2021 Year End Market Report

EPIC Insurance Brokers & Consultants

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Today's Market: Year-End Update

In this report, you'll find observations about the markets we serve, including the impact the coronavirus pandemic has had on our clients' insurance programs, as well as on carriers, and forecasts and recommendations of what to expect in the near future.

Accountants Professional Liability

Observations

Insurance rates for major firms in the Accountants Professional Liability market continue to increase across the board, ranging from 3-10% for firms with good claims histories. In many cases, greater rate increases have applied to the higher excess layers. Firms with significant growth and/or claims activity have been able to mitigate the rate increases by retaining more risk through a higher self-insured retention. Coverage remains broad, although some insurers have amended professional liability policies to reduce coverage for cyber losses. Additionally, many professional liability underwriters have included in their underwriting process minimum levels of network security and investigations into stand-alone cyber polices. This has not impacted the market to date, nor has the available capacity. Some insurers exited the space in 2021; however, this was mirrored by new entrants which helped to balance the capacity available for large firms. In terms of overall program capacity, firms seeking limits excess of $80M are beginning to utilize the London and Bermuda based markets more frequently.

Pandemic-related claims activity anticipated by underwriters has not materialized. Auditors and consultants were, by and large, well-practiced at working remotely so it is believed that the pandemic-related risks were much diminished. Moreover, most accounting firms were technologically well prepared for remote delivery of professional services, which has also made pandemic-caused transition more seamless.

While accounting firms are not immune from pandemic-related employment challenges, including “the great resignation,” potential staffing problems resulting in quality concerns are not yet apparent. Employee demand for remote work arrangements is putting more pressure on the traditional apprenticeship training model ubiquitous in the accounting industry, particularly for the development of new professionals. Many firms are balancing the desire to have people in the office with the need to continue to keep professionals engaged, productive and dedicated to the firm. However, engagement staffing remains manageable and within acceptable levels of risk.

M&A transaction flow among accounting firms is returning to pre-pandemic levels, and the number and size of transactions will likely continue to increase in 2022. Private equity is once again showing an interest in the accounting space with a few transactions closing in 2021 and rumors of more to come in 2022. Historically, underwriters have been concerned that pressure to achieve return on investment will impact client acceptance and retention practices and/or lead to partner departures. Such underwriting concerns could influence pricing, terms and even market appetite in the future.

Forecast

Rate increases will likely continue through at least the first quarter of 2022. Whether rates plateau in the first half of the year will depend on underwriters’ evaluation of a full cycle of increased rate renewals, as well as claims activity and economic conditions.

Aviation

Observations

As the aviation insurance market entered the fourth quarter of 2021, pricing and underwriting chaos continued to reign.

As stated in the mid-year market report, the Aviation insurance market continued to experience upward rating trends and the hard market environment continued as it had through the previous 24 months. New losses, albeit smaller in relativity to previous major disasters, continued to take place and older losses continued to develop. Premium increases have not yet achieved a level where the market is in a profitable position.

Aviation insurance carriers are still under internal economic pressures and remain unwavering in achieving underwriting profitability. Following the fourth quarter of 2021, we have seen continued price escalations as an extension of 2020 pricing activity. Price increases and coverage reductions are affecting the entire aviation class of business.

As further evidence of disruption in the aviation insurance market, we have noted that underwriters are leaving their positions to become brokers, brokers are becoming underwriters and carriers are scaling back or exiting the market entirely on both sides of the Atlantic. Backing behind direct aviation insurers is also still in movement, as we have seen new markets arise and entire groups of aviation underwriters leave their positions en masse.

While these changes may be more prominent in some coverage lines or sectors of the business (such as rotorcraft, aircraft original equipment manufacturers (OEMs) and critical parts suppliers), virtually all renewals are continuing to experience increased rates and premiums. We had a glimmer of a bright spot mid-year when it appeared that new business, either new to the market or new to a specific carrier, was starting to attract more favorable attention in terms of pricing, but this trend was short lived. Underwriters are still looking to make their books of business profitable above all else.

Impact of the Pandemic

Rate increases will likely continue through at least the first quarter of 2022. Whether rates plateau in the first half of the year will depend on underwriters' evaluation of a full cycle of increased rate renewals, as well as claims activity and economic conditions.

Forecast & Recommendations

We have not seen much positive change in market conditions through 2021, and while we do see some lightening for 2022, personnel movement within the carriers continues and market appetite is in a constant state of flux.

The best approach to new business submissions and renewal presentations continues to be to utilize strong relationships with underwriters and emphasize the safety protocols which customers have in place to mitigate risk.

The most important approach to achieve the most successful renewal or place a new piece of business is to get into the marketplace earlier than usual and pick and choose the carriers to approach wisely. The beneficial relationships the EPIC Aviation team has with underwriters helps achieve best pricing and increases strengthens in existing relationships between customer and underwriter.

Casualty

Observations

In general, we saw market stabilization across the casualty lines of business in the fourth quarter of 2021. The primary casualty market continued to be competitive, particularly for workers' compensation. Tempering of excess casualty rate increases following several years of aggressive market "corrections" continued.

Pricing is beginning to moderate for clean risks. However, distressed classes such as habitational, hospitality, pharmaceutical, public entity, New York and Florida construction, real estate, transportation/large auto fleets, and wildfire exposed risks continued to experience increases. In some cases, more challenging exposures may be subject to sub-limits and claims-made triggers.

Markets appeared comfortable maintaining expiring attachments and limits, focusing on achieving sufficient rates to keep pace with rising loss-cost trends. We expect this to continue in 2022.

Capacity remained relatively stable; new entrants are taking a conservative underwriting approach, therefore, are not creating sufficient competition to drive down rates. Capacity deployment remained the same in most cases, but some excess markets were willing to increase their line size selectively.

Underwriting discipline continues to tighten. We saw greater use of exclusions such as Assault & Battery, Human Trafficking, Opioids, Sexual Misconduct Liability, and Wildfire. We have also noted a trend of adding Cannabis exclusions on auto liability programs due to increasing concerns over impaired driving, particularly in states that have legalized recreational use of marijuana. Concerns over wildfire exposures have expanded into more western states and to a broader range of industries beyond utilities and tree trimmers/forestry management.

Retention levels held as long as losses within the deductibles trended favorably. Carriers preferred to get more rate/premium than to raise retention levels. Accounts with negative loss trends encountered both higher retentions and rate increases.

Impact of the Pandemic

The casualty market has adapted to the ongoing pandemic for the most part. The market's initial overreaction to COVID-19 has evolved to a more rational underwriting approach to the use of Communicable Disease exclusions. The absolute mandates that we saw at the beginning of the pandemic are now exposure driven. In some instances, the exclusions can be narrowed or deleted altogether with sufficient underwriting data.

Notwithstanding the pandemic, hard market conditions still exist. Underwriter turnover, high volume of submission flow, greater underwriting scrutiny, and the underwriting and referral process all contribute to delays.

From a claims perspective, cases are being settled more frequently to avoid the costs of protracted litigation and the potential for nuclear verdicts. As the courts reopen following the pandemic shutdown, nuclear verdicts are expected to increase due to heightened juror anti-corporate sentiment.

