

City of Warrenville
RE: 2021 Insurance Renewal
 November 15, 2021

Gallagher is pleased to present this year’s terms for the City’s Property, Casualty, and Workers Compensation renewal. Given the current state of the marketplace, our team is pleased with the terms and pricing negotiated.

The insurance marketplace in general has sustained record breaking losses over the previous 3 years. In our Market Report you will see areas of impact and rate increases. The marketplace for municipalities in Illinois continues to evolve. This is due to the following concerns:

1. Midwest Property losses continue to skyrocket. Large claims due to wind, hail, flood, and lightning continue to occur. Insurance carrier’s appetite for property in the Midwest is shrinking.
2. The current law enforcement landscape.
3. Civil unrest.
4. Presumption as it relates to workers compensation and COVID-19.
5. Interest rates effecting reinsurance investment.
6. Employment practices claims (discrimination, sexual harassment, wrongful termination) continue to rise.
7. Public entities are a strong target for ransomware attacks and cyber hacks.

The marketplace is currently the most volatile it has been in decades. As always, we will continue to keep you aware of current and/or changing marketplace trends throughout the year.

The City has been working to update and confirm the City’s insured values, which includes updated property values, additions of large Public Works equipment, and updated inventory lists. This led to a large increase in the City’s true equipment value.

Exposure Comparison

Line of Coverage	Expiring 2020-2021	Renewal 2021-2022	% Change
Total Insured Values	\$30,874,315	\$30,885,661	0.04%
Contractors Equipment	\$2,059,306	\$2,936,903	42.62%
Number of Vehicles	70	72	2.86%
Vehicle Values	\$3,569,254	\$3,983,415	11.60%
Total Payroll	\$7,424,807	\$7,753,906	4.43%

In addition to the increase in equipment values, the City’s payroll, vehicle values and count also increased from last year.

Given the above information, we were able to obtain an overall increase of **0.96%**. Most communities are seeing 5-15% increases at renewal, depending on losses.

**Premium
Comparison**

Line of Coverage	Expiring 2020-2021	Renewal 2021-2022	% Change
Package (includes property, auto, and general liability)	\$103,133	\$115,940	12.42%
Equipment Breakdown	\$3,260	\$3,506	7.55%
Crime	\$1,750	\$1,750	0.00%
Cyber	\$6,509	\$8,647	32.85%
Fiduciary	\$6,860	\$6,860	0.00%
Work Comp	\$326,197	\$315,314	-3.34%
TOTAL	\$447,709	\$452,017	0.96%

To help offset the increase, the City of Warrenville has received a **\$23,371** safety grant from your workers compensation carrier, IPRF (Illinois Public Risk Fund). In addition to the standard safety grant that is typically calculated on previous year claims loss ratio, the City also earned a “Preferred Loss Ratio Grant”, which resulted in a larger award. This is due to the City’s strong workers compensation performance this year and minimal claims. This attests to the strong commitment to safety and risk management practices by your staff and department heads. Since 2019, the City has worked with IPRF to continue to utilize the concepts learned from the Highly Enhanced Loss Prevention (HELP) program to apply safe practices in the workplace.

All carriers, limits, and deductibles remain the same as last year. The only change in program this year is within your Cyber Liability coverage. Instead of purchasing a standalone cyber policy as the City has done in year’s past, we were able to obtain \$1M of coverage from Trident. This solution was both cost effective and eliminates an additional billing process.

We appreciate the City’s work in providing timely renewal information and schedules, and look forward to continuing our relationship with the City.

We wish everyone a safe and healthy end to 2021!

Your Gallagher team,

Ethan Salsinger

Kate Reens

Spring/Summer Market Report

JUNE 2021



Gallagher

Insurance | Risk Management | Consulting

2021 Spring/Summer Market Report

As we reach the midpoint of 2021, the market remains very challenging and is pretty similar to 2020. While there is optimism toward some moderation in premium increases, it has yet to be widely seen in year-to-date 2021 renewals. Across the industry, renewals for many companies have been upwards of 20%, which was unsettling after an already difficult year. What has made this market even more troubling is that there is no one single event to point to as the cause. Instead, a confluence of factors have challenged the industry, including social inflation, increased storm activity and pandemic losses. Additionally, carriers' ability to offset these results through investment income remains a challenge due to the lower interest rate environment.

