity Application Portal.
5. Have an incident response plan in place, as well as a dedicated incident response colleague or team.
6. Work very closely with your insurance claims manager during a claim, and obtain agreements made during the process from the insurance carrier in writing.
7. Ensure you are working with the insurance company's paneled vendors, to maximize claim expertise, sublimits, and the depth/breadth of your coverage.
8. PRISM is creating a cyber-risk self-assessment tool to assist members evaluate their program. More information will follow once developed.

Finally, manage your individual risk by taking advantage of the best practices programs and service partner programs PRISM offers.

As always, if you have questions or need additional information to better understand the current environment or to communicate to your internal management and governing officials, please let us know.

Talking Points for the PRISM Cyber Program

Individual Claim Examples

	Member A	Member B	Member C	Member D
What Happened	A single lost unencrypted laptop	Ransomware attack	Ransomware attack. Core clinical server, pharmacy, lab, electronic records all breached. Hospital system admins were able to quickly shut the systems down and restored most everything because of well-kept backups.	Ransomware attack. Minor incident. No ransom paid
Coverage Parts Affected	100% Breach Response	Breach response as well as 3rd party claim for data network liability	Breach response as well as Business Interruption claim	Data Restoration Costs
Size of Claim	$400k Total $300k for doc review $50k for legal $50k notification costs 9k notified lives	$500k Total in breach response $300k for computer forensics $100k legal Unknown size of claim for third party liability	$100k Total for breach response $50k legal $50k forensics $2M proof of loss submitted for BI	Did not breach retention
Lessons Learned	Make sure all workstations and mobile equipment are encrypted	Forensics revealed that no health data was breached so no notifications were required and the insured is facing a 3rd party class action suit regardless. Lesson is that healthcare faces the threat of a class action suit even if data is not breached	Patient data was encrypted and wasn't accessed. 100 hospital employees had information accessed. Large complicated claims can have a long tail	If concerned with retention, please fund adequately, as retentions are increasing in this marketplace

Claims Trends

- PRISM tracks loss development for all the program years. In the years 2017 and 2018 the claims severity has spiked, with 2018 being the worse year since the inception of the Program. While in 2019 and 2020, the frequency increased, with severity to be determined, since cyber insurance is now becoming a longer tail line of business with the type of claims shifting.
- The natural result of this significant change in losses is that PRISM has adjusted forecasts and rates to account for new loss trends, as have our carriers. We continue to anticipate extraordinary rate increases to reflect the increased claims costs.

Benefits of Being in a Pool

Economies of scale benefits

- Historical access to insurance options. PRISM's size historically provided more leverage in the insurance market via premium volume, which has helped PRISM secure a unique cyber program 10 years ago and maintain relationships with market leading carriers.

Long Standing Relationship in Cyber Insurance Marketplace

- Because of PRISM's foresight to start a cyber insurance program a decade ago, with one of the top leaders in the cyber insurance marketplace, the Program now benefits from a material and positive relationship with the most senior underwriters at Beazley. The ability to obtain a quote in the most turbulent cyber insurance market in the history of this line of business is largely based on PRISM's continuous partnership with Beazley. Beazley is seen as a market leader in the space, and their continued partnership with PRISM is vital to our marketing efforts for the excess insurance layers.

Equitability

- PRISM's members with large loss experience continue to have coverage and premium options in the pool, which would likely be difficult to obtain or not available at all depending on the size of the loss. Members with less severe loss experience also receive benefits from pooling as they are not charged market based premium, large minimum premiums, and obtain similar coverage the Program has historically provided. At the moment, carriers in the cyber insurance space are beginning to exclude key coverages associated with ransomware incidents.
- PRISM's premium allocation is equitable, including a surcharge for members who impact pool rates with large claims to offset increasing costs for members who are not contributing large claims.

General Market Information

- The cyber insurance market continues to harden. We continue to see a significant increase in ransomware incidents and demands, contributing to high dollar claims.
- Claims trends have affected PRISM, just as they have affected the industry.
- Markets continue to be more judicious with how and where they deploy their capacity and/or limit their exposure. Market capacity is very limited for the public entity sector, especially large public entities, JPAs/pools, and entities with large losses. Many markets are also only writing excess cyber insurance and excluding key coverages associated with ransomware incidents.

- The severity of claims in the Program have increased with several above $500k, and one limit loss for the primary layer. This is a big indication cyber incidents are increasing and are increasingly more expensive.
- We have always been proactive in our management and approach to making funding decisions, and this remains the same today. Members can expect substantial pool rate increases for 2021/22.
- The benefits of pooling shine brightest during a hard market when our economies of scale, our historical leverage with markets, our long standing relationships, and our sharing of best practices help manage risk.

PRISM

Public Risk Innovation, Solutions, and Management

February 3, 2021

To: Property Program Members

From: Gina Dean, CEO

Re: State of the Property Market

As many of you are aware, the current property insurance market is challenging. I want to take this opportunity to provide some background information on the state of the market and the status of the PRISM Property Program.

Background

Prior to 2017, the property insurance market was in a "soft" market cycle that allowed consumers to take advantage of extremely competitive pricing and expanded terms and conditions. However, beginning in 2017, increases in attritional losses along with historically severe catastrophe claims resulted in carriers collecting insufficient premium to cover the surging claims. In addition, these events have impacted the market's surplus, capacity, and available reinsurance, pushing the industry into a hardening cycle for consumers.

In 2020, PRISM had its highest incurred property claims in the Program's history with about $77M of losses reported as of January 1, 2021, as compared to an average of $46M over the last five years. Higher than normal claims can largely be attributed to the wildfires within California, which account for almost 60% of the loss dollars. At the same time, the market continued to sustain significant catastrophe losses along with the additional challenges brought on by the COVID-19 pandemic, and civil unrest. The increased reinsurance costs, aggressive litigation trends, and adverse claim development trends have further aggravated the property market. Carriers have become risk adverse, offering up restricted capacity at increased pricing. Unlike previous hard market cycles, there is not significant new capital entering the market, which would provide the competition needed in order to soften the market.

PRISM's Renewal Strategy

PRISM has always been, and continues to be, proactive in managing the Property Program, which continues to be one of the largest public entity property placements worldwide. Currently, the Program has 110 members and approximately $80B in total insured values. We have increased marketing efforts in order to secure the best possible outcome for the upcoming Property Program renewal. Additionally, we leverage the sophistication of the Program to explore unique ways in which the captive and the pool layer(s) can improve capacity and pricing within the Program.

The Property Program is currently structured with an aggregated pool and primary insured layer, above which excess layers of coverage are placed. Exposure is allocated among separate "towers" to diversify the risk geographically and by building type. The unique structure of the Program and its risk sharing features have afforded members higher loss limits, reduced costs, and coverage stability.

Because of the model we have built, our Property Program will fare better than the market and certainly better than for public agencies trying to endure a hard market on their own. However, members should still expect rates to increase based on the trends, capacity within the industry, and the Property Program's experience last year.

If we have learned from history, we know that joint powers authorities (self-insurance pooling) have been the answer to turbulent markets. By staying the course, we will all benefit from our economies of scale, our partnership with markets, and our sharing of best practices to help manage risk.