Forecast

Overall, we expect the casualty market to continue to moderate, with the magnitude of rate increases expected to decline in 2022. Well performing risks that don't have a material auto fleet exposure are likely to see a further slowing of rate increases.

We expect to see greater leveraging of data analytics to evaluate risk finance alternatives, such as corridor retentions, multi-year aggregated swing programs, and captives to mitigate premium increases for challenging business classes.

The market is closely monitoring emerging risks such as:

- Climate change
- Cyber
- Endocrine disruptors such as PFOA, PFOS, Phthalates
- "Take-home" COVID-19 liability

Recommendations

- It is imperative to begin the renewal process early and maintain constant communication with underwriters. All stakeholders within an organization should be engaged throughout the renewal process to manage expectations appropriately, allow for necessary adjustments to insurance budgets, and avoid the backlash of last-minute surprises.
- Providing thorough, accurate, and straightforward submissions increase the chances of getting your submission to the top of the pile.
- Identify the problem you are trying to solve, identify how much risk you want to retain, and leverage analytics to figure out the best deployment method. The carriers want to be a partner in developing solutions.
- Underwriter meetings/presentations are increasingly crucial in differentiating insureds from one another. Including the carriers' senior leadership in these discussions will help to solidify relationships and expedite the decision-making process.
- Virtual meetings have the advantage of bringing in experts from within the insured's organization since no travel is involved – legal, safety, loss control, quality control.
- Identify the most significant concerns about your risk and tailor the presentation to address those concerns. Get in front of explaining any prior poor loss experience and demonstrate what loss prevention/mitigation efforts were implemented as a result.
- Partnerships still matter but mean something different than five years ago. It might mean keeping the same limits, flexibility around policy wording, or remaining on the risk after paying a significant loss.
- Partnerships don't translate to large price reductions in this market.
- When a client has demonstrated a long-term partnership, carriers can help budget increases over two to three years to help clients meet their budgets. This strategy requires a level of trust and transparency.
- Leverage other lines of business with your markets to help mitigate rate increases.
- Holding midterm meetings to develop relationships with new markets may improve overall engagement and renewal results.

Construction

Observations

Construction risks in the U.S. continued to face insurance market challenges through the 4th quarter of 2021. While year-over-year rate increases in the most problematic lines of coverage backed off slightly, they remained in the double-digits for most insureds based on availability of limits and limited overall capacity. Inflation, which was recorded at 40-year high in 2021, simply added to the pressures already faced by underwriters which include: contractor labor shortages, continued escalation in the cost and availability of building materials, production impacts due to the lingering effects of COVID 19, an aging workforce and a steady increase in claims expenses. Although the overall building market, led by residential construction, saw growth in 2021, the additional growth anticipated in 2022 could be derailed by the effects of inflation on building costs and projected returns on investments.

In terms of the overall market, workers' compensation and certain specialty lines remained stable and competitive in the 4th quarter of 2021. The exceptions, in terms of limits availability, limits capacity, coverage scope and pricing include commercial auto liability, lead & high excess liability, wood-frame construction risks, wildfire exposures, marine construction and risks in selected states, including New York. Increased losses experienced by carriers on long tail liability lines continued to affect renewals and the structure of existing programs, available limits, retentions and scope of coverage. Consolidation of insurance markets and changes in underwriting appetite has continued, thus requiring a change in approach and insurance carriers for certain risks.

Impact of the Pandemic

Defined as an "essential business" under Federal Guidelines and in all 50 states, the construction industry avoided work stoppages experienced by many other business sectors. However, the ripple effects from COVID-19 continued to impact the timely completion of projects in the 4th quarter as roughly one-third of prime contractors experienced delays in the completion of contracted work in 2021. In addition to putting a strain on profitability and cash flow, the extension of construction schedules often necessitates the extension of project insurance policies which carriers remain reluctant or unwilling to provide. When considered, extensions are being heavily underwritten, granted only for limited periods and carry with them significant additional premium charges. While all project policy extensions are being scrutinized, residential projects (especially wood-frame apartments and condominiums) have been particularly hard hit.

For a myriad of reasons, prospectively estimating the value of "new" work has always been a challenge for contractors. Yet, historically, they've been able to confidently rely on their revenue projections from private work under contract...largely because they control it. Throughout the 4th quarter of 2021, COVID continued to generate uncertainty not only in the value of prospective work but in revenues generated from work under contract. As many excess insurance policies are written on a "flat" non-adjustable basis, overstating estimated revenues leads to higher coverage costs. Conversely, most primary liability policies are written on a fully adjustable basis where significantly undervaluing estimated revenues can lead to higher applicable rates and significant additional premiums as audit.

Since the onset of the pandemic, 28 states and Puerto Rico have taken action to extend workers' compensation coverage to include COVID-19 as a work-related illness. Eleven states have enacted legislation creating a presumption of coverage for various types of workers. While the true impact on claims related to the epidemic and the construction industry won't be known for years, the potential for additional variants to emerge remains. In response to COVID and driven by reinsurance limitations and their own internal underwriting guidelines, carriers continue to add communicable disease exclusions to their policies.

Forecast & Recommendations

2022 Construction Industry

- Strong growth is predicted in 2022 across all segments of the construction industry
- The recent passing of the Infrastructure Investment and Jobs Act (IIJA) by Congress creates the potential for significant expansion in non-residential construction
- Unchecked inflation, continued supply chain bottlenecks and rising material costs all jeopardize construction growth

2022 Construction Insurance Market

- Excess liability capacity and pricing (especially for hard-to-place risks) will remain a challenge, despite the introduction of new capital into certain segments
- "Adverse" risks (e.g., operations with large auto fleet exposures, wildfire exposures, wood-frame construction exposures, residential construction, etc.) will continue to receive increased scrutiny and face a limited marketplace with elevated rates
- New York, California, Hawaii, Florida, Colorado, and other states with high cost-of-living expenses and / or difficult litigation and regulation environment will continue to present challenges for placement and stabilized pricing
- Carriers will continue to push for higher retentions across primary casualty lines of coverage
- Policy exclusions, even on long-held coverage grants, will continue to be introduced by primary and excess liability carriers

Pricing and Rates

Although tempered from the increases seen in late 2020 and much of 2021, rates for General Liability and Auto Liability will continue to see year-over-year increases in the range of 7% - 10% and 15% - 20%, respectively. As respects excess liability, depending on the exposures, layering structure, limits secured, and revenue basis of the risks, pricing is estimated to increase anywhere from 10% - 40% for the same level of limits, if available.

