Commercial Property & Casualty Market Outlook

2021 MID-YEAR Update

Insights From USI National Practice Leaders

THE USI ONE ADVANTAGE

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Now that businesses can see a light at the end of the COVID-19 tunnel, we should celebrate our victories (such as welcoming employees back to the workplace) while confronting the serious challenges that remain. The pandemic’s repercussions include many new risks and insurance issues on top of the old ones. As businesses reopen, employees will return to a different workplace, both physically and culturally, and companies will face a different risk landscape.

Throughout this report, you will read about the hard market conditions brought on by catastrophes, the COVID-19 pandemic, and other market pressures. But even in a tough insurance market — in many cases, especially in our current market — businesses can take major steps to significantly improve their risk profiles, reduce costs and ultimately increase profitability. This report outlines the current market conditions and offers suggestions and solutions to help organizations reduce potential exposures.

- **Property**: This remains the largest loss drag on the property and casualty (P&C) industry’s profits. Recently, the industry and property owners have faced unprecedented challenges, and insurance companies are responding with increased deductibles, reduced capacity, and changes in coverage. Sustaining low attritional loss levels and presenting strategic loss mitigation strategies to underwriters can help property owners reduce their insurance costs.

- **Casualty**: Most lines of casualty insurance continue to face the usual challenges of selective underwriting, rate increases, capacity reductions and restrictive coverage terms and conditions. Umbrella/excess insurance is still the most challenging casualty market, with average rate increases of 15% to 25%. New market capacity is slowly being introduced, but it will take some time for this capacity to have a beneficial impact on the market in terms of initiating competition and moderating rate increases.

- **Workers’ Compensation**: Claim activity and frequency have declined recently due to more employees working from home, changes in job duties, and furloughs — but this trend should change as employees return to the workplace. Ultimately, COVID-19’s long-term impact on workers’ compensation remains to be seen. Rate decreases may be moderating in various states, and rate increases are not as high as expected in others, including in states with COVID-19 presumptive liability. Insureds should focus on well-thought-out renewal strategies and thorough underwriting submissions.

- **Cyber**: Rates for primary layers of cyber insurance are up 25% to 50% when insureds have a complete submission, optimal ransomware controls and no material loss events. Facing increased underwriter scrutiny, insureds will have no choice but to tighten cyber loss controls and improve their risk profile before insurance companies will even consider providing coverage. Companies should work with a broker who takes the additional step of improving their risk profile for better and more affordable coverage.

- **Directors & officers (D&O)**: Second-quarter premiums are up 10% to 50% for public company D&O insurance, which is an improvement from the latter part of 2020’s increase of 20% to 100%. Private companies saw a similar trend. The optimist’s take: this relative stability should help D&O buyers that effectively differentiate their financial, operational and governance risk profile in a positive manner obtain better-than-average results.

- **Other lines of executive and professional insurance**: Premium increases continue across the board, ranging from 5% to 75%. For fiduciary liability coverage, plans with significant retirement plan assets are taking substantially larger retentions and facing larger increases in premium. Employment practice liability (EPL), crime, kidnap and ransom (K&R), and professional liability all continue to see upward pressure on premiums and retentions. Overall, the executive and professional risk (EPS) market should continue to be firm heading into the last two quarters of 2021, as overall risk uncertainty continues to weigh on underwriters.

As we approach the second half of the year, we will continue monitoring industry and market developments so we can guide and support our clients. In addition to the suggestions noted in each section of this report, we encourage our clients to engage their USI representatives in the renewal process as early as possible.

Further, we will continue to leverage our risk, insurance, and market expertise through our comprehensive STEER initiative (Steer Through Epidemic and Economic Recovery), of which USI’s Public Health Emergencies site is a key component. Here, we regularly post comprehensive and timely communications, tools, and materials related to the COVID-19 pandemic to help inform and educate our clients.

We wish you success and good health as we move into the “next normal.”

Robert Meyers  
Senior Vice President,  
Property & Casualty Leader
## MID-YEAR MARKET UPDATE AND RATE FORECAST

### YEAR-OVER-YEAR (YOY)

<table>
<thead>
<tr>
<th>Product Line</th>
<th>Mid-Year 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROPERTY</strong></td>
<td></td>
</tr>
<tr>
<td>Property Non-Catastrophic w/Good Loss History</td>
<td>Up 5% to 10%</td>
</tr>
<tr>
<td>CAT Property w/Minimal Loss History</td>
<td>Up 10% to 15%</td>
</tr>
<tr>
<td>CAT or Non-CAT Property w/Poor Loss History</td>
<td>Up 20% +</td>
</tr>
<tr>
<td><strong>CASUALTY</strong></td>
<td></td>
</tr>
<tr>
<td>Primary General/Product Liability</td>
<td>Up 10% to 20%</td>
</tr>
<tr>
<td>Primary Auto Liability w/Fleet Less Than 200 &amp; Good Loss History</td>
<td>Up 5% to 10% <strong>^</strong></td>
</tr>
<tr>
<td>Primary Auto Liability w/Fleet Less Than 200 &amp; Poor Loss History</td>
<td>Up 20% to 30% + ^</td>
</tr>
<tr>
<td>Primary Auto Liability w/Fleets in Excess of 200</td>
<td>Up 5% to 10% <strong>^</strong></td>
</tr>
<tr>
<td>Excess Auto Buffers</td>
<td>Up 40%+</td>
</tr>
<tr>
<td>Workers’ Compensation Guaranteed Cost</td>
<td>Down 10% to up 5%**</td>
</tr>
<tr>
<td>Workers’ Compensation Loss Sensitive</td>
<td>Flat to up 5%**</td>
</tr>
<tr>
<td>Umbrella &amp; Excess Liability (Middle Market)</td>
<td>Up 5% to 25%***</td>
</tr>
<tr>
<td>Umbrella &amp; Excess Liability (Risk Management)</td>
<td>Up 25% to 50% +***</td>
</tr>
<tr>
<td>Medical Malpractice</td>
<td>Up 10% to 35%</td>
</tr>
<tr>
<td><strong>EXECUTIVE &amp; PROFESSIONAL RISK (EPS)</strong></td>
<td></td>
</tr>
<tr>
<td>Public Company Directors &amp; Officers</td>
<td>Up 10% to 50%</td>
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<td>Up 5% to 75% overall (5% to 25% for smaller firms; up to 75% for larger firms)</td>
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<td>Crime</td>
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## MID-YEAR MARKET UPDATE AND RATE FORECAST

### YEAR-OVER-YEAR (YOY) continued

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<tr>
<th>Product Line</th>
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</thead>
<tbody>
<tr>
<td><strong>EXECUTIVE &amp; PROFESSIONAL RISK (EPS)</strong></td>
<td></td>
</tr>
<tr>
<td>Professional Liability/Errors &amp; Omissions</td>
<td>Up 15% to 60%</td>
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<tr>
<td><strong>INTERNATIONAL</strong></td>
<td></td>
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<tr>
<td>International Liability</td>
<td>Flat</td>
</tr>
<tr>
<td>International Property, CAT Exposure</td>
<td>Up 25%</td>
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<tr>
<td>International Property, Non-CAT Exposure</td>
<td>Flat</td>
</tr>
<tr>
<td><strong>AVIATION</strong></td>
<td></td>
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<tr>
<td>Aviation</td>
<td>Up 15% to 30%</td>
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<tr>
<td><strong>ENVIRONMENTAL</strong></td>
<td></td>
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<tr>
<td>Environmental Combined General Liability/Pollution</td>
<td>5% to 15%</td>
</tr>
<tr>
<td>Excess Combined General Liability/Pollution</td>
<td>15% to 25%</td>
</tr>
<tr>
<td>Environmental Contractors’ Pollution</td>
<td>10% reduction to flat</td>
</tr>
<tr>
<td>Environmental Pollution Legal Liability</td>
<td>Flat to inflationary increases</td>
</tr>
</tbody>
</table>

*Including need for primary limits up to $2 million.
**Dependent on state and longer-term impact of COVID-19 presumptive liability rules.
***In some cases, depending on class of business and limits purchased. Factors in contraction in limits.
^Geographical radius of operations will impact pricing.
Overall, the property and casualty (P&C) sector recorded an underwriting profit in 2020, although property remained the largest loss drag on the industry’s profits. Last year, the combined ratio for the P&C industry was 99.3%, according to AM Best. The challenges remain for carriers offering property capacity, as commercial development follows the population movement to areas exposed to natural catastrophe.

This population shift, coupled with perils that were minimal contributors to loss ratios prior to 2016 — wildfire, riots, and major freeze events — creates a property market where carriers are responding with increased deductibles, reduced capacity, and changes in coverage. Yet unlike previous hard market cycles, capacity is ample, and the current environment is being driven by loss and exposure, versus restrictions in industry capital.

Insureds that deliver moderate to high claims and loss costs to the market in 2021 will continue to see hard property market conditions with increases of more than 20%. Those that sustain low attritional loss levels and present strategic loss mitigation strategies will benefit from the flattening of the rate curve, per the rate forecast table above and as noted in our Q4 2020-2021 Commercial P&C Market Outlook.

