

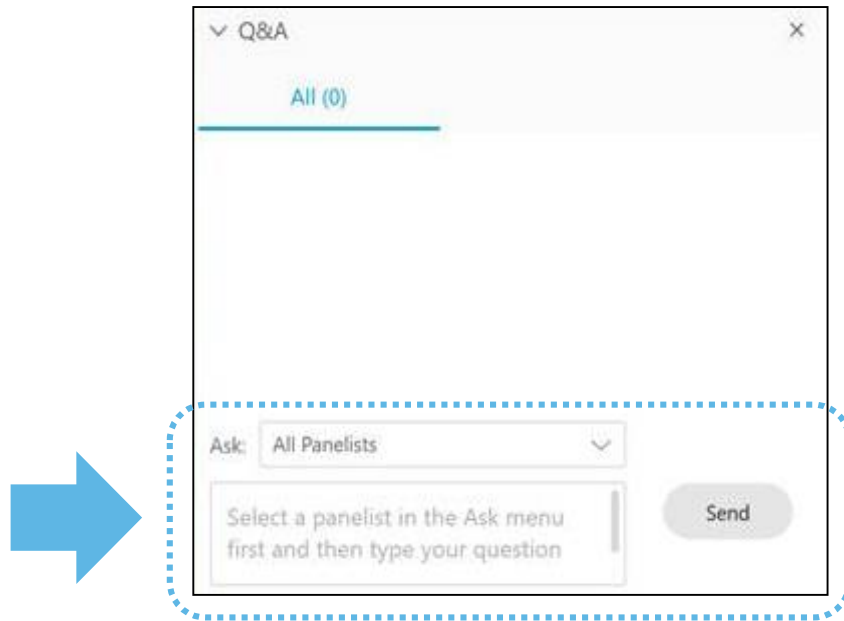
A Town Hall Discussion: Managing Risk for Transportation Providers in the “Next Normal”

May 21, 2020



Q&A

You can submit questions to the presenters throughout the webinar via the Q&A functionality on the right side of your screen. We will answer questions at the end of the webinar.



Today's Speakers



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Vice President and Team Leader
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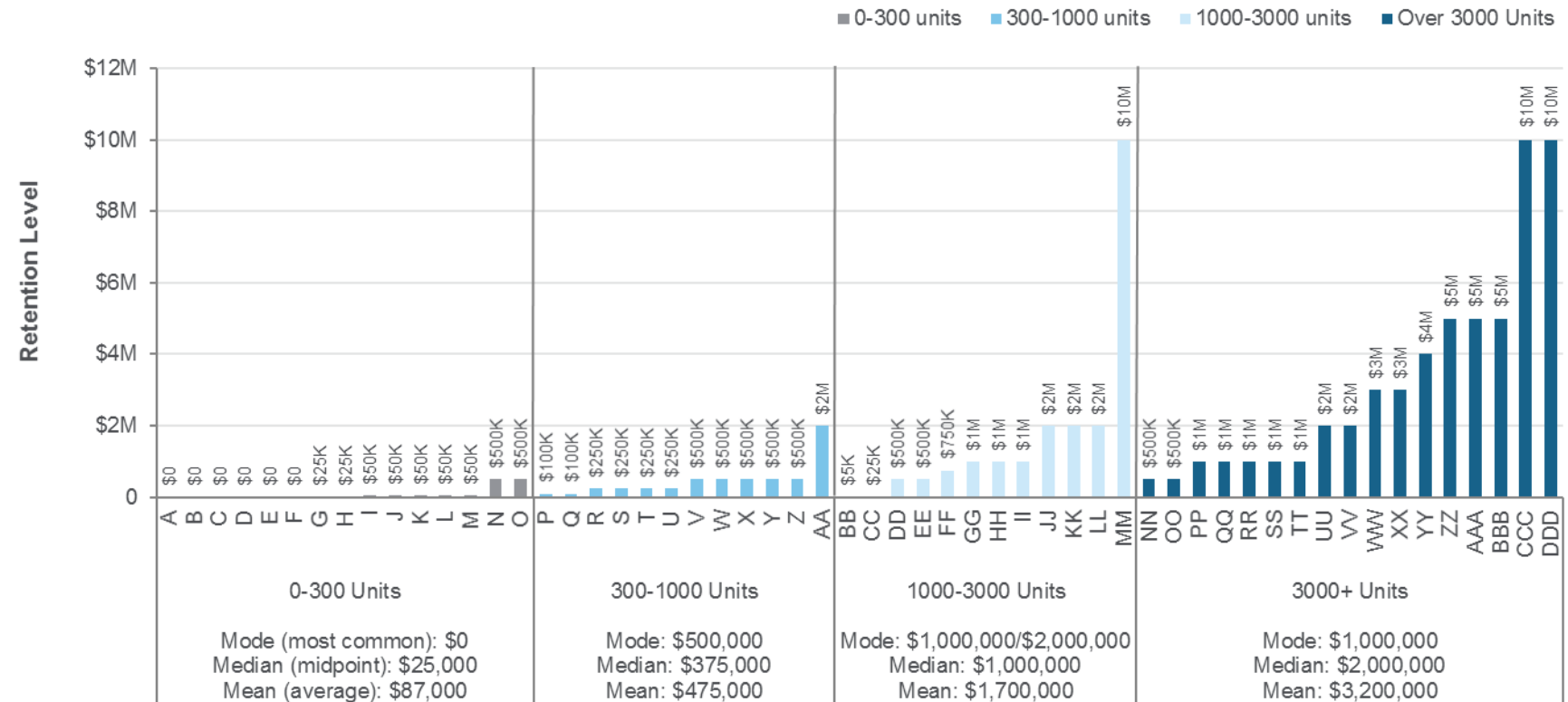