The Workers' Compensation market continues to remain remarkably stable and profitable for insurance carriers despite increased medical costs, supply chain issues and inflation. Coverage rates in 2022 for most Insureds should remain constant or increase nominally, 2% - 4%

Recommendations

- Understand what current carriers can and cannot offer on renewal (in terms of limits and coverage) well in advance of those renewals. In the current environment many of those decisions may be directed from the "top of the house" with regional underwriters having much less latitude an authority.
- Understand the impact of investments made in operational and safety technology with carriers at the time those investments are made. This highlights a commitment to continually managing risk, increases dialogue with carriers an allows for market feedback relative to the investment.
- Know what options are available from incumbent carriers and competing markets in terms of program structure well in advance of renewal. As underwriters become more selective, so does the time frame over which they need to become comfortable with a new risk and acquire needed information.
- If possible, structure pricing to account for uncertainty in project revenue estimates (or field payroll employed) in the current COVID-19 environment.
- Partner with your carrier's loss control professional in conjunction with in-house safety and your broker. Positive feedback from those in the field who are respected by underwriters is a differentiator.
- Help sell your risk to the market. Active participation by senior management in the insurance placement process is invaluable and now more critical than ever,

Film, Television and New Media Production

Observations

After the nearly total motion picture production shutdown globally between March – July 2020, fitful starts, pauses, stops, and abandonments of productions ensued through Q1 2021 for mid-range productions, especially in the non-Studio, non-Streamer segments. Bank debt financing and much of equity investment for independent work entirely ceased in 2020, and then became dependent upon 200-300% elevations of reserves being escrowed for potential COVID-related shutdowns. This was a non-starter for more than half of the independently financed films and television shows made in the U.S., except the very smallest ($5M and under) and largest ($60M and over) budgeted projects. The overwhelming percentage of production in this period came from the streaming services that self-insure for shutdowns, the major studios which had grandfathered COVID coverage from their yearly programs or occurred overseas where certain government schemes back-stopped extra-expense and losses related to COVID shut-downs, i.e., U.K., Australia, France, and Canada to some extent.

The second and third quarters of 2021 saw a loosening of bank financing, an uptick in “Negative Pickup” (pay on delivery) financing of projects by streamers and studios. In this period, the industry hit and even exceeded pre-pandemic levels of production across budget levels and genres. Enhanced safety protocols proved largely effective and became standardized. Then came Omicron in the fourth quarter, which threw the switch back to Q1: pauses, shutdowns, and pushes of start dates have ensued since late November 2021 due to the precipitous rise in COVID positivity globally.

On the whole, 2021 showed the remarkable resiliency and adaptability of the film and television production sector to be able to generate enormous output over the course of the year, even while facing risks of multiple shutdowns on each project, and on average a 25% rise in the total cost of production (driven by COVID safety costs which included not only more staffing, testing, cleaning, and PPE costs, but shorter work days/longer schedules to allow for the above, and a rise in costs of insurance).

Impact of the Pandemic

The two insurance carriers which insure most of the work generated by U.S.-based production/finance/distribution companies suffered epochal losses in 2020 which wiped out many years of profit. Leadership at both carriers changed and a severe tightening of underwriting latitude ensued. Production insurance costs increased by roughly 40% and all carriers in the space restricted coverage in meaningful areas, e.g., drastically reduced sublimits for business interruption, 400% increases in Cast deductibles, etc. Slowdowns in service at the carriers were stifling at times in 2020-2021, and though better at the start of 2022, still are markedly slower and less responsive than pre-pandemic.

On the positive side, the specter of withdrawal from the marketplace of one of the three main insurers of production has dissipated. While there are technically five players in the U.S., most projects have a marketplace of three insurers for production insurance portfolios. Higher budgeted and multi-national fare has a choice of two carriers, and sometimes only one.

In production of feature film in the independent sector, from Q3 2020 – Q3 2021 the trend was to produce smaller, more contained productions with smaller casts, shot at as few locations as possible. Demand for use of sound stages exploded, not just due to COVID but also due to demands by the massive production of the streamers' episodic shows. Enhancements in computer generated imagery have also led to more green screen and sound stage work which has the side-benefit of limiting the experiential risk of weather, civil unrest, etc. While the industry has and continues to move back toward more ambitious, larger-scale production, COVID risk, among other factors, continues to drive increased use of sound stage and green screen facilities.

For the major studio and large independent companies, master policies allowed for production of content through Q1 2021 because they grandfathered in COVID shutdown coverage for the length of their terms. However, when expired, the big players were also exposed to the financing challenges felt by lower frequency production companies that did not carry Master Policy programs.

Forecast & Recommendations

Higher production insurance rates and full, iron-clad exclusions for COVID-19 and its sequelae have been in place in 2021 and can be expected for several years to come as production insurance carriers seek to rebound from the losses of 2020. Pressure will continue on the entertainment divisions to show profitability. Reinsurers will not likely permit the carriers to take communicable disease risk for quite some time. There will be talk of a new entrant or entrants into the marketplace, but the ability to scale and offer limits needed will likely preclude that from happening in 2022 on any meaningful level of capacity for the industry as a whole.

The U.K. will cease its Production Restart Scheme (PRS) in late Spring 2022, joined by a lack of Canadian backstop in 2022, and the continued narrow bandwidth of the Australian backstop. No other meaningful government back-stop is on the horizon domestically or abroad.

Production financiers will absorb some of the risk with larger contingencies in place, while alternative market solutions available on a retail basis will remain expensive and jittery as losses spike and subside with each rise and fall in positivity numbers. Partially self-insured solutions for companies that can afford to do so will and should become more common as specialized, single purpose captives become better understood.

Seeking a form of master template, if not a true Master Policy, by presenting slates to production carriers will be the best way to ensure some meaningful coverage enhancements and stability of cost in 2022, if not the absolute lowest cost on each individual project. The process of competitive bidding in a marketplace of four reputable carriers, circa 2019, will not exist for most projects in 2022, making it wise for producers of multiple projects to focus on a carrier to lock in for a 12–24-month term if possible.

Given any ray of hope from a subsiding Omicron wave in Q2, there will likely be another sharp rise in global production with fierce competition for crew and sound stage space domestically and abroad. If safety protocols remain in place, the scalability and transportability across the globe of film and television production should provide a robust, and possibly more prolific year for the industry than 2019, albeit with continued challenges posed by the evolving pandemic.

Cyber

Observations

Rates and retentions are increasing substantially, and even companies with strong controls and no claims are seeing substantial increases (50%+ rate increases and retentions). Capacity and competition are constricting. Markets have become more selective and are willing to walk away from risks. They are reluctant to compete depending on cybersecurity maturity. We have seen reductions in capacity, with carriers exiting the market and a resultant tightening of coverage.

Ransomware coinsurance/sub-limits became more common, and we saw increased waiting periods for business interruption. Biometric data exclusions were noted, and underwriting is becoming more comprehensive and sophisticated. There was an increased use and reliance on security scans, and the introduction of ransomware supplements. Subjectivities and non-renewals were based on underwriting.

The current risk environment includes big game hunting, double extortion, and the privacy regulatory environment. Big game hunting is a shift to targeted attacks, and the demands are bigger and customized based on known financial information. Double extortion is the combination of ransomware and a data breach. Hackers spend more time inside the victim's system before releasing malware. They exert pressure to pay ransom or suffer the consequence of the sale or auction of data. This is a very expensive attack. Privacy regulatory environment has seen more states join California in passing broad privacy regulations, to include biometrics.

In May, President Biden issued an executive order aimed at modernizing cybersecurity defenses by "protecting federal networks, improving information-sharing between the U.S. government and the private sector on cyber issues." The White House issued cybersecurity best practices to include recommendations on backing up data, patching systems property, testing incident response plans and segmenting networks.