These generalities and rate ranges may not apply for insureds with higher hazard occupancies, natural catastrophe-exposed geographies, or for those that are forced to move from a single-carrier solution to a shared and layered structure. It can be challenging to predict market trends because of market volatility, but a well-planned mitigation strategy can provide individual property owners with greater certainty.

### Market Trends

Profitable underwriting and rate discipline are the impetus for carriers offering property capacity, and there remains a strong focus by carriers on ensuring the adequacy of building values. In our Q4 2020-2021 Market Outlook, we outlined the impact of catastrophic events that took place from 2017 to 2020, revealing the impact of inadequate building values on the property market. The chart that follows illustrates the year-over-year magnitude.

The unprecedented storm this winter, which affected the South-Central part of the U.S., is projected to contribute approximately $20 billion in losses, making it more difficult for property carriers to achieve profitability. This first-quarter loss, which is expected to be the largest on record for the period, materialized during a typically quiet time for carriers. While stricter underwriting would be expected, carriers continue to utilize a highly analytical and in-depth quality assessment process in underwriting property submissions.
In addition, increasing reinsurance costs drive the prolonged contraction of catastrophe aggregate capacity. Insureds must understand and review the financial impact of increased retentions, limit needs, and coverage modifications, to create an opportunity to offset current market trends. Alternative structures, including captives and parametric solutions, continue to be widely considered by insureds.

Driving Outcomes

Relationships remain especially important in the marketplace, which is why property owners should get to know their current underwriter and carrier management team. Doing so can positively impact a renewal outcome. Property owners should also meet with prospective carriers during the renewal cycle, as the market continues to see new capital entrants due to the current rate and deductible levels. Brokers can play a critical role in vetting and pairing new capacity with the right client. USI effectively supports the needs of its clients by connecting our locally based client service teams with our highly skilled regional and national property resource groups.

How USI Can Help

As the hard market continues, it is essential for property owners to obtain targeted guidance and support from their property brokers. USI leverages our property experts, proprietary analytics, and years of industry expertise to assist clients in achieving a favorable renewal outcome, including:

- Leveraging the compounded impact of our interconnected risk control, analytics, and claims services
- Utilizing modeling technology to better understand property exposures to natural catastrophe
- Preventing future claims by aggressively mitigating additional exposures related to previous claims
- Ensuring that all structure, coverage, and placement options have been explored
- Guiding clients to submit renewal information to markets at least 90 days prior to renewal, to allow for engineering visits and appropriate modeling by carriers
- Communicating regularly with clients and carriers during the renewal cycle

### USI Solutions to Market Challenges

<table>
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<tr>
<th>Carrier Focus</th>
<th>USI Solution</th>
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<tbody>
<tr>
<td>Accurate underwriting data/valuations</td>
<td>Various analytical and valuation tools</td>
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<tr>
<td>Risk improvement requirements</td>
<td>Risk control cost/benefit analysis</td>
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<td>Pandemic exclusions</td>
<td>Parametric coverage options</td>
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<tr>
<td>Civil unrest and wildfire exposures</td>
<td>Alternative capacity development</td>
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<tr>
<td>Reduced limits/coverage restrictions</td>
<td>Modeling tools and exposure analysis</td>
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<tr>
<td>Submission overload</td>
<td>High-quality submission data</td>
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<td>Loss leading occupancies</td>
<td>Risk assessment and differentiated risk profile</td>
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General/Product Liability, Workers’ Compensation and Umbrella/Excess

There has been a continuation of hard market trends during the first quarter of 2021, characterized by selective underwriting, rate increases across most lines of casualty insurance, capacity reductions, and restrictive coverage terms and conditions for most insureds.

Umbrella/excess insurance continues to be the most adversely impacted casualty coverage line. Average rate increases of 15% to 25% are the norm, with some insureds in more hazardous industries or with prior loss experience continuing to see high-double-digit and, in some cases, triple-digit rate increases year-over-year.

The umbrella/excess market also continues to exhibit selective deployment of capacity, with persistent higher underlying primary limit requirements for many insureds. Coverage also remains restrictive, with explicit non-negotiable communicable disease exclusions required on almost every account. For larger insureds that purchase limits of liability of $50 million or higher, we are beginning to see less severe rate increases throughout the tower. Nevertheless, the market is demanding, and in most situations, carriers are obtaining rate increases.

New market capacity is slowly being introduced, although we are not seeing this capacity enter the market with lower rates that are sufficient to spur pricing competition. For this reason, additional market capacity is welcome to make up for the reduction in per-client capacity imposed by most markets. For all insureds, it will take some time for this capacity to have a beneficial impact on the market.
in terms of initiating competition and moderating rate increases for more buyers of umbrella/excess liability insurance.

Workers’ compensation, by contrast, appears to be performing well for most insureds in most states. While rate decreases may be moderating in various states, rate increases were not as high as expected in others, including in those states with presumptive liability. However, the long-term impact of COVID-19 on workers’ compensation remains to be seen, and more states are increasingly adopting presumptive liability legislation. During the first quarter of 2021, pandemic-related claim activity and frequency were lower than expected, due to more employees working from home, changes in job duties, and furloughs. Together, these factors created a positive workers’ compensation environment.

Except for workers’ compensation, we expect this market to persist well into 2021, however, three years of significant rate increases have improved trends in underwriting profitability for most insurers. This, coupled with additional capacity coming into the market, may result in rates leveling off later in the year. Some insureds may see less severe renewal rate increases or flat renewals. With a persistently low interest rate environment, as well as continued higher court awards and rising litigation costs for liability claims, we do not expect rates to begin stabilizing until next year. We do not project an environment of rate reductions until at least late 2022 and possibly beyond.

Thorough and detailed underwriting submissions will receive the most attention from underwriters. Additionally, having a well-thought-out renewal strategy will allow an insured to pivot more quickly regarding rate, limit, attachment point requirements and coverage terms and conditions. To offset rate increases, buyers of primary casualty insurance have had to change their risk appetite and are retaining more risk themselves by assuming higher deductibles.

With respect to umbrella/excess liability, a small but increasing number of USI’s clients are cutting back in the limits of liability they purchase, although this is not recommended. The cost-benefit of purchasing higher limits of liability for balance sheet protection in today’s highly litigious environment should be discussed thoroughly at the board level, as it is not the only solution available. A greater number of insureds are looking to assume more risk themselves, directly or through a captive, by self-insuring certain buffer layers that serve to push the umbrella/excess attachment points up as well, assuming a quota share of the tower. While these solutions will result in premium savings, a cost-benefit analysis must be performed to determine if the risk to insureds of assuming more loss themselves is worth the reward.

How USI Can Help: Workers’ Compensation

To help clients achieve the best results for their workers’ compensation renewals, USI suggests clients:

- Maintain a COVID-19 containment plan.
- Monitor COVID-19-related workers’ compensation claims more closely, and ensure applicable local, state, and federal health and safety guidelines are being followed in the workplace to strengthen any rebuttable positions.
- Leverage proper loss and financial analytics to determine if a loss-sensitive program structure makes sense, as well as the capacity of insureds to assume risk at various retention levels.
- Ensure that payroll by classification codes is accurate, adjusted and monitored accordingly for repurposed employees, employees working remotely, and/or for employers whose operations have changed. Accordingly, maintain separate payroll records for the change in operations or the wages earned for employees whose duties/roles have changed.

Since state and federal regulation of gig workers varies significantly, clients should monitor the current and future utilization of independent contractors continuously. This will help determine the impact on the workers’ compensation program structure, costs, and losses should statutory law change to classify gig workers as employees and not independent contractors.

“Workers’ compensation appears to be performing well for most insureds in most states.”
How USI Can Help: General/Products and Umbrella Liability

In a market characterized by almost universal rate increases, companies should work with their brokers proactively to ensure the best possible outcome and identify solutions which may offset rate increases, reductions in capacity and more restrictive coverage terms and conditions. Preparing early and having a well-thought-out plan of action that includes alternatives is key in today’s market. USI recommends:

- Preparing early for renewal, developing a plan of action, and dialoguing with both incumbent and new markets at least 150 days in advance. Discussions should consider reductions in capacity, corresponding rates on a price-per-million basis and any additional exclusionary wordings such as those pertaining to infectious disease or similar exclusions.

- Developing a quality underwriting submission and differentiating the quality of the risk from others, so it will stand out.
  - Think critically about the risks that underwriters will be most concerned about and address them in the submission.
  - Differentiate the nature of the risk, a step that is now more important than ever. Clients should clearly describe the qualities of their risk in their carrier submissions. Risk quality comes in several forms, including loss control/safety, contractual risk management, risk mitigation, capital expenditures, and willingness to engage risk control and overall risk management philosophy.

