MARKETS IN FOCUS

GENERAL

Insurance Pricing & Market Update

Q3 2021

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Introduction

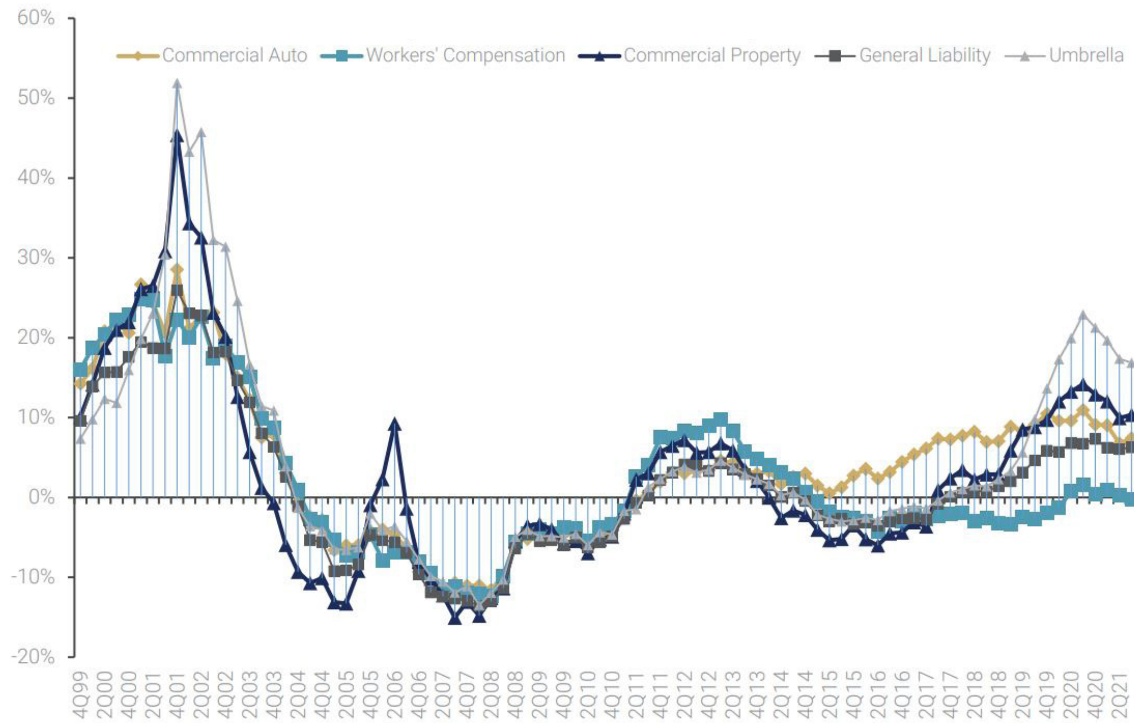
Through Q3 2021, it appears that the commercial insurance industry generally remains in an elevated pricing environment. Conditions have appeared to soften across many lines of coverage since the peak of the pandemic in 2020, but year over year rate increases remain the norm.

Overall, the trends of social inflation, increased frequency of catastrophic events, and low investment yields driven by historically low interest rates are still issues carriers are having to work through as 2021 ends. However, as the Federal Reserve looks to taper quantitative easing and reduce bond purchases, there will most likely be upward pricing pressure on interest rates, which would be a welcomed change for carriers. Timing on this remains a question mark though as the Fed has stressed flexibility on the timeframe and pace of the tapering and interest rate increases.

Regarding catastrophes, 2021 has been another challenging year for carriers and reinsurers. The year began with Winter Storm Uri shutting down much of Texas for a week in February, followed by severe flooding in Europe in July. These events, however, were overshadowed by Hurricane Ida in September. Ida made landfall in Louisiana, causing significant damage, and then continued upward all the way to New York. In total, these events are estimated to have caused roughly $47 billion[1,2,3] in aggregate insurable losses. Another year of significant losses is expected to cause significant pricing pressure on reinsurance rates, which will be transferred on to carriers in their pricing structure.

As such, carriers will continue to rely on more disciplined underwriting to maintain margins in a rising cost environment. Underwriters will stress the need for effective loss controls, clean loss runs, and stable financials as starting points for coverage. However, even with all these factors, changing carrier appetites and underwriters' desks full of submissions due to brokers looking to find the best options in a difficult market, achieving optimal results will still be challenging. Working with a broker that fully understands these challenges and is positioned with a strategy to maximize your risk management program will be key to achieve the best results.

Average Commercial Rate increases by Line



Source: The Council of insurance Agents & Brokers

By-Line Third Quarter 2021 Rate Changes Ranged From -0.3% to +16.9%

	COMM'L AUTO	WORKERS' COMP	COMM'L PROPERTY	GEN'L LIABILITY	UMBRELLA	AVERAGE
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%
Third Quarter 2020	11.0%	1.5%	14.2%	6.7%	22.9%	11.3%
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: The Council of insurance Agents & Brokers

Reinsurance

Every year, January 1 is an important treaty reinsurance renewal date for many of the largest carriers in the world. Reinsurance treaties represent a significant cost for insurers, given these transactions significantly impact their combined ratios (a very important profitability metric for carriers) and available capacity. Based on the 17 reinsurers monitored by Fitch Ratings, Fitch noted in their latest reinsurance report from August that non-life reinsurance net premiums written grew by a substantial 18.5% during the first half of 2021 on higher premium prices and demand.[4] In the same report, Fitch also commented that these pricing pressures are likely to result in high single to low double digit rate increases for carriers at their January 2022 reinsurance renewals.[4]

Reinsurance carriers still believe that, despite the rate increases, pricing is still inadequate due to the recent rise in catastrophic losses. According to Fitch, global reinsurance natural catastrophe losses were a manageable $40 billion in 1H21, up from $35 billion in 1H20 and above the $33 billion 10-year average (2011–2020) of 1H insured losses, but July flooding in Europe and an active Atlantic hurricane season could make the overall year less manageable[4]. Additionally, the rise in frequency and severity of cyber attacks has many reinsurers concerned with their exposure and pricing in this space and the overall impact it will have on their profitability. Last January, pricing was generally up 8% for most carriers, which was a pleasant surprise compared to where most industry commentators had estimated increases to be, so hopefully carriers will be greeted with another pleasant surprise this January.