Employee Benefits

Observations

The Omicron COVID-19 wave is expected to impact medical cost as frequency rises and severity for the unvaccinated is resulting in dramatic increases to hospitalization rates. Deferral of care during the early stages of COVID-19 has ended. Employers are starting to see this with increases in medical cost trends and worsening of claims experience ratios, although this is not materially piercing into stop loss layers. Employers are grappling with return to work and vaccine mandate decisions that are clouded by the political fighting which continues. As medical costs rise, financial implications might become a more material part of policy making.

The great resignation is forcing employers to rethink benefit strategies. Employers have been reluctant to make adverse plan changes or to increase contributions - causing effective trend for employers to increase at a greater percentage. Family and lifestyle centric benefits are getting new attention as employers look to incent employee retention.

Employers are focusing on managing the costs and working implications of medical leave.

Environmental

Observations

The Environmental/Pollution market began experiencing a hardening trend in early to mid-2019 that continued through 2021. In the early part of 2022, however, there have been signs of possible market stabilization. This hardening has not been experienced by insureds to the same extent as the traditional Property & Casualty (P&C)/Excess markets. While rate increases have certainly been part of the adjustments made by environmental insurers, rates have not been as severe as the P&C markets.

Insurers struggle with risk selection and overall profitability specific to their site-pollution books of business. Contributing factors to these struggles include prior years of soft-market pricing (inadequate premiums); dilution of underwriting talent across more insurers; several years of increased claims activity; and adverse selection.

Rate increases of 10% or more for site-pollution renewals have become more regular since the second quarter of 2020, particularly for large and complex risks. Risks with adverse loss experience or less-popular classes of business are increasingly subject to complete re-underwriting (up to and including non-renewal) at policy expirations.

Along with rate increases, we have seen carriers tightening underwriting criteria and appetite. Several carriers have now been avoiding certain risks when before they would entertain them. Certain classes (e.g., mold/habitational, heavy industrial/chemical) are increasingly avoided by several insurers.

Another trend is capacity reduction. While some insurers have reduced available capacity (e.g., from $25M to $15M), most placements range from $5M to $10M limits, so capacity remains adequate for most insureds. In addition, unlike the casualty insurers, there has not been a trend of insurers forcing insureds to take increased retentions.

Zurich's exit from the site-pollution (and secured creditor) in January 2021 was the second major environmental insurer over a five-year period to exit site-pollution business, following AIG in February 2016. The fact that two of the more tenured firms specializing in environmental insurance could not sustain their business models is noteworthy.

In addition to observing major competitors exit site-pollution business, large losses from per- and polyfluoroalkyl substances (PFAS) and frequent mold claims continue to be cited by the remaining site-pollution insurers, adding some credibility to their increasingly tightened approach to underwriting appetite and rating.

Blended General Liability-Pollution products, including companion Excess/Umbrella, have been experiencing rate increases as well and underwriting scrutiny similarly as the standard General Liability marketplace. These products continue to focus on providing blended policy solutions primarily for select middle-market industries with moderate to low environmental exposures, utilizing low to medium deductibles (e.g., manufacturing, distribution, and environmental consulting to name a few). The maximum available excess capacity for most of these insurers is $25M.

Finally, Contractor's Pollution Liability (CPL) remains highly competitive and has continued to be profitable for insurers, with renewals showing only minor rate increases in most cases (i.e., up to 5%, if any). The number of insurers and overall capacity for CPL, whether written on a project-specific or all-services basis, remains robust.

Impact of the Pandemic

While many claims were tendered for COVID-19 and SARS-CoV-2 losses early in the pandemic, claims development suggests that the environmental insurers have not been highly exposed.

Two key reasons for this include:

1. Business interruption coverages (on pollution policies) are often tied to the clean-up/remediation coverages, which were not (yet) triggered in most cases;
2. Disinfection costs coverage was not widely offered, and generally were not catastrophic on a per pollution incident basis. Despite these reasons, the reaction from much of the marketplace has been to exclude infectious/communicable disease risks and/or only offer small supplemental sub-limits for disinfection costs moving forward.

Forecast & Recommendations

Since the market began to harden, underwriting discipline has been and continues to be more important to most insurers than expanding their market share. It is critical for insureds to help their broker engage the renewal process early, allowing additional time to negotiate, or revise the marketing strategy where incumbent renewal terms received are deemed unworkable.

While there have not been substantial changes in environmental coverage products that are available in the marketplace, underwriters may request more information than in prior renewals, and underwriting authority referrals may be more difficult and time-consuming to obtain for field underwriters. Insureds that are unwilling to respond to information requests and/or underwriting questions timely are seeing coverage declinations, or proposals with relatively more limitations in coverage offered.

Specific to PFAS, those insureds that can document their avoidance and management of PFAS exposure (ahead of their peers) have a much better chance of obtaining or maintaining this coverage in the current marketplace. While negotiation is possible, these exceptions are increasingly uncommon, so insureds should anticipate PFAS exclusions on their upcoming renewal quotes.

Executive Risk

Public and Private Company Directors & Officers Liability (D&O)

The D&O market is starting to stabilize after the hard market of the past few years. New capacity has contributed to rate deceleration, particularly in higher-risk classes of business. Insurers are still concerned, that said, about the severity of their claims backlog and most believe current pricing levels need to be maintained. We can expect D&O increases for clean risks within the 5-15% range. Life Sciences and Fintech remain challenging classes of business, and the changing Chinese regulatory environment has contributed to litigation issues for Chinese US-listed companies (e.g., DiDi Global).

Securities class actions (SCAs) have trended back to historical levels after the increases of 2017-2019. The decline is partly driven by reduced merger objection litigation activity in federal court. However, there is a continuing trend of large cash derivative settlements exposing Side A limits, i.e., American Realty; McKesson; Wells Fargo; and Renren. Claims severity has been increasing, and for 2018-20, we saw median cash settlements of $12-$13M, while the average settlement was $55M.

Market-leading insurers are seeking to hold on to premiums and retentions after price and retention increases, as well as capacity reductions of 2019-2020. The pace of rate increases, however, has slowed with as new entrants into the market. Primary layers are still seeing single figure increases, with competition pressuring excess Side ABC and Side A rates downward while terms and conditions remain stable.

Regarding Emerging risks, special purpose acquisition companies (SPACs) and deSPACs continue to attract frequent litigation, and Traditional IPOs are now viewed favorably compared to SPACs. D&O litigation based on operational issues (aka “event litigation”) continues as a significant exposure which includes #MeToo/diversity, equity and inclusion; ESG; Cyber; Privacy oversight (GDPR, CCPA); COVID and Climate change.

Crime

The Crime market continues to experience losses. As such, companies with existing claims should expect premium increases. Some of these losses and concerns are due to employees utilizing remote access with potentially lax controls, potentially placing companies at a higher risk of fraud. Business email compromise is also a leading driver of fraud, which can include personal and business email as well as vendor Fraud and Funds Transfer Fraud. Fraud and Invoice Manipulation Claims have also increased in recent months.

In response to losses, underwriters are requiring significantly more detail on applications, i.e., funds transfer controls, wire transfer controls, vendors, and client controls. Companies with international crime exposure remain very hard to place due to high exposure for embezzlement and vendor fraud.