- Dialoguing with incumbent and prospective markets to develop a relationship early in the process.
  - Determine as early as possible the minimum underlying limits that the umbrella markets are willing to attach over.
  - Consider self-insuring above contractually required limits.
  - Benchmark overall umbrella/excess limits purchased against peer groups to validate total limits purchased.

- Analyzing the cost-benefit of program structural changes such as:
  - Performing a cost-benefit of assuming higher retention levels for buyers of guaranteed cost or low deductible insurance programs
  - Including defense costs in the limit of liability where feasible
  - Aggregating all coverage lines, including those that are traditionally not aggregated, such as automobile liability
  - Amending umbrella/excess aggregate drop-down provisions
  - Having the insured or their captive take on a quota-share participation of the umbrella/excess program tower
  - Looking at structured approaches, such as swing plans in which the ultimate cost is dependent upon losses
  - Analyzing multiyear, single-limit policies
  - Changing the policy trigger from “Occurrence” to “Claims Made” or “Occurrence Reported”

Commercial Automobile Liability

Commercial automobile liability coverage also remains under rating pressure despite showing improvements in loss ratios in 2020. Insurers that have long been dormant in the auto liability space are making a reappearance and are heavily underwriting these risks.

A consistent requirement, for example, is the need to produce or collect data that goes back seven or more years. Further, many auto heavy fleets are evaluating alternative program structures, including self-insured retentions (SIR), high deductibles, or captive programs.
How USI Can Help: Commercial Automobile Liability

USI’s risk advisors will take these vital steps when working with their commercial automobile liability clients:

- Preparing early for renewal, developing a plan of action, and dialoguing with both incumbent and new markets at least 120 days in advance.
- Developing a quality underwriting submission that will best express the risk characteristics of insureds.
- Taking inventory of all telematics tools and other safety initiatives invested in by insureds to reduce their risk exposure and improve driving behavior. This includes GPS and speed monitoring systems, interior and exterior cameras, and other technological loss prevention tools.
- For motor carrier operations, reviewing applicable compliance, safety, and accountability (CSA) scores and taking corrective actions. The CSA score, which is used to rate motor carriers in various categories such as unsafe driving, crash indicator, hours-of-service compliance, and driver fitness, is now the first underwriting factor used by insurers to assess a company’s risk profile and determine coverage rates.
- Determining early in the process the minimum underlying limits that umbrella markets are willing to attach above and working with the primary insurers or buffer markets accordingly.
- Updating driver lists and safety protocols, providing complete analytics on loss history and exposure, and providing a data-rich submission with clear underwriting goals from the clients’ perspective.
- Reviewing alternative program structures to ensure the current structures are the most optimal from cashflow, retention level, cost, and collateral perspectives.
## Product Line

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### Public Company Directors & Officers (D&O)

The public company D&O marketplace, while still very challenging, has shown signs of relative stability in 2021. We expect this to continue for insured organizations that effectively and positively differentiate their financial, operational and governance risk profile. One notable exception, however, is companies completing initial public offerings (IPOs), particularly special purpose acquisition company (SPAC) IPOs and the subsequent de-SPAC IPOs (the new public company that is formed after the business combination of the SPAC and the target company). These IPOs are all seeing premium and retentions well above established publicly traded companies.

### New Capacity

One reason for the relative price stabilization has been the influx of new excess capacity (on paper, over $100 million), particularly from the U.S. wholesale marketplace and from the Bermuda and London marketplaces. Typically, these new entrants will only offer a maximum of $10 million in limits of liability.

### Retentions and Coverage

As the new capacity focuses on excess layers, the more limited competition for primary positions is allowing primary insurers to continue pushing for higher retentions. This is done by either not offering the expiring retention as an option at renewal or by incentivizing clients with relatively attractive premium discounts to take a higher retention. Underwriters are prioritizing the raising of the securities claim(s) retention and the mergers and...
acquisitions (M&A) retention, meaning that it may be possible to maintain a lower core retention for non-securities exposures.

Coverage reductions continue to include:

- More expensive or “to be determined” extended reporting period (ERP), or “runoff,” terms
- The reduction/elimination of shareholder derivative demand investigative costs coverage
- Specific exclusions focused on cyber exposures and/or bankruptcy, in extreme cases

**Side A Difference in Conditions (DIC):** This coverage protects individual insureds when not being indemnified by their company. It is usually excess (and DIC) over traditional Side ABC D&O coverage. The discounts for Side A DIC coverage are less than they have been historically, as insurers continue to worry about: a) companies with high levels of debt and limited liquidity, and b) derivative litigation settlements (which are generally not indemnifiable), particularly for “failure of board oversight” claims.

**The Underwriting Process:** D&O insurance buyers should expect continued underwriting scrutiny and a more rigorous renewal process. Claims history, industry-specific risks like regulatory exposure, and share price volatility will all determine the amount of capacity that may be available to a company. Organizations with more concerning risk profiles — cryptocurrency, biotechnology, life sciences, general healthcare and technology industries, cannabis, and those that have had significant D&O claims activity in the past five years, will have a more limited group of interested insurers. This drives larger premium increases. D&O capacity for IPOs continues to be limited, keeping pricing extremely inflated.

**Alternative Considerations:** For D&O coverage, the use of a captive insurer remains a rarity. However, in a continued hard market, more companies may consider forming a captive or adding D&O coverage (with the exception of Side A coverage) to an existing captive insurer.

Looking forward, we see the following challenges, but also some potential stabilizers:

**Challenges**

- Continued economic uncertainty in the wake of the COVID-19 crisis, including bankruptcies in industries that are slow to recover.
- Continued defense cost inflation and potential high settlement amounts for unresolved securities claims (severity impact).
- Future securities litigation arising from continued SPAC/de-SPAC IPOs.
- A focus on environmental, social and governance (ESG) claims, especially in the areas of diversity, equity, and inclusion.
- Event-driven and board oversight failure litigation, particularly related to cyber events.
- Changes to corporate tax rates that impact company earnings.
- Industry performance uncertainty (for example, cryptocurrency, cannabis, energy, life sciences, retail).
- Impact of social media on stock market volatility. Targeted companies could suffer tarnished reputation/negatively impacted performance.

**Potential Stabilizers**

- Continued economic growth, attractive credit markets, and stock market buoyancy.
- Added supply (capacity), especially from the U.S. wholesale marketplace coupled with reduced demand (companies reducing D&O limits of liability purchased).
- Lower projected securities class actions (SCAs). Year to date, there have been fewer SCAs than in the last four years, with about 250 SCAs projected for 2021.
- Dismissals of securities claims, including derivative claims, for lack of jurisdiction due to the inclusion of Federal Forum Provisions (FFPs) in the issuing company’s articles of incorporation.
How USI Can Help

USI can assist clients by:

- Communicating with clients early and often and setting appropriate, realistic expectations.
- Preparing for COVID-19-related questions about the operational and financial impact of the crisis on their business, especially in a return-to-work environment (e.g., employee reintegration strategies and decisions on vaccine mandates/exceptions). Helpful COVID-19 resources can be found on USI’s Public Health Emergencies page.
- Preparing clients for corporate governance questions in relation to environmental, social and governance (ESG), cybersecurity, regulatory exposure, and supply chain exposures.
- Starting the placement process early and approaching multiple insurer channels (retail and wholesale) and marketplaces: U.S., Bermuda, and London.
- Evaluating all options, including:
  - Buying less D&O coverage. This might be a prudent strategy if an enterprise’s true risk exposure is understood. USI uses analytical tools to evaluate true exposure.
  - Buying different D&O coverage. Buying more Side A DIC vs. Side ABC coverage can lessen a company’s premium spend.
  - Retaining more risk. Consider buying D&O coverage with a higher retention to help mitigate pricing increases. Or consider accepting co-insurance for the Side B and Side C portions of D&O coverage if the premium offset is significant.
- Presenting alternative structures if risk transfer costs continue to elevate.

Private Company/Not-for-Profit (NFP) Directors & Officers Coverage (D&O)

Private Company/NFP D&O premiums and retentions continue to rise:

- **Primary and Excess Layers**: Up 10% to 60%, depending on individual risk factors

- **Retentions**: Up 50% to 100% or more (for example, a retention of $100,000 increasing to $150,000, or a $250,000 retention increasing to $500,000)

Companies with particular risk drivers (see bullets below) will see premium and retention results that could exceed these ranges. They may also see coverage terms that are modified/restricted.

- High debt burdens/bankruptcy potential
- Significant exposure to supply chain disruption
- SPAC targets and/or IPO candidates, especially large private companies (more than $1 billion valuation)
- Significant, lingering COVID-19-related exposure
- M&A activity contemplated or in progress
- Claims reported or recent losses

Claims: An increasingly diverse number of claims (antitrust and unfair trade practices, tortious interference, regulatory and oversight issues) against private and not-for-profit (NFP) organizations’ directors and officers, and the accelerating costs to defend them, continues to challenge D&O insurers. Much like public company directors and officers, ESG risks represent an increasing corporate exposure basis for private companies.