Recent Reinsurance Renewal Pricing Trends

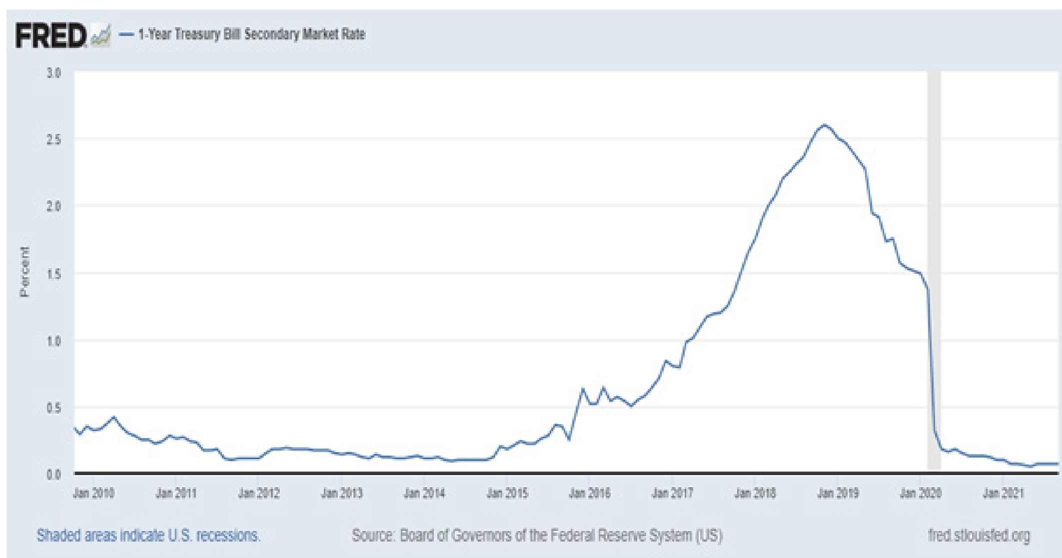
(%)	June and July 2020	January 2021	April 2021	June and July 2021
US property loss hit	+10 to +30	+5 to +25	+5 to +25	+10 to +25
US property loss free	+5 to +20	Flat to +15	Flat to +15	Flat to +15
US general liability no loss emergence	Flat to +20	Flat to +10	-	Flat to +10
Florida property loss hit	+5 to +35	-	-	+5 to +30
Florida property loss free	+5 to +30	-	-	-5 to +5
European property loss free	-	Flat to +7.5	-	-
Japan property loss hit	-	-	+15 to +40	-
Japan property loss free	-	-	+2.5 to +10	-
Japan casualty no loss emergence	-	-	+2.5 to +10	-
Non-marine retrocession loss hit	+15 to +35	+10 to +25	+10 to +20	+5 to +25
Non-marine retrocession loss free	+10 to +20	+5 to +15	+5 to +12.5	Flat to +15

Source: Fitch Ratings, broker reports

Interest Rates

Interest rates have a significant impact on insurance carriers because they are generally only investing reserves in low-risk instruments such as U.S. Treasury Bills, very highly rated corporate debt or municipal bonds, etc. When interest rates and credit spreads are low, as they are now, returns on these low yielding instruments fall even further, meaning carriers have less investment income to offset losses. Though investment income is not included in the calculation of the combined ratio, it is still a very important metric when determining the profitability of carriers and can help pad difficult loss years.

In a late September press conference, Federal Reserve Chairman Jerome Powell announced that officials on the policymaking Federal Open Market Committee ("FOMC") indicated they will start pulling back on or "tapering" some of the stimulus the central bank has been providing during the financial crisis.[5] In this press conference, he hinted at the timing by saying "while no decisions were made, participants generally viewed that so long as the recovery remains on track, a gradual tapering process could began as early as November and conclude around the middle of next year."[5] However, tapering did not begin in November. In the December FOMC meeting, it was decided that Treasury bond purchases would be reduced from $80 billion per month to $60 billion per month and mortgage-backed securities purchases would be reduced from $40 billion per month to $20 billion per month beginning in January 2022 in an effort to battle inflation.[6] Additionally, the FOMC projected three interest rate hikes in 2022 but did not provide a timeframe.[6] Should these actions happen, there would obviously be broader implications to the global economy, but insurance carriers would be in a position to realize higher gains on their conservative investment instruments. However, the recent Omicron outbreak could interfere with these plans.

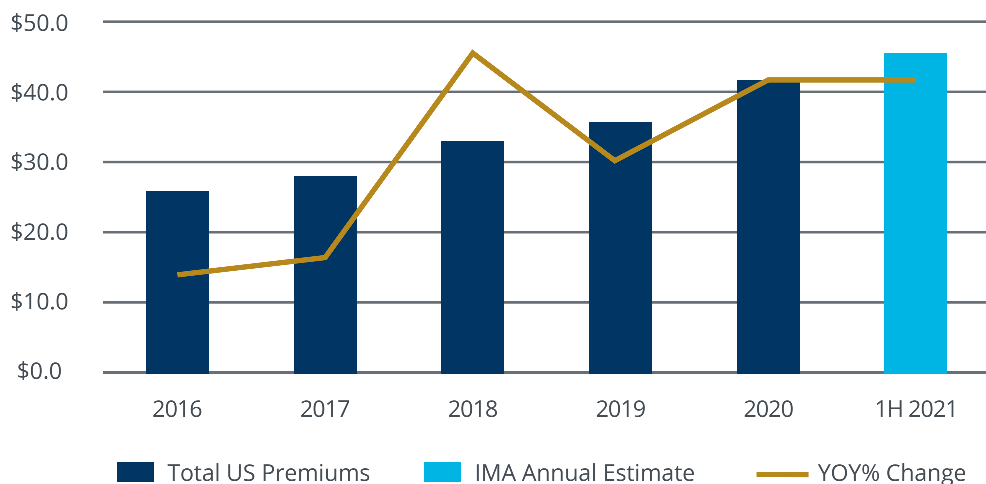


Continued Growth of the Excess & Surplus ("E&S") Market

As mentioned last quarter, the U.S. E&S market continues to see strong growth due to an increase in demand and rate. In general, E&S policies are more attractive to carriers because they provide a better solution to the challenges of the current market by allowing insurers to capture additional premiums and implement more favorable language in real time. Conversely, admitted policy premiums and wording are more heavily regulated by state insurance departments, so it is a lengthy process to revise premiums and language.

As a whole, surplus lines premiums reported to all 15 of the U.S. surplus lines stamping and services offices increased 21.9% to $24 billion in 1H21 compared to the 1H20.[7] Premium bearing transactions also increased, exceeding $2.6 million in the first six months of 2021, up 7.2% over the prior year period.[7] However, even though more E&S premiums are being written, the increase is more representative of pricing increases as opposed to increases in capacity. The slight increase in E&S capacity is not replacing the loss of capacity created by admitted carriers. As such, insurance purchasers should expect to require more carriers to fulfill expiring limits and coverage through shared and layered programs. This is particularly true for the U.S. property market, which experienced difficult years in both 2020 and 2021.

Additionally, U.S. and global Environmental, Safety and Governance ("ESG") initiatives are starting to dictate appetite for many carriers. This is especially true in Europe, where many carriers have turned away from providing coverage to the fossil fuel industry in an effort to listen to activist investors and thus be a force of change in the global energy transition. For example, Zurich (a prominent player in the oil and gas space) recently announced they would no longer provide insurance coverage for new oil and gas exploration projects.[8] As such, companies that are deemed to be less "ESG friendly" will especially need to rely on the E&S market.