Unfortunately, these factors likely will impact the market for some time. Despite pushing significant rate increases across most lines in 2020, the industry's combined ratio hovered around 100%. Accordingly, all market indicators point to a continuation of premium increases for the balance of the year and possibly into 2022.

However, there is optimism for some moderation in certain lines as we move into the latter half of 2021. Many carriers have reported stronger results in the first quarter of this year, but that progress must be sustained for several quarters to see a market shift. The challenges have not kept out new capital and the market is seeing some expansion, which will inevitably lead to more competition. Finally, despite across-the-board increases on January 1 reinsurance renewals, the rate increases ultimately ended up at the lower end of initial projections.

In this report, we will analyze the market conditions for each major line of coverage and offer guidance to help you ensure a successful renewal outcome.

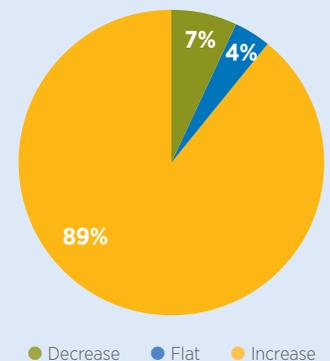
Property

Natural disasters and catastrophic losses remain a key driver for the property market. The rise in unmodeled losses (such as the Midwest derecho and Winter Storm Uri in Texas) continues to impact the industry.

What we saw in 2020

- 2020 was the most active Atlantic hurricane season on record with 30 named storms, according to the National Oceanic and Atmospheric Administration.
- The continuation of unmodeled risks continued to plague the property marketplace (e.g., wildfires in California).
- Carriers scrutinized their clients' statements of values, demanding in many cases that values be raised.
- For the third straight year, carriers obtained significant rate increases across their property portfolios.

Q1 2021 Property Rate Changes
Gallagher — U.S. Clients



13.7%
median rate change
in Q1 2021*

What we are we seeing now

- The winter storm (Uri) that hit Texas in February is the latest catastrophic event to occur with losses likely exceeding \$20 billion.*
- Carriers are continuing to push sizable rate increases in the national property space (rates more than 20%).
- Carriers are demanding more data and are more selective regarding which submissions they quote.
- Changes in coverage terms and conditions in the property marketplace remain significant.
 - » Increasing deductibles, shrinking sublimits—especially in catastrophe-exposed geographies (CAT)—and carriers' conservative limit deployment have led to less favorable terms and conditions for clients.
- Some clients are buying less insurance (or taking on higher retentions) to offset the rate increases.

What we are watching

- New capacity entering the marketplace (specifically in Bermuda and London).
- Court decisions on U.S. business interruption (BI) exposure due to past COVID-19-related losses.
- Impact of economy reopening.
 - » Implications of new working models and supply chains.
 - » Underreporting values will not serve or save premium in the long run.
 - » Impact on BI exposure.
- Full long-term impact yet to be determined with so many unusual losses and claims this year.

Navigating the many risk management disrupters that exist

COVID-19 impact on revenue	Civil unrest	Convective storms
Idle and vacant facilities	Facilities reopening	Cyber risk/cyber attacks
Maintenance concerns	New COVID-19 protocols	Energy storage systems
Natural catastrophe losses	Non-modeled losses	Increased storage heights
Remote working	On-site loss control visits delayed	Solar installations
Supply chain interruptions	Water damage	Valuation
Winter freeze		Wildfires

<https://www.claimspages.com/news/2021/03/15/uri-could-signal-aboveaverage-cat-loss-year/>

Maximizing outcomes

- Communicate, communicate and communicate.
- Obtain third-party engineering.
- Focus on loss control recommendations (loss mitigation strategies).
 - » Carriers are not afraid to walk away from long-term clients.
 - » Carriers want to partner with clients who demonstrate a willingness to implement loss control recommendations.
- **The amount of information carriers are requiring has increased dramatically in the past 10–15 years.** Some models can require more than 100 data points. Get your data early and have it ready to go well in advance of your renewal (four to six months).
- **Historical loss history matters.** Create a narrative regarding lessons learned from losses and steps you are taking to prevent such losses.

