Market Update

Spring 2022

Contents

Market Overview

Most lines in the U.S. commercial property & casualty (P&C) market continue to see market conditions remaining firm and capital remaining robust. With the continued business effects of COVID-19, rising interest rates, and inflation—both social and economic—increasing, the hard market remains.

The P&C market has traditionally been cyclical. Hard markets have generally been represented by rising premiums and reduced capacity, while soft markets usually see a longer period of falling rates and expanding capacity. McGriff is working with clients to ensure they not only survive, but thrive, in the current market conditions.

Key Approaches to Minimize the Effects of a Hardening Market

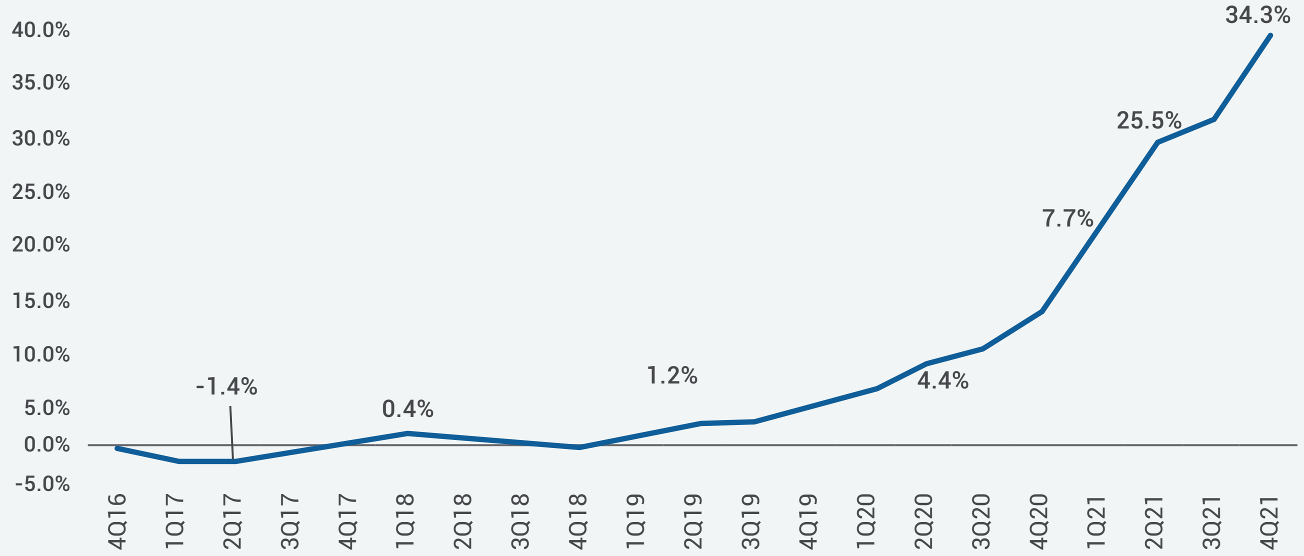
McGriff is dedicated to helping our clients succeed in a changing marketplace. Key approaches we recommend for the current market include:

- Identify key areas of concern in the program and develop a plan to address them with multiple options, at least 120 but up to 150 days in advance.
- Prepare senior management for potential impacts to budget/premiums, coverages, and longer quoting timelines. Even the earliest renewal submissions may come down to the wire for finalization.
- Engage in effective and clear communication with both the insured and insurers.
- Set realistic budgets based on current market conditions with multiple options.
- Conduct a loss analysis and consider multiple retentions and structures, including captives, if warranted. Many carriers now require 10+ years of losses, summarized.
- Meet with carriers early to understand all issues and thoroughly examine potential options. Seek underwriter commitment to general renewal terms early in the process.
- Proactively provide renewal exposure updates, any supplementary applications, and all supporting documentation as early as possible in the renewal process, but by no later than 90 days pre-renewal.
- Ensure exposures are current and the submission is comprehensive and thorough. This will ensure you remain top of mind amidst increasing underwriting submissions.
- We are seeing the most drastic premium/rate changes from incumbent non-renewals in any layer/structure. If an underwriter or underwriting management expresses concern about loss ratio and references the potential for non-renewal due to losses, class of business, or particular risk characteristics, attempt to work through issues early via risk control, higher deductibles, and rates.
- Address short-term and long-term impacts related to COVID-19 as well as protocols and procedures to mitigate potential losses or impact on business operations.

Property & Casualty

According to the CIAB, Q4 2021 was the 17th consecutive quarter of increased premiums. Respondents to CIAB's Q4 2021 Commercial/Property Casualty Market Index saw an average increase of 8.7% across all-sized accounts. Respondents reported an average premium increase of 34.3% for Cyber (up from 25.5% in Q2), the first time the line has seen an increase of this magnitude since 9/11, according to CIAB. Premiums also continued to increase for other commercial lines, e.g., Umbrella and Commercial Property, lines for which respondents reported an average increase in premiums above 10%.

Premium Change for Cyber, Q4 2016 - Q3 2021



Source: CIAB's Commercial Property/Casualty Market Index Q4 2021

By-line Fourth Quarter 2021 Rate Changes Ranged From 0.3% to +15.0%						
	Commercial Auto	Workers' Comp	Commercial Property	General Liability	Umbrella	Average
Fourth Quarter 2021	8.0%	0.3%	10.5%	6.4%	15.0%	8.1%
Third Quarter 2021	7.4%	-0.3%	10.3%	6.3%	16.9%	8.1%
Second Quarter 2021	6.8%	0.3%	9.9%	6.0%	17.4%	8.1%
First Quarter 2021	9.0%	1.0%	12.0%	6.2%	19.7%	9.6%
Fourth Quarter 2020	9.1%	0.4%	12.9%	7.3%	21.3%	10.2%
High	28.6%	24.9%	45.4%	26.0%	51.9%	35.3%
Low	-11.6%	-12.3%	-15.0%	-13.6%	-13.5%	-13.2%

Source: CIAB's Commercial Property/Casualty Market Index Q4 2021

General Liability

The Primary General Liability market continues to experience tightening, but not as drastically as other lines of coverage. Important current events related to today's general liability market include:

- For accounts with a good loss history, we are seeing 5% to 15% increases as a starting place, especially in the middle market/admitted space.
- Difficult classes continue to see higher increases and coverage restrictions, including full Assault & Battery and Abuse/Molestation exclusions, among others.
- Many carriers continue to struggle with Professional and Healthcare accounts, particularly those insureds who have experienced COVID-19-related losses at their facilities. We expect an average 25% to 35% increase in the rate and higher deductibles.
- For higher hazard products with clean loss histories, the increase will likely be 10% to 20%+. On accounts with losses, +20% is the likely starting point.
- Most carriers added Communicable Disease exclusions for GL and Excess throughout 2021 and few have any interest in removing them, although a few admitted markets may remain silent for certain limited industries.

Commercial Auto

The Commercial Automobile market remains challenging, and rates continue to increase across nearly all industry sectors on average at 8%, according to CIAB. Those increases are primarily tied to fleet size, scope of operations, perceived strength of risk control measures (or lack thereof), and claims history for both frequency and severity.

To note:

- Overall, for those insureds who have experienced major increases likely averaging 30% to 50% in aggregate over the last few years since soft market rates bottomed out, we are starting to see some moderation in renewal rate increases (i.e., 5% to 10%) from incumbent carriers for those insureds with good loss experience and strong fleet safety programs, including MVR review/standards, telematics, GPS, drive cameras, etc.
- Otherwise, we continue to see pockets of increases from 10% to 25%.
- Loss challenged accounts will continue to struggle:
  - Expect 25% to 40%+ rate increases for fleets with continued frequency and/or severity issues.
  - Historically, the focal point for increasing rates has been auto liability, due to the larger percentage of total auto premium associated with AL. However, with continued challenges in the auto parts supply chain and more sophisticated vehicle systems that result in higher repair costs, accounts with a frequency of physical damage severity experience are increasing at significantly higher rates for APD, sometimes doubling year over year.
  - Additionally, these accounts are often urged (or required) to take on larger deductibles, sometimes for both liability and physical damage
- Monoline auto markets continue to dwindle, reducing competition further.
- In a continuing trend, Umbrella/Excess markets are requiring higher liability attachment points of anywhere from $2 million to $5 million depending on the size, type, and radius of the fleet. Those insureds with heavier fleets (extra heavy trucks, tractors, etc.) are more severely impacted.

Umbrella/Excess Liability

Most issues with capacity in the marketplace have been resolved over the past two renewal cycles. Participants in higher levels of Excess towers are starting to follow suit of rate increases from primary Umbrella/Excess layers as minimum premiums per $1 million limit continue to rise. The underlying reasons for rate increases have not changed and reflect the same elements reported in 2021, including:

- While more markets are starting to follow the underlying increase trends more closely now, depending on class, risk characteristics, losses, etc., for most insureds we still expect increases in the range of 10% to 50%+.
- In the middle market space, +10% is likely the starting point, but standalone Umbrellas with low hazard and no losses will likely see increases of 15% to 30%+.
- Increases for high hazard, large fleets, or accounts with losses could be in the 30% to 50%+ range with incumbents.
- Excess layers on large ($100 million to $500 million) towers are seeing significant reduction in capacity, requiring more carriers to fill the program towers, leading to increases in certain layers, with markets pushing minimums per million of limit and layer.
- Coverages such as Assault & Battery and Sexual Abuse/Molestation are difficult to obtain.
- Some carriers in certain industry groups are pressing for higher attachment points for their underlying limits (e.g., $2 million per occurrence/$4 million aggregate primary GL and Auto vs. $1 million per occurrence/$2 million aggregate limits).

Property

With the property market continuing to harden significantly, McGriff teams are working with our clients to navigate the market tumult. Rate increases, limited or loss of capacity in some cases, increased deductibles, and other more restrictive terms and conditions appear to be the norm.

Loss free accounts that experienced heavy premium increases/capacity restrictions over the past two years are likely not to experience the same degree of volatility. However, there are still rate increases and coverage restriction in the marketplace, along with capacity concerns for accounts with CAT-based exposures. The markets continue to struggle with how to best determine adequate rate levels and how to use capacity.

- Rate increases vary, but Property continues to increase by at least 5% to 15% for all locations/capacity and coverage limits (a slight decrease from our Fall 2021 Market Update).
- Non-CAT accounts with losses are seeing rates climb by 25%+ or higher depending on loss frequency and severity.
- Marine rates are in the 5% to 10% range, depending on loss history.
- Single carrier placements for accounts with limited NATCAT or particularly hazardous occupancy exposures and a profitable loss history are looking at +5% to 20%.
- As the admitted markets tighten their terms, U.S., Bermuda, and UK Excess & Surplus market share is rising.
- On the E&S side, we expect the rate range to start around +10%, but the top end will vary.
- For highly NATCAT exposed accounts, the struggles continue:
  - In certain NS CAT areas (tri-county, Florida), some markets are requiring named storm sub-limits mandated by reinsurers.
  - CAT-prone accounts and/or loss-problem accounts might see 30%+ rate increases.
  - Some single location NS CAT exposed accounts, particularly those with historical CAT losses, are being non-renewed or severely sublimited under prior MGA programs, often pushing them into the shared and layered market. These accounts may experience even more drastic increases in rate plus percentage deductible increases (in some instances up to 10%), particularly for hurricane exposed properties from the Gulf and up through Virginia.
  - Capacity for DIC/DIL Earthquake and High Hazard/SFHA Flood limits remains challenging and U.S. E&S markets and MGAs continue to be the primary sources of capacity, typically via shared and layered structures for low attachments vs MGA programs at higher attachments, providing more capacity, particularly for California EQ.
- Certain occupancy classes, such as forest products and frame habitational, are still in disarray and could see rate increases at 30%+ and even much higher.
- Most accounts with Severe Convective Storm (wind/hail/tornadoes and other straight-line wind) exposures are now seeing percentage deductibles of 1% to 5% apply to all Wind & Hail, along with increased minimum per occurrence deductibles.
- Water Damage deductibles continue to increase for particularly prone industries (healthcare, high-rise habitational, etc.).
- We are seeing continued scrutiny related to insurance-to-value (ITV):
  - Inflation and cost of construction increases continue to impact ITV.
  - We are starting to see property claim issues impacted by ITVs not being accurate.
  - In the absence of third-party Insurable Value Appraisals or at least Marshall & Swift/Core Logic valuations addressing reasonable of values, if not full adequacy, failure to correct ITV concerns could result in (a) higher rate increases, (b) removal of "blanket" limits in favor of margin clauses (i.e., 110% to 125% of scheduled values by location) or (c) true scheduled limits with no margin and the reintroduction of coinsurance clauses/penalties.
- The overall tightening continues for coverage terms such as Contingent BI, Ingress/Egress, Civil and Military Authority, etc. as well as renewal form changes with restrictive wording, and Communicable Disease/Pandemic exclusions in some cases.