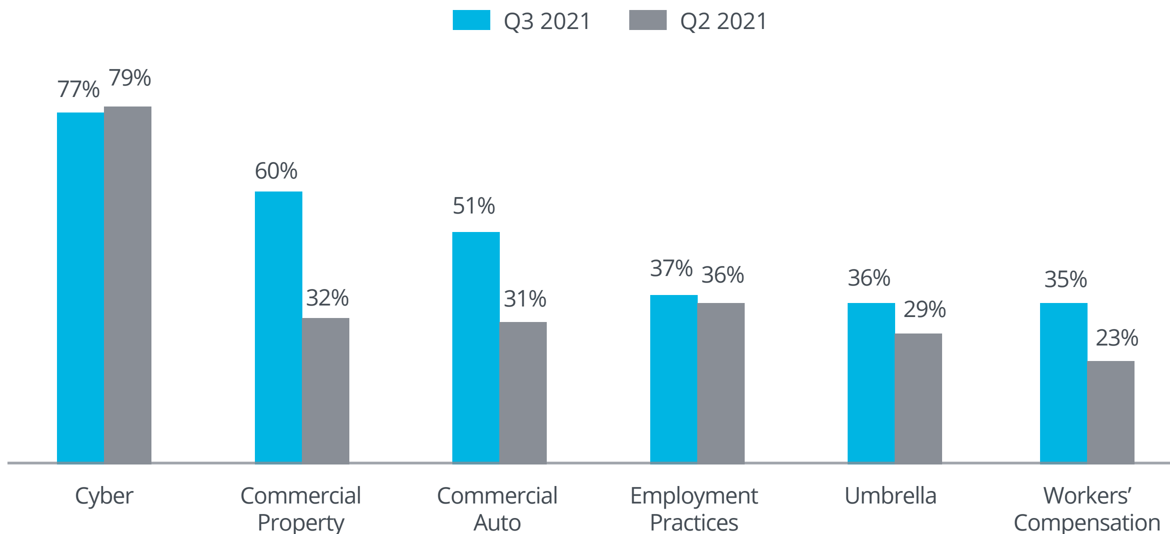


[1]Per AM Best

Claims Trending

In general, claims activity across most insurance products were relatively stable between Q2 and Q3 with the exception of two lines: **Commercial Property** and **Commercial Auto**. According to the latest Q3 report from the Council of Insurance Agents and Brokers ("CIAB"), 60% of respondents (which consist of CIAB's large U.S. network of brokerage firms) reported an increase in **Commercial Property** claims, while 51% reported an increase in **Commercial Auto** claims in Q3. Given the previous sections discussing the uptick in natural disasters, these stats are not all that surprising for **Commercial Property**. As for the increase in **Commercial Auto** claims, this was due to the combination of more people on the roads and returning back to work outside of the home, courts reopening, and severe weather events across the country. **Workers' Compensation** claims also saw a slight increase in Q3 as more employees went back to work. It should be noted though that **Commercial Auto** and **Workers' Compensation** claims are still below pre-pandemic levels.

Cyber claims remained elevated in Q3 as the prevalence of cyber attacks, specifically ransomware, phishing, and social engineering attacks continue to be a problem for many insureds. Claims data has shown it is not just the large companies reported in the news being attacked, but instead bad actors are intentionally targeting smaller companies, since the perception is these firms don't have technical acumen and cybersecurity in place.

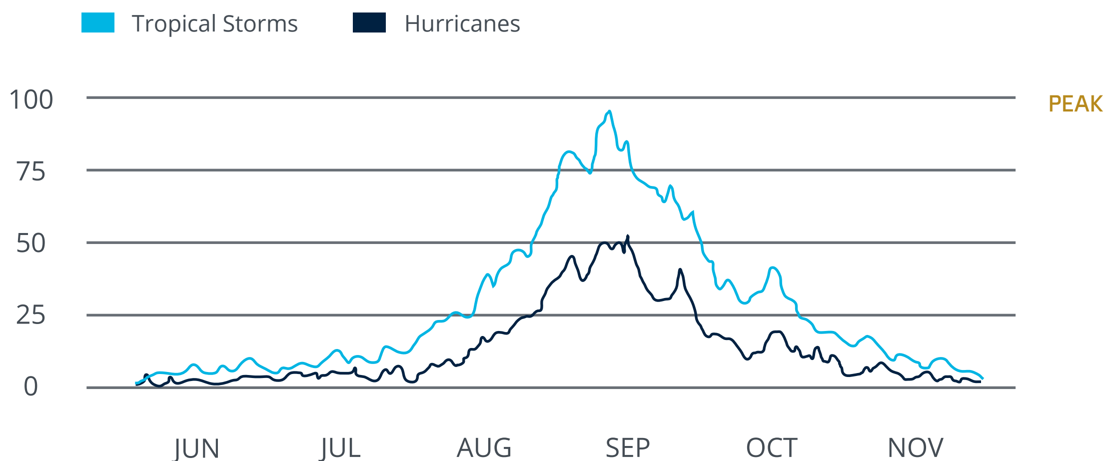


Source: The Council of insurance Agents & Brokers

Hurricane Ida

On 8/29/2021, the 16th anniversary of Hurricane Katrina, Hurricane Ida made landfall near Port Fourchon, Louisiana as a powerful Category 4 hurricane with sustained 150 mph winds. For Louisiana, the storm left hundreds of thousands of homes and business without power (mostly outside of New Orleans) for weeks, more than half the gas stations in two major cities were without fuel for nine days after the storm made landfall, and 1 person died.[9] However, the devastation did not stop there. After slamming into Louisiana, Ida continued into the northeast and wreaked havoc in New York, New Jersey, Pennsylvania, and Connecticut. Due to the flooding and tornadoes caused by the remnants of Ida in the northeast, 43 people were killed, 150,000 homes were left without power, and portions of New York City's subway system were significantly damaged by flooding.[10] Estimates by modeling firm AIR Worldwide have pegged insurance losses from Hurricane Ida in the $31 billion to $44 billion range.[11]

Utilizing these loss estimates, Ida is the largest catastrophic (CAT) event in the U.S. in 2021 to date and will most likely be the largest CAT event for all of 2021. For comparison, Winter Storm Uri, which caused significant damage in Texas in February and was considered the costliest U.S. CAT event in 2021 before Hurricane Ida, is only estimated to have caused half the amount of insurance losses as Ida.[12] Losses from this disastrous storm will certainly reverberate throughout the entire **property** insurance market, not just with coastal properties, but at this moment it is hard to assess the true impact as losses are still being calculated. **Reinsurance** carriers will be handed a significant bill for Ida's losses, which could add upward pricing pressure to **property** rates as carriers anticipate increases in their **reinsurance** costs. Many were hoping that this would be the last large loss of the year, but the recent devastating tornado in Kentucky has early insured losses estimated at $3 billion[13], which will also add consternation for reinsurers heading into their January 1st Reinsurance treaty renewals.



https://weather.com/storms/hurricane/news/2020-07-22-atlantic-hurricane-season-peak-august-september

2021 Wildfires

In addition to Hurricane Ida, the **Property** insurance market has also been significantly impacted by multiple years of difficult wildfire seasons. In 2021, unseasonably warm weather and droughts resulted in a series of wildfires in the western U.S. starting in early May (a month before they typically do) and continuing to be a problem even through December. As of September 23, the National Interagency Fire Center's (NIFC) situation report listed a total of 45,518 wildfires across the country that burned more than 5.8 million acres.[14] Comparatively, in 2020, one of the five worst wildfire years since 1960, 43,556 fires burned 6.9 million acres from 1/1/2020 through 9/19/2020 and a total of 58,950 wildfires burned 10.1 million total acres in 2020.[15]

40% of the 10.1 million acres burned in 2020 were in California, and that trend has continued into 2021.[16] As of September 30, there have been 7,064 fires in California resulting in 2 million acres burned, 3,050 structures damaged or destroyed, and 1 fatality reported in 2021[17]. Californians and **Property** insurers writing policies in California are no strangers to wildfires, but the severity and widespread destruction of these fires has intensified in recent years. In 2020 and 2021, the state saw their two largest fires in recorded history – the August Complex fire burned 1 million acres in Mendocino National Forest and the Dixie fire in July 2021 burned 963,301 acres in the Plumas and Lassen National Parks. For scale, both fires burned an area larger than the state of Rhode Island. Additionally, the California wildfires continue to impact the entire state from the California-Oregon border, over to Lake Tahoe, and all the way down to Malibu and San Diego. **Property** insurers are taking note of this and are limiting capacity to California, increasing rates or adding higher specific retentions for wildfires.

