

Explanatory Memorandum

COVID-19 Premium Refunds, Credits, and Reduction Report

Company Name: Markel Insurance Company ("Markel")

NAIC Code: 39870

Insurance Services Office (ISO) conducted research on the current short-term effects of COVID-19 on General Liability and Commercial Automobile loss experience. The information provided to insurers in circulars LI-GL-2020-093 and LI-CA-2020-210 by ISO, combined with an in-depth review of the products that Markel Insurance Company offers to California insureds, formed the basis for our company's response to California Bulletin 2020-3.

In determining the potential impact on expected losses for policies in force during this unique time period, a review was undertaken by ISO of the relationship between exposure base and potential expected changes in losses for each line of business and/or each classification. Based on this analysis, classifications were judgmentally segmented into two broad categories, responsive and non-responsive.

The term responsive in this context refers to the exposure base's ability to adequately reflect the change in expected losses for a classification due to the sudden shift in social and economic activity in the current environment. The loss potential per exposure would not be expected to be materially impacted in the current environment for these classifications. Examples of the types of risks whose classification would typically be included in this category are contractors, service risks, distributors, retail, and manufacturers.

Responsive classifications have an exposure base that is estimated at the beginning of the policy period. Premium developed at the beginning of the policy period is based on this initial exposure estimate. Over the course of the policy period, the actual exposure is variable and will likely be greater or less than the initial estimate. After the audited exposures are determined for these policies, the premium will be adjusted accordingly. Of the over 1,000 classifications in the Commercial Lines Manual for Premises/Operations and Products/Completed Operations, about 80% have an exposure base that is responsive, with initial estimates provided and subject to an exposure adjustment upon audit.

Exposure bases that will generally reflect the change in expected losses after updating exposure estimates in the current environment include, but are not limited to, Payroll, Gross Sales and Camper Days.

The following is Markel’s response to question #: 2a. Our company has reviewed the following lines of insurance/programs specified in Bulletin 2020-3 and have determined no refunds are necessary.

Line of Business	Program	Explanation
Commercial Liability	Commercial Excess & Umbrella CDI Filing # 20-253	<p>Markel does not have credible company data or access to credible industry data upon which to establish that a reduction in exposure to excess and umbrella losses has occurred as a result of the pandemic.</p> <p>The loss exposure for Excess & Umbrella is heavily driven by severity. Early claims analysis performed by ISO indicates that severity has increased during the pandemic. Additionally there may be unexpected increases in severity in the short and intermediate term. The repair and replacement costs for property damage may increase due to supply chain challenges and the limited supply of contractors as some businesses are closed. Medical treatments that are not essential may be postponed, which may increase the overall cost for bodily injury. Legal proceedings may be delayed, which may cause additional legal related expenses in adjudicating a claim.</p> <p>While we have no credible data at this time, it is not unreasonable to expect that an increase in umbrella & excess loss exposure, despite the decrease in claims frequency on underlying policies, will occur as a result of the pandemic.</p>
Commercial Liability & Commercial Multi-Peril (Liability Portion)	Collector Cars (Non-Responsive Classification) CDI Filing # 14-1832	<p>Markel does not have credible data or access to credible industry data upon which to establish that a reduction in exposure to loss has occurred as a result of the pandemic for commercial liability.</p> <p>The loss potential per exposure would not be expected to materially differ in the current environment for collector vehicles. This product would be considered an existence hazard-only classification and/or expected to be operating with close to normal exposure to risk during the shelter-in-place period.</p> <p>The use of collector cars has not changed significantly during the pandemic, as people not considered essential now have more time available to engage in hobbies, including the use and maintenance of collector vehicles. As a result we do not anticipate a reduction in the commercial liability loss exposure for our inforce policyholders and do not believe there is basis for premium refund at this time.</p>