Bottom line: Risk managers need to be willing to change and evolve with the times or face an uphill battle with regard to renewal.

Workers' Compensation

Rate reductions on the workers' compensation side have moderated. We believe the market is at or near the bottom. Going forward, savings that were relied on in this space to offset other expenses will not exist for much longer.

What we saw in 2020

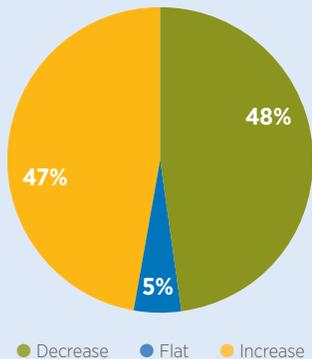
- Claim counts fell across all industries except healthcare.
- There was a significant spike in healthcare claims.
- The claim mix has shifted toward higher severity.
- Changes in the workforce including higher turnover and fewer women in the workforce.
- Presumption laws created additional compensable claims.
- The choppy recovery corresponded to COVID-19 waves and reopenings.

What we are seeing now

- Mass vaccinations causing a drop in COVID-19 claims volume, some vaccine reaction claims, new COVID-19 variants, reopenings, and changes in state COVID-19 guidelines.
- Stimulus, savings buildup and pent-up demand from extended quarantine

Q1 2021 WC Rate Changes

Gallagher — U.S. Clients



0%

median rate change
in Q1 2021*

What we are watching

- Industries are recovering, but there is room to go.
- Employees are returning, but are they prepared?
 - » Are newer workers going to have higher accident frequency?
- Claim trends are impacted by the changing nature of the workplace (i.e., more work from home).
- COVID-19 is still active in the country.
 - » COVID-19 long haulers continue to feel symptoms long after the days or weeks that represent a typical course of the disease.
 - » Presumptive laws Introduction of legislation in at least 12 states that create workers' compensation presumption of compensability, which could apply to infection diseases and pandemics beyond COVID-19, which will make it interesting to see how carriers, regulators and employers respond.
 - » Delayed medical treatment.
 - » Potential increase in mental health claims.
 - » Potential changes to workers' compensation regulation on infectious disease.

Maximizing outcomes

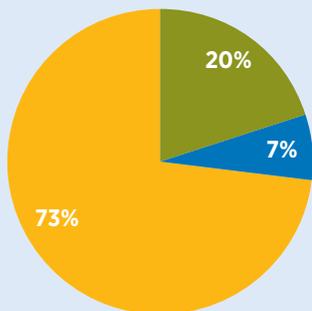
For employees

- Protocols for COVID-19 exposures
- Processes and safety practices
- Training and monitoring

With underwriters and actuaries

- Communication is key: Remember, you control the story.
- Ensure all safety and loss control efforts are documented and up to date.
- Analyze claim trends — volume, severity and complexity (with and without COVID-19).

Q1 2021 Auto Rate Changes
Gallagher — U.S. Clients



● Decrease ● Flat ● Increase

9.1%

median rate change
in Q1 2021*

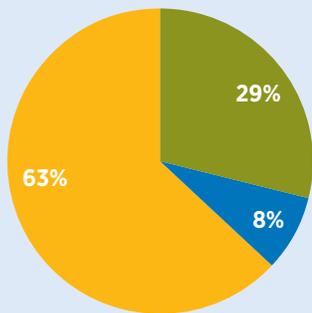
Casualty

What we saw in 2020

- Frequency of claims associated with the economic shutdown were down in 2020, with the biggest reduction in commercial auto.
- COVID-19 may have paused some of the impact of social inflation in 2020, but social inflation is not going anywhere.
 - » Increase in plaintiff activity (rate of attorney involvement was up)
 - » Continued increase in litigation funding
 - » Attorney's leveraging technology and sharing tactics/information
 - » Jury makeup and millennials' views toward more social and corporate accountability
 - » Nuclear verdicts, large judgments and settlements targeting the deep pockets of large corporations, leading to a hefty swing in rate increases for Fortune 500 companies