California is not the only state experiencing tightening in the **Property** market as a result of wildfires. With years where 10 million acres are burned in wildfires becoming the norm, other western states like Oregon (which experienced its third worst wildfire in their state's history this year[18]), Colorado, Washington, Utah, Montana and Idaho are also experiencing some tightening in the **Property** market. As climate change continues to impact weather patterns and droughts, it appears wildfires will continue to play a factor in the **Property** market and will need to be monitored moving forward.

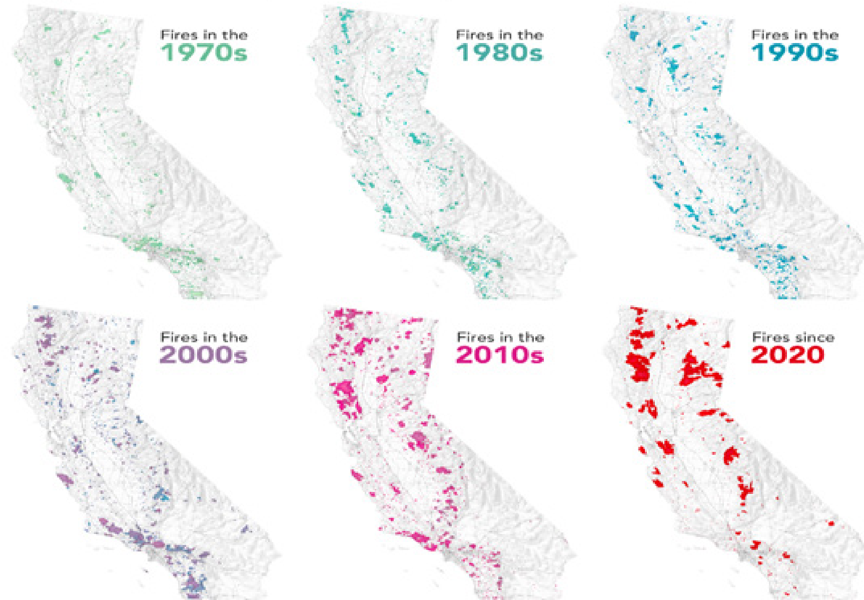
Top Five Years with Largest Wildfire Acreage Burned Since 1960 in the U.S.

Year	Acres Burned (millions)	Number of Fires
2015	10.13	68.2
2020	10.12	59.0
2017	10.03	71.5
2006	9.87	96.4
2007	9.33	67.8

Source: NICC Wildland Fire Summary and Statistics annual reports
Note: Number of fires in thousands

California's Wildfires are Growing

Simply put, the fires of recent years dwarf those of previous decades[22]



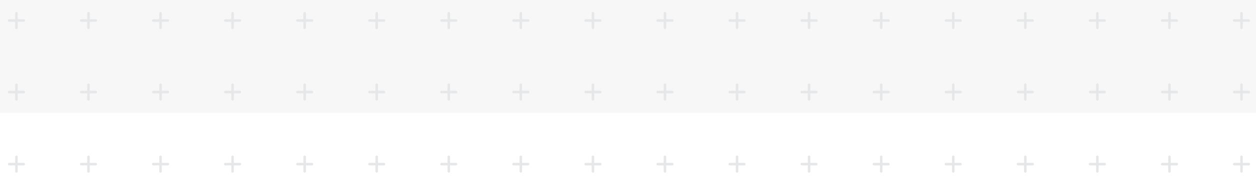
Rates & Capacity

Renewal rate changes continue to be widely varied by industry, but the trend of premium moderation as a result of increased capacity that began in Q2 has continued into Q3. Single digit increases are still considered rare victories despite the additional capacity, even on non-CAT properties with a clean loss history. More commonly, the market is delivering increases around or above 10%, with some problematic accounts witnessing significantly higher rate increases.

Non-CAT exposed property with favorable loss history	Up 5% to 10%+
CAT exposed property with favorable loss history	Up 10% to 25%+
Property with unfavorable loss history and/or a lack of demonstrated commitment to risk improvement (unresolved recs, pattern of same issues, etc.)	Up 15% to 50%+

These ranges are what we are generally seeing in the marketplace and the results for a specific account will of course depend on the industry, risk quality, loss history, geographic region, historic pricing, etc.

+ Rate increases for smaller programs are generally less than those for mid-size risks. Likewise, middle market accounts are seeing smaller increases compared to larger, shared & layered programs. However, the opposite can be true when limited markets are available to write a risk and a program is forced into the marketplace to replace capacity
+ Heightened underwriting scrutiny and portfolio rebalancing has resulted in many carriers non-renewing or exiting completely from certain classes of business
  - Property carriers are tired of frequent and nuisance losses and are restructuring their portfolios to reduce their exposure to these classes of claims (i.e., water damage, convective storms, etc.)
+ Property rates and capacity in Texas, Louisiana and New York could see additional scrutiny because of Winter Storm Uri (Texas and Louisiana) and Hurricane Ida (Louisiana and New York)
+ Accounts with significant CAT exposure continue to lead their peers in rate increases
+ Property rates and capacity in California, Oregon, and Colorado will continue to be impacted by back-to-back years of bad U.S. wildfire losses, particularly in California
+ Reduction of capacity and significant rate increases resulting in a substantial increase in the flow of business sent to alternative carriers – especially E&S markets (as discussed previously) and overseas (London/European markets and Bermuda)
+ **Reinsurance carriers are continuing to drive rates and underwriting practices, which means the January treaty reinsurance renewals will play a significant role in 2022's market trend. If reinsurance renewals are as high as some are predicating, then there will most likely be a hardening of rates and capacity**
+ Up-to-date loss control reports and engineering reviews are often becoming compulsory, thereby reducing the potential insurer pool, as many underwriters may decline a risk immediately if no inspection report is available to review
  - If unable to perform a loss control visit in person, try to virtually do so with either your current carriers or a different party. Keep in mind, however, many carriers do not release full reports with all findings and exposure information, so using a third-party risk control service company **(coordinated through IMA)** may be advantageous if a program needs to be marketed



Terms & Conditions

+ Global supply chain problems, labor shortages, and rising building material prices are forcing underwriters to scrutinize reported values on property schedules. Reasonable building valuations from a year ago or later may not be in line with today's market, which is causing underwriters to reevaluate if the reported values used for their rating process are truly appropriate for the *actual* risk
  - When carriers feel values may be underreported, they are increasing rates or pushing for the Occurrence Limit of Liability Endorsement (OLLE), effectively limiting the recovery to the values reported on the Statement of Values. Alternatively, they are requiring coinsurance provisions – sometimes above traditional thresholds
  - Obtaining appraisals on a semi-regular basis is recommended, as is adjusting reported values based on inflation price trends, which are available online from FM Global and Zurich
+ Contingent Business Interruption and Standard Business Interruption coverages are also being significantly impacted by global supply chain problems, labor shortages, and the rising price of building materials
  - A thorough review of costs and the time needed to complete a rebuild of assets and third-party dependent property should be performed to obtain proper limits
  - Extensions and policy language are also being reviewed and modified by carriers in order to restrict coverage for third-party business interruption claims
  - Once business interruption claims from recent CAT events are tallied and finalized, tighter terms and more pricing pressure could occur
+ There continues to be a shift towards "blended" deductibles on programs with multiple insurers, meaning carriers that are higher up the tower are sharing in losses with primary layer carriers based on their pro rata participation percentage
+ Given another year of high CAT losses, carriers will be hesitant to expose capacity to CAT-heavy regions. Additionally, January reinsurance treaties may make it more difficult for carriers to expose capital to these areas
  - $8.2 billion[19] in estimated insured losses from Winter Storm Uri may result in capacity tightening and rate increases in Texas
  - Extreme flooding in Western Europe this summer are expected to generate $11 billion[20] in insured losses, which will ripple throughout the reinsurance and primary property insurance markets across the world
  - With Hurricane Ida's damages estimated at anywhere between $31 billion and $40 billion[21], rates and capacity in Louisiana and New York could be significantly impacted