Allyson Coyne
Managing Director & Chief Broking Officer
Aon Transaction Solutions Group
(North America)

Comparison of Retention Levels Purchased

Transportation and Logistics Benchmark

This chart represents 2019 and 2020 retention levels purchased, segmented by fleet size. Data includes renewal updates through 4.1.20.

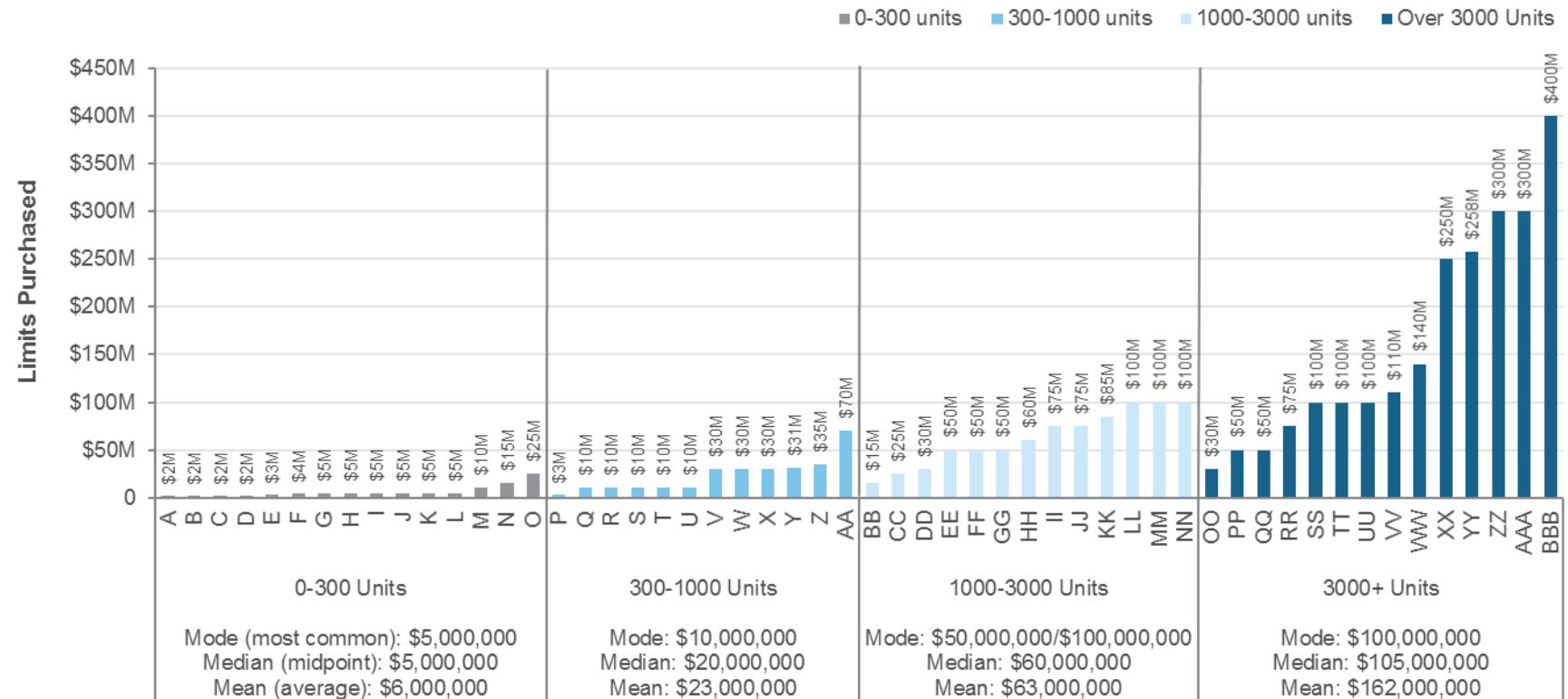


Note: Of the companies above with available prior year comparison data, 35 companies maintained retentions, 0 companies decreased retentions, and 9 companies increased retentions.