Workers' Compensation

In a rapidly changing insurance market where rate increases are ubiquitous and capacity is shrinking, Workers' Compensation (WC) continues to be the most attractive of the lines where solid risks are still able to maintain rates at minimal increases depending on risk profile and loss experience. But with rising healthcare costs, rates are inching upward.

- Most carriers continue to use WC as a competitive tool, requiring the WC to provide General Liability, Auto, and often a short lead Umbrella.
- Carriers continue to work through pandemic impacts, including compensability of claims related to COVID-19, telecommuting/changes in the workforce, and classification changes as employee roles change.

Looking Forward

At the risk of sounding like a broken record, while the Q1 2022 CIAB report has not been released (as of this writing), we expect it to reflect an 18th consecutive quarter of increased premiums in aggregate. We also see the following occurring:

- COVID-19 continues to affect the Property and Casualty market, especially in the areas of supply chain and labor.
- Supply chain issues continue due to increased demand, production slowdowns, and pandemic-related closures. Warehouse and truck driver shortages continue to affect shipment and delivery times.
- Due to the labor shortage, employers are having to adjust compensation and benefits to retain and attract new applicants.
- The most volatile of all the markets right now is clearly Cyber, with clients seeing reductions in capacity, increases in retentions, implementation of ransomware co-insurance requirements, and greater focus on protocols and procedures—specifically around multi-factor authentication and protections around data security. This is not projected to change in the near future.

Cyber

Within the Cyber market, carrier loss ratios have suffered from continued ransomware attacks. Privacy legislation and increasing compliance obligations complicate premium setting for third-party and regulatory liability exposures. Cyber policies have been mainly covering the large business interruption impacts from ransomware, but cyber policies cover more than just cyber attacks and data breaches; They can cover certain allegations of wrongful collection and other privacy violations arising out of privacy regulations like BIPA, CCPA, and GDPR. With future exposure to complex claims on both the sides of the policy (first- and third-party claims), carriers are having to apply rating increases between 100% and 1,000% depending upon industry, past premiums, claims, and coverage. Cyber insurers tend to be cautious in the limits they will put up, with most reserving their full line of capacity for only what they deem to be risks with best infosec controls. Retentions (deductibles) are also increasing significantly, especially for the Fortune 1,000, as cyber insurers push policyholders to self-insure the “burn-layer” and use risk transfer north of $50 to $100 million.

Carriers are less generous with policy form enhancements, and many are restricting coverage, especially around cyber extortion and biometric data collection. War exclusion confusion continues to cast a dark shadow on contract certainty. Earlier this year, Merck's $1.4 billion legal win over its insurers illustrated that a cyber attack, though attributed to Russia's military intelligence agency, cannot be considered an act of war under traditional war exclusion language, so claims resulting from the attack must be paid by the insurers. This decision, and escalating fighting between Russian and Ukrainian forces, has caused many carriers to revisit their war exclusion language as well as insist upon endorsements excluding any operations in Russia, Belarus, and Ukraine.

Underwriting Increasingly More Complex

Insurers—and their reinsurers—demand increasingly more in-depth underwriting of information security controls to even consider offering cyber insurance. Lengthy applications, ransomware supplementals, and comprehensive underwriting calls with information technology and operational technology leadership is the new norm. Today's Cyber insurance applications often require:

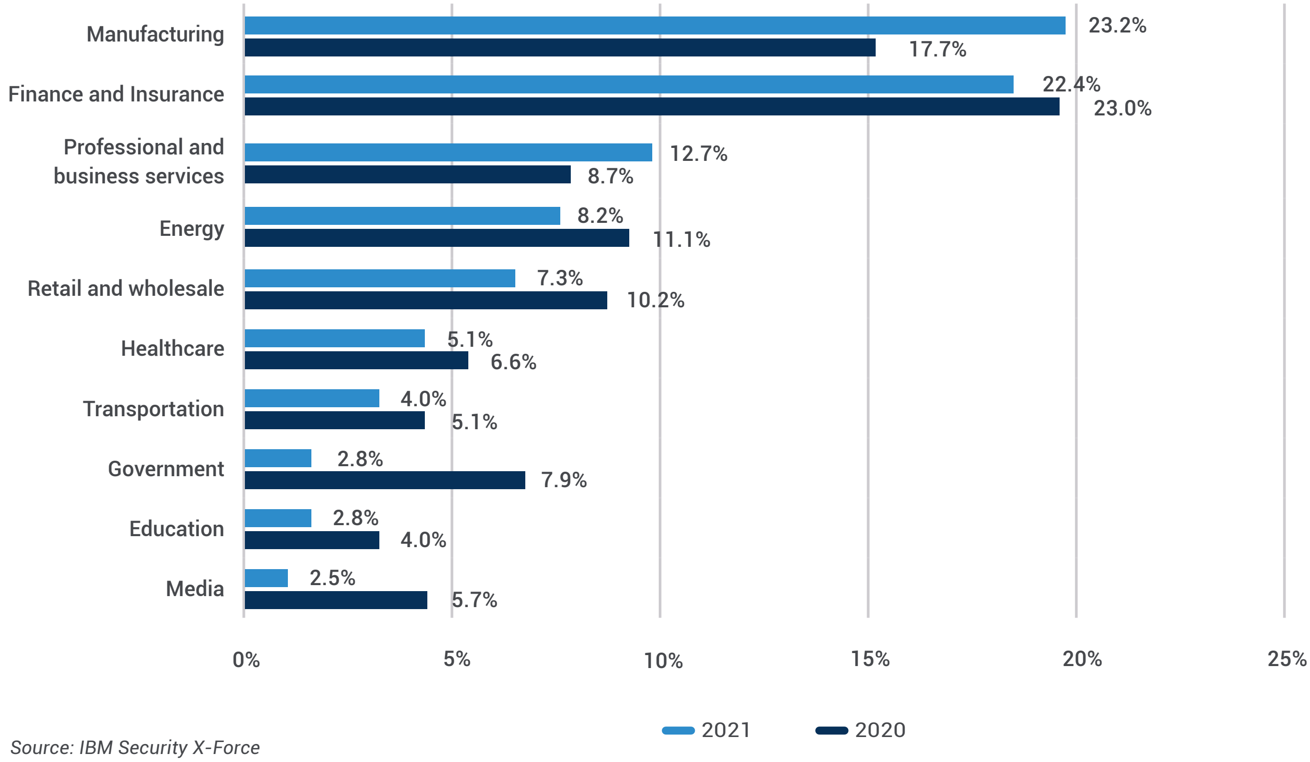
- Enterprise-wide risk identification methods, such as description of an organization's data and systems and the thoroughness of the company's data asset, hardware, and software inventories.
- Sufficient expertise and staffing in both IT and OT environment.
- Access management and controls of user credentials; endpoint detection and response solution on all endpoints.
- Superior controls for privileged access and service accounts with limited utilization of service accounts with elevated privilege expected.
- Aggressive patching program with extra prudence and urgency in implementing critical patches.
- Regular internal and external penetration testing accompanied by swift adoption of recommendations for improvement.
- Mapping to NIST or other standard, along with periodic risk assessments.
- Continuous threat monitoring.
- Employee and contractor phishing awareness program, click-rate metrics, and remedial training, including revoked access privileges for repeat offenders.
- Back-up viability for on-premises and off-premises environments; expectation is that back-ups are encrypted, immutable, and regularly tested.
- Comprehensive incident preparedness with periodic mock exercises/war gaming.
- Mature vendor governance and supply chain oversight.
- Prompt retirement of end-of-life (EOL) and no longer supported applications and devices.
- Perhaps most important is continuous board-level awareness and oversight for the cyber security posture of the company.

Current Cyber Threat Landscape

The threat of ransomware attacks, data breaches, or major IT outages are a very real concern for companies large and small.

- Ransomware dominates in both frequency and severity.
  - Double and triple extortion on the rise: Threat actors often post confidential corporate information, employee data, and customer records in their dark web forums until the ransom demand is met.
  - Methods to maximize ransom: Utilization of other exploits to increase leverage in maximizing the highest cyber extortion payment; denial of service attacks by the threat actors applies another degree of pressure to compel companies to make the payment to stop the disruption.
  - Coming from more than just Russian origins: Attacks originating from Iran, China, and North Korea may not be getting the headlines, but these nation states and their proxies have their own ransomware arsenal in addition to ongoing attempts to steal trade secrets and conduct other cyber espionage campaigns. Iranian nation-state threat actors and cyber crime groups (re: MuddyWater, TrickBot, and LemonDuck) were some of the most active in 2021.
- There remains a growing attack surface as more devices are becoming internet enabled. The Internet of Things (IoT) includes smart meters, consumer products, sensors, traffic lights, and security cameras, to name a few. Industrial Control Systems such as those used in manufacturing, energy, and other production environments are also exposed to hacker takeover, which can result in both system disruption and prolonged outages, but also potential physical damages. IBM is reporting a 2,204% increase in reconnaissance efforts against internet-enabled SCADA devices.[1]
- Supply chain attacks and exposure to malware via vendors and service providers require an urgent response by security experts, and companies must pivot to emergency procedures to install patches, assess potential indicators of compromise, and take machines and connections offline until security confidence is restored. Recent examples include breaches and vulnerabilities starting with SolarWinds in 2020 and then continuing into 2021 with Kaseya, Microsoft Exchange Servers, Accellion, and Log4j. According to NIST, for the first time in history, the number of Common Vulnerabilities and Exposures (CVE) topped 20,000 with 20,136 published in 2021.
- Social engineering, especially impersonation schemes and other business email compromises (BEC) resulting in account takeover and wire transfer fraud, continue to plague companies.
- There is expanding regulatory oversight and tighter reporting obligations. State and federal regulators have made information and system security a top priority for U.S. organizations. New guidelines and proposed disclosure requirements expect companies to share breach information with authorities soon after the incident is discovered. While it's important to make cyber intelligence available to further "protect the herd," companies must proceed cautiously and be mindful of confidentiality, privilege, and future litigation.

Breakdown of Attacks on the Top 10 industries, 2021 vs. 2020



Source: IBM Security X-Force

The Current Challenge: The Russia/Ukraine Conflict

With the increased risk of cyber attacks on the U.S., a more intense security culture within organizations is required.

Updated Office of Foreign Assets Control (OFAC) Guidance:

As reported by CNN, minutes after President Biden announced new sanctions on Russian banks and elites on Feb. 22, David Ring, section chief of the FBI's Cyber Engagement and Intelligence Section, asked U.S. businesses and local governments to be mindful of the potential for ransomware attacks. Ring went on to say that Russia is a "permissive operating environment for cybercriminals—one that is not going to get any smaller."[2]

Scott Ferber, a partner at McDermott Will & Emery, LLP, and member of the firm's Global Privacy & Cyber Security team, told McGriff that the Russia-Ukraine conflict creates unique considerations for ransomware attacks. U.S. persons generally are prohibited from engaging in transactions—directly or indirectly—with individuals or entities on the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) Specially Designated Nationals and Blocked Persons List, other blocked persons, and notably those covered by comprehensive country or region embargoes. In Sept. 2021, OFAC issued an Updated Advisory[3] to highlight the sanction risks associated with ransomware payments in connection with malicious cyber-enabled activities. The advisory also provided proactive steps companies can take to mitigate such risks.

The federal government is waging an all-out offensive against ransomware OFAC sanctions. As noted in the Updated Advisory: “This is creating a tricky minefield in which entities who pay a ransom or are involved in paying one (such as financial institutions, cyber insurance firms, and digital forensics and incident response firms), could violate OFAC regulations, resulting in a significant civil money penalty (CMP) on top of the reputational and financial fallout from the ransomware attack itself. Considering that 2021 OFAC CMPs totaled $20.9 million, including six fines over $1 million, now is the time for organizations to redouble their OFAC compliance efforts. The same is true for their cybersecurity measures, as the Financial Crimes Enforcement Network (FinCEN) reported $590 million worth of ransomware-related suspicious activity in the first six months of 2021, well over the $416 million reported in all of 2020.”