Q1 2021 GL Rate Changes

Gallagher — U.S. Clients



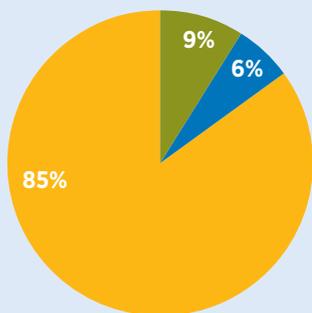
● Decrease ● Flat ● Increase

3.5%

median rate change
in Q1 2021*

Q1 2021 Umbrella Rate Changes

Gallagher — U.S. Clients



● Decrease ● Flat ● Increase

15.5%

median rate change
in Q1 2021*

- Many primary umbrella/excess markets are requiring higher auto liability limits of \$2 million to \$5 million or, in some cases, \$10 million.
- 2020 umbrella/excess rates continued to climb to their highest levels in recent years—more than 15% on almost every renewal—with significantly higher increases on the vast majority of larger clients, especially clients with heavy auto fleet exposures or clients who operate in higher-hazard industries.
- Rate increases were not limited to the primary carrier. Rate increases continued through the excess liability tower as excess markets are focused on rate relativity and rate adequacy.

What we are seeing now

- As courts reopen and handle their backlogs, we expect frequency to return to (or exceed) pre-pandemic levels.
- In a post-COVID-19 environment, communicable disease exclusions are also being added. These exclusions are wide-ranging, with some eliminating all communicable diseases and others only COVID-19.
- Restrictive terms and conditions might have a material impact on the value of the coverage beyond the hard dollar structure and pricing changes imposed upon renewal.
- In addition to communicable disease exclusions, underwriters have added a host of others, including sexual abuse and misconduct (SAM), traumatic brain injury (TBI), wildfires, opioids, cannabis, glyphosate and on-premises violent acts.
- **Certain claims are shaking the market.**
 - » Active shooter and general stand-alone terrorism-related incidents are increasing.
 - » Increases in both frequency and severity of wildfires have triggered new litigation.
 - » The increase in carelessness of construction workers lead to construction liability losses.

What we are watching

- Many carriers are also restricting the amount of limit they are willing to put forth or repositioning their capacity at a higher level (e.g., carriers that historically offered \$25 million lead umbrella policies are now limiting their lead positions to \$10 million or less, in most cases).
- With additional capital entering the marketplace and improved carrier earnings, will carriers rethink their capacity management?
- **Capacity management:** Carriers want to limit exposure to higher umbrella and excess layers. We've experienced multiple instances in which clients were unable to buy the limits they purchased in the prior year because of a lack of availability. Clients need to involve substantially more carriers and often substantially more premium to achieve the same limits as those expiring.
- **Lead umbrella rates:**
 - » Carriers finally appear to be at a point where rate is exceeding lost cost trends.
 - » Although most clients are seeing rate increases in umbrella, clients with revenue in excess of \$500 million are still seeing more sizable rate increases.

Maximizing outcomes

- Develop a plan to align with your risk management goals moving forward for years to come.
 - » Conduct a strategic review of your exposures and risk management goals. Get an overview of the market condition and possible outcomes with regards to the renewal.
 - » Align primary and excess marketing strategies to maximize options.
 - ◆ Potential is there for packaging with the primary to support a stable lead umbrella option.
 - » Obtain alternative primary underlying limits to maximize options for the excess.
 - ◆ Try and find other coverage lines, such as property, to find economies and maximize relationships clients have with different markets across the board.
 - ◆ Look at different attachment points.
 - » Review options for higher limits through buffers of selective self-insurance.
 - » Submit renewal to various lead markets, and obtain feedback on various attachment points, maximum capacity (block and ventilated), and any new minimum and mandatory coverage restriction.
- Market continues to be challenging, but there are options that contain built-in flexibility levers.