+ As previously mentioned, carriers are looking to limit their exposure to high frequency and nuisance claims that deplete internal resources and impact profitability
  - Specifically, retentions for convective storms and water damage are seeing increases up to 5% of reported values
  - Percentage deductibles being applied to even more perils and zones than previously underwritten as hazardous exposures
    - Rates in "Tornado Alley" are now seeing deductibles ranging from 2% - 7% depending on roof size, roof age, and roof condition

Guidance Going Forward

The quality of submissions is particularly important in the disciplined market. Carriers are being inundated with submissions due to brokers looking to find the best solutions for inevitable YoY premium increases. Complete information presented in an efficient format helps expedite the review process and ensures a submission does not fall to the bottom of the pile or be completely ignored.

+ Start the renewal process early and maintain best practices for ongoing record keeping:
  - Update exposure information in detail and be realistic with costs and timing for rebuild in the current market
  - Companies that have improved their risk profile or evidence plans to improve their risk profile will typically receive better consideration from underwriters
  - Discuss renewal with incumbent markets and explore backup options in case alternatives are needed due to portfolio decisions
  - Review program to assess risk appetite and current retentions to determine possible alternatives to reduce price increase or attract alternative markets
  - Ensure business interruption estimates are being updated and calculated accurately
  - **IMA's Client Advantage professionals can assist in determining the most optimal retention levels, review process and procedures to improve risk profiles, and assist in determining business interruption estimates**

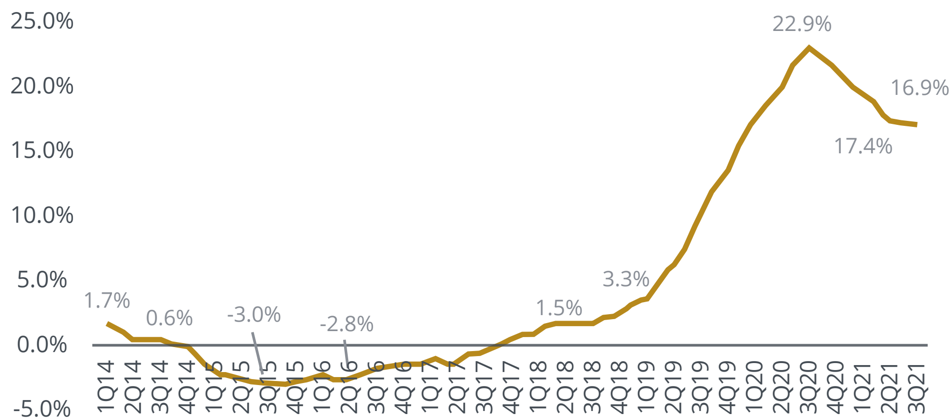
- Present a best-in-class submission, including:
  - Full COPE information with as many secondary modifiers as possible, as those details greatly impact modeling results and loss estimates
  - Providing full loss control reports is advantageous and often required for an underwriting review. IMA can help coordinate this with the Risk Management team or a third-party vendor
- Provide insight on large losses, lessons learned, steps taken to mitigate those types of risks going forward and other plans or commitment of capital to address those concerns
- **Review all retentions, limits and terms in conjunction with an insured's risk appetite to determine possible solutions to mitigate rate increases and program changes**
  - Explore increased retentions on AOP, CAT, Time Element and other deductibles
  - Determine if an aggregate deductible structure is advantageous and/or supported by markets
- Explore Quota Share options on programs previously written 100% by one carrier, as many are reducing exposure on accounts and no longer able to write as a single carrier
  - Similarly, consider alternative layer structures on accounts requiring multiple participants, as restructuring could potentially reduce overall costs
- Consider alternatives such as captives, co-insurance, different coverage triggers, alternative risk solutions, and other strategies to offset premium spend
- **Investments in infrastructure and safety measures taken to control losses show underwriters a commitment to managing risk**
  - Having clear and proactive risk control programs in place are now only seen as the "bare minimum"
- Consider meeting or hosting calls with key underwriters in order to strengthen relationships and give carriers a chance to get more comfortable with the risk

LIABILITY

Traditional inflation and nuclear verdicts have significantly increased the cost of claims for carriers, particularly in the space of liability insurance products. As such, these market pressures have generally resulted in continued rate pressure, tightening of terms and conditions and higher retentions. Most notably, this is being felt in the umbrella market as higher claims costs are starting to breach the umbrella layers more frequently.

The one bright spot in the casualty market remains to be **Workers' Compensation**, which continues to see stability in rates and capacity. Though many were concerned that COVID-19 related claims would result in pressure on rates and capacity, the cost of COVID-19 claims were more than offset by a steep drop in non-COVID-19 claims as layoffs, shutdowns, and remote work reduced the number of workplace accidents and injuries. Even as the economy has improved and more workers are coming back into the offices or worksites, workers' compensation claims remain low and the line of business continues to be profitable for carriers.

Premium Change for Umbrella, 2014 - Q3 2021



Source: The Council of insurance Agents & Brokers

MARKET ENVIRONMENT

Factors impacting the liability marketplace include:

- Carriers needing to correct the historic trend of inadequate, unsustainable pricing during the decade-long soft market as claim frequency and cost continue to rise
- The current low interest rate environment and inability to earn a reasonable investment income to offset losses from claims is forcing carriers to focus more on traditional underwriting income
- Insureds are experiencing decreased competition in the insurance market due to pressure from the heightened underwriting discipline, resulting in reductions of available limits, significant cost increases and coverage restrictions
    - Mergers and acquisitions in the carrier space have also increased significantly over the past few years, which is also contributing to a decline in capacity. In March, The Hartford received an unsolicited $23.2 billion bid from Chubb that was ultimately declined, but more mega-mergers like this could be on the horizon as access to capital remains favorable and relatively inexpensive for carriers
- The renewal process is taking much longer, with more accounts being marketed and there is the need for participation from more carriers to replace expiring umbrella/excess liability limits
- Underwriting and pricing guidelines remain fluid, with underwriters continuously reacting to market conditions and high-level carrier portfolio decisions. Occasionally, these market pressures are causing underwriters to change their positions during the renewal process
- Historic **Auto** results have not been favorable for carriers and appetite for this line of coverage is waning
- Mounting jury awards, often involving punitive damages, have resulted in huge underwriting losses for liability markets, particularly for **Excess Liability** and **Auto Liability**
- Facultative and Treaty reinsurance costs are typically higher in the liability space due to the increase of claims costs piercing reinsurance layers; however significant CAT losses in the **Property** space will add further pressure to reinsurance rates
- The passage of an infrastructure bill could result in higher demand for insurance and surety products, particularly for the construction sector, as this could result in a stimulation of the broader economy