Comparison of Total Limits Purchased

Transportation and Logistics Benchmark

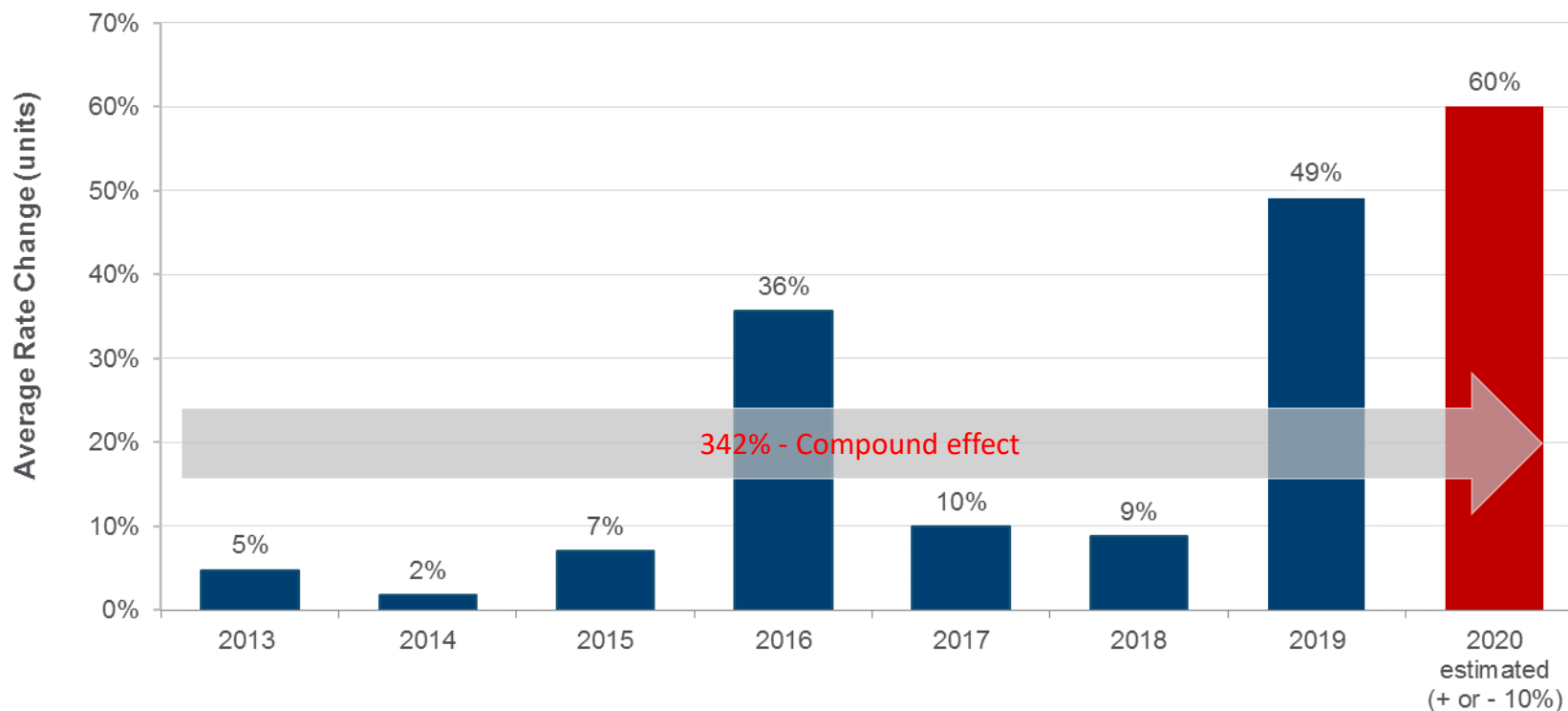
This chart represents 2019 and 2020 total limits purchased, segmented by fleet size. Data includes renewal updates through 4.1.20.