The London Crime Market also remains hard. Premium increases can be expected in the range of 5-10% depending on loss history. The Internet Crime Complaint Center (IC3) has received 440,000 complaints per year with $13.3B in losses over the last five years, which exemplifies the overall state of the market.

We have seen a number of claims related to CARES Act Fraud (grant fraud/loan fraud/and Phishing fraud). Further, due to court decisions finding coverage for social engineering under alternative insuring agreements, policy language is now more specific about exactly what each insuring agreement is intended to cover.

Insurers continue to seek premium increases, along with increased retentions, but capacity remains stable. Social Engineering limits are being cut (carriers are reluctant to provide high limits to new buyers). Cyber policies could potentially overlap with crime causing coverage issues; thus, underwriters are placing ransomware exclusions on crime policies, with the intent of limiting coverage to only the Cyber policy.

Fiduciary

The Fiduciary market continues to harden due to the rise in Excessive Fee Litigation, and no plan (big or small) is immune. Insurers continue to require higher premiums given continued development of prior claim experience and anticipated future losses. Fiduciary increases can be expected to be in the range of 20-25% for smaller mid-size risk and in excess of 50% for larger programs.

Claim filings for excessive fee litigation increased more than four-fold industry-wide in 2020, and roughly 40% of these claims are greater than $10M. There is no sign that the frequency of filings is abating, and smaller plans are at risk as well.

Excessive Fee cases are expensive to defend, often costing millions of dollars. Targets for litigation are expanding, and we have seen one-third of new cases directed at plans with assets less than $1B. Additionally, the Statute of Limitations has been severely weakened by two recent cases:

- Tibble v. Edison – Supreme Court held fiduciaries' duty is to continuously monitor retirement plan investments, fee, expenses, and services providers.
- Intel V. Sulyma – the court further held that actual knowledge of a fiduciary breach is the required standard to trigger ERISA's three-year statute of limitations, limiting the protection provided by regular disclosure communications to plan participants.

Fiduciary Capacity is being restricted, and premiums and retentions are significantly increasing. The cost of capacity has increased substantially, driving less competition on excess. The Rate Online for lower excess layers is around 85%-100%.

Employment Practice Liability (EPL)

EPL premiums have started to level out, though many insurers continue to require higher premiums due to anticipated future losses. Companies in California may also see increased premiums due to higher exposure. For 2022, EPL increases can be expected to be in the range of 10-15% due to continued litigation in a variety of areas (discrimination/vaccine mandates/discrimination, wrongful terminations, etc.).

Excess pricing generally follows rates being sought by primary carriers, but often excess positions draw more competition than primary, allowing for some softening in pricing. Bermuda is a strong alternative market for large insureds seeking competitive capacity. That said, minimum retentions are $1M.

Regarding claims, PAGA (California Private Attorney General Act) Claims are a growing threat in California for employers, as these cases allow aggrieved employees to stand in the shoes of an agency to seek civil penalties against their employers for them and other aggrieved employees. Companies should be aware that insurance coverage may be limited for these types of claims.

In regard to coverage, there has not been a significant change, and we are not seeing excessive amounts of new exclusions. We continue to see Privacy and Biometric Exclusions (BIPA); the addition of Mass Class Action retentions; and increased retentions for employees with larger salaries. Some carriers continue to reduce limits and increase retentions. Generally, capacity remains stable.

Kidnap & Ransom

Markets sought relatively modest increases of between 5-10%+, and markets are reducing limits. The markets have made a definitive move to reduce or entirely removed limits associated with cyber extortion (ransomware).

Select markets are offering active assailant coverage via endorsement, including legal liability.

Forecast & Recommendations

Predictions - All Executive Risk Lines

- The hard market will likely continue into 2022.
- We are closely watching the rapid increase in derivative litigation.
- Underwriters expect increased litigation due to bankruptcy/layoffs/insolvency after government money stops. Insureds should prepare for increased litigation by “Zombie companies” kept afloat by government funding and others who have been supported by these funds.
- Recent Volkswagen litigation included allegations that the Chief Executive Officer breached his duty of care. Cases such as this may lead to other large global awards (beyond the U.S.), continuing to affect the global marketplace.
- Increased regulation will mean underwriters may now start to take risk management strategies into consideration, i.e., start to look for crisis management plans stemming from event driven litigation.
- D&Os should pay close attention to the duty of foreseeability. There’s a strong possibility they may start to be held accountable for adequately preparing for future events.
- Corporations may start to see more value in D&O insurance than they have in the past due to fall out from the pandemic.
- The focus on board and C-suite level diversity is creating increased liability and reputational exposure for public and private companies.
- Social pressure around diversity and inclusion increases reputational risk for companies.
- Significant and growing momentum around Environmental, Social and Corporate Governance (ESG) related activism will likely increase focus on how companies report and manage compliance, which will likely play into the underwriting process.
- New policies implemented by the Biden Administration could have an impact on various lines of executive risk lines of business going forward. We are specifically watching the proposed Pandemic Risk Insurance Act of 2020 (PRIA).
- State legislative action and public sentiment continue toward increasing and expanded protections for employees will continue to impact Employment Practice Liability (EPL) insurance going forward. The gig economy and various lawsuits involving classifying workers as independent contractors instead of as employees is an upcoming issue to watch in EPL (especially in California).
- Crime rates may continue to rise if companies do not demonstrate appropriate controls.

Hospital and Physician Professional Liability

Observations

The Medical Professional Liability (MPL) continues to experience a hard market. This is reinforced by AM Best noting they maintained their “negative” outlook on the MPL insurance market segment. The hard market is driven by poor carrier combined ratios. In fact, the MPL segment of the Property & Casualty (P&C) market has the highest combined ratio (>105%) of all the segments, which has not happened since 2004. Poor combined ratios are primarily driven by underwriting losses, continued high claims severity and expense creep. None of these contributors are new, as each has continued to worsen over the last 10 years. This has resulted in increased premiums, decreasing dividends, reduced capacity, market exits and coverage restrictions. Some MPL premiums have remained flat, and most have experienced modest increases ranging from 5-15%. Premium increases have not been dramatic year over year, but rather consistently continuing over several years, with the most significant changes in the last few years. Of note, individual physicians and physician groups tend to be less impacted than hospitals and healthcare systems.

Unfortunately, this hardening extends to other hospital and physician P&C lines such as cyber, and directors & officers’ insurance. More specifically, Cyber has seen significant double digit increases to as high as 90-100%. Refer to the Cyber section for additional information.

While future claims experience has yet to be determined, we have not seen COVID-19 related MPL claims alleging mismanagement or delay in diagnosis of COVID-19 patients. While the long-term financial and public health impact from COVID-19 remains uncertain, healthcare institutions, physicians and physician groups have seen significant fiscal and human resource stress. The combined impact of the virus, along with a hard market, put a significant strain on the healthcare industry.

On a positive note, the last six months 2021 continue to show no further carrier exits from the markets, with new carriers entering. These new carriers, including CapSpecialty, Vantage Risk, Bowhead and Arcadian BDA, have provided some relief; however, there remains an overall decrease in capacity/ limits deployed for healthcare systems and other larger risks.