RATES & CAPACITY

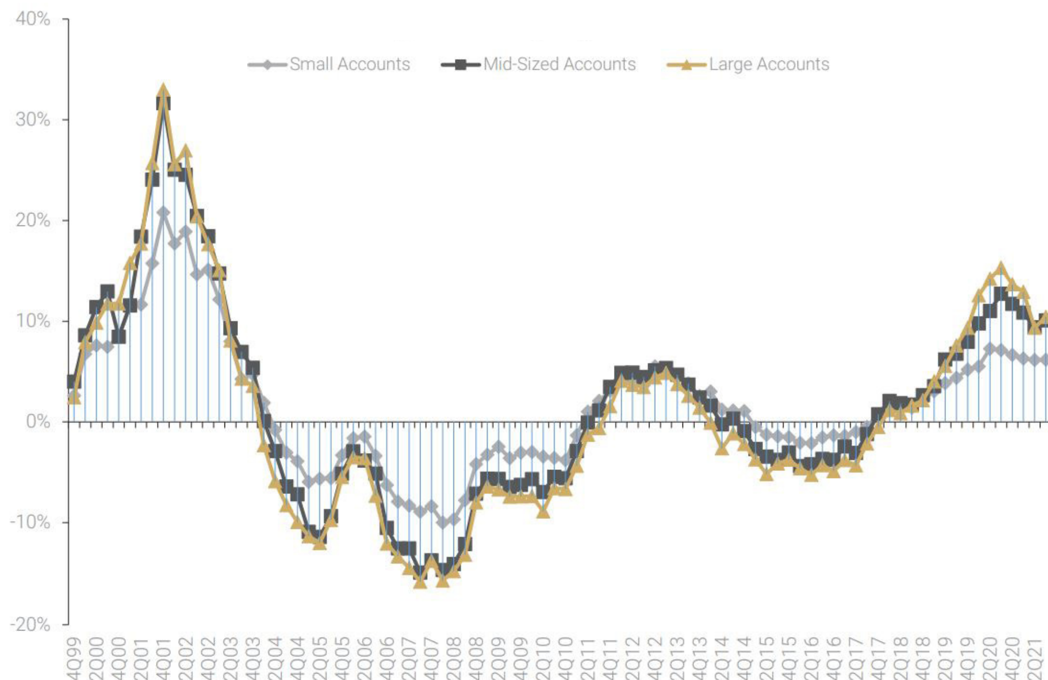
In the wake of rising inflation and ESG concerns, there is diminished appetite for accounts with potential exposure to severe losses, nuclear verdicts, or reputational damage. Carriers are seeking rates to offset years of underpriced policies and widescale portfolio decisions are starting to impact pricing and capacity. Even accounts with long and favorable loss histories are receiving increases on renewals due to overall market conditions. However, rates have stabilized due to portfolio rebalancing efforts and additional capacity has been provided by new entrants which has lowered IMA's expectations for increases.

General Liability	Up 5% 15%
Umbrella & Excess Liability – Middle Market	Flat to Up 5%+
Auto	Up 8% to 20%+ Up 30%+ if large fleet and/or poor loss history
Umbrella & Excess Liability – Middle Market	Up 10% to 50%+
Umbrella & Excess Liability – Risk Management and other Complex/Hazardous Exposures	Up 25% to 75%+ Some excess layers have increased more than 150% on large accounts

- **For excess layers, carriers will continue to exercise discipline when exposing limits, thereby increasing the number of carriers on a program and the overall price**
  - Carriers with high capacity can consider ventilating those limits by splitting up their capacity and staggering smaller limits throughout the tower
  - Needing additional carriers is also increasing the time required to complete renewals
  - It is becoming rare to see first excess layers greater than $10 million
- Appetite for certain risks perceived to have a higher potential for severity is diminishing, including accounts with communicable disease exposures (hospitality, real estate, etc.), wildfires, certain chemicals, abuse and molestation, human trafficking and active shooter incidents
  - Carriers are also concerned with meeting their own ESG guidelines and are generally losing appetite for the oil and gas, coal, and mining sectors
  - Many carriers are making wholesale portfolio decisions and simply exiting certain industry verticals based on ESG, CAT, and claim frequency/severity fears

- Unfortunately, even accounts possessing long tenure with carriers and acceptable loss experiences are still receiving increases due to broader market conditions
- Accounts with competitive expiring lower excess pricing have experienced greater percentage increases as carriers focus on pricing guidelines and getting accounts into more acceptable rate per million ranges
  - Where price per million previously had a minimum of $1K, it is now often $2K-$3K or higher, often regardless of attachment point higher up in a liability tower
  - Carriers are including 'look up' clauses so that if excess layers above their limits have higher rates, they can reprice their original price per million
  - It is very difficult to get carriers to make exceptions in this market
- Accounts placed with London markets are typically seeing higher rate increases than those placed with domestic insurers
  - Sometimes the London markets are the only viable option for certain accounts
- Larger and mid-sized accounts are seeing the biggest increases compared to smaller accounts

Average Rate Changes by Account Size



Source: The Council of insurance Agents & Brokers

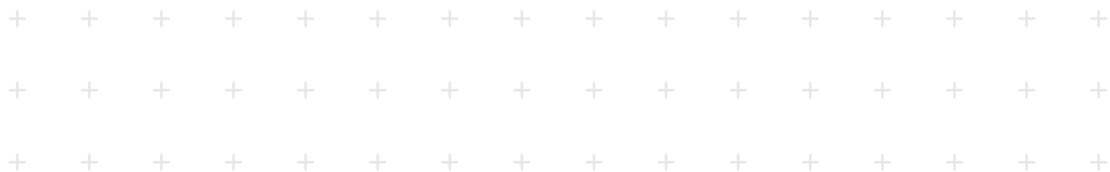
CAPACITY, TERMS & CONDITIONS

+ Carriers continue to seek higher attachment points on new business while reducing capacity, particularly on **Umbrella/Excess Liability** and **Auto Liability**. However, some are renewing expiring limits and attachment points
+ There has been a slight uptick in demand for carriers to write General Liability to control the terms of the tower above this line of coverage, but underwriters continue to push for higher retentions resulting in higher collateral requirements. In some occasions, IMA is seeing lead **Umbrella or Excess** carriers try to quote **General Liability** with stricter than expiring terms and higher retentions
+ As the overall economy and economic outlook continue to improve, the demand for carriers to write primary exposure to product liability, construction and hospitality has improved significantly since 2020. Many carriers were concerned about these verticals in the height of the pandemic, but growth and sustained stability in these sectors throughout 2021 has improved carrier appetite
+ Insurers continue to modify policy language to clarify how coverage addresses evolving risks, including:
  - COVID-19 and other virus or communicable disease exclusions are commonplace, particularly for retail, residential properties and public entity occupancies. Given the threat of new strains of the virus, such as the Omicron variant, these exclusions will most likely not disappear in the near future
  - Wildfire exclusions also widely imposed, particularly if located near a high-risk area
  - Habitational exclusions are also starting to become commonplace, even outside of California where claim severity and frequency were high. Habitational claims occur when landlords fail to maintain “habitable” properties
  - Exclusions for other emerging risks such as THC and hemp bioproducts, opioids, drones, self-driving cars, sexual abuse & molestation, and genetically modified organisms are commonplace
+ Facultative reinsurance support has improved for the casualty space as reinsurers look to invest more in casualty than property given another year of elevated CAT losses
+ Accounts particularly experiencing higher rate increases and withdrawal of capacity:
  - Habitational
  - Public entity – particularly those with security responsibilities
  - Residential Construction
  - Accounts with wildfire exposures
  - Transportation – particularly long-haul trucking
  - Residential real estate

UMBRELLA & EXCESS LIABILITY

Umbrella and Excess Liability placements remain challenged due to fears of "social inflation" and the rising cost of claims under General Liability and Auto Liability policies.