CMP	Commercial General Liability (Non-Responsive Classification) CDI Filing #14-1117	<p>Markel does not have credible data or access to credible industry data upon which to establish that a reduction in exposure to loss has occurred as a result of the pandemic for commercial liability.</p> <p>The loss potential per exposure would not be expected to materially differ in the current environment for our health and human service program. This product would be considered an existence hazard-only classification and/or expected to be operating with close to normal exposure to risk during the shelter-in-place period.</p> <p>The majority of the insureds that make up this program offer types of services considered essential during the shelter-in-place period. As a result we do not anticipate a reduction in the commercial liability loss exposure for our inforce policyholders and do not believe there is basis for premium refund at this time.</p>
CMP	Medical Transport (Non-Responsive Classification) CDI Filing #17-3892	<p>Markel does not have credible data or access to credible industry data upon which to establish that a reduction in exposure to loss has occurred as a result of the pandemic for commercial liability.</p> <p>The loss potential per exposure would not be expected to materially differ in the current environment for our medical transport program. This product is expected to be operating with close to normal exposure to risk during the shelter-in-place period.</p> <p>The use of emergency medical transportation is an essential service. As a result we do not anticipate a reduction in the commercial liability loss exposure for our inforce policyholders and do not believe there is basis for premium refund at this time.</p>
CMP	Wright Education (Non-Responsive Classification) CDI Filing # 19-1320	<p>Markel does not have credible data or access to credible industry data upon which to establish that a reduction in exposure to loss has occurred as a result of the pandemic for commercial liability.</p> <p>The loss potential per exposure would be expected to materially differ in the current environment for our educational insureds, as there has been a significant reduction in students attending in person classes during the shelter-in-place period.</p> <p>The commercial liability rates currently in use are inadequate. As of December 2019, Markel's Education program had an indicated rate need in excess of +35% for commercial liability.</p>

		While the loss potential per exposure is expected to be materially lower in the current environment, the reduction will at best offset the current deficiencies of our existing commercial liability rates. As a result, we do not believe there is basis for premium refund at this time.
Commercial Automobile	Commercial Automobile CDI Filing # 18-945	<p>Insurance Services Office (ISO) conducted research on the current short-term effects of COVID-19 on Commercial Automobile loss experience. The information provided to Markel in circular LI-CA-2020-210 demonstrated industry-wide loss frequency and severity impacts as a result of COVID-19.</p> <p>During this same time period, Markel has been tracking its company specific loss frequency and severity impacts in California. The data in the first months of the pandemic supported the refund of 20% of the premium earned by the company for each of Markel's insureds for the months of March, April & May. While Markel has completed its initial premium refund, Markel's loss experience no longer supports a refund of premium. Throughout the pandemic we have witnessed a rise in loss severity, which has resulted in overall loss experience in line with the expected losses contemplated in our commercial auto rates. As a result, we do not believe there is basis for premium refund at this time.</p>

The following is Markel's response to question #: 2b, 4, and 5. Our company has reviewed the following programs and lines of insurance specified in Bulletin 2020-3 and have determined that it is appropriate to issue refunds.

Line of Business	Program	Explanation
Workers' Compensation	Workers' Compensation CDI Filing # 19-3217	<p>Markel does not have credible company data or access to credible industry data upon which to establish that a reduction in the loss potential per exposure has occurred as a result of the pandemic.</p> <p>The exposure base for Workers' Compensation is payroll, which is responsive and as such adequately reflects the change in expected losses for a classification due to the sudden shift in social and economic activity in the current environment. The loss potential per exposure would not be expected to be materially impacted in the current environment for this line of business.</p>

		<p>We are working on a case-by-case basis with insureds who notify us to reduce of the rated exposures to reflect actual or anticipated exposures. Upon a reduction in exposure we are sending payment to policyholders for the amount of the premium adjustment.</p> <p>This approach is consistent with the guidance provided within Bulletin 2020-3.</p>
<p>Commercial Liability & Commercial Multi-Peril (Liability Portion)</p>	<p>Premises/Operations and Products/Completed Operations - Responsive Classifications</p>	<p>Markel does not have credible company data or access to credible industry data upon which to establish that a reduction in the loss potential per exposure has occurred as a result of the pandemic for commercial liability.</p> <p>For classifications that are considered responsive, revising the exposure adequately reflects the change in expected losses for a classification due to the sudden shift in social and economic activity in the current environment. The loss potential per exposure would not be expected to be materially impacted in the current environment for this line of business.</p> <p>At Markel Insurance Company the following programs primarily rely on responsive classifications:</p> <ul style="list-style-type: none"> • Animal Liability (CDI Filing #08-12029) • Bollinger Golf (CDI Filing #19-3967) • Businessowners (CDI Filing # 19-3788) • Camps (CDI Filing #16-4733) • Child Care & Education (CDI Filing #18-5075) • Episodic General Liability (CDI Filing #20-606) • Health Clubs (CDI Filing #14-7282) • Health & Fitness (CDI Filing #14-5127) • Janitorial (CDI Filing #18-4043) • Medical Sales/Service (CDI Filing #19-1806) • Outdoor Programs (CDI Filing # 08-9046) • Pest Control (CDI Filing# 18-5248) • Sports Liability (CDI Filing # 05-3433) • StaffPak (CDI Filing #18-2340) <p>We are working on a case-by-case basis with insureds who notify us to reduce of the rated exposures to reflect actual or anticipated exposures. Upon a reduction in exposure we are sending payment to policyholders for the amount of the premium adjustment.</p> <p>This approach is consistent with the guidance provided within Bulletin 2020-3.</p>