Note: Of the companies above with available prior year comparison data, 27 companies maintained limits, 18 companies decreased limits, and 1 company increased limits.

Year-Over-Year Average Excess Rate Change

Year-Over-Year Rate Change Comparison



Notes:

- 25-30 participants were factored into the analysis for each year.
- Results compare combined pricing for a client's same limits in each individual year comparison. If a corridor deductible was added, a new limit was purchased, or a prior limit was excluded at renewal, that particular layer was omitted from the comparison for the year the change occurred. Once both comparison years match, the updated structure is factored into the result.
- All percent change results were calculated based on overall price per unit.



Market Security Perspectives on the Impact of COVID-19

May 2020

Business Interruption Coverage

Key Concepts:

- **What is Business Interruption Coverage?**
 - Also called “Business Income Coverage”
 - Covers loss of income and expenses when a business has to suspend or slow its operations...
 - Because of direct physical loss or damage:
 - To the business’s insured property (traditional Business Interruption);
 - To a key supplier’s or customer’s property (Contingent Business Interruption); or
 - To property near a business’s premises
 - ♦ When a civil authority prohibits access to the business’s premises (Civil Authority Coverage).
- **Why Are Insurers Denying Most Claims Related to COVID-19?**
 - Most policies specifically exclude loss related to a virus.
 - Even where policies do not specifically exclude viruses, coverage is almost always contingent upon direct physical loss or damage to property.

Business Interruption Coverage

Government Updates

- **Business Interruption Insurance Coverage Act of 2020 (H.R. 6494)**
 - Business Interruption insurance would be required to cover losses from viral pandemics
 - Insurers are allowed to charge increased premiums for coverage
- **Never Again Small Business Protection Act of 2020 (H.R. 6497)**
 - Business Interruption insurers would be required to offer coverage for losses from governmental orders that cease business operations for 30 days or more
 - Insurers allowed to charge premium for coverage
 - Federal backstop to protect insurers from excessive losses
- **Pandemic Risk Insurance Act**
 - Would create federal reinsurance program for Business Interruption insurance similar to the Terrorism Risk Insurance Program
 - Unlike with TRIA, insurer participation would be voluntary, and participating insurers would be required to pay premiums
- **State Updates**
 - 8 states, the District of Columbia, and Puerto Rico have introduced bills that would require retroactive Business Interruption Coverage (LA, MA, MI, NJ, NY, PA, OH, SC)

Business Interruption Coverage

Insurance Industry Response

- Insurers and many other interested parties (their trade associations, some politicians, state regulators and the NAIC) oppose any actions that require insurers to provide business interruption insurance retroactively
 - Many believe this would be unconstitutional and violate contract law
 - Also, forcing insurers to pay for uncovered losses would inhibit their ability to pay for covered losses and may lead to insolvencies
- The American Property Casualty Insurance Association has estimated that closure losses- just for small businesses with fewer than 100 employees alone - are between \$255 billion to \$431 billion per month.
- COVID-19 Business and Employee Continuity and Recovery Fund
 - Insurance industry groups and other trade associations have urged congress to create a federal relief fund to help businesses pay operating expenses, retain employees, and provide employee benefits.

Business Interruption Coverage

Litigation Update

- Lawsuits have been filed in numerous states including Florida, Louisiana, and California
 - Questions under Consideration by Courts:
 - Does potential contamination by the coronavirus constitute direct physical loss or damage to property?
 - Do government stay-at-home orders or orders banning gatherings over a certain size trigger civil authority coverage?
 - Must a Business Interruption policy specifically exclude viruses in order for the insurer to deny coverage?
- Other Tactics
 - The Business Interruption Group (“BIG”) is a non-profit coalition formed to demand payments to restaurants that have Business Interruption insurance and do not have virus exclusions in their policies.
 - BIG threatens lawsuits in every state if insurers refuse to pay.
 - Plaintiffs’ firms are informally offering settlements to insurers to avoid going to court.

Managing Cyber Threats and Security During COVID-19

Work From Home and Bring Your Own Device Policies



- Lack of separation between personal and corporate data and increased chance of data leakage.
- Endpoint management is key.
- Privileged Accounts and Operational Security.

Ransomware and Social Engineering



- Ransomware mentioned in over 1,000+ SEC filings over the past year.
- According to AIG claims data, the median first ransom demand is \$250k and the average first ransom demand is \$3M from 2016 to 2020, with the largest being \$30M.
- Social Engineering remains common vector, using COVID-19 related subject lines and references to organizations and agencies (CDC, WHO) to take advantage of fear and the need for information.