- One strategy that carriers have deployed to improve **Umbrella** and **Excess** loss ratios is reducing capacity offered per account, particularly on the lower layers. A common theme from this year is that carriers have generally only offered $5 and $10 million primary layers versus the prior traditional $25 million primary layer. This trend is expected to continue into 2022 unless there is a significant change in claims costs or more capital enters the casualty carrier space
- Number of carriers needed to complete a liability tower has greatly increased, adding complexity to the program and increasing the marketing efforts required to fill out a tower
- **Excess Liability** markets higher up in the tower were obtaining 50%-75% of the rate in the layer beneath them (referred to as "Rate on Line" or "ROL"), but recent market force trends have lowered ROL back to more normal levels
- In response to increasing claim costs, **Excess/Umbrella** carriers continue to demand higher attachment points for **Auto Liability**, resulting in stretching of primary limits or the necessity of excess buffer layers
    - **Auto** requirement for fleets of 100+ units being pushed to $2million with $5 million+ for larger fleets or accounts with adverse loss history
    - Some industries are still seeing **General Liability** attachments increasing to $2 million/$4 million
    - To fill in the gap, primary limits must be stretched or filled with the purchase of excess/buffer layers
- There is a growing trend to require **Umbrella/ Excess** carrier participation on all or a portion of the primary lines in order to write **Umbrella/Excess** coverage
- Insureds are often choosing to buy less in total limits and/or increase retentions to offset premium increases
- Claims-made coverage has become a more popular option on types of programs not previously underwritten on that basis, hoping to realize cost savings or increase limits



AUTO

Unlike other lines, the auto insurance industry was experiencing significant rate increases even before the pandemic. According to AM Best's November report titled "Near-Term Profitability Still Elusive for U.S. Commercial Auto Writers," despite several years of rate increases and corrective underwriting actions, the sector's combined ratio for **Commercial Auto** has not been below 100.0 since 2010. A substantial drop in driving in 2020 due to the COVID-19 pandemic led to better results, but the combined ratio for the segment was still not profitable at 101.8 (compared to 109.3 in 2019, a 10-year high).[22]

Direct premiums written (DPW) for the commercial auto line increased by 23% year over year as of June 30, 2021, and rate increases near or above 10% continue to play a meaningful part in premium growth.[22] The increase in premium volume helped improve the line's direct loss ratio for the first half of 2021 to 64.3 from 67.9 in the first six months of 2020.[22] However, with traffic patterns returning to pre-COVID-19 pandemic levels, claims frequency will likely return to previous levels as well, which therefore posits whether the improved results for 2020 and for the first half of 2021 will be sustainable[22]. One factor that could significantly impact this sector is the continual rise of new COVID-19 variants, such as Omicron, as these new threats could keep the economy from returning back to normal and lower the likelihood of claims.

+ Nuclear verdicts have hit the **Commercial Auto** sector particularly hard, especially the trucking sector. The Wall Street Journal recently published an article analyzing data from VerdictSearch that reports a more than a 300% increase in the frequency of $20 million-plus verdicts in 2019 from the annual average from 2001 to 2009. This trend has continued into 2020 and 2021
    - Company-branded vehicles are being targeted by bad actors to solicit settlements
    - Fleets of long-haul trucks have become extremely difficult to place in standard and E&S markets and will typically need to be placed in some sort of captive due to the large verdict and settlement amount for claims
    - Claim costs for long-haul trucking continue to rise despite the fact that the number of deaths and injuries from accidents involving large trucks have been declining for multiple years
    - The supply chain crunch combined with the labor shortage has some trucking companies resorting to using younger less experienced drivers or reducing training

+ Traditionally, many carriers would offer product packages consisting of **Commercial Auto**, **General Liability**, and **Workers' Compensation** as a way of pairing the losses from **Commercial Auto** with more profitable lines and to win market share, but today many carriers are rethinking this strategy
    - It is not uncommon to see carriers splitting out **Commercial Auto** from their product offerings because they have deemed the line too unprofitable, even on accounts with positive loss ratios on paired insurance lines
+ **Auto rates have increased for 39 consecutive quarters based on tracking by the Council of Insurance Agents and Brokers**
+ Capacity continues to withdraw from the **Commercial Auto** sector, in general, based on loss trends and poor profitability

- **Excess Auto** for larger fleets continues to be a particularly difficult exposure to place since losses continue to pierce these layers
- Heightened underwriting focus and material pricing changes will persist, particularly for accounts with unfavorable loss histories
    - Additional details are being requested and required for non-owned exposures as well – MVR requirements, personal auto limit requirements, and loss prevention measures that were typical of owned auto exposures
        - Underwriters are also digging into non-owned auto exposure and asking more questions around this risk
- Demonstration of robust driver safety programs, safety technology and other risk control measures were once recognized in applications and rewarded with more favorable renewal rates and better terms and conditions. However, today, they are deemed the essential and basic requirement for receiving a quote
- The advances in fleet technology and growth of telematics will continue to reduce accidents over time, but those benefits are nonetheless offset by:
    - Negative litigation trends → higher claim severity
    - Increasing rate of medical inflation trends
    - Increasing rate of distracted driving
    - Decaying public infrastructure
    - Rising repair costs given higher cost of vehicles with technological advances

GUIDANCE GOING FORWARD

Considering these market conditions and rapidly changing environment, it is important for insureds to plan ahead by working with their IMA account team to overcome some of the obstacles and achieve a successful renewal.

To offset higher costs for insurance programs, it is important to review a program and consider structural changes, including higher retentions, reducing key limits, or otherwise amending a program's terms and conditions.

Some trends in the market and other solutions to consider:

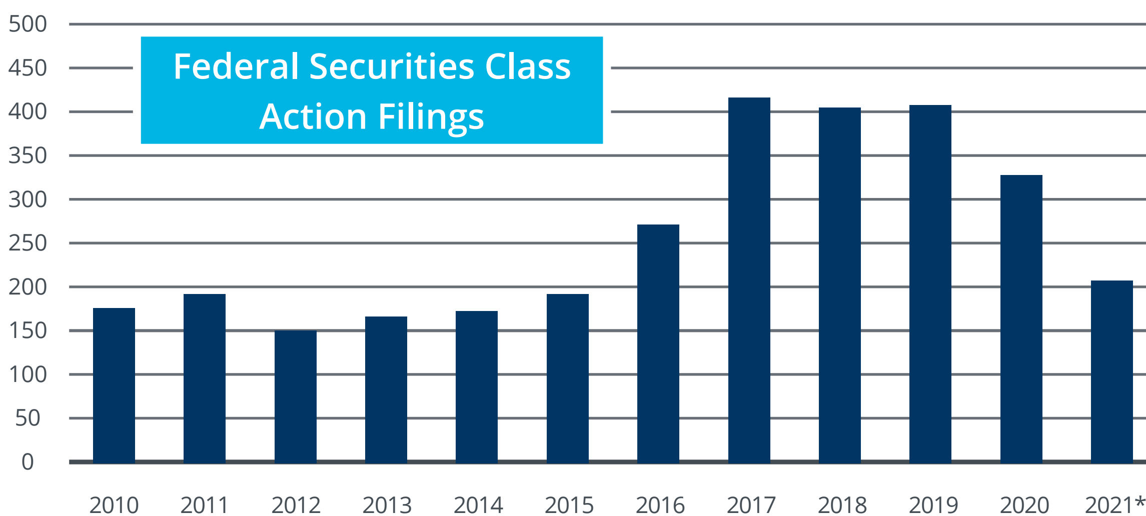
+ Aggregating coverage lines when given the opportunity, possibly even those not traditionally aggregated
+ Be prepared to discuss all technology and fleet safety programs on applications to show carriers that your company is doing everything in their power to prevent auto claims
+ Retain a portion of the risk directly as an insured or through a captive. This could be advantageous on a quota share basis or by carving out a layer within the program, depending on layer pricing and risk appetite
+ Including defense costs within the limit of liability will result in lower premiums
+ Review indemnity agreements and make sure they are reflective of the current market risks and look to make amendments if language is outdated
+ Consider alternative contract terms – negotiate contracts with suppliers and vendors diligently, particularly regarding hold harmless provisions and liability limits required

Measures to take to secure a more favorable outcome:

+ Start the renewal process early in reviewing the program and starting conversations with both the incumbent underwriter as well as new/alternative markets
    - Reduces risk of determining late in the renewal process that a market is changing its position on a risk, increasing rates significantly higher than expected, or requiring significant changes in terms & conditions and exclusionary language
    - Many accounts are receiving increases, resulting in brokers needing to perform more aggressive account marketing efforts. Underwriters are thus seeing more submissions, causing delays in receiving quotes
    - Determine minimum underlying limits **Umbrella** market(s) are willing to attach over to allow sufficient time to secure a buffer limit or negotiate with primary carriers to stretch their limits up as needed
    - If there were losses this year, it will be important to explain "lessons learned" and corrective actions being taken by the insured in the market submissions. Your IMA account team might also look to provide more loss control services and other Client Advantage services to reduce future losses and show underwriters that corrective actions are being taken
+ Document and highlight loss control practices, contractual risk management, capital expenditures and dedication to risk management philosophy as an organization
+ Use data and analytics to make informed decisions as well as identify trends in loss experience to better assess those strategies
+ For Auto, review applicable Compliance, Safety and Accountability (CSA) scores and take corrective actions to improve those or eliminate specific issues driving those scores down

Executive Liability Update & Outlook

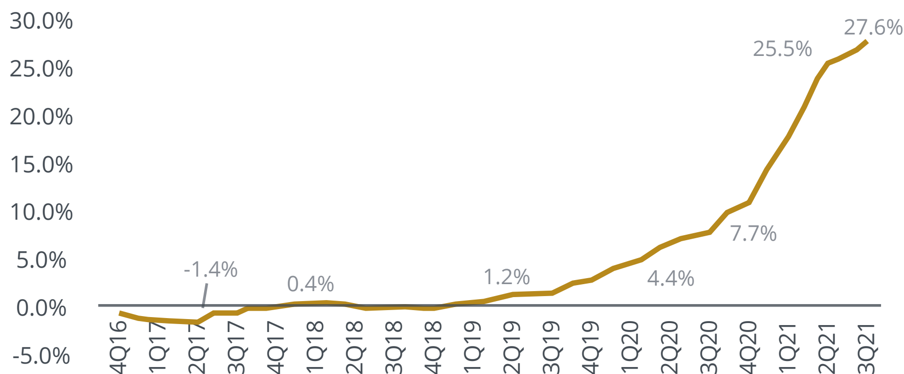
- **Directors & Officers ("D&O") –** Given the surge of bankruptcies in 2020, the rise of SPACs and M&A activity, and the overall global economic uncertainty caused by COVID-19, D&O pricing increased significantly in 2020, and capacity shrunk across all industry sectors. However, despite these concerns, D&O claim filings have trended downward in 2021 compared to 2020 and even 2019 and 2018. Filing rates through September 2021 imply an annualized IMA estimate of 207 total filings in 2021, which would represent a year-over-year decrease of 36% compared to 2020. Given this downward trend, elevated lawsuit dismissal rates, frequency of SPAC related litigation is still evolving, new capacity entering the marketplace, and an improved broader economic outlook versus one year ago, **D&O** pricing for recent renewals has consistently been more favorable than 2020 levels. Companies considering an IPO or a de-SPAC transaction should continue to expect elevated pricing and retentions, but both are generally more favorable than a year ago. As for REITs, underwriters are still focused on the likelihood of net asset value (NAV) decline, free cash flow generation for distribution payments and project timelines for new builds, but pricing and capacity is generally favorable.



**2021 full year estimate based on actual filings through September (155)*

+ **Cyber** – With cyber attacks on the rise, real estate developers and managers would be prudent to consider a **Cyber Insurance** policy. Contrary to popular belief, the most heavily cyber attacked firms are those in the 11 to 100 (30.2% of all attacks) and 101 to 1,000 (35.7% of all attacks) employee count range, which describes most companies. The most common attacks are phishing, ransomware, and cyber extortion and many threat actors are gaining access through unsecure Wi-Fi networks or Internet of Things (IoT) devices. As more and more high-profile attacks make news headlines, the market is responding by increasing prices and diminishing capacity. This can be seen in the chart below from CIAB, which reflects an average premium increase of 27.6% on accounts in Q3. Capacity constraints are being slightly offset by the emergence of InsurTech firms, who are moving beyond static questionnaires and using technology for underwriting or risk assessment. Regardless of the carrier, insureds will need to prove that they have sophisticated cybersecurity controls in place in order to even receive a quote.

Premium Change for Cyber, Q4 2016 - Q3 2021



Source: The Council of insurance Agents & Brokers

+ **Representations & Warranties (“R&W”) –** In an increasingly aggressive M&A landscape, Representations & Warranties Insurance is becoming exponentially more important as this product provides private equity fund managers, strategic and corporate buyers, risk managers and other stakeholders with a risk mitigation solution for uncertainties surrounding mergers and acquisitions. Available to either party, R&W policies provide protection against financial loss, including defense costs for certain unintentional and unknown seller breaches in the context of an acquisition or merger agreement. Instead of having to claw back what is in escrow when a deal is terminated due to a breach of a representation or warranty, the party can simply be indemnified by the insurance policy. Additionally, this insurance product can replace the burden of the upfront escrow amount when both parties agree to purchase a policy with limits set at the escrow amount (typically 10% of the purchase price).

  M&A activity has increased 158% between 2020 and September 2021 to $2.4 trillion, which is the highest year on record. As such, there has been a significant increase in demand for this product and an increase in pricing has reflected that. The product still typically carries a retention of 1% of the enterprise value of the target and pricing now typically falls in a range of 3% to 4.5% of the limits purchased (depending on the industry and the nature of the transaction).

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More Than Just Insurance

IMA is an integrated financial services company specializing in risk management, insurance, employee benefits and wealth management. It is the third-largest privately-held and employee-owned insurance broker in the country and employs more than 1,700 associates.

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