In the excess casualty space, there are options and a number of different ways that we can approach the market in conjunction with other coverage lines to maximize options and explore a wide range of solutions.

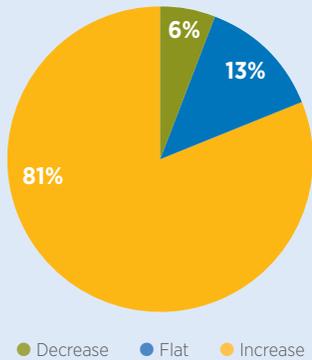
Directors & Officers

The Directors & Officers (D&O) marketplace has been distressed for several quarters, with every aspect impacted, including premium, retention, capacity, attachment, and terms and conditions. That said, the market seems to have ameliorated in the second quarter, with average increases between 15%–50%. The market for privately held companies is not nearly as difficult as the publicly traded D&O market, although larger private companies are continuing to see double-digit increases.

What we have seen

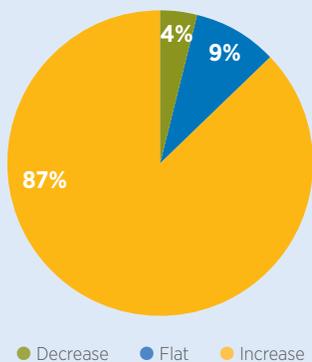
- Frequency of securities class actions has increased.
- Core filings have been on the rise since 2015.
 - » Emerging plaintiff attorneys have entered the securities litigation arena, bringing what some have suggested are lower-quality cases and targeting smaller companies, including smaller market cap drops.
 - » The shift from state court to federal court for merger objection cases has also contributed to the increase.
- Event-driven securities claims have increased—cyber breaches, COVID-19, the #MeToo movement and others.
- The reasons we are in a difficult D&O market can be distilled to three main categories.

Q1 2021 D&O Private Company Rate Changes
Gallagher — U.S. Clients



10.1%
median rate change
in Q1 2021*

Q1 2021 D&O Public Company Rate Changes
Gallagher — U.S. Clients



20.5%
median rate change
in Q1 2021*

1. Frequency—As stated above, we’ve had many years of elevated claims frequency due to increases in both core filing and M&A filings. Looking forward, we may continue to see increased frequency. A record number of companies went public in 2020. According to Cornerstone Research, nearly 20% of IPO companies have a core filing made against them within four years of going public, and the median lag for a Section 11 or state 1933 Act claim is about nine months post-IPO.

2. Severity—While the average settlement in 2020 increased to \$54.5 million, it is only 15% higher than the prior nine-year average. Carriers are concerned about mega-settlements, which are D&O claims that settle for more than \$100 million. There is also quite a backlog of securities class actions that have not yet settled or been dismissed — over 500 in the pipeline. Regarding severity, the question will be whether the backlog will cost more per case than the ones we’ve seen thus far and what the aggregate cost to the industry will be given the large pipeline?

- ◆ Defense costs are going up dramatically. There are more attorneys on each claim these days, and their rates are going up sharply. One carrier said they are paying almost double the defense costs compared to seven years ago.

3. Other Complications—The Supreme Court’s 2018 ruling in *Cyan* also had an instant impact on the hardening market. The court found that Section 11 claims could be brought in state court and can’t be removed to federal court under the provisions of the Securities Litigation Uniform Standards Act (SLUSA). D&O pricing for IPOs increased dramatically, with many fearing that fewer cases would be dismissed, discovery costs would not be stayed in state court, and companies would face litigation in multiple states. Fortunately, last year the Delaware Supreme Court held in *Sciabacucchi* that federal forum selection clauses in company charters were facially valid. This was viewed as a big win for insureds, but the question remained: How would other states view the issue? Since then, California has also upheld their use. We are currently seeing the impact of these rulings, as Cornerstone Research has reported a sharp decline in state court 1933 filings.