Cyber Insurance Implications

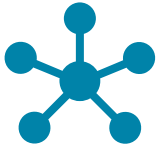


- Coverage is available for both incident response and ransom payment reimbursement, including access to experts to resolve the situation.
- Review existing policies for definitions of computer system related to WFH and BYOD policies to ensure adequate coverage.

Visit <https://www.aon.com/cyber-solutions/thinking/> for more information

Transaction Liability Coverage

How underwriters are reacting to Covid-19



Cautious approach, variety of results

Underwriting focus on impacts of COVID-19 on target businesses



Fluidity as insurers establish playbook for managing crisis



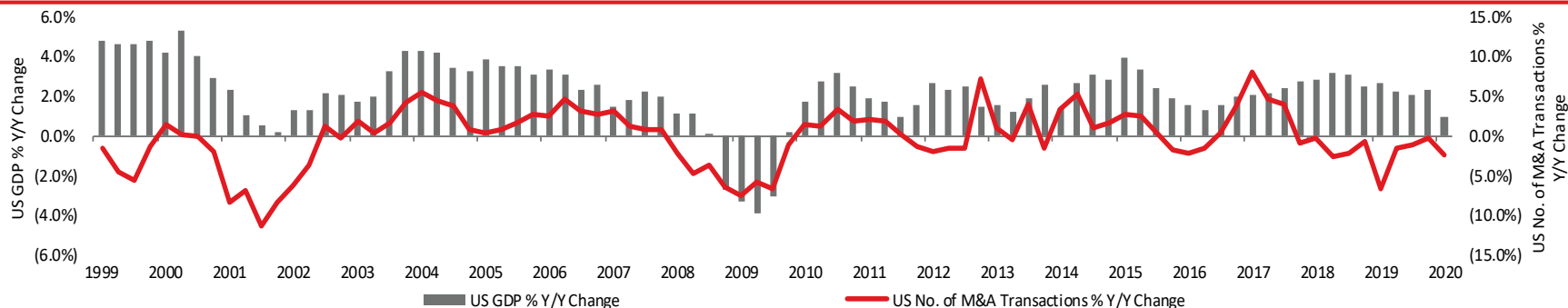
M&A and 3PL Market Observations

May 2020

M&A Market Considerations

- COVID's spread coincided with an M&A market that had grown softer in recent months as near-term economic concerns increased
 - Regardless of the shape of the current recession and its inevitable recovery (V-, U- or L-shaped), it's clear that COVID will impact 2020 GDP
- Near- (and potentially longer-) term M&A impacts include:
 - Volume: both supply (given company results and valuation concerns) as well as demand (focus on internal operations) likely to decrease
 - Valuations: significant “price discovery” challenges, abundance of caution on over-levering or over-equitizing
 - Diligence: growing challenges given social distancing (“remote diligence”) and assessment recalibration to determine “new normal” performance
 - Financing: credit market challenges offset by significant dry powder (\$1T+ in 2019), though sponsors need to balance new and current investments needs
 - Strategic buyers: near-term focus on business stabilization and employee safety; those with strong balance sheets likely to pursue opportunistic M&A

Real GDP Growth vs. No. of U.S. M&A Transactions¹



3PL Industry – Key Trends Defining Today and the Future



SUPPLY CHAIN COMPLEXITY

- Increasingly complex and global supply chain – covering multiple modes, geographies, constituents and technologies – requires 3PL expertise and scale to manage efficiently
- COVID has further exacerbated complexity challenges amidst disruptions in the supply chain and pain points felt by those less prepared



GROWTH IN OUTSOURCING

- Continued growth in outsourcing of non-core supply chain management to professional 3PL providers, typically yielding increased productivity and lower costs
- Outsourced 3PL penetration has grown from ~9% of the market in 2000 to ~20%+ today



EVOLUTION OF TECHNOLOGY

- Technology continues to transform the market, as both shippers and carriers require real-time information, visibility, tracking, analytics, payment capabilities and more
- Significant investment in technology supports the growing focus on technology as a differentiator



E-COMMERCE GROWTH

- e-Commerce has reshaped supply chain demand, driving significant opportunity for 3PLs to deliver dynamic solutions
- e-Commerce logistics spend significantly increased amidst continued stay-at-home restrictions – potential for permanent shift in consumer behavior



INDUSTRY CONSOLIDATION

- In a market increasingly characterized by “haves” and “have nots,” 3PLs are turning to M&A to expand service capabilities, technology offerings, network reach, and economies of scale
- The fragmented 3PL landscape remains ripe for consolidation, particularly as “heroes” and “victims” become more apparent coming out of the COVID crisis

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