Restricting Policy Language

Carriers continued to restrict terms and conditions in policies. Areas of focus for these restrictions continue to be sexual abuse and misconduct, COVID-19 and cyber. Although not new, restrictive opioid language has also continued.

With respect to COVID-19, exclusions are now common, but not consistent in the way they are applied. For example, some carriers have inserted language making it more difficult, if not impossible, to batch COVID-19 claims together, which can have an impact on retentions/deductibles, attachment points and how much the primary layer will pay. Organizations with a long term/senior care delivery model often saw the introduction of language restrictions; however, we are finding that the exclusions are applying to acute care and outpatient care such as behavioral health. It is now very common for underwriters to request information relating to their pandemic response plans, vaccination distribution percentage, and positive COVID-19 exposures.

Sexual misconduct remains a focus for underwriters with extensive underwriting necessary to deploy coverage that is limited at best. Some Bermuda and London carriers took a position early in 2021 regarding sexual misconduct coverage that significantly impacted the available capacity. While the coverage can be secured, it is limited.

Continued Interest in Risk Financing alternatives (e.g., captives and RRGs)

Decreased capacity, a continued hard market, and carriers' continued efforts to restrict policy language has awakened clients' interest in risk financing vehicles, such as captives and self-insured retentions. Those that already have captives in place are considering increases in their retention levels to curb any premium increase. Clients are also exploring the opportunity to finance multiple lines of risk under one self-insured program. For example, a professional/general liability captive might consider adding workers' compensation, healthcare stop-loss and fleet exposures. Lastly, organizations without a captive or a self-insured retention are considering assuming more risk by increasing their retentions to lessen the impact of increased premiums.

Forecast & Recommendations

The MPL market will most likely face a continued hard market in 2022.

We recommend a thorough review of policy language and prioritization of key language in preparation for all renewals. In addition, we continue to recommend evaluating the ability and benefit associated with retaining more risk in an alternative risk financing vehicle or increasing retentions/deductibles. Consideration should also be given to restructuring excess and surplus attachment points to manage the total fiscal impact of premiums.

Lastly, special attention should be given to cyber risk. The 2022 Allianz Risk Barometer noted that cyber incidents were rated as the greatest peril to businesses in 2022. This exposure is greater than business interruption, natural disasters, climate change, and the pandemic. Healthcare remains a top target, especially in ransomware. A full market, policy language and limit assessment are imperative.

Lawyers Professional Liability (LPL)

Observations

In the Large Law Firm segment (200+ lawyers), a limited number of primary participants willing to compete for the lead position continued to stifle competition; however, rate increases started to shift from the double-digit increases firms experienced in 2020 (10% to 15% range) to single digits in the later part of 2021 (5% to 10% range). In the excess market, there continued to be a conservative deployment of capacity in this segment and incumbent excess insurers continued to push for rate increases matching the primary layer.

In the Mid-size Law Firm segment (50 to 199 lawyers), more insurers were willing to compete for business, which helped keep rate increases at more manageable levels (in the 2.5% to 7.5% range). In the excess market, incumbent insurers were more willing to accept lower rate increases than the primary in recognition of the abundant capacity in this space. We saw some newer entrants into the LPL marketplace offer competitive alternative primary and excess options for the mid-size law firm segment at rates below expiring.

There has been an increased focus from the underwriting community on deductible and self-insured retention adequacy that started in 2020 and continued throughout 2021. Firms with adverse claims experience, or those which have grown substantially, will continue to see pressure to increase deductibles and self-insured retentions in 2022. Some firms will also look to increase deductibles as a cost-saving measure in the face of rate increases from the marketplace.

Although LPL underwriters are not primarily focused on cyber related controls and posture, certain LPL insurers are asking for cyber related information to provide an overall barometer of a firm's risk management posture. We have not yet seen a trend of cyber claims impacting LPL policies, but carriers want to see that firms are buying standalone cyber coverage. Insurers are continuing to affirmatively exclude cyber coverage from LPL policies or are removing modest cyber coverage from products in general. Firms will no longer be able to rely on LPL policies to protect against cyber-related risk.

Impact of the Pandemic

Most LPL insurers agree that there have not been many claims directly attributable to the pandemic and most law firms performed better than expected over the last 12 to 24 months. Scrutiny of economic conditions continued, as insurers are concerned that claim activity will increase rapidly if economic conditions worsen.

Forecast & Recommendations

While the overall LPL marketplace has become more consistent in 2022 and rate increases have lessened, firms still need to appropriately focus on their renewals by starting the process early and providing a detailed submission to the marketplace. Despite few direct pandemic-related losses in the LPL space, firms should be ready to address underwriting questions regarding plans moving forward for work arrangements (i.e., back in the office full time, fully remote or hybrid) and how they'll manage associated risks with the new arrangements. Underwriters may also ask firms how the new work environment will impact their real estate footprint and growth initiatives.

Marine

Observations

We are confident that rate increases have leveled off as we enter 2022. Using the fourth quarter 2021 renewals as a barometer was all the evidence we needed, with most renewals coming in well below a 10% threshold. There remains strength in Excess Liability pricing, albeit primary underwriters are providing increases in limits offered. They are moving away from the traditional $1M/$2M policy limit and now going to as high as $5M, which makes for a much easier task in placing excess limits. Considering the reality of what should now be viewed a “working layer,” excess underwriters can move themselves further away from the onslaught of “excess” liability claims that have permeated the marketplace for several years now.

Market capacity has remained steady through the end of the year. Although London market underwriters are increasing their level of writings for 2022, we do not envision this as a sign to buy business. In an industry known for short memories, the sheer duration of this hard market solidifies underwriters’ resolve to write to an underwriting profit as interest rates continue to bump along the bottom of the rate scale. Discipline remains the name of this game as capital providers have grown less tolerant of poor results.

Marine Cargo and Stock Throughput (STP) programs follow the fortunes of the Property market. CAT exposed warehouse risks will continue to take rate while standard ocean cargo programs will see less of an increase on their overall book.

Late to the Party

The one area we can safely say will buck the trend is Protection & Indemnity written via P&I Clubs, of which there are 13 worldwide. This is the renewal season (Feb. 20) for all P&I Clubs, and we are confident that it will be a most difficult year for vessel owners with the International Group’s reinsurance bill increasing 33% for this year’s two-year renewal. A rash of multimillion dollar claims, along with several in excess of $1B, have contributed to this significant increase in cost. Clubs have set their General increase of between 5% and 15% along with at least two clubs requiring Supplementary Calls which, for the most part, have not been in vogue of late other than for the American Club.

Personal Insurance/ Private Client

Observations

The personal insurance marketplace waters continue to be choppy as we head into 2022. While many insurers are posting healthy profits, CAT-related losses have created instability, and rising construction costs and supply chain issues are playing havoc in pricing and claims.

Climate related disasters continued to assault both coasts in 2021. Wildfire in California alone amounted to 8,200 fires consuming 2.5 million acres. Hurricane season was no better. A total of 21 hurricanes marked the third most active year in history and the past two years combined brought a total of 51 hurricanes, which is the highest two-year total on record.

Meanwhile, high demand, supply chain issues, building material costs, and skilled labor shortages are driving steep increases in construction costs. In addition to their normal rate increase, one of our largest carriers is tacking on a 2022 inflation increase of 9% countrywide in all areas except for California, where the increase will be even higher at 12%.