Maximizing outcomes

Beating the averages

- Start early (120 days out or even earlier), but anticipate delays in the quoting process.
- Communicate early and often with internal stakeholders.
- Develop relationships with underwriters—incumbent as well as alternatives.
- Showcase positive risk factors.
- Consider leveraging ancillary lines.

Possibly improved market conditions

- 2021’s increase might be muted compared to 2020 because:
 - » Most carriers have reduced their loss ratios significantly during the past two years.
 - » Carriers may see further benefit from either reduced 2020 SCA claim frequency or sustained case dismissal rates above 50%.
 - » New or rejuvenated capacity may enter the D&O marketplace throughout 2021.

What to expect for the remainder of 2021 in order of carrier priority

- **Capacity:** Even though most cuts in capacity took place in 2019–2020, capacity will be reviewed intently.
- **Excess attachment points:** Expect upward movement.
- **Retentions:** Most retention increases took place in 2020; expect fewer increases in 2021 absent large growth in exposures.
- **Premium:** Price increases continue to take effect across the board and remain in the double digits.
- **Terms and conditions:** Tightening of ERP, Side A reinstatements, and reductions in derivative demand investigative costs are seen frequently.

Cyber

For the majority of its relatively short life, the cyber insurance market saw rapid expansion and nimbly evolved to meet changing cyber threats. Cyber insurance buyers enjoyed expanding coverage terms, plentiful capacity and flat to falling rates in a highly competitive marketplace. With the rise in ransomware attacks across the U.S. and increases in carrier-reported losses, the cyber insurance market hit an inflection point in 2020.

What we saw in 2020

- Carriers became pressured due to the increasing frequency and severity of cyber claims and a more stringent regulatory environment at the state, federal and international levels.
- We have moved from a long period of flat to falling cyber insurance premiums to a marketplace where underwriters are regularly seeking rate increases in an approximate range of 10% to 50% or more.
- We're seeing rate increases cut across most industry sectors, with larger companies subject to greater increases and increased underwriting scrutiny.
- 2020 began with the first real signs of a hardening market as the larger, more sophisticated risks in specific industry sectors became subject to greater underwriting scrutiny and ultimately increased premiums. In fact, even those clients with optimal data security controls were seeing rate increases in the 25%–50% range. Less attractive risks saw 100% and greater increases, if they were offered terms at all.

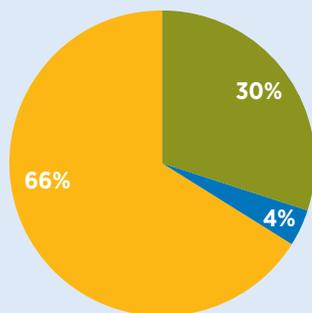
These trends continued and accelerated into the latter half of 2020, and continue to be even more challenging in 2021.

What we are seeing now

- **Ransomware** attacks today usually involve six-figure extortion demands. Meet them or very sensitive information will get released to the world. Ransomware attacks are very high stakes, and this is the single most contributing factor to the hardening of the cyber market. Carriers are responding with higher rates, higher retentions and coinsurance requirements.
- **Phishing** is the fraudulent attempt to obtain sensitive information or data, such as usernames, passwords, credit card numbers or other sensitive details by impersonating a person or company to get access to that information.