Coverage Impact: Coverage pullbacks are being undertaken by several conventional insurers, including eliminating predetermined extended reporting periods (ERPs) and ‘additional Side A’ limits for directors. Firms in industries with antitrust exposures (healthcare, for example) may struggle to retain any antitrust coverage extensions. Governmental funding exclusions and higher-class-action self-insured retentions (SIRs) have also been seen.

In extreme cases, larger privately held companies may see limited coverage offered for the organization/entity itself (a pullback from the full entity coverage historically offered).

Side A Difference in Conditions (DIC): This coverage protects individual insureds when not being indemnified by their company and usually pays excess of any
traditional Side ABC D&O coverage in place. It may drop down to pay first-dollar loss in certain situations. Distressed firms may see large pricing increases (100%+) on Side A DIC coverage. Financial condition and overall revenue size will also influence the availability of “reinstatement of limits” coverage.

**Increased Underwriting:** Companies will continue facing COVID-19-specific questions about the operational impact of the crisis on their business, especially in a return-to-work environment (i.e., employee reintegration, vaccine mandate/exceptions). Questions related to ESG commitments, cybersecurity, regulatory exposure, and supply chain risks are also likely.

**Limits/Capacity:** Some insurers are reducing limits at renewal (for example, from $10 million to $5 million), as they seek to mitigate exposure.

**How USI Can Help**

USI can assist clients by:

- Communicating with clients early and often and setting appropriate and realistic expectations.
- Starting the placement process early and approaching multiple insurer channels when marketing.
- Identifying potential financial distress and/or social justice exposures and working to help establish steps/practices to mitigate these risks and communicate mitigation effectively to underwriters.
- Seeking favorable baseline D&O terms through USI’s “ExecuSafe” panel of insurers. Pre-arranged terms can broaden coverage for USI clients.
- Improving clients’ understanding of Side A coverage specifically. Private companies and NFPs that do not currently buy dedicated Side A D&O insurance should consider doing so.
- Preparing directors and officers for underwriting questions on issues such as ESG amendments and implementation, cyber resiliency, and the board of directors’ stance on COVID-19 and return-to-work vaccinations.

**IMPORTANT**

D&O terms and conditions may change dramatically for known special purpose acquisition target companies.
Employment Practices Liability (EPL)

**Overall:** Due to continued economic uncertainty, complicated back-to-work transitions and headline focus on social issues like discrimination, EPL premiums and retentions continue to increase. California, Illinois, New York, New Jersey, and Florida remain more problematic states for EPL insurers due to their employee-friendly regulatory and legislative activity.

**COVID-19:** Given the broad impact of COVID-19, including complex back-to-work challenges for employers, businesses of all types and sizes are susceptible to EPL exposure. According to the law firm Jackson Lewis, complaints filed in federal and state courts alleging labor and employment law violations related to COVID-19 (accommodation and disability, retaliation, harassment) have already increased.*

Also, since overall EPL risks can lag and may not materialize into claims until the financial impact of extended unemployment is felt and/or there is a discontinuation of government financial support programs, EPL carriers are cautious.

Companies transitioning workers back from a work-from-home environment and establishing protocols with respect to vaccine mandates and exceptions may encounter discrimination claims under the Americans with Disabilities Act (ADA) and/or Civil Rights Act (religious discrimination).

**Premium and Retentions:** Premium increases are across the board, ranging from up 10% to 50%, depending on risk-specific parameters. Retentions are under even more pressure than premiums, as retention increases of over 100% are common (examples: increases from $50,000 to $150,000 or from $150,000 to $350,000). Factors impacting premium and retention changes include COVID-19 crisis actions (layoffs, furloughs, pay cuts), overall employee count, the number of unionized employees, the average compensation level of employees, recent EPL loss history, and employee location (state or states).

California remains the riskiest jurisdiction, and claims by California-based employees may face a higher retention. Companies are also facing higher retentions for claims brought by “highly compensated” employees or for claims brought as class (or mass) actions. For larger companies (typically 5,000+ employees) that may be able to consider the Bermuda marketplace for EPL coverage, retentions under $1 million are extremely rare. The London marketplace today is not a realistic alternative, as London insurers have become extremely restrictive in this area of risk.

**Claims:** Areas of concern include:

- Retaliation claims
  - Claims by healthcare providers stating that employers have retaliated against them for raising patient safety concerns involving the treatment and spread of COVID-19
  - Whistleblower and retaliation claims arising out of alleged violations of federal laws
- Continued discrimination claims based on disability, age, race, sex, and other protected classes
- Potential claims stemming from employee social media use
- Wage and hour claims, as companies adjust their workforce classifications, including making distinctions between employees and independent contractors
- Third-party claims brought by non-employees for harassment or discrimination

There is a broad belief that once our economy reestablishes some level of normalcy with regulatory (Equal Employment Opportunity Commission (EEOC)) and court activity ramping back up, EPL claims activity will surge.

**Coverage:** Alleged violations of the 2008 Illinois Biometric Information Protection Act (BIPA), have increased, and some insurers have begun to ask more underwriting questions and/or have added exclusions. In fact, more EPL insurers are now looking to exclude all confidential information-related employment exposures from EPL policies, forcing coverage analysis to another line of coverage, cyber liability. In all cases where exclusionary language is unavoidable, buyers should ensure that their EPL policies include coverage for, at least, retaliatory allegations.

**Increased Underwriting:** Financial performance continues to be a focus for carriers (projecting needs for hiring/layoffs). Questions about vaccine mandate protocols and back-to-work procedures and staff communications should be expected.

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*https://www.jacksonlewis.com/covid19-litwatch
How USI Can Help:

USI can assist clients by:

- Preparing clients to respond to expanded underwriting questions regarding the impact of COVID-19 and any vaccine mandate or incentive protocols
- Reviewing their EPL policies for "who is an insured" and for any exclusions to determine if the coverage is suitable for their needs, especially when transitioning back to the office
- Evaluating whether specific coverages will be available (such as punitive damages and wage and hour coverage)
- Helping engage all available risk management services that are negotiated as part of standard EPL coverage
- Reminding clients to review and update all internal employment checklists and contracts, consult with counsel, and develop any needed internal process or checklist to ensure that their workers are properly classified as employees or independent contractors
Fiduciary Liability

Overall: The adverse macroeconomic pressures associated with COVID-19 lockdowns, large settlements related to excessive-fee litigation, and increasing regulatory and governance uncertainty, have led to premium increases. The range is wide: up 10% to 75%, with plans having more than $500 million in plan assets taking the larger increases in premium.

We expect the market to continue firming through the first half of 2021 as underwriters confront other areas of risk uncertainty. Increases in retentions are also becoming more common. Some leading insurers are mandating across the board "class/mass action/excessive fee" retentions that are significantly higher than the standard fiduciary retention (up to $5 million for companies with over $500 million in defined contribution plan plans assets). Organizations that secured zero-dollar retentions in the past will likely find this unattainable, as they are being replaced at renewal with $10,000 to $50,000 minimum retentions, depending on underwriting variables.

The most significant premium and retention increases are likely to be experienced by those firms with:

- Excess fee litigation exposures or claims/losses. Note: these lawsuits claim that the excessive fees paid out of the plans have eroded the plan assets for retirees/future retirees, and that less expensive investment options should have been provided.
- Employee Stock Ownership Plans (ESOPs), as company valuations may be outdated or severely and negatively impacted in a down economy
- Proprietary funds in the retirement plans (financial institutions)
- High levels of company stock holdings in retirement plans

Other Exposures:

- The frequency of prohibited transaction fiduciary liability claims has increased. A prohibited transaction is a transaction between a plan and a disqualified person that is prohibited by law (example: furnishing goods, services, or facilities between a plan and a disqualified person).

Regulatory-related issues:

- The continuation of the individual/family insurance coverage requirements of COBRA (the Consolidated Omnibus Budget Reconciliation Act of 1985) are well-established but, in the face of more job terminations in an uncertain economy, employers may be more challenged in administering COBRA notifications. There has been a notable increase in class action litigation against employers seeking statutory and other penalties due to alleged violations of COBRA’s election notice requirements.

- In March, the U.S. Department of Labor’s Employment Benefits Security Administration announced it will not enforce recently published final rules on “financial factors in selecting plan investments,” arguing the rules created a perception that fiduciaries are at risk if they include any ESG factors in the evaluation of plan investments. This lack of certainty can create risk for plan fiduciaries.

- Temporary COVID-19-related financial support. The recent American Rescue Plan Act provided various levels of support, including subsidies for COBRA and for certain types of pension plans. Once this financial support wanes, greater uncertainty about the financial strength of these benefit plans will arise.

Limits: Insurers continue to manage capacity (e.g., by offering $5 million in limits instead of $10 million), which makes securing excess limits from additional insurers a necessity. Further, the pricing of excess fiduciary limits, which has been historically competitive, is firming as some typical excess fiduciary liability insurers are limiting new business considerations.