As noted in a white paper from cybersecurity firm CSI[4]:

OFAC specifically noted that financial institutions, cyber insurance firms, and digital forensic companies could be at risk of sanctions violations when facilitating a ransom payment. OFAC has designated several known malicious cyber actors for sanctions, including the developers or sponsors of the Cryptolocker, SamSam, WannaCry 2.0, and Dridex ransomware. OFAC has also designated a virtual currency exchange known to facilitate ransomware payments. When determining OFAC sanctions violations, certain factors can mitigate the punishment:

a) A risk-based OFAC compliance program,

b) Strong cybersecurity practices that reduce ransomware threats,

c) Reporting the attack to law enforcement and cooperating with the same.

Threats Escalate

To help prepare organizations of all sizes, the U.S. Cybersecurity and Infrastructure Security Agency (CISA) launched “Shields Up,” a program to help organizations prevent, detect, and minimize the impact of cyber events. Cybersecurity firms working closely with the insurance industry advised businesses to protect themselves by reviewing their business continuity plans and ensuring the fundamentals of cybersecurity are in place, including up-to-date patching programs, endpoint threat detection, anti-virus programs, and multi-factor authentication.

The FBI, CISA, the U.S. Cyber Command Cyber National Mission Force (CNMF), and the United Kingdom’s National Cyber Security Centre (NCSC-UK) have observed a group of Iranian government-sponsored advanced persistent threat (APT) actors, known as MuddyWater, conducting cyber espionage and other malicious cyber operations targeting a range of government and private-sector organizations across sectors—including telecommunications, defense, local government, and oil and natural gas—in Asia, Africa, Europe, and North America.

The War Exclusion, Now and Later

As a reminder, a recent legal decision distinguished between cyberwar and "real" war. (Opinion, Merck & Co. v. ACE American Insurance Co., No. UNN-L-2682-18). Several years ago, the U.S. Department of Defense had determined that computer sabotage could be considered an act of war, but it did not specify which types of cyberattacks it included. To date, no clear consensus has emerged about what constitutes cyberwar or how it should be defined. That's how Merck ended up suing its insurer, with the judge ruling that the Acts of War clause did not apply in the NotPetya ransomware attack. (The New Jersey Appellate Division granted Ace American's motion for leave to appeal on Feb. 24.)

The U.S. and several other countries contended that Russia was responsible for launching the NotPetya attack to destabilize Ukraine. Merck was among the many impacted organizations and reportedly suffered damage to its computers at a cost of more than $1.4 billion. Merck's property insurer argued that the war exclusion applied because Russia released NotPetya as part of hostilities against Ukraine. Merck challenged whether the war exclusion applied to cyberattacks at all. The Merck decision shows that courts will not easily be swayed by insurers' attempts to deny coverage for cyberattacks based on the war exclusion. At no point did the court even suggest that the insurers' interpretation was reasonable.

Cyber policies differ considerably in their war exclusion language and during the soft market, some policies benefited from broad definitions of "cyber terrorism," including acts of cyber terrorism carved back from the traditional war exclusion. Insurers are likely to assert that the war exclusion applies to certain state-sponsored cyberattacks, especially if such attacks are conducted as an extension of war or in retaliation for hostile acts.

We expect rigorous negotiations with Cyber insurers to continue around any proposed expansions to the war exclusion. While some clarification may be beneficial to both parties, the perceived value of Cyber coverage might be unintentionally eroded if insurers overplay their hand.

The Cyber market will continue to require companies to improve their security postures and underwriters will further adjust premiums to reflect the current and future risks to cyber-attacks. Even as loss ratios stabilize, it is unlikely that insurers will abandon these stricter underwriting standards. Organizations are wise to use the breach prevention resources offered by their insurers and to remediate vulnerabilities with urgency. As the Russian-Ukraine conflict persists, companies should use all efforts to become better equipped in defending, detecting, and responding to these ever-evolving threats.

[1] *IBM X-Force Threat Intelligence Index 2022 (page 6) https://www.ibm.com/downloads/cas/ADLMYLAZ*
[2] *https://www.cnn.com/2022/02/22/politics/russia-sanctions-fbi-cyber-threats-ransomware/index.html*
[3] *https://home.treasury.gov/system/files/126/ofac_ransomware_advisory.pdf*
[4] *https://www.csiweb.com/what-to-know/content-hub/whitepapers/ofac-and-ransomware/*

Executive Lines

The Executive Lines market is softening quicker than most would care to admit. In our Fall 2021 Market Update, we anticipated the hopeful beginning of a more “buyer friendly" market cycle as we headed into 2022 with the expectation that most clients would benefit from increasingly healthy market conditions, which would lead to more successful renewal outcomes. We are pleased to report that our prediction has indeed proved to be broadly correct and, if anything, we now believe that the public company D&O market is actually softening at a much quicker pace than most D&O insurers and other market participants would probably wish to acknowledge.

Looking back at our client renewals so far this year, the good news for many buyers is that most primary layer D&O placements have tended to renew flat with modest, mostly single-digit premium reductions often being secured on excess layers and Side A towers. For the first time in more than three years, some clients are now experiencing overall program premium reductions as opposed to year-over-year increases that, as we previously noted, started to taper off in Q4 2020. It is worth emphasizing, however, that D&O insurance premiums remain significantly elevated compared to historical norms and, indeed, the market is still very challenging for perceived "higher risk" clients such as IPO issuers and de-SPACs (Special Purpose Acquisition Companies). But even for this client segment, we have recently noted more robust underwriting interest and competition for business.

Driving Factors

The following are a few factors we feel are driving this improved trading environment for clients:

Growth plans gone amiss: Recognizing that the market still offers historically attractive pricing, several leading legacy D&O insurers came into 2022 with ambitious growth goals and hopes of increasing their market share, especially regarding targeting clients with perceived superior risk profiles. At the same time, the industry has attracted a significant amount of new capital during the hard market, leading to the formation of several new underwriting facilities seeking public company D&O opportunities. This confluence of competition from both legacy and new insurers has created an abundant supply of capacity, which, in turn, is creating client leverage and better pricing outcomes. Incumbent carriers on client programs now face real competition, especially on excess layer placements where there has been a marked erosion in increased limit (pricing) factors.

Where are the IPOs? The overall D&O insurance market saw substantial premium growth in 2021 thanks to more than 1,000 companies going public on U.S. exchanges, approximately 60% of which were SPAC initial public offerings. Additionally, about 200 companies went public through de-SPAC merger activity, which also served to boost D&O insurance premium volume. For a variety of reasons (stock market volatility, geopolitical turbulence, higher interest rates, increased regulatory scrutiny for SPACs, etc.), IPO activity declined precipitously in Q1 2022 with fewer than 80 companies going public. Compared to the heyday of 2021, D&O insurers are seeing fewer new business opportunities this year from IPOs, which creates more focus on the existing market inventory of public companies.

The claims environment may be improving: The general trend of Securities Class Action (SCA) filings is promising. According to litigation data from *Stanford Securities Class Action Clearinghouse*, 210 companies were defendants in federal SCA actions in 2021.[1] This compares to 319 cases in 2020 and an average of more than 400 companies facing lawsuits in federal securities fraud cases each year from 2017 to 2019. Some of the lower filing volume in federal courts can be attributed to a change in plaintiff attorney strategy on "merger objection" cases, but the trend is nevertheless encouraging. According to Cornerstone Research in their 2021 Midyear Assessment report on securities litigation, the likelihood or susceptibility of a U.S. domiciled company being named as a defendant in an SCA decreased to 4.2%, the lowest rate since 2014.

Looking ahead, our expectation for the balance of the year is that the market will continue to offer clients more options in terms of carrier alternatives as well as opportunities to attain improved pricing.

[1]*Source: https://securities.stanford.edu/*

Aviation

The current Aviation insurance market is in transition. After two years of substantial rate increases, the market began to push toward stabilization in Q1 2022, with increases leveling off in the 5% to 10% range.

The largest factor with a potential impact to the stabilization of the market is the war between Russia and the Ukraine. There are somewhere between $10 and $12 billion worth of Western-owned leased assets in Russia that the Russian government has confiscated, and this is turning into a massive claim to the Aviation market that is estimated at three times the annual global aviation premium. The Daily Telegraph reported in early May that "Lloyd's insiders say that questions remain as to which insurance firms will foot the bill for the 'stolen' planes amid fears that syndicates could have ended up insuring each other in a cyclical fashion."[1]

With the exception of the Hull War market for operators with exposure in Europe, this is not directly impacting rates yet. We've seen a few isolated incidents where underwriters have blamed the exposure in Russia as an excuse to push rate increases. These claims are likely to end up in litigation and the full impact will not be known for several years to come.

Aviation has been a major concern for the re/insurance industry since the outbreak of the Russia/Ukraine conflict, with analysts warning of the potential for historic losses if Russia goes ahead with its move to nationalize Western-made planes grounded within its borders.

And with Moscow having now confirmed that it will not be returning the stranded aircraft, the potential for a huge loss to lessors—and to re/insurers—now seems ever more likely.

It's thought that at least 400 Western planes are still in Russia, with some commentators suggesting a possible loss of $10 billion if they cannot be repossessed.

Analysts at S&P, meanwhile, have fielded a worst-case insured loss scenario of $15 billion to aviation lines from the crisis in Russia, with another $20 billion of losses possibly set to stem from specialty lines, and further costs expected in Cyber.

Source: Steve Evans, Reinsurance News

Market Rate Changes

Social inflation continues to be an issue in the aviation insurance market. There have been a few rather substantial losses to hit the market recently.

- **Allied Aviation Case[2]:** A Texas jury awarded a $353 million verdict to a pedestrian—United Airlines wing walker Ulysses Cruz—who was struck by a van at Houston's Bush Intercontinental Airport in September 2019. Cruz was left paraplegic as a result of the accident. Cruz filed a lawsuit against Allied Aviation Fueling Co of Houston Inc. (the owner of the van) and Reginald Willis (the driver of the van) in November 2019 in Houston.
- **Rhode Island Airport Corporation Case[3]:** Two TSA workers, along with one of their spouses, who argued they suffered permanent brain damage from carbon monoxide poison due to the negligence of the Rhode Island Airport Corporation, won a $26 million verdict against the corporation. The plaintiffs' attorney said the carbon monoxide fumes got into their office for roughly a decade from an intake for the HVAC system, resulting in memory loss and psychiatric issues.

As for effects of COVID-19, we are seeing passenger activity increase back toward pre-pandemic levels. In tour markets, such as Hawaii, the Grand Canyon, and Alaska, we're seeing increased passenger liability exposure as a result of the increase in travelers. Underwriters are still hesitant to deploy increased limits in certain markets, but the demand, combined with operators' contractual requirements, are causing clients to seek increases in limit where available.

Looking Ahead

Having just come off a three-year hard market that was beginning to stabilize, we are watching the developments in Russia/Ukraine closely and how that ultimately may impact our market moving forward. There is the potential for some kind of government intervention to help mitigate the impact of the losses associated with the confiscation of the aircraft, but that will take time to play out. To put this in perspective, the overall total value of the Western-owned assets confiscated by Russia is four to five times the amount of the total losses paid by Boeing and their insurers related to the 737 Max.

Despite the potential impact to the overall Aviation marketplace, nothing has been settled or paid at this time, and we believe the attempt to push rate increases over a possible hit to one side of the overall Aviation market highlights the fundamental deficiencies in the way the overall Aviation insurance market works. We will continue to keep our clients apprised of the developing situation, but we will not allow markets to push further rating increases on our clients because of a possible for loss that has not been decided yet.