Unprecedented property insurance capacity shortages exist in California and continues to deteriorate in high brush areas. Carriers respond by raising rates, non-renewing the most exposed, introducing new wildfire specific deductibles, and in one high profile case, all but exiting the state. While California is the most extreme example, southern Florida and coastal New York hurricane/wind exposure also remain on the radar. We continue to see an inverse relationship between capacity and rate where capacity dwindles, and price escalates.

We do not see an immediate resolution to the property insurance challenges in impacted areas and it is likely to get even worse before it gets better. The “new normal” for high brush areas will be CA Fair Plan, wrap around products, excess & surplus lines placements, and lesser-known insurance carriers new to the market. State Farm, for reasons known only to them, is the one hold out continuing to write new homeowner business at pre-wildfire guidelines. One wonders, however, how long that can last.

Supply chain issues, combined with staffing challenges, have also created issues in property claims responsiveness. The power grid failure in Texas was the first evidence of this and we experienced it again, and perhaps more severely, in New York in the aftermath of Hurricane Ida. Carriers are retrenching with staffing initiatives, but it will take time for the industry to return to the high standards it has exhibited in claims over the past 10 years.

National Flood Insurance introduced a new rating platform. Preferred Risk rates are no longer available and new rates could be double or higher. Rating is easier because Elevation Certificates are no longer required. Meanwhile, many of our homeowner carriers are either offering flood alternatives or excess flood over the NFIP.

The outlook in personal auto is much better, but we still find ourselves in a positive rate environment. A global chip shortage has reduced new car inventories. Meanwhile older cars are demanding premium prices. ACVs are 45% higher today than 2019. Number of miles driven is continuing to climb, albeit not quite to pre-pandemic levels, which is also impacting pricing.

Suffice it to say, hard markets allow opportunities for those in a true risk advisory capacity to show their worth. Difficult conversations are the norm, and transparency and client-centric guidance will reign supreme.

Property

Observations

As we moved through 2021, we saw a steady stabilization of rates and capacity. Though increases were still at hand, there was moderation in what underwriters sought for additional rate.

Last year was a brutal year for catastrophe losses, headlined by winter storm Uri ($15B) in February, Hurricane Ida ($32B), storm Bernd ($13B) which brought treacherous flooding to Europe, the mid-west Tornadoes ($5B) and Colorado's Marshall wildfire (est. $1B). Swiss Re estimates the 2021 CAT losses at $105B – one of the worst on record.

For the most part, underwriters stuck to a disciplined approach relative to terms and conditions and held, or looked to increase, deductibles. There was continued scrutiny and trimming of some coverages – notably Contingent Time Element, Non-Physical Damage BI cover, Service Interruption and Cyber related coverages. There was more insistence from underwriters to move away from broker manuscript forms and place cover on insurance company issued forms.

Impact of the Pandemic

Property carriers across the board continued to tighten up exclusionary wording for infectious disease. Those few carriers that continued to offer explicit coverage either tightened the coverage offering and/or lowered the applicable limit to a nominal amount.

For the most part, insurers continued to win in court where policy wording has been challenged to provide coverage for COVID-19 related Business Interruption losses.

As travel restrictions have begun to ease and field engineers are again starting to tackle the backlog of site inspections, we're seeing this crucial data begin to be updated, and the process start a return to normalcy.

Forecast & Recommendations

As inflation is hitting a multi-decade high, we anticipate insurers will put heavy emphasis on the accuracy of reported values and may push for appraisals at key locations. Insurers are seeing significant increases in claim amounts as the cost of raw materials and construction labor has skyrocketed. They will look to have reported values at renewal reflect these additional costs. FM Global has released their January 2022 Cost Trends with significant increases. For example, the average cost of completed building prices in the Continental U.S. indicates a 18.4% increase since January 2021. The Composite index for prices of industrial equipment indicates a 6.7%. For Special Engineered equipment, the composite increase is 40.6%.

The January 1 Treaty Reinsurance Renewals are done and saw many reinsurers push capacity higher in excess-of-loss structures. The average renewal increase for loss free programs was between 2.5% and 7.5%. Programs with loss experience saw increases of 15% to 40%. These are some of the widest ranges in many years and reflect reinsurers' fine-tuning relative to specific books, geographies and perils insured.

Absent multiple super-catastrophe events, we expect the rate moderation to continue, as most underwriters feel they have "corrected" their books from a rating perspective and achieved "technical rate." Carriers who have reduced capacity being offered over the last few years and culled their books of non-core accounts are now looking to grow leading to increased competition. Flat to low single-digit rate increases are expected for loss free accounts in most industries, with some rate reductions possible on select accounts through competition.

Underwriters will look for increased premiums though, as they will deal with inflationary increases by insisting on reported renewal values that are reflective of such factors.

It's imperative to present thorough, quality underwriting information.

- Be early in the process, as underwriters are buried with new business opportunities as everyone goes to market looking for a better deal.
- Differentiate your risk from the others so yours goes to the top of the pile.
- Be model friendly so underwriters can upload data into the models quickly.
- Be able to back-up the validity of your reported property and business interruption values, with appraisals where possible.
- Consider alternative retentions and limits.
- Challenge existing program structures.

Surety

Observations

Contract Surety

The pandemic did not have as large of an impact on the construction industry as originally believed; most construction workers were deemed essential and most public works projects continued unabated. Well capitalized contractors (large and small) with sound business plans continued to do well by staying disciplined with overhead and focusing on maintaining profitable backlog.

Major pandemic trends currently affecting the construction industry and driving the contract Surety results include:

- **Supply chain volatility:** The pandemic has caused a host of delays in commodity material manufacturers, mostly caused by factory shutdowns both here and abroad. Everything from fuel to lumber to plastics to metals has suffered from some sort of shortage. See more detail below in Job Stoppages
- **Qualified labor volatility:** Qualified labor is an ongoing issue for the construction industry. Most contractors cannot find the necessary skilled and unskilled labor needed to properly execute their business plans.
- **Job stoppages/delays/cancellations:** The combination of supply-related issues plus occasional stoppages due to pandemic waves has resulted in a heavy analysis of force majeure clauses in construction contracts. Most owners are willing to give contractors extra time due to delays, but extra funds are much harder to negotiate. The medium-to-long-term impact of contractors potentially absorbing the costs of delays without getting compensation is on the minds of the Surety underwriting community, as a trend that may have a quiet and significant impact on job margin.

Surety loss ratios and contractor insolvency have been relatively and surprisingly low given industry volatility. There have been some large losses from a severity standpoint, and we've observed that frequency has been low. Surety underwriters are cautious about loss frequency increasing due to factors above and this will provide some new business opportunity for best in class.

Commercial Surety

The commercial surety sector continued to show solid premium growth in 2021. The replacement of bank letters of credit with surety bonds for certain obligations continued to gain momentum. Competition continues to be strong in the market for investment grade credits. There also continues to be consolidation activity among many of the sureties in the top tier of markets. Reinsurance continues to be plentiful, and results remain strong for the well-run surety companies. There has been a significant increase in the use of surety bonds in South America and the major international sureties continue to expand their networks throughout South America, Europe, and Asia.