Coverage: In extreme cases, some insurers are looking to place “excessive fee litigation” exclusions across many classes of commercial businesses. We have seen some proposed limitations in coverage related to government-funding exposures.
**How USI Can Help**

USI can assist clients by:

- Preparing them for new or expanded underwriting questions about service provider selection and comparison processes (401(k) and other financial service providers)
- Sharing risk management support made available by fiduciary liability insurers
- Working with them on appropriate governance controls, which can include the creation of Employee Retirement Income Security Act of 1974 (ERISA)/fiduciary advisory boards and regular updates to a plan sponsor’s board of directors

**Crime/Fidelity Bonds**

**Overall:** We anticipate premium increases that are up 5% to 25% with retentions/deductibles expected to increase (up 25% to 50%), particularly for employee dishonesty, computer transfer fraud, and any social engineering extensions. Getting full limits (or excess limits over sub-limits) for social engineering exposures will remain difficult.

**Industry Issues:** Cryptocurrency, casinos, and cannabis companies are the most challenging industries for crime coverage and may see increases in premium and deductibles above the norm.

**Interplay with Cyber:**

- For the most part, any social engineering coverage secured under a cyber insurance program will be excess of any coverage provided under a crime/bond policy.
- Coverages for exposures like extortion, computer and funds transfer fraud, and destruction of data, are being underwritten very carefully by crime underwriters.

**Focus on Applications/Controls:** Insurers will continue to scrutinize main form and supplemental application details to thoroughly underwrite internal control and verification procedures used by insureds. They are doing this to protect assets from theft and social engineering/accounts payable-type losses. Insurers will focus on accounts payable and verification of payment processes. Some insurers will incorporate exclusionary language in policies related to the failure to follow these controls. More stringent underwriting of social engineering limits and additional questions will continue, especially if the insureds’ answers create underwriting concerns.

**Limits:** Insurers may deploy limits more conservatively, capping limits offered. For example, reducing limits from $10 million to $5 million.

**Professional Liability/Errors & Omissions (E&O)**

The market related to Professional Liability/E&O has hardened, not inclusive of medical malpractice.

- Most sectors are experiencing premium and/or retention increases between 15% to 60%, if “clean risks.”
- M&A activity, professional services expansion, and/or claims activity increases this range to well over 100%, depending on additional underwriting factors.
- COVID-19 broad form exclusions are still being added in the E&O space

We are seeing a noted pullback overall in carrier willingness to “draw outside the lines” in miscellaneous professional, and very few exceptions are being made in the small, middle, and even upper-middle market.
**Non-Financial Institutions:** Law firms, mortgage processors, accountants, consultants, architects and engineers, project-specific construction and those performing any valuation-based service will continue to see a decrease in the number of primary and excess markets available for their E&O coverage. This is leading to premium increases of 15% up to 60%, along with increased retentions (up 25% to 150% year-over-year). E&O insurers are also examining limits offered at renewal. For example, a carrier previously offering $15 million in limits may seek to reduce capacity to $10 million. Ten million is now the maximum capacity being seen. Five million towers are becoming more common in upper-middle market and large account space.

Added exclusions for regulatory exposures, deeper underwriting processes (particularly the management of subcontractor and third-party consulting arrangements) and reviews of “professional services” definitions are all becoming more common. Some insurers are removing provisions related to “automatic additional insured when required by contract.” Supply chain questions and contractual requirements around provider agreements will likely be probed.

**Financial Institutions (FI):** Investment advisors, broker-dealers, deposit-taking institutions, and insurance companies continue to be scrutinized at renewal. Following the recent Archegos incident that left the stock market reeling in March and impacted at least three financial institutions, there will be limited primary markets for family office/trustee financial institution E&O. Most carriers will continue to revise underwriting questions, minimum premiums, and SIRs. Early into the new presidential administration, it appears that the prediction of increased regulatory oversight is correct. Combined with the unsettled post-COVID-19 insurance claims environment, FI E&O underwriters are facing uncertainties. This is driving up premiums and retentions.

In a hybrid office/home return-to-work model, there is an overall underwriting focus on how professional services firms are addressing deadlines and the continuity and quality of services performed. As a result, firms may face increased questions from underwriters related to potential or announced Reductions in Force (RIFs) and/or use of independent contractors and business process outsourcing.

**How USI Can Help**

USI can assist clients by:

- Providing clients with curated underwriting questions and helping to craft appropriate responses early in the process
- Tracking the most competitive insurers to better understand their underwriting appetites and willingness to address risks creatively
- Identifying and highlighting risk management differentiators
- Examining the scope of professional services, as many firms have modified and diversified their offerings
- Amend current coverages, as needed

**Transaction Liability - Representations & Warranties Insurance (RWI)**

Since the fourth quarter of 2020, activity remains high with no discernable drop in M&A activity and/or representations and warranties submission levels.

**COVID-19 Pandemic:** COVID-19 remains an underwriting focus. Given the current state of vaccination levels and lower overall impact on businesses, underwriters have been less stringent with imposing exclusions. Where they do, they typically limit the exclusions to specific impacts (for example, loss of customers, reduction in accounts receivable collections, and infection rate among workforce members).

**Rates:** There is more divergence in rates, with some insurers lowering rates somewhat since the fourth quarter of 2020. Others have allowed them to gradually rise. Those charging rates in the upper ranges tend to be more established insurers with solid, frequently tested claims paying histories. In our assessment, the rate for a typical $10 million limit policy now ranges between 3.2% and 3.8%, where in the fourth quarter of 2021, the band would be more tightly centered around 3.5%.

**Self-Insured Retention:** SIRs continue to hover around 1% of the enterprise value of the transaction, with most underwriters able to offer .9% for transactions with enterprise values (EVs) greater than $150 million.

**Claim Activity:** Collectively, insurers continue to cite claim frequency in the 20% range (one in every five transactions), with most noting a trend toward higher claim severity.
How USI Can Help:

USI can assist clients by:

- USI can leverage our extensive experience and capability in Transaction Liability to help our clients work through standard acquisitions and more challenging transactions involving distressed assets, heavy international exposures, and bankruptcy-related asset sales.

- Navigating the final underwriting phase can be challenging with underwriting questions, sometimes leading to proposed exclusions. USI’s RWI expertise regularly helps in mitigating or eliminating these exclusions.

- The USI team is experienced in working with first-time buyers and transactions ranging from smaller EV to larger $1 billion-plus EV transactions. We are well equipped to proactively help our clients work through the unique and often challenging procurement process for RWI.

- When brought into the front end of deal negotiation, USI can demystify the procurement process and shed light on pricing, underwriting requirements, policy terms, timing, and other expectations, paving the way for a “no surprises” experience.
Cyber Insurance: All Packaged Policies That Include Cyber/Privacy Coverage Components

Between 2018 and 2021 an unprecedented number of cyber incidents have affected the insurance market, some of which included:

- SolarWinds Orion event
- Microsoft Exchange server hack
- A historical spike in ransomware attacks and network intrusions
- A dour cyber reinsurance cycle

Given these events, the cyber market has gone from hardening to historically hard. Overall, insurers are managing the limits (capacity) they deploy, increasing SIRs, and underwriting more thoroughly with a laser focus on technical controls.

Premium and SIR Changes:

- Primary Layers
  - +25% to +50%, with a complete submission and optimal ransomware controls and no material loss events
  - +50%, if losses and/or sub-optimal internal information security controls and processes are presented

- Excess Layers
  - +25% to 50%, no losses/complete submission and optimal ransomware controls
  - +50%, if losses and/or sub-optimal internal information security controls and processes are presented

- Minimum Sought
  - -$250 thousand to $500 thousand-plus for middle market companies
  - $1 million-plus or more for large companies

Insurers are more deeply evaluating the extent of cyber property coverage, with a particular focus on contingent cyber property coverage.

Additional Underwriting Requirements:

- New cyber submission requirements. Insurers are focused on insured controls, which may be analyzed in a ransomware/extortion supplement, now widely required by cyber insurance carriers. Controls include:
  - Multifactor authentication (MFA) controls
  - Patch management cadence
  - Backup procedures
    - Encryption and separate from the networked environment
  - Vendor management IT controls
    - Including the reliance of IT and business process vendors
  - Presence and use of endpoint detection and response (EDR)
  - Regulatory expansion, both U.S. and internationally

- Insurers are consistently engaging the services of third-party vendors to perform noninvasive perimeter technical scans and alerting insureds. The goal is to proactively identify potential vulnerabilities that may create a potential breeding ground for a cyber event. Here, insurers are utilizing these services in an ad hoc fashion throughout the policy year to “check in” with insureds to assess their technical controls.