[1] *https://www.telegraph.co.uk/business/2022/05/02/lloyds-london-ready-8bn-dogfight-planes-stolen-putin/*
[2] *https://www.courthousenews.com/texas-jury-awards-352-million-to-family-of-paralyzed-airport-worker/*
[3] *https://www.providencejournal.com/story/news/courts/2021/10/27/26-million-verdict-against-t-f-green-after-carbon-monoxide-poisoning/8573161002/*

Construction

As we have now made it through Q1 2022 and are well into Q2, we've seen inflation, rising interest rates from the Federal Reserve, and global unrest. However, carriers (both domestically and in London/Bermuda) are optimistic about the future with a keen focus on the outcome of President Biden's $1 trillion Bipartisan Infrastructure Law.[1] Although the rough framework for the money to be spent has been discussed, the specifics are still up in the air. New capacity entrants into the U.S. Construction insurance marketplace have been able to shake up some business, but not to the extent of softening to point we were five years or so ago. Contractors/owners are feeling the costs first hand with increased prices of materials and labor so the need to drive down insurance costs is evermore present.

Market Rate Changes

Primary Casualty	
General Liability	5-10%
WC	0-5%
AL	10-15%

Professional/Pollution	
Professional	1-3%
Pollution	0-2%

Umbrella/Excess	
Lead Excess/Umbrella	7-10%
Excess Layers	5-7%

Property
+5 - +10%

Builders Risk
+5 - +10%

Source: Based on McGriff client renewal data

General Liability

Primary capacity for the overall General Liability market remains strong as carriers are out and about traveling and marketing now that COVID-19 travel protocols have eased. Capacity continues to be favorable, but we are still seeing rate increases in the 5% to 15% range with certain sectors in particular receiving higher adjustments.

Accounts with poor loss performance can expect to see increases of up to 20%. On the flip side, contractors with stellar loss performance can expect flat to 5% increases since primary carriers are looking to retain high-performing accounts with some even receiving decreases. Contractors with difficult exposures continue to be tough placements, such as New York, residential/condo, and contractors operating in the utility space—especially in the wildfire-prone western U.S. These contractors should expect to see the highest rate increases as well as deductible/SIR pressure paired with tightened terms.

Automobile Liability

The continual losing line of business within the three main lines of casualty—Automobile Liability—continues to see rate increases. The reasons, which have not changed in the past three to five years, include: large losses and verdicts, more litigation instead of pre-trial settlements, inflation, rising rates, and distracted drivers. Most underwriters are seeking increases of 10% to 15% depending on loss experience, location, and fleet composition.

Workers' Compensation

The most stable of the primary casualty lines is Workers' Compensation (WC), with pricing increases averaging 0% to 5% for a high-performing account. Most state manual rates are stable or declining. COVID-19 continues to have minimal impact on WC losses (California being the exception). While the current rate environment is favorable, we will need to evaluate the impact of the pandemic on overall loss experience as the losses are still green.

Umbrella/Excess

The past few years have been the toughest for the Umbrella/Excess market, taking into account it had been so soft for years with abundant capacity and favorable pricing. The shift from large limit deployment at incredible costs and low attachment points allowing insureds to buy large towers has now transformed into shorter lead limits at higher prices, causing more and more carriers to be stacked to complete large placements. Although the rate increases have slowed down, we are still seeing about 7% to 10% average (depending on sector and experience) increases on lead placements. The new capacity entrants to the marketplace have caused the increases to taper off after the first layer or so. Accounts with higher primary attachment points of $5 million and $10 million are getting the most favorable and consistent renewals as the carriers are viewing them as prime candidates to deploy their capacity on. Carriers continue to comb through the underlying terms they're following as the maintenance of aggregates is being closely managed.

Insureds with tougher exposures, like accounts prone to the New York Labor Law, Wildfire (T&D/Utility work), and Condo/Residential will continue to see rates up to a higher point in the tower, unlike favorable commercial risks.

For those contractors who purchase large capacity excess towers, we continue to be very successful in maintaining expiring limits and even adding capacity due to new entrants. The key note to accomplish this is a well-crafted plan between insured and broker to seek the best strategy to encompass the domestic (direct/wholesale) markets, along with markets in London/Bermuda.

Markets still willing to write on a lead Excess/Umbrella basis are increasingly more choosy regarding capacity deployment, so a dynamic and concise submission to set your risk aside is pivotal.

Builder's Risk/Property Insurance

The Builder's Risk/Property Insurance space has been mixed, very much dependent on the underwriter, line of business, geography, and end use of property (habitational, non-habitational, commercial, etc.). Throughout the property (real and personal) market, we are seeing about 10% increases on average. Contractors equipment space is dependent on loss history, but there are still very favorable renewals to be had, although reinsurance rates are putting pressure on the carriers.

For projects comprised of fire-resistive/masonry non-combustible construction, aggressive pricing remains very viable in this space as long as the submission put together for the risk can stand out. Both domestic and overseas carriers continue to put out lead terms eager to write business.

The habitational market, especially wood-frame risks, continue to be among the toughest risks to place as has been the case for the last few years. Annual rates are averaging $0.50 to $0.60 per $100 of project value, and even higher in some cases. The main loss driver for all builder's risk continues to be water damage, leading to higher deductibles, especially on the habitational front.

Professional and Pollution Liability

COVID-19 appeared to put pressure on the Contractors Pollution Liability markets, but claims haven't shown up as some may have originally thought. After a strong 2021 and solid beginning to 2022, this coverage line continues to see decrease-to-flat renewals on great risks and minor increases on loss-driven accounts. When it comes to Professional Liability, we've seen small increases (1% to 3%), but there are still good renewals out there as the marketplace is plentiful with about 30 or so carriers writing this line. Carriers are closely looking at the type of delivery methods being utilized (Design-Build, Bid-Build, etc.) as to ensure they are rating appropriately for the risk.

Surety

The contract Surety market remains stable and profitable largely due to the construction industry's "essential" status during the pandemic. However, underwriting scrutiny does prevail as underwriters continue to focus on backlog when considering future work due to the lack of skilled labor in the workforce. Labor was an issue prior to the pandemic and continues to be an emphasis. These labor issues coupled with supply chain issues and material costs, also have underwriters focused on project completion times along with other damages contractors could face. Contractors should focus on contract terms that allow for price escalations and adequate time to complete projects. Access to liquidity and debt structure continue to be important in underwriting, as the Surety markets want to be confident that the balance sheet can absorb any problems. This is key in view of escalating contract Values, and exposure due to subcontractor issues

Commercial Surety results also remain strong. At the outset of the pandemic it seemed certain there would be significant losses stemming from the number of financial guarantee obligations in the travel, hospitality, retail, and energy sectors. However, the Surety markets so far have seen very few losses. We can attribute that to collateral requirements or the resiliency of these companies related to debt service relief, overhead adjustments (including workforce-related), access to capital, or a combination of all three.

Although overall writings have decreased over the last two years, there has been growth in the renewable energy space helping to fill the gap left by the other sectors. Similar to contract Surety cash flow, underwriters are primarily focused on access to capital and debt structure. The Surety market continues to contribute profits to many large portfolio companies. This is evidenced by a handful of new entrants in the market in early 2022.

Recommendations for Managing Better Underwriting Outcomes

Start the Renewal Process Early

The management of your renewal requires much planning, patience, and diligence. Plan ahead and start the renewal process up to four months before policies expire. Securing terms early from the incumbent market has proven successful as well.

Give Detailed Submissions

The underwriter's job is to price uncertainty, so the more quality information they have on your exposures, the more competitive the price will be. It is important in this environment to make sure the submission stands out from the others on the underwriter's desk. Be as granular as possible with information, from claims to project management.

Analyze Various Deductible Levels

Study your past claim history and create a loss stratification (this can be tasked to the broker). They will analyze what would have been paid out of pocket, and what would have been transferred to the carrier based on varying deductible levels. This will help select the best deductible option, as well as letters of credit demands from the underwriting community. Keep in mind that trading dollars with an insurance company rarely lowers your cost of risk.

Seek Your Primary Underwriter's Help on the Excess

This will significantly help manage your excess insurance cost. An underwriter receiving more premium from multiple casualty lines can be incentivized to reduce the lead Umbrella/Excess price. In the current environment, they view this as one way to remain competitive against other insurers. This isn't always possible with all underwriters, or effective due to type of operations, underwriting appetites and venues for payroll. However, it should be an option to explore as you work through your renewal.

Review Contractual Risk Transfer Protocols

It is in the best interest of the contractor to manage the allocation of risk through contractual risk transfer, both upstream and downstream. Develop internal audit processes to manage this risk, and share them with underwriters. Contractors who manage this well typically get more competitive responses from the insurance market.

Safety Management First

The best way to reduce insurance cost is to reduce claims. The goal is to have several underwriters competing to underwrite the operations. One of the most important contributors to a contractor's safety management program is the engagement of senior management. Without that, nothing else works. Additionally, ideas to consider for fleet safety include telematics, driver selection, education, and onboarding and training.

Explore Different Risk Financing Mechanisms

Several risk financing tools may benefit a construction firm depending on a company's appetite for assumption of risk. Single-parent captives, group captives and segregated cells are available for consideration. Each of these financing tools has advantages and disadvantages, particularly when sharing risk with other contractors.

Don't Burn Bridges With the Underwriting Community

Relationships matter in the construction industry as well as the insurance industry. While marketing the program every year may feel like the logical thing to do, it often leads to only short-term gains that come with long-term consequences. And since turnover also affects the marketing process, be sure to cultivate multiple relationships with underwriters. Strive for long-term relationships.

[1] *Source: AGC Construction Smart Brief*

Energy & Utilities

While rate deceleration has continued from 2021 into 2022, it is still too early to say we will see a seismic market shift in the coming months. The power and energy markets were tested with significant shock losses in 2021 and have shown that repositioning their books over several renewal cycles to reach their “technical rates” has allowed them to absorb these losses without noticeable changes to other insureds. Management largely continues to highlight underwriting profitability; however, some markets are now beginning to target fairly aggressive premium growth in 2022. This dynamic allows for clean accounts to capitalize on aggressive and/or new capacity to achieve renewals with a low single-digit rate increase. Accounts with poor loss history and/or significant Nat CAT exposure will continue to face pricing pressure (10%+).

Property

Markets have a keen interest in reported values and believe that industry trends have lagged behind actual inflationary factors caused by pandemic-related supply chain disruption, labor shortages, and raw material issues. Underwriters are encouraging insureds to use third-party appraisals to help validate (or challenge) the reported values. Given the volatile nature of our current landscape, it can be prudent for insureds to periodically review their values (between renewals) as commodity prices and global economic factors can have a material impact on values (especially BI) that may not have been captured in forecasts used at renewal. While insurers argue that most values are understated, the counteracting force is the reality that many assets have been overvalued for some time because they weren't trended downwards appropriately in previous years, or that lender involvement required an overvaluation due to the outstanding balance of a loan.

For insureds with thermal generation, Environmental, Social, and Governance (ESG) policies are front of mind for markets and continue to tighten restrictions. While several insurers have exited coal entirely, most are willing to write incumbent coal business as part of a portfolio, given certain thresholds are met and an acceptable decarbonization plan is in place. Very limited capacity is available for non-incumbent coal business at this point. Underwriters and engineers are most focused on new, larger units (e.g., GE HA, Mitsubishi JAC, Siemens HL), historically poor performers (LM6000 Sprint, LMS100), and technology reaching the end of its lifecycle.

Renewables

On the renewables front, Battery Energy Storage Systems (BESS) are the linchpin for an even bigger green energy revolution. The various energy storage technologies are steadily evolving, and the size of projects are growing, however, insurers are taking a conservative approach and are not adapting the underwriting appetite nearly as quickly. Many insurers are managing their risk through capping limits and line sizes. Adequate deductibles are necessary, but the larger emphasis on limits points to the real concern being catastrophic thermal runaway events. We believe there is an overarching misalignment of BESS safety standards/guidelines and public perception. Many of the white papers that exist today are based on older technology in stress-tested settings that are outside of the industry-accepted norms. We are continuing to spearhead this educational exercise by hosting technical thought leadership discussions that include McGriff Loss Control Engineers and third-party experts. The end goal from a marketing perspective is geared towards sharpening the rates that underwriters are offering for BESS, particularly in the context of construction where thermal runaway risk is limited to testing and commissioning.