Q1 2021 Cyber Rate Changes

Gallagher — U.S. Clients



● Decrease ● Flat ● Increase

12.6%
median rate change
in Q1 2021*

- **Email intrusion/spear-phishing** targets specific people in an organization who have access to data that hackers want (e.g., HR director, finance employees, CEO).
- **Vendor risks** can be caused by an outsourced IT provider or HR consultant potentially exposing your data.
- **Supply chain risks** can result from an attack on a vendor or someone you have no direct connection to, but it could lead to a domino effect.
- **System failures** like a network going down for one reason or another, for example, may have consequences. Think about the structure of your system.
- **Business interruptions** may come with significant costs. They can be five to 10 times more expensive than the ransomware demand.
- **Litigation** is constantly evolving and can come from anywhere.

What we are watching

- We are in a hard market, seeing 10%–50% increases or more in certain sectors. Are we at the peak?
- Competition remains robust, but capacity is starting to shrink — what will carriers' appetite be?
- Ransomware attacks are attracting increased scrutiny.
 - » Underwriting techniques are evolving as is the use of vulnerability scans and technology.
 - » An extensive set of questions from underwriters specific to controls in place to prevent and mitigate ransomware attacks, creating friction at renewal.

Maximizing outcomes

What steps can be taken to prevent a cyber attack?

- **Assess cyber risks.**
 - » Vulnerability scans
 - » Penetration testing by hackers for hire
 - » Physical security controls
 - » Leverage threat intelligence
 - » Understand and prepare for insider threats
- **Review incident response plans.**
 - » Roles and responsibilities
 - » Interdisciplinary approach
- **Establish IT security policies.**
 - » Data governance
 - » Information security frameworks
 - » Risk management
- Conduct a tabletop exercise to test your incident response plan.
- Train employees to recognize cyber attacks and escalate issues.
- Manage vendor subcontractor risk.

Cyber risk transfer: cyber insurance

- **Crisis management costs:** Leverages the cyber risk management ecosystem that the policy provides (i.e., breach coach attorneys, IT forensics investigators, credit monitoring firms, mailing and call centers, public relations experts, data asset restoration professionals)
- **Extortion costs:** Immediate access to Bitcoin and trained negotiators
- **Business interruption:** Lost income due to downtime
- **Data asset restoration:** Restores data that is damaged or destroyed
- **Third-party liability:** Coverage for lawsuits from regulators, business partners and affected individuals

Cyber coverage questions

- **Ransomware:** What are the latest applications, sublimits and coverage?
- **Remote workforce:** How is a computer system defined?
- **Supply chain:** What is your contingent business interruption coverage?
- **Wrongful data collection:** Is a breach required to trigger coverage?

Conclusion

A recent carrier partner used the phrase “the big five” to describe this marketplace; that is, the big five lines of insurance that are causing the most pain are auto, property, umbrella/excess, D&O and cyber. These five lines of insurance will continue to challenge brokers and clients alike throughout the rest of 2021. But we are beginning to see improved underwriting results and additional capital entering the marketplace, which could lead to some potential moderation in the second half of 2021. We will not be returning to a flat marketplace anytime soon, but hopefully, we have reached or are near the peak for at least four of the “big five”: auto, property, umbrella/excess, and D&O. Unfortunately, we believe cyber is still in the early stages of a market correction.

Because of the highly nuanced nature of this market, it is imperative that you are working with an insurance broker who specializes in your particular industry or line of coverage. Gallagher has a vast network of specialists that understand your industry and business, along with the best solutions in the marketplace for your specific challenges.

About the contributors



Linton B. Puckett is responsible for the leadership of Gallagher’s national Market Relations practice. In this role, B. is responsible for developing and managing strategic carrier and intermediary relationships in Gallagher’s U.S. Brokerage division. B. leads SmartMarket, Gallagher’s platform that couples data with a dedicated engagement model to enhance carrier relationship strategies. B. also leads Gallagher’s Client Advantage strategy, which partners with carriers to bring proprietary products and solutions to clients.

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Mark Stachura

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For up-to-date information regarding COVID-19, please visit ajg.com/pandemic.

*Source: Gallagher Drive US Client Data, Jan. 2021–March 2021. The median is the value separating the higher half from the lower half data sample (or the middle value). Due to the variability that we’re seeing in this market and specific account characteristics, individual rates may vary.



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