- Insurers are scrutinizing loss runs/loss information on applications, looking for:
  - Details of any event(s)
  - Costs incurred and paid
  - Remediation steps taken to prevent the reoccurrence of a similar loss/event

IMPORTANT

A complete submission must include, at minimum, an appropriate application and ransomware/extortion supplement. Insurers are unlikely to quote a risk without a complete underwriting submission. Insureds with poor ransomware controls will likely experience higher premium increases, reduced deployed capacity, or higher SIR.
Policy Wording Changes:

For ransomware controls and mitigation techniques, insurers typically classify a risk in any of these four categories:

- Best in Class
- Above Average
- Average
- Below Average

For average or below average categorization, insurers may insulate themselves by:

- Adding a ransomware exclusion
- Reducing limits/capacity and increasing the retention of relevant coverage sections for ransomware events
  - Applying a form of coinsurance percentage for relevant coverage sections for ransomware events in response to the aggregate exposure potentially posed by the spike in network intrusions
- Evaluating any of the following:
  - Coinsurance for contingent (dependent) business interruption/extra expense
  - Increased waiting periods for cyber property coverage sections
  - “Specific Event” exclusions for events that can potentially impair multiple networks at once
  - Infrastructure exclusions
- Where included, reevaluating the underwriting and limits deployed for local cyber and cyber/E&O policies
  - Insurers are aligning the underwriting of local cyber policies with the underwriting of master cyber policies

Cyber Insurer Appetite Changes:

Organizations continue to experience spikes in the frequency and severity of ransomware events, causing significant losses for cyber insurers. While ransomware affects all industries, insurers are managing their exposures (reducing the deployed capacity or increasing the overall SIRs in certain hard-hit industry verticals, including:

- Municipalities
- Manufacturers
- Educational institutions
- Professional services firms (e.g., law firms)
- Public officials/entities
- Airlines
- Healthcare

How USI Can Help:

USI takes these and other practical steps to help clients mitigate the effects of the hardened cyber market:

- Engages strategic resources, many exclusive to USI, aimed at evaluating and improving cyber hygiene and profile
- Leads a deliberate placement process, which shapes the conversation around client risk profiles
- Leverages customized terms experience and our expertise identifying viable cyber insurers
- Provides analytical input around questions of limits, claims impact, and cyber underwriting concerns
Primary Foreign Casualty: In the first quarter of 2021, we saw rates continue to increase. However, in the second quarter of 2021, rate increases have stabilized with minimal movement. Rates on guaranteed cost programs have remained flat on new business, and carriers are trying to obtain rate increases (usually around 3%) on renewals, due to decreased travel and sales exposures related to COVID-19. Attritional losses and high hazard risks continue pushing price increases. While primary international general liability remains flat, rates and minimum premiums continue to be the driving forces in the excess liability marketplace. As an example, Canada’s umbrella market is imposing minimum premiums per million of limit that are up to three times the norm. Automobile coverage in the United Kingdom and Europe is also stabilizing, although carriers are being very selective as related to risk acceptance.

Primary Foreign Property: Carriers are requiring location-specific engineering reports and detailed construction, occupancy, protection and exposure (COPE) information prior to offering quotations. Many carriers are now performing risk engineering surveys on foreign property for high hazard risks and locations over $20 million insured values (in U.S. dollars). Historically, carriers had not pushed for engineering reports because of the cost involved, but they are now absorbing the cost so they can adequately document their underwriting rationale for risk acceptance.

Clients are more open to engaging loss control and third-party vendor valuations to present their risks in a better light to underwriting carriers. By doing this, they are more likely to achieve favorable terms and appropriate property valuations.

Impacts of COVID-19:

- Insurance carriers are now including communicable disease exclusions in their foreign casualty and property coverages. These exclusions apply to local policies in addition to master difference in conditions policies, and are not just being applied to certain classes of business, but are now standard in the policy forms. We have been successful in removing these exclusions in some cases.
- Carriers are still requiring insureds to provide documentation related to their COVID-19 mitigation strategy.
- In countries where workers’ compensation is provided through a governmental social scheme, we have seen no change. The schemes continue to address sickness and death related to COVID-19, as they would any other infectious disease.
- Since travel is still somewhat restricted because of the pandemic, it has been difficult for clients renewing coverage to estimate their foreign travel exposure. There is some good news, however, in that insurers are still willing to make foreign package policies non-auditable.
How USI Can Help

USI facilitates its global risk assessment process for companies with decentralized multinational insurance programs. By moving to a centralized controlled master program, clients can achieve overall premium savings, have concurrency and consistency of coverage, eliminate coverage redundancy, and eliminate potential gaps in coverage.

We will also help clients to:

- Establish schedules and protocols for identifying and evaluating international exposures throughout the year
- Develop and establish processes to push standardized loss control and safety procedures across their organizations
- Understand changes in foreign local coverages, requirements, and laws related to insurance that could impact their ongoing operations
- Track international total cost of risk, which allows clients to manage their total cost of risk on a global and local basis by:
  - Identifying opportunities for risk consolidation
  - Eliminating insurance purchasing that does not meet their risk management philosophy
  - Removing duplicate coverage

“In the first quarter of 2021, we saw rates continue to increase. However, in the second quarter of 2021, rate increases have stabilized with minimal movement.”
Rates Continue to Soar

The global aviation insurance market has experienced three years of shrinking capacity and hard market conditions. Along with business challenges caused by COVID-19, many aviation insurance buyers have weathered consecutive double-digit rate increases and have undergone higher levels of underwriting scrutiny. Major renewals in the first half of 2021 suggest that even though aviation carriers continue to push for increases, they are demonstrating more willingness to compete for new accounts as the rate curve slowly moderates. The anemic capacity levels experienced in 2019 and 2020 are stabilizing and there have not been any additional carrier exits since 2019, when close to a dozen companies across the globe stopped underwriting aviation coverage due to heavy underwriting losses, which prompted the rapid change of market conditions.

The hard market began after the global aviation insurance industry experienced an unprecedented and steady rate decline from 2006 to 2018. During this timeframe there was an overabundance of underwriting capacity and insurers were fiercely pursuing top line growth. In response, the insurance market decreased rates and maintained a liberal position regarding pilot requirements and supplementary coverages. In 2018, the prolonged soft market conditions caught up to aviation insurers and they struggled with significant claims activity and a premium base that was well below sustainable levels.

Already under immense pressure to restore their underwriting portfolios to profitability in 2020, COVID-19 dealt a major blow to the air transportation industry last year. Yet, the pandemic appears to have provided aviation insurance carriers with a slight tailwind by having reduced major and attritional losses — a change that resulted from idled aircraft and reduced flight activity across most major regions.

Although we are seeing more stability and predictability developing in the marketplace, aviation buyers are still facing an increasing market with high levels of underwriting scrutiny. The hard market conditions are likely to continue throughout 2021 and into 2022.

Here is a closer look at how some aviation categories are being affected by the current market challenges:

- **Owner-Flown Aircraft**
  - Coverages are being reduced by the scarcity of higher liability limits
  - Pilot training is being scrutinized more heavily and new training requirements are being required
  - Pilot age is being closely scrutinized and older pilots may have trouble finding coverage
  - Premium increases are in the double digits: between 25% to 50%

### Product Line Mid-Year 2021 (YOY)

<table>
<thead>
<tr>
<th>Product Line</th>
<th>Mid-Year 2021 (YOY)</th>
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<tbody>
<tr>
<td>Aviation</td>
<td>Up 15% to 30%</td>
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Charter Operations
- Extensive loss history could mean difficulty in finding 100% placement. In many cases, a layered program is needed
- Single pilot charter operations are under intense underwriting scrutiny and limits have been drastically reduced
- Large fleets with a history of attritional losses are facing 20% to 45% rate increases and the introduction of higher deductibles

Rotor Wing Aircraft
- This category has been especially hard hit, with rate increases of 50% to 150% and climbing, depending on loss history
- Large commercial rotor wing fleets require a vertical program structure in which multiple insurers participate

Manufacturers’ Product Liability
- Potential rate increases of 10%+, depending on the critical nature of the product and limit needed

Airport and Municipality Coverage
- Potential rate increases of 20%+, with some supplementary coverages being reduced

How USI Can Help
USI works closely with our aviation clients to develop a comprehensive risk management strategy tailored to their unique exposures and focused on mitigating their cost of risk. Processes include:
- Generating complete analytics to understand and quantify exposures
- Reviewing program options and retention opportunities
- Evaluating program limits and coverage needs
- Developing an extensive, comprehensive underwriting submission and loss mitigation narrative highlighting training and safety protocols, risk control/claim management measures, and more to help demonstrate “best-in-class” status
- Researching markets and identifying carriers with whom clients can build strong relationships

USI’s approach is especially valuable when purchasing or renewing coverage during challenging times like these, when companies may be pressured to accept the pricing, terms, and conditions imposed on them by restrictive carriers.

To achieve a favorable coverage outcome, USI suggests:
- Starting the renewal process as early as possible to allow time for your renewal to be fully marketed and to schedule virtual meetings with underwriters.
- Consulting with USI’s National Aviation team, which can help guide the process by suggesting ways to improve submission integrity, accelerating timelines, and advocating on the client’s behalf.
- Providing detailed information that will allow us to better understand your risk management situation and needs.
- Completing applications and questionnaires completely.
- Highlighting your focus on safety and pilot training protocols, especially training that goes above and beyond Federal Aviation Administration (FAA) requirements.
- Being open to underwriter and loss control visits.
- Reviewing USI’s STEER (Steer Through Epidemic & Economic Recovery) materials pertaining to COVID-19 and its impact on market conditions. These resources were prepared in conjunction with USI’s aviation practice group and may be located on our Public Health Emergencies page.