Now more than ever, it is critical for insureds to be mindful of the insurance requirements being included within the "standard" LLCA/ECCA language. Several new provisions have crept their way into the financier and financier consultant templates that are in direct contrast to how the renewable insurance marketplace is operating, particularly in the context of Nat CAT limits and deductibles:

- As the size of renewable projects continues to grow, scheduling coverage on the basis of Full Replacement Cost becomes increasingly challenging (or cost-prohibitive)
- Both IPP and utility clients are gravitating towards increasingly larger portfolios of renewable assets, and thus the contract language must allow for flexibility in the aggregation of Nat CATs across multiple assets (and particularly those that are under different financings)
- 12 months for DSU/BI indemnity periods may no longer be sufficient in a world of constrained supply chains, particularly for equipment with historically long lead times (transformers)

We encourage renewable insureds to take full advantage of engineering allowance when allowed by their policies. Coupling deterministic studies alongside the standard suite of probabilistic modeling paints a comprehensive picture of an asset's Nat CAT risk profile, which likely has the most profound impact on pricing. Finally, there is a significant difference between “technical” and “available” capacity from markets. In an ESG-focused world, most insurers are releasing publications indicating that they can participate in a big way on clients' renewable portfolios. However, Nat CAT (including Soft Cat often) aggregation continues to dictate line sizes in most cases, with the capacity deployed on a single risk often paling in comparison to the total available capacity.

Liability

The Excess Casualty market has been severely impacted by the frequency and severity of catastrophic losses over the last decade. This continues to be the headwind for the market as they reshape their book to achieve profitability. According to Chubb's *Liability Limit Benchmark & Large Loss Profile by Industry Sector 2022*, loss costs have increased by 50% over the past decade.

Energy continues to be one of the most challenging sectors of the casualty market and, in response, carriers continue to limit capacity and push for increased attachments and higher premium. The market has seen catastrophic losses across a number of sectors and energy is no different, with events such as the California oil spill (2021), the Texas port pipeline explosion (2020), and numerous Western wildfires.

Markets are still pushing for rate in 2022, but the past demands of high double-digit and even triple-digit increases should be few and far between. Rate requirements vary by insurer and are intentionally vague as the market remains opportunistic and does not want to be “boxed-in” should renewal dynamics shift. On a positive note, following the sharp decline in capacity in recent years, the excess liability market has started to stabilize. Markets are more comfortable with their reduced capacity offerings, and further restrictions seem to be slowing.

Markets continue to be focused on coverage review and coverage restrictions, along with an ever-hardening ESG stance, which continues to gain momentum. Key topics for review:

- Coal capacity/revenues
- Cyber
- Wildfire exposure and vegetation management
- Failure to supply
- Climate change
- PFAS (“forever chemicals”)

In addition, there are a number of new entrants in the energy casualty space, meaning we are now able to better mitigate lost capacity, if any. However, it must be noted that these new entrants are not looking to undercut their peers and their terms will be in line with other market offerings

AEGIS has begun writing on their new policy form in 2022, which includes new Cyber Liability Exclusion, new Protected Information Exclusion, and new Subsidiary Definition, among other changes. Please notify a McGriff representative if you would like an analysis and commentary on the changes. In order to keep up with increasing loss trends, AEGIS will be raising rates again in 2022. Early targets are for 10% to 15% on clean accounts (plus a wildfire load if applicable). AEGIS continues to provide meaningful wildfire capacity, but they will require adequate pricing to keep this in place.

EIM continues to offer meaningful, stable capacity with limits of up to $125 million available. Due to continued loss severity, there will still be a push for rate increase but will be on a case-by-case basis. EIM will individually underwrite every member and it does not currently have a certain percentage increase that they are requiring across the board. Insureds with exposures in wildfire-prone states will have a load applied to the premium.

Cedar Hamilton (NEIL) is up and running and looking to support members as a capacity provider. Wildfire is being reviewed on all accounts and Cedar Hamilton typically will not provide more than $25 million for any new excess liability accounts. The average deployed capacity is somewhere in the mid-$30 million range, though $50 million is technically available.

London and Bermuda are expected to remain stable moving into 2022 as new capacity that emerged in 2021 will look to capitalize on the state of the market. New entrants include Arcadian, Ark, Helix, Vantage, and MAP. Insureds with wildfire and pipeline exposure will get the most underwriting scrutiny as the two areas have consistently yielded massive losses for half a decade.

The newest area for concern is with PFAS. Insured can expect questions on these as the market works to gain information to develop their underwriting positions. Similar to the renewables property market, there is a massive delta (~50%) between "technical" capacity and "available" capacity in London and Bermuda for energy clients. Minimum pricing, preferred attachments, and challenging exposures can rapidly reduce a market's offering down from their advertised "technical capacity."

The General Liability market for power and energy has experienced tightening, although not as severe as the Umbrella/Excess market. With limits capped, the frequency of claims is the greater issue for the GL markets. Average rate increases for GL are in the mid-single digits with Auto Liability slightly higher. Workers Compensation has been the most profitable primary line for insurers and can be utilized to offset GL/AL increases when packaged together.

Public Entity

Although public entities continue to see overall rate increases through most lines of insurance, we are seeing the market adjust and flatten to some extent. Carriers continue to limit capacity while tightening underwriting guidelines and policy terms and conditions.

Emerging risk management issues withing this space:

- Inflation (currently 8.54%)
- Labor shortages
- Cyber attacks
- Fleet management (fuel and vehicle costs)
- Supply chain issues
- War in Ukraine (effects are supply chain issues, increase in re-insurance, and property seizures)

To deal with these current issues, we're seeing public entities focusing on resiliency planning and putting more emphasis on Environmental, Social, and (Corporate) Governance (ESG). We are also seeing more public entities agreeing to higher retentions and/or deductibles, and reducing limits to meet budget constraints.

Property rates, particularly in areas prone to wind and hail, have continued to rise. With the cost of reinsurance increasing, carriers are reviewing their portfolio to make sure their geographical footprint is not concentrated, which can lead to reduced capacities. We are also seeing increased interest from the London market in public entity risk.

With another above-average hurricane season predicted for 2022, we may not see any relief in increasing property rates for coastal areas. One emerging trend is policy language dealing with extreme temperature changes. Insurers want to make sure that, as much as possible, climate change is a factor in CAT modeling.

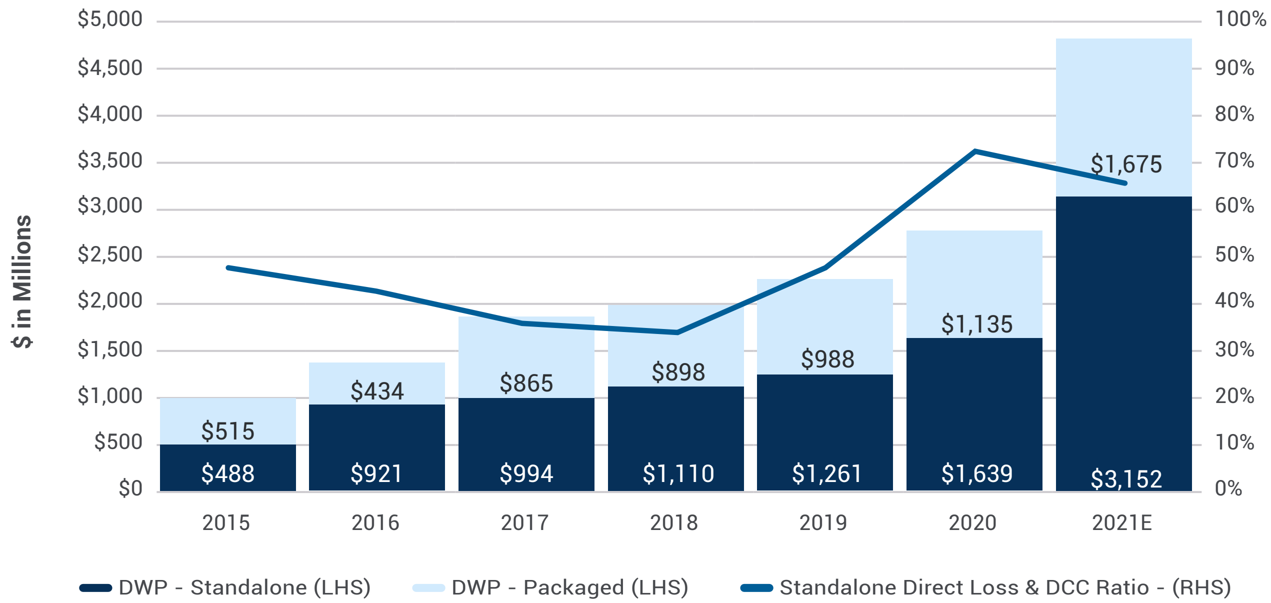
Casualty rates continue to rise, as coverages are affected by events such as social movements, civil unrest, and high-profile court cases.

Workers' Compensation rates are on the rise due to presumption law legislation for first responders, front line workers, and schoolteachers.

Cyber coverage renewals are still on the rise due to the increased frequency and severity of data breaches. While $1 million in cyber coverage was considered to be generally sufficient not that long ago, entities are now requesting at least $3 million as a starting point.

P/C Industry Aggregate Standalone & Packaged Cyber Risk

Standalone Cyber Coverage Loss Ratios Improved to 65% from 72% in 2020



Source: FITCH WIRE, US Cyber Insurance Sees Rapid Premium Growth, Declining Loss Ratios, April 2022

Multi-factor authentication (MFA) is now a must for entities seeking cyber coverage. Insurers also want proof that entities are conducting cyber training for their employees and have an incident response plan in place. Insurers are limiting capacity and reducing limits. Attacks on public entities, including a water treatment facility in Oldsmar, FL, and the Metropolitan Water District of Southern California, show that public entities continue to be a major target for cyber criminals. We are seeing an uptick in the scrutiny of cyber applications.

Public Officials and Employment Practices coverages are also seeing rate increases and a tightening of policy terms and conditions. Underwriters are more likely to keep rate increases manageable for entities that are engaged and proactive with their risk management programs, which includes:

- Collecting and providing detailed COPE data
- Maintaining loss control programs
- MFA processes for computer logins
- Disaster response plans
- Business continuity plans
- Social media response plans

Lower limits and higher deductibles/retentions are becoming increasingly common as public entities struggle to keep premium increases within their budgets. We are also seeing more interest in creative and strategic risk financing methods, such as parametric and aggregate stop-loss programs.

While entities that are part of risk pools have been somewhat insulated from large market fluctuations in the past, now even these entities are seeing an impact. Members in several of these pools have experienced significant losses and reinsurance issues.

Factors driving the hard market include CAT losses, inconsistent underwriter profits, mixed investment returns, market uncertainty, and the higher cost of reinsurance.

Additional Factors Include:

Natural Disasters

- The 2022 above-average hurricane season prediction
- Wildfires have increased in scope and size
- Tornadoes in the Southeast
- Other extreme weather events

Economic Climate

- Low interest rate on investment income
- Inflation
- Supply chain risk
- Medical cost inflation
- Litigation
- Nuclear verdicts against insureds
- More class-action lawsuits