Major pandemic trends currently affecting the commercial surety industry include:

- **Supply chain volatility:** The pandemic has caused a host of delays in various manufacturing inputs, with difficulty forecasting exactly where shortages may come from next due to pandemic variant outbreaks and shutdowns at manufacturing facilities. Surety underwriters reviewing commercial contract bonds and supply bonds are carefully reviewing liquidated damage clauses in contracts.
- **Labor availability:** Finding enough labor to fully staff operations is an ongoing issue for all industries, including the surety markets themselves. Competition is stiff among competitors for the most skilled positions, which is continuing to drive costs up.

Forecast

The surety industry will likely continue to experience strong growth in 2022. Rate and underwriting pressure will likely be the norm for investment grade credits barring a major catastrophic economic event within the industry. Many surety underwriters, especially in the lower tier markets, are entertaining credits far below investment grade albeit at a hefty price. However, thus far, there have not been any major losses experienced in the commercial surety space because of the pandemic. This could change with any significant economic pullback in the future. The surety industry is positioned to meet underwriting losses due to strong balance sheets, judicious collateral positions where necessary, spread of risk via multi-company participation, and the continued use of reinsurance. M&A activity should continue in the surety space in 2022.

Technology & Life Science - Middle Market

Observations

For the fourth quarter of 2021, the Middle Market Technology and Life Science Property & Casualty insurance market varied by insurance type. Workers' Compensation, Property, Product Liability, General Liability, Auto, and Umbrella saw flat to slight increases. Cyber and Tech E&O (with an emphasis on the former) have seen significant hardening, with rates increasing dramatically. For those companies that couldn't show Multi-factor Authentication (MFA), many insurers were simply declining to offer terms. Rates increased, retentions increased, and capacity shrunk. Due to a dramatic increase in submission activity for Cyber/Tech E&O, insurers generally were demanding complete submissions, including detailed ransomware supplements, before even beginning the underwriting process.

Management Liability lines continued to see moderate increases; however, the increases were less as compared to the 12 months prior. Private companies with a strong P&L and/or balance sheet saw the best offerings. The public D&O insurance market continues to be challenging, with clinical stage Life Science IPOs seeing diminished underwriter interest, high premiums, and high retentions. As a result, many buyers are considering lower ABC towers and replacing with A Side in attempts to achieve a perceived reasonable insurance expense.

We continued to see new Tech and Life Science underwriting specialty units emerge that may not have focused on the space traditionally, but the new entrants have been cautious and some not offering full solutions as of yet. We continue to watch these entrants, evaluating policy language, appetite, capacity and pricing, and what impact it may have on the market.

Forecast & Recommendations

For the first quarter of 2022, we anticipate traditional Property & Casualty renewals to be flat to slight increases, and a slowing of rate increases in Management Liability lines. However, we see continued challenges in the Cyber/Tech E&O market. It is critical that Tech and Life Science insureds and brokers allow plenty of time to negotiate coverage offerings with underwriters. Clean, detailed insurance applications and submissions are critical to maximize underwriter interest and a favorable renewal.

Rate Changes

Line of Coverages	Rate Change
Aviation*	
Rotorcraft/helicopters	+40% to +100% (more for high-risk ops)
Light Aircraft	+15% to +30%
Corporate Aircraft	+10% to +30%
Fixed Base Operators	+10% to +30%
Component Product Manufacturers	+15% to +25%
Aircraft Manufacturers	+50% or more
*All based on no loss history past 10 years	
Casualty	
Auto Liability	+10% to +35% or more for higher hazard risks
General Liability	+5% to +15%
Workers' Compensation	-5% to +5% or more with adverse loss experience
International Casualty	+5% to +10%
Umbrella Liability	+10% to +35% or more for higher hazard risks
Excess Liability	+10% to +40% or more for higher hazard risks
Cyber	+50%+
Construction	
General Liability	+7% to +10%
Auto Liability	+15% to +20%
Excess Liability	+10% to +40%
Contractor's Pollution/Professional Liability	Flat - +5%
Builder's Risk (Commercial Construction)	+5% to +10%
Builder's Risk (Wood-Frame Construction)	+25% to +30%
Project Wrap-Up Liability	+10% to +15%

Rate Changes

Line of Coverages	Rate Change
Employee Benefits	
Insured Medical Renewals	+15% to +20%
Self-Insured Medical Renewals	6% to +9%
Medical Stop-Loss Renewals	+20% to +30%
Dental	+2% to +6%
Film & Television	
Entertainment Package	+30% to +40% since Q1 2019
GL & Umbrella	Unchanged
Auto	Unchanged
Multi-Media E&O	Unchanged
Media Company MPL	+40 to +60% with numerous declinations regardless of loss history – declinations simply made by "class of business"
Environmental	
No Losses and Low or Medium Risk Industry (e.g., class-A Office; warehouse risks); most comprehensive personal liability (CPL) business	+0% to +5%
Moderate Risk Class or Complex Risk (e.g., mold/habitational; large portfolios; tougher CPL risks, combined GL-pollution forms)	+5% to +15%
Any risk with adverse loss experience (frequency or severity) and/or High-Risk Classes (e.g., heavy industrial; chemicals/fuels; rail exposures; per- and polyfluoroalkyl substances (PFAS) or other emerging risk exposure)	+15% to +40%
Executive Risk	
Commercial Crime	+5% to +10% depending on loss history
Directors & Officers Liability	+5% to +15% clean risks
Employment Practices Liability	+10% to 15%
Fiduciary Liability Smaller mid-size risk Larger programs	 +20% to +25% +50%++
Kidnap & Ransom	+5% to +10%

Rate Changes

Line of Coverages	Rate Change
Marine	
Cargo including stock throughput (STP)	Flat to +10%
Excess stock/warehouse	+10% to +15%
Hull	+5% to +10%
Primary protection and indemnity (P&I)	+10% to +15%
Primary marine general liability (MGL)	Flat
Excess Liabilities > Excess of $1 million > Excess of $5 million	 +20% to +25% +10%+ to +15%
Medical Professional Liability	+5% to +15% + for clean risks in desirable jurisdictions +20% to +35%+ for loss impacted and difficult jurisdictions
Professional Liability	
Accountants Professional Liability	+3% to +15% depending on claims, revenue/ growth and firm size
Large Law Firm Segment	+5% to +10%
Mid-size Law Firm Segment	+2.5% to +7.5%
Property	+2.5% to +7.5% no losses +15% to +40% with loss exp.
Surety (Construction and Commercial)	Flat
Technology & Life Science - Mid Market	
Tech E&O/Cyber	+25% to +50%, insureds with no claims/losses +50% to +100% or more for insureds with losses or without proper controls in place (no multi-factor authentication (MFA) or event data recorder (EDR))
Life Science Product Liability	Renewal rates flat to +5%
D&O and Employment Practices Liability Insurance (EPLI)	+5% to +20% (clean, good financials, private company) 10% to +30% (clean, public company), with higher retentions

Important disclaimer: the ranges above are macro observations only. Every risk is comprised of its own characteristics (such as industry, loss history, geography, etc.) that may impact renewal pricing.

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