“Many aviation insurance buyers have weathered consecutive double-digit rate increases and have undergone higher levels of underwriting scrutiny.”
Big market news: after writing environmental insurance for more than 30 years, Zurich Environmental is no longer renewing some pollution insurance policies in the U.S., citing profitability concerns. There have been new entrants in the space, such as the recent addition of Hamilton Insurance Group and SCOR Channel (Lloyd’s). But to continue having good overall capacity and competition, there may be some capacity restrictions on tougher risks, such as on the energy sector. As of now, the question is whether the marketplace will tighten its underwriting standards further and increase pricing, since both AIG, which stopped underwriting new policies several years ago, and Zurich could not make this line profitable.

In other updates, we continue to see rate increases in professional liability for construction and environmental contractors, with rates ranging between 10% to 15% higher on renewal.

We are also seeing an increase in perfluoroalkyl and polyfluoroalkyl substances (PFAS) claims in different states (including NJ, NY, MA, NH, VT, MI, and CA), for airports, landfills, wastewater treatment and industrial sites with PFAS exposures. State regulators are issuing many requests for information to determine potential responsible parties for PFAS contamination in groundwater. The question is whether these requests for information will trigger the “duty to defend” clause on pollution policies, assuming no PFAS exclusion exists.

### General Overview

The upward trend of environmental claim severity and frequency continues in 2021. Over the past decade, the environmental marketplace has expanded significantly to include over 50 insurers in the space. This has led to significant competition and more customized solutions, all with a much better risk-trade for buyers. While there was a pause last year on new entrants to the market, new entrants (such as Hamilton) are being seen this year. Some insurers are being more cautious about how much capacity they will deploy on a risk.

Specific to COVID-19, we are seeing insurers reduce or eliminate virus coverage from their policies, if they were providing any virus coverage at all. Insurers have also developed varying exclusions, either broadly with respect to viruses or specific to COVID-19. If any level of virus coverage is still being offered, it is usually with small sub-limits of $1 million or less and is specific to disinfection and cleanup, with no coverage for business interruption or toxic tort liability. If there are mid-term changes to a policy, such as related to an acquisition, insurers may take the opportunity to apply new virus or COVID-19 rules or coverage restrictions on the added entity or covered locations.
Other Emerging Risks

The industry is also responding to these emerging risks:

- More companies are seeking product-pollution liability coverage as the result of additional toxic tort litigation around products that are toxic to humans or the environment. This is an area for growth in the marketplace, either as a standalone solution or combined on a site policy or blended with a general liability policy.

- Environmental insurers have been watching the uptick of climate change risk and ongoing litigation, with some exiting the market for industries that are primarily involved in coal, or whose revenue is primarily derived from coal. This will make finding environmental solutions for the coal industry even more challenging in an already limited marketplace.

Perhaps when the pandemic settles, environmental insurers will develop some viable new solutions and innovations in mergers and acquisitions, cost cap policies, climate change, and coverage for future pandemics.

The Market Today

- Highly competitive
- 50+ Insurers

Market Capacity

- Over $700 million. Stable, with some potential restriction in capacity per deal per insurer. In tougher risks, more excess insurers may be needed to achieve desired capacity.

Overall Marketplace Trends

- Expansion of Coverage: more markets offering some broader coverage enhancements to capture greater market share, such as first-party “diminution in value.” For “defense outside of limit,” either at a defined limit or in some cases on a contractors’ pollution policy, insurers may provide unlimited defense coverage. A new cost cap policy has been re-introduced for cleanup projects exceeding $5 million.

- Transactional Risks: 10-year term policies for historical pollution legal liability are still available from a short list of insurers.

- Higher Hazard Risks: such as energy, mining, petrochemical, power and utility firms, and fuel hydrant systems (including airports), may find only short policy terms of one-to two-years.

- Other Claims: typical claims related to mold, legionella, dry cleaning solvents, and petroleum continue.

How USI Can Help

USI assists its environmental clients by:

- Creating an environmental profile to identify exposures associated with operations, helping to quantify and qualify the impact on the organization to determine appropriate risk management and insurance solutions

- Developing formal and customized risk maps to identify the frequency and severity of fines and penalties for noncompliance, spill events, known and unknown remediation, and toxic tort liability

- Developing sophisticated risk model platforms for significant liabilities, using Monte Carlo analytics to look at a range of probabilities and forecast potential liabilities over a long horizon

- Providing updated COVID-19 pandemic information and materials on our Public Health Emergencies page
INDUSTRY UPDATES
The manufacturing and distribution market continues to perform in line with the projections noted throughout this report. These additional trends are worthy of mention:

Supply Chain

During the first half of 2021, the supply chain for manufacturers and distributors has been impaired due to the ongoing COVID-19 pandemic and these other recent events: the Suez Canal blockage, the Colonial Pipeline hack, the winter storms that placed Texas in a deep freeze, the microchip shortage, driver labor shortages, and other events that have slowed businesses in their recovery toward pre-pandemic levels. The supply chain may be further distressed by the 2021 hurricane season if it is as active as predicted. Until the supply chain improves, any additional event, even if slight, may have a ripple effect.

Cargo/Stock Throughput

As the result of catastrophic losses, adverse loss development and poor underwriting results, the cargo market, specifically stock throughput (STP), has been largely unprofitable for the past several years and has gone through a substantial market correction. Market conditions continue to be affected by significant supply chain losses.

This situation follows several syndicates exiting the marine market, with others taking corrective action to restore the profitability of their books by implementing higher deductibles and rate increases, as well as by restricting certain classes of business and coverage terms. As the U.S. and London markets remain focused on improving underwriting results, we continue to see rising rates and restrictions around terms and limits for tougher classes of business, including soft commodities, temperature-sensitive products, and liquor distilleries.

Trade Credit Risk

The global trade credit risk market is poised for significant growth over the next several years. This growth is largely fueled by concerns about several risks, including the non-payment of goods and services resulting from COVID-19, and supply chain fallout. From a rate perspective, this line was stable and soft for many years, but this is no longer the case. Capacity has been tightening, and many insurers have been reducing their exposure (limits) on certain risks and classes of business. We expect this trend to continue through 2021.

Product Recall

Product recall is still performing well through the hard market cycle and COVID-19 pandemic. While there has been a slight retraction in capacity from individual markets, there is ample aggregate capacity within the marketplace. Although this situation warrants attention, the concern is not presently significant.

Food-related product recalls are expected to increase in the future as food safety and consumer protection regulations continue.

“There is reason for optimism as rate adequacy has somewhat returned, but this optimism is guarded because an active 2021 hurricane season would further stall market improvement.”
How USI Can Help

In guiding clients toward achieving favorable coverage outcomes, USI recommends taking the following steps:

- Begin the renewal process at least 150 days prior to inception. Complete a loss analysis early to assess the impact of program structure, retention, and risk mitigation efforts. This establishes your “ask” of the market, allowing for early indications from incumbents and understanding of your options around limits, retentions, coverage, and price.

- Work with your broker to evaluate all market options in the U.S. and London. Focus on risk appetite and industry.

- Clearly identify and differentiate each risk to the marketplace, reinforcing risk quality and mitigation efforts. This step is imperative and includes evaluating domestic and international supply chain exposures as well as any continuity/contingent plans.

- Review and consider retention strategies for premium impact.
Real estate renewals are in line with the projections noted in this report for each line of coverage.

**Insurance Capacity**

Property, liability, and excess liability capacity remains readily available for real estate clients. The cost of excess liability coverage continues to rise due to increased settlements across the country. Carriers will continue to be selective with their capacity, with the goal of generating an underwriting profit. Accessing capacity using a well-thought-out plan can lead to a better renewal outcome.

**Pandemic Effects**

The real estate industry faces potential challenges related to the pandemic’s lingering effects — challenges that could have insurance implications and should be assessed. If applicable, property owners and managers should evaluate these challenges and, where appropriate, communicate their plan of action to carriers:

- Occupancy levels and impact to insurance coverage
- Exposures to contractual liability and construction risks via the repurposing of buildings
- Liability and property damage related to the lifting of eviction moratoriums
- Potential for continued civil unrest and emergency response planning
- Criminal activity leading to large liability claim settlements

By making these and other challenges part of the renewal discussion, property owners and managers will work more efficiently with their insurers.

**How USI Can Help**

To achieve a more favorable coverage outcome, we advise our real estate clients to:

- Discuss their 2021-2022 business blueprint and capital expenditure plans with their carriers
- Engage risk control to review any major building modification designs and how these designs may relate to their property and liability insurance
- Work with their client service team to re-evaluate contractual risk transfer and alignment with their insurance coverage
- Review non-traditional insurance risk transfer opportunities
The availability of risk transfer capacity for healthcare clients is stable, however, most underwriters are more selective about accepting a “risk.” Carriers are reducing their exposure to large losses due to social inflation by offering lower limits of liability.