Umbrella Effect

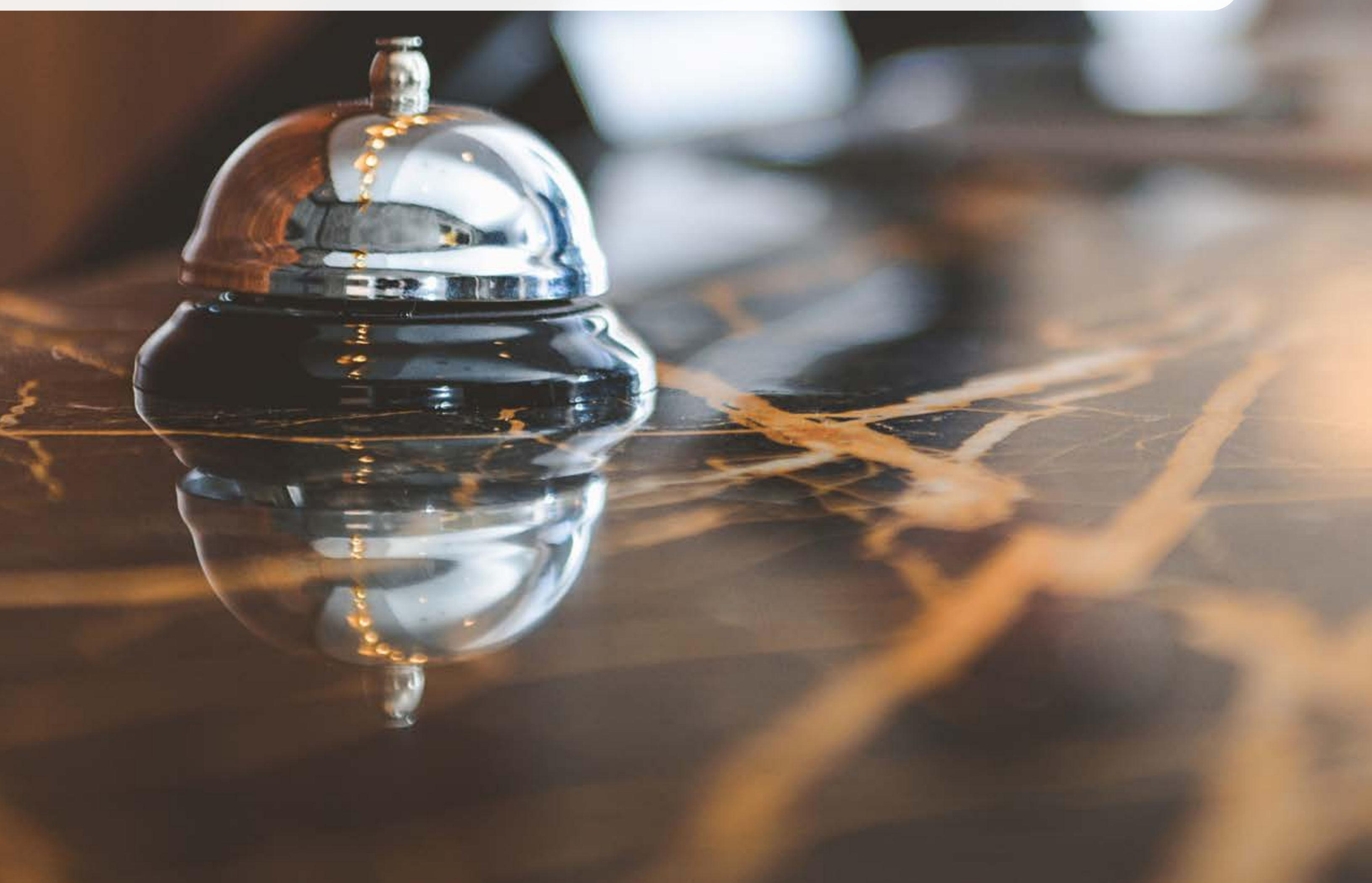
- The increasing frequency and severity in Property, General Liability, and Auto claims is driving excess carriers to reduce capacity, restrict terms and conditions, and implement stricter underwriting guidelines
- Geographical locations are impacting excess rates
- Rising costs with reinsurance carriers

Legislation and Other Factors

- Presumption laws – pandemic and cancer
- Social justice movements, cancel culture, and civil unrest
- Black swan events (pandemic, power grid failure, ash cloud, supply chain disruptions)
- Discussions related to qualified immunity reform for police officers
- Increase in frequency and severity of cyber attacks (T-Mobile, Colonial Pipeline, SolarWinds, UTEP, Microsoft)

Real Estate & Hospitality

The real estate industry has seen steady Casualty rate increases through the end of 2021 and in early 2022. We expect the Casualty market will remain firm for certain classes of real estate and hospitality. Capacity will continue to tighten, especially for Umbrella/Excess liability. Losses continue to plague the industry, especially in the habitational and hospitality sectors. Lawsuits, nuclear verdicts, and large settlements all show no signs of slowing, pressuring underwriters as they seek to increase profitability.



In some sectors of the real estate market, carriers have maintained a limited underwriting appetite, reduced their capacity, and/or placed more restrictive coverage terms within their policies while increasing rates. Higher casualty rate levels over the last couple of years have led to an influx of new carriers entering the real estate and hospitality sectors. While appetite remains limited overall, we believe this new capacity has slowed some of the severe volatility we have seen over the past two years, particularly for the Umbrella/Excess market, where 50% to 100% increases were not uncommon.

Property

Increased capacity, and reduced, but still insurer-favorable COVID-19 business interruption litigation, has caused the market to stabilize a bit. Despite the rise in occupancy, the real estate segment continues to be plagued with water, wind/hail, mold and fire-related losses, which underwriters have not ignored. Accounts with Non-CAT exposed risks, minimal losses and quality data may experience some stabilization in their insurance program in early 2022.

Accounts with property in tough geographic zones with poor loss experience should prepare for reduced carrier capacity, premium increases, and higher "all other perils" deductibles (in some cases $100K or more), though we always look for creative solutions to reign in pricing with alternative structures and/or introducing new capacity. Coastal locations, especially, continue to face increased underwriter scrutiny, higher rates and deductibles, especially for named storms. Underwriters may look more favorably on risks that they have undertaken, or have clear plans to undertake in the future, as well as capital improvements that may prevent or reduce future losses.

Category	Q1 2022 Forecast
Non-CAT	+7.5% to +15%
PML Heavy/Tier 1&2/CAT/Poor Losses	+25% or higher

Valuation is a major contributor in claims increases. This issue has been festering for some time but was not addressed in the soft market cycle. Now, attention is focused on rating against "adequate" values to control loss expense. Accounts that carriers determined to be undervalued should expect adjustments and base quotes on the "adjusted values."

The National Flood Insurance Program (NFIP) implemented a new rating methodology, which became effective in October of 2021 for new—and some existing—policyholders. The methodology may have a positive impact for some buyers since ratings seem to align more closely to true exposure (i.e., coastal/beach-front properties will experience an increase while a majority of other, lower hazard areas may experience a decrease).

Casualty

Habitational and hospitality risks are seeing the highest overall increases in the real estate sector. We continue to see Umbrella/Excess carriers reduce their participation on the lead layer. Where an individual carrier would offer a $25 million lead Umbrella limit in the recent past, they now will offer only $5 million, or possibly $10 million for the right risk. For all casualty lines of coverage, Umbrella/Excess pricing continues to be the most volatile for real estate and hospitality risks. As Programs/MGUs continue to restructure, low pricing continues to catch up with market pricing.

Category	Q1 2022 Forecast (Good to average loss history)
General Liability	+5% to +15%
Automobile	+5% to +15%
Workers' Compensation	Flat to 5%
Umbrella/Excess	+10% to +25%

Casualty Coverage Challenges

COVID-19: In response to COVID-19, communicable disease exclusions are being placed on most casualty programs. COVID-19-related losses continue to wane, and the long-term financial impact related to these claims remains unknown for insurers. Some specialty "pandemic products" designed to provide coverage for losses related to any future pandemic (unrelated to COVID-19) have entered the marketplace.

Assault and Battery (A&B): A&B coverage has been one of the largest challenges facing the real estate and hospitality sector over the past two years, due to concerns related to social unrest and increased claims. This is especially true for habitational and hotel risks, where insureds are facing lawsuits involving an incident on their premises, whether or not the insured was involved. A&B exclusions are becoming the norm for many carriers providing coverage for these risks, given the high cost (including "defense-only" coverage).

Casualty Lines: While General Liability (GL), Automobile and Umbrella coverage lines continue to see rate increases, Workers' Compensation (WC) insurance rates remain stable for the real estate industry, though we are beginning to see a negative impact on rates resulting from high severity issues.

Workers' Compensation: Overall, underwriters continue to remain aggressive on WC pricing for insureds with good to average loss experience. For carriers that write primary casualty lines (GL, Auto, WC), many underwriters are writing WC coverage before they agree to offer a "competitive" quote for GL and Commercial Auto lines of coverage. The overall casualty outlook for the real estate and hospitality sector as we continue in the first quarter is cautiously optimistic. As rates across all casualty lines continue a downward trend from the past two years, insureds should continue to provide detailed submissions and utilize analytics tools, when possible, to help differentiate risk profiles and exposures.

Businesses in this sector must evaluate their risk management and insurance programs and engage with their loss control and claims experts (broker and carrier) to develop a safety strategy. And always communicate early and often throughout the renewal cycle to achieve the most favorable results.

Dealer Services

The cost of Dealership insurance has been climbing since the onset of the COVID-19 pandemic. We see market exits frequently in the Dealership insurance arena when the market hardens. Carriers that once considered Dealership insurance a profitable venture decide otherwise and will withdraw from the segment altogether. This creates a void in competition and allows the pricing for the remaining carriers to move further upward. A look at the claims trends of the past few years reveals the driving force and the insurance market responding accordingly, especially in the dealership arena.

When discussing losses, it is important to think of the insurance industry as a global market and not confined to one geographic area, or even the U.S. as a whole. Remember that insurance carriers purchase their reinsurance from this global market, so losses in Europe or Asia still affect the reinsurance costs for domestic insurers.

10%	38%	287	80%
Increase in average total cost of a breach, 2020-2021	Lost business share of total breach costs	Average number of days to identify and contain a data breach	Cost difference where security AI and automation was fully deployed vs. not deployed

Source: IBM's Cost of a Data Breach Report 2021

Cyber

The Cyber market has undergone radical changes over the past 12 to 24 months. Ransomware losses/claims have grown in frequency and severity and extortion demands have risen. The threat of data exfiltration and the consequent release of confidential information has increased, and the resulting business interruption claims of all these events has become a regular occurrence. With this, auto dealers have become a high-risk class in the current market, with many carriers pulling out of writing this industry altogether.

Given the rapidly changing cyber climate, insurance carriers are closely evaluating their cyber portfolios and how they will be underwriting risks going forward. Cybercriminals are targeting businesses of all sizes by using ransomware attacks in particular, and ransom demands have frequently reached eight figures. Globally, the average cost of a data breach in 2021 was $4.24 million, according to Ponemon Institute. Costs remain highest in the U.S., where the average cost of a data breach was $9.05 million, driven by a complex regulatory landscape that can vary state by state, especially when it comes to breach notification.

Ransomware attacks cost an average of $4.62 million. These costs included escalation, notification, lost business, and response costs, but not the cost of the ransom. Malicious attacks that destroyed data in destructive wiper-style attacks cost an average of $4.69 million. The percentage of companies where ransomware was a factor in the breach was 7.8%.[1]

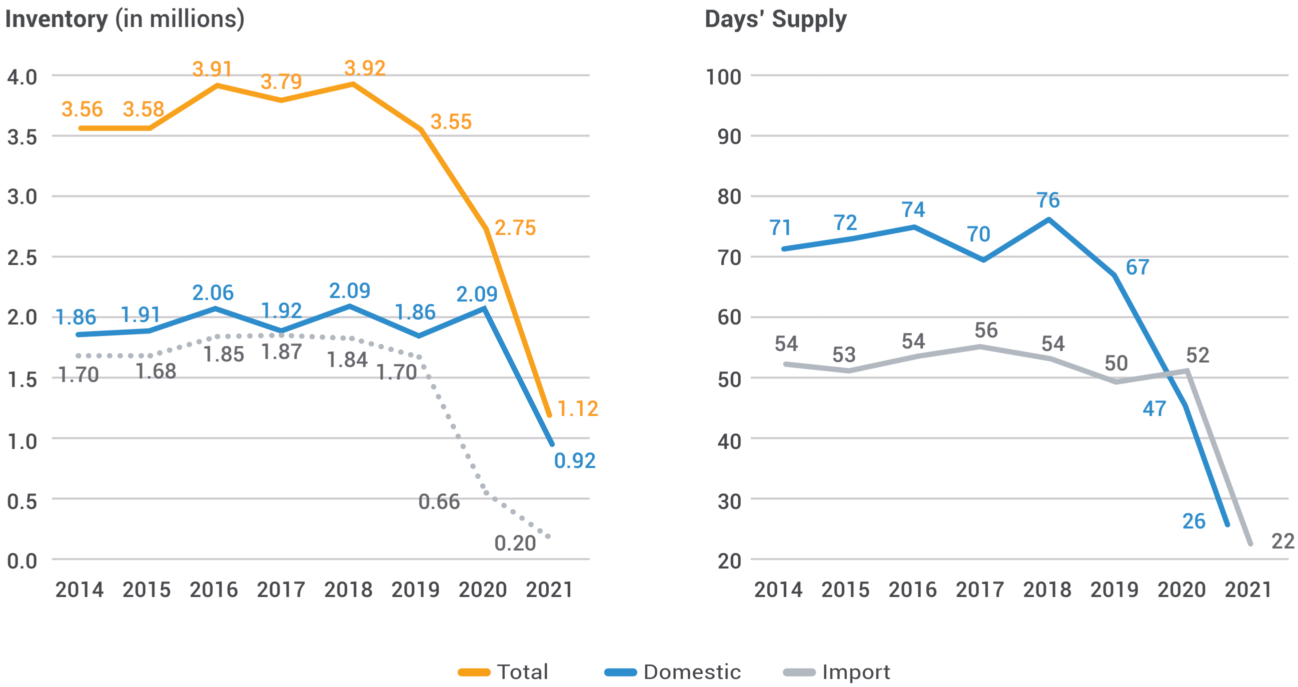
Garage Package Market

The Garage Package market has also seen some changes over the past 12 months. Harco/IAT is a nationwide Garage Package program that has a book of business roughly between $20 million and $30 million in annualized premium and they recently announced they are completely pulling out of the market effective July 2022. The decision to exit the market is due to an overall increase in claims frequency and severity. In the short-term, this will provide the marketplace with an opportunity to see some new risks they may have not otherwise seen, but under the presumption that you may not have any other options.

The Open Lot Market

The dealers' Open Lot Market has started to soften for a couple of reasons. Besides the fact that Zurich has decided to slowly jump back into the marketplace, inventory levels are at an all-time low. This means that total exposures have significantly decreased allowing the carriers an opportunity to be more competitive in certain geographical areas. Generally speaking, most dealers are having record breaking months and years but the dealers that have not forgotten about the risk management side of business are the ones that will continue to outperform their peers as we all navigate through COVID-19 and the unpredictable marketplace.

New Vehicle Inventories and Days' Supply, by Year



Source: WardsAuto Automotive News

Market Rate Changes

- **Cyber Market** – Dealers without proper security measures in place will not typically see any sort of renewal quote. Otherwise, dealers with no cyber losses are seeing pretty flat renewals but with higher deductibles or with lower sub-limits for things like social engineering.
- **Garage Package** – On average, dealers with little to no losses are seeing anywhere from 0% to 10% increase in annual premium. This is a good time to explore the market and discuss if you have adequate coverage in place.
- **Dealers Open Lot** – Dealers with little to no losses should be seeing a flat to a slight decrease in their rate. With inventory levels being so low, now is a good time to explore the marketplace and see if your broker has availability to any programs that are monthly reporting. This will help ensure you don't over pay and you have adequate coverage throughout the wind/hurricane season.

Looking Ahead

COVID-19 is still affecting the dealer services segment and it will continue to impact auto dealers for the unforeseeable future. Everyone has different opinions on when things will return to normal, but it's difficult to predict what the new normal will actually look like.

We expect the Cyber market to become even more scrutinized, as the market is in the middle of trying to figure out the correct way to underwrite the risk and provide adequate insurance coverage while dealers are still trying to understand the risk and how to implement the necessary tools to avoid or minimize a cyber attack.

Every dealer can probably remember a time before social media when insurance was cheap; something you only thought about when you needed to file a claim and your trusted insurance agent was somehow related to someone you knew. Even though times are different, having a trusted partner and advisor that understands the marketplace and your business should still be a top priority. In an ever-changing marketplace that is consistently evolving, we believe it's important for you to understand why things change and how being prepared can have a positive impact to your bottom line.

[1] *Source: IBM's Cost of a Data Breach Report 2021*

Transportation

The Transportation and Logistics industry saw an improving rate environment in Q3 and Q4 of 2021 and through Q1 of 2022. This positive trend has been largely due to competition driven by increased capacity. McGriff believes this positive trend will continue in the short-term, but several key indicators should be monitored as changes in these indicators could cause a change in the market.

Commercial Auto Liability

The Commercial Auto Liability market experienced rate stabilization in Q3 and Q4 2021. McGriff has seen that stabilization carry forward through Q1 2022 with insureds experiencing rate changes in the flat to +5% range, on average.

The tempering of the market has been largely driven by competition. New markets continue to enter the Commercial Auto Liability market space. Select markets are also broadening their appetite to offer higher primary limits to make their offerings more competitive. Insurers that can offer taller primary limits on a net basis, without needing reinsurance protection, have generally been able to price programs more competitively. Insurers who offer taller primary limits with reinsurance support have generally been less competitive as the reinsurance market continues to be challenging for commercial auto.

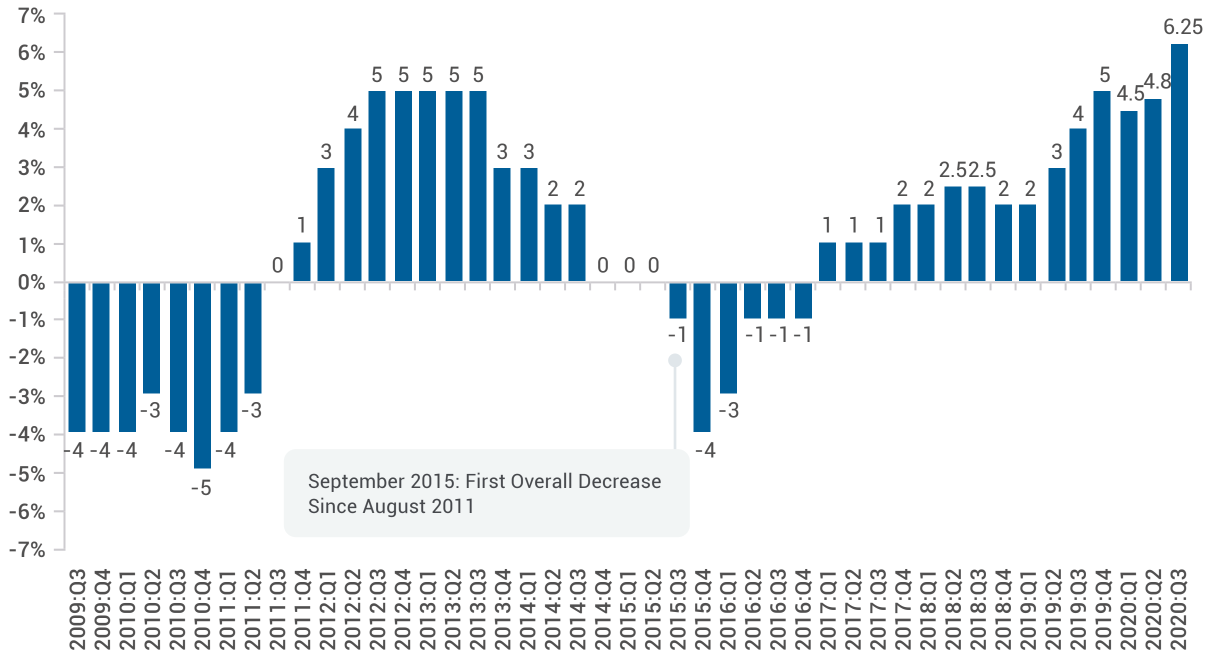
Upward Trend in Incurred Losses
Incurred Losses, Commercial Auto Liability

Source: Insurance Information Institute, www.iii.org

Rate changes continue to be heavily dependent on loss experience with loss-challenged risks seeing higher rate increases, while risks that have performed well are seeing lower rate increases. Insurers continue to be strongly focused on understanding the safety programs of their insureds. The strength of an insured's safety program is a key consideration for insurance carriers as they price programs.

Insureds have continued to look toward increasing deductibles, quota share retentions, corridor deductibles, alternative risk programs, and group captives. These options have generally been most attractive for insureds when renewal rates have increased significantly. Insureds have also continued to adopt technology such as active safety features, driving behavior monitoring systems, and cameras to help manage risk and create lower overall total cost of risk.

Commercial Lines Rate Change (vs. Year Earlier) Since 9/09



Sources: MarketScout, Insurance Information Institute

Workers' Compensation (WC)

The WC market for transportation risks was stable in Q3 and Q4 2021 through Q1 of 2022. Rate changes have been in the flat to +3% range on average. Insureds have generally been able to maintain retention levels although some insureds have chosen to increase deductibles. Insurers are seeking out WC placements with many insurers preferring to couple the WC with the Commercial Auto Liability due to the better performance of the WC.

Umbrella and Excess Liability

The Umbrella and Excess Liability marketplace saw moderation in Q3 and Q4 of 2021 through Q1 2022. New domestic capacity—as well as London and Bermuda capacity—has helped create a more favorable rate environment.

The Umbrella market continues to want a $10 million attachment for commercial auto. This has continued the trend of "taller" primary commercial auto limits or purchasing "buffer layer" excess auto policies to get to a $10 million attachment. As mentioned in the commercial auto discussion, taller primary limits have generally been most competitive when done by "net" carriers not requiring reinsurance. The buffer layer market has improved, making buffer layers an attractive solution for some insureds.

As for pricing, the Umbrella market has seen stability brought about through competition. The dominant market for Umbrella capacity continues to be Chubb; however, several markets have entered the space and are driving competition, which has moderated rates.

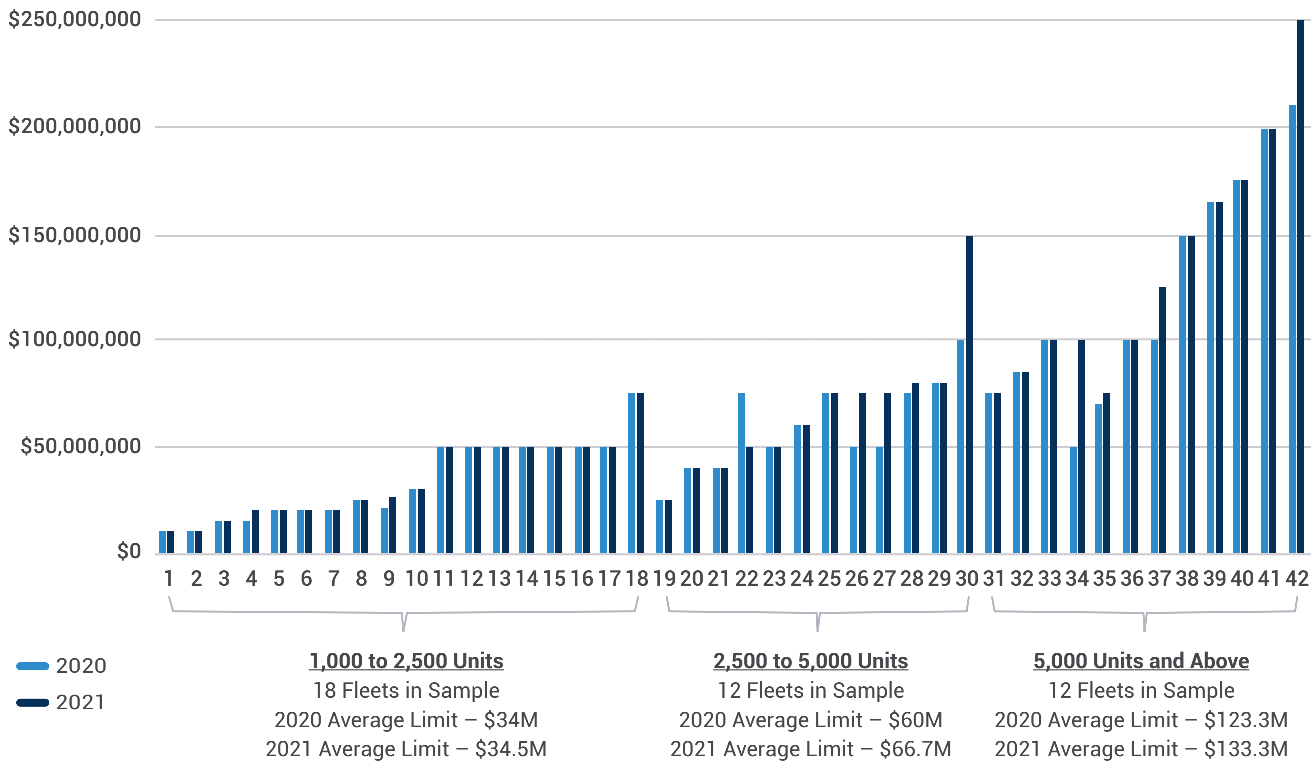
The rate environment on Umbrella placements has been in the flat to +10% range on average while excess limits have seen a -5% to +5% rate change environment depending on layer and capacity.

Excess layers are seeing new capacity. The $30 million excess of $20 million continues to be somewhat challenging, however, new capacity has helped soften this area. Market capacity has grown in strength to excess of $50 million.

Limits Purchased

In our data sample of fleets larger than 1,000 units, the average limit purchased increased in 2021 for all fleet groupings. The average limit purchased for fleets between 1,000 and 2,500 units increased from $34 million to $34.5 million. The average limit for fleets between 2,500 and 5,000 increased from $60 million to $66.7 million, and the average limit for fleets of 5,000 units and above increased from $123.3 million to $133.3 million. We have continued to see this trend carry forward through Q1 2022.

Limits Purchased by Fleet Size - 2020 Compared to 2021



Source: Amwins

The Future of the Market

McGriff believes that the more favorable rate environment in Transportation will continue forward for the short term. However, there are several factors such as the legal climate, inflation, and capacity changes that could change the positive trend in rate in the long term.

The legal system has seen unprecedented times over the past two years during the COVID-19 pandemic. During this time, court systems were stalled, causing claims to slow down in their adjudication or settlement. This has created an environment where claims, on a broad base, could be longer tailed than ordinary for insurers. Insurers continue to monitor this issue and are working toward adequately reserving claims; however, prolonging the settlement of claims could lead to a higher overall claims cost, which could cause insurers to seek rate increases should this come to pass.

Inflation—both social and economic—is another factor that insurers continue to monitor. Social inflation refers to a jury's willingness to award a higher amount of damages or a claimant's demand for higher settlements due to their perspectives on liability and what a claimant needs to make them whole. In general, society has trended toward a broader view of liability and a more generous opinion of damages needed to make a claimant whole, which has led to more frequent litigation, higher litigation costs, and higher claim costs.

Economic inflation has become a significant factor in the past 12 months. As economic inflation continues to increase, the costs of a claim such as medical costs, property damage costs, and administrative costs will continue to increase. Additionally, economic inflation could continue to fuel further social inflation if claimants and jurors consider economic inflation when deciding what to seek in a demand or award in a verdict.

Lastly, insurance carrier capacity has strengthened in the Transportation and Logistics market over the past 24 months. However, if insurance carriers were to leave the space, that negative change in capacity would reduce competition and could cause a more challenging rate environment.

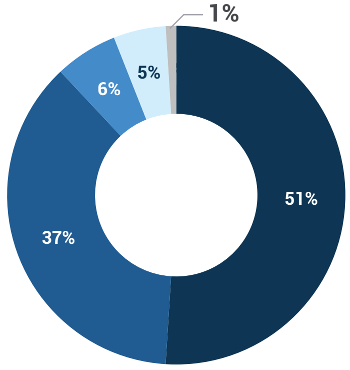
Restaurants

The hospitality/restaurant insurance market continues to firm, though at a decreased pace relative to last year. Perhaps most important regarding this market is the reduction in the number of standard markets interested in the hospitality/restaurant business. Umbrella limits continue to be reduced and there remains increased underwriter scrutiny on:

- Geography (specific location of stores)
- 24-hour operations
- Liquor liability (limits are being reduced in certain states)
- Delivery exposure

Sexual abuse/molestation claims are increasing, and carriers are beginning to consider structural changes to address this exposure. Interactions between employees and customers are becoming increasingly difficult, often resulting in assaults or even worse. Employment Practices Liability (EPL) insurance pricing is increasing as a result of allegations of improper hiring and lack of employee scrutiny. Delivery continues to be problematic with claims increasing and premiums responding accordingly. There is very little capacity and appetite for "quick delivery" in the marketplace, as opposed to "catering" or corporate delivery and setup, which remains much more stable.

Employment Practices Liability Verdicts, By Defendant Type, 2014-2020 (1)



(1) Based on plaintiff and defendant verdicts rendered.
Source: Thomson Reuters, Employment Practices Liability: Jury Award Trends and Statistics, 2021

This casualty market was formerly dominated by the standard carriers for primary and excess coverage. Over the past five years, the markets have been reduced significantly, and it is often difficult to find a carrier that will sit excess over their own primary program to any significant degree, thus increasing cost and confusing coverage throughout the casualty programs.

The property market is more difficult for both high-hazard and non-high-hazard due to the construction type utilized in the industry and an increase in natural catastrophes. In addition to named wind difficulties, wildfire exposures are emerging as issues and receiving increased underwriter scrutiny.

COVID-19

Carriers are still attempting to issue Communicable Disease and/or COVID-19 exclusions in many cases. This does seem to have moderated a bit, however, as COVID-19 claims have largely not panned out. COVID-19 resulted in an improved General Liability and even Workers' Compensation loss picture for many restaurant operators as a result of less dining in and more take-out and drive-through service. Only time will tell if this is temporary or the "new normal."

Market Changes

Looking ahead, there will be more scrutiny from underwriters regarding hiring practices and an increased underwriting focus on liquor and 24-hour operations. As with many other industry segments, property underwriters in the restaurant and hospitality industry are pushing for clients to evaluate and update insurance to value. Therefore, property insurance premiums may increase over the coming months and years, not only in response to rising rates, but also as result of increased cost of construction and potential business interruption exposure increases.

Specialty programs and captives are emerging and growing to replace the capacity deficit created by the traditional marketplace. While these programs can provide significant benefits and stability for their members, the umbrella and EPL issues still exist, so there is no "one size fits all" solution. In short, there are several issues and concerns driving this segment and they are not going away any time soon.

Healthcare

After the last few years of pricing increases and, in many cases, reduced market capacity, Medical Professional Liability (or Medical Malpractice Insurance) premiums are beginning to stabilize across the healthcare industry except for the more challenging venues. McGriff is utilizing recent increasing market capacity beyond COVID-19 and opportunistic underwriting to help our clients.

Across the board for healthcare, the insurance product problem areas continue to be Cyber Liability, Catastrophic Exposed or Dated Property, Excess Liability, and Auto Liability. Current common insurance exclusions we see evolving are correctional, cyber, opioids, and communicable disease exclusions. Difficult industry subsegments for healthcare are large for-profit skilled nursing, correctional healthcare, and medical transport companies.

Long-Term Care and Assisted Living

The long-term care and assisted living segment of Healthcare Professional Liability continues to be burdened by concerns related to COVID-19 and an unprecedented labor market. While COVID-19-related claims have been fewer than anticipated, there remains concern about how these claims will play out. Operators will be under increased scrutiny from OSHA as well as state and federal regulators, further stretching their resources.

Most carriers are implementing some form of COVID-19, Communicable Disease and Pandemic exclusion, or at a minimum charging additional premium for these coverages on General Liability and/or Professional Liability policies. There is very limited appetite for new accounts without such an exclusion. McGriff is seeing coverage restrictions in the form of increased retentions, restricted limits, more residents' rights and class-action exclusions within the for-profit skilled nursing arena.

States such as California, Arizona, Kentucky, Florida, New York, and New Jersey will continue to face challenges related to price and coverage, as will some counties in Michigan, Illinois, Georgia, New Mexico, and Tennessee. Insurance increases in these venues are rapidly changing. Remaining states and venues are often seeing pricing decreases for Professional Liability and General Liability in the amount of 5% to 15%.

Physician Marketplace

Private equity backed physician ventures continue to enter the marketplace at higher rates. Those new ventures with more unique and innovative business models with limited actuarial data have driven more business to the Excess and Surplus (E&S) Lines marketplace. As the Healthcare delivery model continues to change, the E&S market is working to keep up. The additional risks and demands here are ensuring insurance protection for both the business and practice of medicine for these Management Services Organizations and Managed Care Organizations. Unique market issues do exist for some of the more innovative and complex ventures.

The independent physician marketplace continues to have adequate capacity with exceptions in more challenging venues. It seems large urban venues and the most rural venues have the most distress. In 2022, physician medical malpractice insurers are continuing to right-size their books by seeking adequate statewide increases in these more challenging states, such as Florida, Georgia, South Carolina, Alabama, Kentucky, West Virginia, Maryland, Delaware, Connecticut, Rhode Island, New Hampshire, Illinois, Iowa, Minnesota, New Mexico, Montana, Oregon, and Alaska.

Physician medical malpractice insurance increases are 0% to 15% across the country with exceptions for those with poor claims history.

Hospital Marketplace

The hospital Property and Casualty marketplace has begun to find stability after two very challenging years. Labor shortages, cyber vulnerability, reduced services and adequate price for services remain the primary challenges for single location and system-wide profitability. Inventory issues and post-COVID-19 normality are making it easier to provide more robust service offerings, but staffing challenges still impact a facility's ability to operate at a maximum bed capacity.

P&C insurance for hospitals remains steady in 2022. Primary Professional Liability is seeing flat to minimal (2% to 5%) price increases for 2022 renewals, while Healthcare Excess is seeing slightly higher price increases in the 5% to 10% range based upon individual account loss history.

Hospital Property insurance rates are tracking with industry increases in the low single digits for non-high hazard and coastal areas. High hazard and coastal areas could see 5% to 15% increases and many are increasing retentions to offset these pricing increases.

Cyber insurance remains the most impacted, with most renewals increasing by 25% to 50% or more, combined with large carrier mandated retention increases and more stringent and subjective underwriting criteria.

Executive Line renewals could be negatively impacted as we see increased claim activity on the Employment Practice Liability line as a result of layoffs, furloughs and terminations during 2020 and 2021.

Employee Benefits

As the pandemic phase of COVID-19 tapers off and society begins its return to normalcy, the impacts of demand for goods and services outpacing supply has led to a significant rise in inflation. For example, the annual rate of inflation in the United States reached 6.8% in November 2021, the highest in more than three decades, as measured by the Consumer Price Index, and more recent data suggests the rate of inflation will continue to be a concern.

Inflation

What is the relationship between inflation and employee benefits? Why would inflation be important when employers are considering impacts to employees? When revisiting benefit offerings for 2022, leaders of many corporations list ongoing stress to their employees due to the pandemic, rising inflation, a hot job market, and rising costs of health benefits as their main concerns. And you could argue that the four of those are well correlated: a hot job market leads to higher compensation offerings which contribute to but may not outpace inflation, inflation in turns leads to higher compensation needing to be offered to attract and retain employees, and round and round it goes. In addition, these forces along with supply issues for medical equipment and materials lead to ever increasing health care costs, with health care costs being one of the most expensive benefits an employee or an organization pay for in a given year.

We can expect the reaction in the employee benefits space to be one where organizations begin to focus more and more on how to avoid adding to their employee financial burdens, and in turn how to retain the quality employees that they have. One of the problems, however, is C-level executives lack the confidence—due to the absence of solid data—to believe that a lot of their long-term strategies actually save their employees money. In general, companies that take a multi-pronged approach to cost management seem to have the most success. Claim trend management, higher than average historical compensation adjustments, absorbing health care cost increases instead of passing them on to employees, and holding back on reducing benefits are just some of the ways that employers are attempting to keep their employees from absorbing more of a financial burden during this tight labor market and period of inflation.

Projected National Health Expenditure, 2019-2028

- National health spending is projected to grow at an average annual rate of 5.4% for 2019-28 and to reach $6.2 trillion by 2028.
- Because national health expenditures are projected to grow 1.1 percentage points faster than gross domestic product per year on average over 2019–28, the health share of the economy is projected to rise from 17.7% in 2018 to 19.7% in 2028.
- Price growth for medical goods and services (as measured by the personal health care deflator) is projected to accelerate, averaging 2.4% per year for 2019–28, partly reflecting faster expected growth in health sector wages.
- Among major payers, Medicare is expected to experience the fastest spending growth (7.6% per year over 2019-28), largely as a result of having the highest projected enrollment growth.
- The insured share of the population is expected to fall from 90.6% in 2018 to 89.4% by 2028.

Source: CMS.gov

Health Care Costs

With more and more C-level executives becoming aware of the unsustainability regarding health care costs—exacerbated by the other market forces mentioned—more and more companies are becoming offensive as well as defensive when it comes to benefit offerings. With an eye on employee retention as well, more companies are offering arrangements such as student loan subsidies, remote working arrangements, and more flexibility in work scheduling. Companies benefit as well when they can cut down on leasing costs or employ individuals who live in areas with a lower cost of living. The bottom line is that taking some sort of action is key, along with rigorous plan management, in order to navigate the current economic situation.

As far as regulation in this area goes, we are continuing to monitor the impacts of the Consolidated Appropriations Act (CAA). As always, working closely with your employee benefits consultant is the best course of action to navigate these unprecedented times. Your consultant is the expert, acting as an extension of your own team, who can help you map out all the alternatives to managing costs and maximizing the value of your plan.

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