The pricing of risk transfer for healthcare clients continues last year’s upward trend and likely will continue for the foreseeable future, throughout the response to the COVID-19 pandemic. During the remainder of the year, we expect rate increases to range from 10% to 35% for professional liability renewals.

**How USI Can Help**

USI supports our clients through the sales and renewal processes by taking these and other important steps:

- Advocating on behalf of the client
- Reinforcing when infectious disease exposure has taken place, or is presumed to have taken place, within the scope of employment so that workers’ compensation coverage will apply
- Working with the client to ensure all workers’ compensation claims are reported as soon as practicable, and that nurse case management is utilized as quickly as possible to reduce indemnity and medical expense
- Ensuring that the employer’s liability limit is adequate for the exposure and any claims are assigned to an adjuster with employer’s liability experience

“During the remainder of the year, we expect rate increases to range from 10% to 35% for professional liability renewals.”
As the second quarter of 2021 began, many contractors in the U.S. were optimistic about construction returning to pre-pandemic levels. With the anticipation of a federal infrastructure bill as well as stronger consumer confidence, the construction industry is poised to have a boost in both public and private sectors for the rest of 2021 and into 2022. A recent Architectural Billings Index from the American Institute of Architects (AIA) and Construction Confidence Index from Associated Builders and Contractors, which track backlog and measure confidence in sales, profit and staffing level expectations for the next six months, point toward positive momentum and continued recovery for construction.

Although the outlook is positive, there are some challenges that may take this growth trajectory sideways. Continued hiccups in the global supply chain are substantially increasing material prices for critical path components like lumber and steel. Coupled with extended delivery times and scarce labor, owners may question whether it is the right time to get their projects back on track. Because of this, economists like Ken Simonson, Chief Economist for Associated General Contractors of America, are not confident there will be significant growth before 2022.

Additionally, according to BaseRock Partners’ Engineering & Construction Market Outlook (Q2 2021), residential construction is outpacing non-residential construction in all geographies because of the low-interest-rate environment, demographic shifts toward suburban/rural environments, and general COVID-19-driven demand for improved housing. This is creating new entrants to the residential sector — contractors who historically focused solely on commercial projects. Residential construction poses different and more challenging risk exposures, especially in litigious states, which may affect the ability to adequately secure insurance coverage.

As we continue to maneuver through work-from-home, hybrid and on-site work, the reliance and adoption of technology across the construction industry has increased, exposing companies to greater risk of cyber threats. Finally, as COVID-19 vaccines are rolled out across the country, construction firms will face decisions on whether to require vaccinations for their workforce.

“Although we have a positive outlook going into the second quarter of 2021, some challenges may take this growth trajectory sideways.”
Builder’s Risk

Project delays requiring extensions have become increasingly difficult, as driven by reinsurance capacity and treaties. Requirements for water and fire mitigation technologies as well as site security are becoming mainstream, even for non-combustible projects. Market support and capacity for frame remains volatile, especially for larger frame projects located in urban environments or cities that saw an increase in social unrest.

General Liability

As contractors are looking at different ways to finance their risk, alternative program structures are emerging and bringing new entrants into the loss-sensitive arena. This will give greater options to clients whose carriers lack the appetite for this type of structure. Some carriers are offering group captive options as an innovative way to retain their current clients, and some primary casualty carrier partners are looking at higher limits to help alleviate pricing pressure in the lead umbrella market.

Umbrella/Excess

This continues to be the single most impacted line of business for a construction account outside of frame builder’s risk. Although there has been no significant legal reform to date, it is noteworthy because losses due to social inflation, third-party litigation financing, nuclear judgements, and distracted driving continue to deteriorate and cause profitability issues for insurance carriers.

Owner-/Contractor-Controlled Insurance Programs (OCIPs/CCIPs)

Much like the project extensions mentioned previously for builder’s risk coverage, projects insured under an owner- or contractor-controlled insurance program are beginning to see challenges with extensions, especially for project sponsors who have had some losses. The transitioning market is causing contractor and subcontractor insurance costs to increase, motivating them to change their buying behavior. The opportunity to secure coverage for a multiyear period at a fixed financial structure may be an attractive option for the right project and sponsor.

Environmental

The market is starting to show signs of hardening, with an uptick of markets tightening terms and conditions and imposing lower limits with higher deductibles on some risks. Claims associated with perfluoroalkyl and polyfluoroalkyl substances (PFAs) and indoor air-quality exposures (related to mold and Legionella bacteria) are driving insurers to greater underwriting scrutiny. Opportunities from infrastructure and energy policies will create continued demand. Other than some markets exiting the site pollution marketplace, environmental capacity remains strong.
How USI Can Help

USI’s construction risk advisers employ a proactive, project-management-like approach. This approach integrates claims, risk control and analytics to create a risk management program that maximizes cash flow and allows for aggressive bidding strategies, while simultaneously protecting your most precious asset: your people.

USI’s construction team recommends taking the following steps when considering second-quarter 2021 renewals and those thereafter:

- Renewals should be considered year-round, not just during the 180-day period prior to the renewal date. By establishing a 365-day renewal cycle, companies will have a greater opportunity to explore the right financial structure and market alternatives well in advance. This will also allow more time to address needs and alleviate concerns that may materialize as the renewal date nears.

- Communicate operational goals and changes throughout the year with your broker and insurance/surety partners. “Early and often” should be adopted as a communication strategy.

- Assess your internal controls and operational procedures on a regular basis. Turbulent times are creating more challenges internally and externally, making it critical to stay abreast of changes, such as with employees, supply chains and risk exposures. Proactively assess changes in your risk profile.

- Explore the uses and adoption of technology applications as part of your company’s overall culture and operational goals.

- Work with USI’s construction team to explore creative or alternative ways to structure the most appropriate insurance program for your company; consider the variety of risk financing opportunities available and be open to new methods of transferring, mitigating, or managing risk.
The public entity/higher education insurance marketplace is performing in line with the projections noted throughout this report. The lines of coverage most severely affected include:

- Property lines in catastrophe-prone areas (wind, hail and earthquake events)
- Casualty lines, including excess and umbrella limits, cyber coverage, public officials’ liability and, more recently, law enforcement liability

**Cyber Security**

Since the publication of our previous report, cyber coverage has changed significantly. Events such as the SolarWinds hack of early 2020 and the recent Colonial Pipeline cyberattack have alarmed underwriters. To say underwriters have greatly increased their scrutiny of risks is an understatement. We cannot overstate the importance of securing renewal information in short order so the risk can be effectively marketed upon renewal.

In this challenging market, we are facing headwinds that can only be managed by top-notch controls. Pricing is likely to double at minimum, and retentions will increase. Several markets are significantly reducing capacity or exiting the public entity business entirely and are imposing up to 50% coinsurance on contingent business interruption to limit their risk.

Cyber hygiene and the use of multifactor authentication (MFA) have become the bare minimum safety features needed to maintain a competitive program in terms of price and coverage. Public entities and universities should ensure that their policies will be responsive to business interruption in the event of a ransomware attack or the infiltration of their network through any remote work systems implemented to accommodate workers and students.

**COVID-19 Pandemic**

Developments since our previous update include:

- Underwriters are imposing communicable disease exclusions upon renewal. Therefore, public entities and universities should start the renewal process early and provide carriers with information on all protections they implemented in response to COVID-19, which will be helpful in negotiating and/or limiting exclusions.
- While remote work may be more efficient in some cases, it may increase ergonomic and cyber exposures for public entities and universities. For these reasons, it is important to develop an adequate communication plan across all departments and have a comprehensive business continuity plan in place.
- Insurance carriers have no interest in providing business interruption coverage for COVID-19-related events. Some public entities and universities are continuing in their efforts to lobby federal and state governments to cover these claims retroactively. To date, it does not appear that any of these efforts have had significant momentum.

**Continuation of the Hard Market**

Current hard market conditions have been compounded by the exit of some public entity insurers in Texas, Oklahoma, and Kansas due to recent windstorm and hail events. The remaining insurers are experiencing additional pressure as extreme weather and other events occur more frequently, including coastal flooding, riots, and strikes and civil commotion.
Other Examples of the Hard Market

- Property programs continue to experience rate increases in the double digits, higher deductibles, and limitations on flood, wind, hail and earthquake coverage.
- Available umbrella capacity is dramatically decreasing across the board coupled with more restrictive terms, particularly for public transit authorities, large fleets and municipal buses. Fifty-percent capacity reductions and 20% to 50% rate-on-line increases are the norm.
- Higher education clients are seeing capacity reductions in available Traumatic Brain Injury (TBI) and Sexual Abuse and Molestation (SAM) limits. It is not uncommon to see premium increases above 20%, and we are also seeing reduced limits in the primary liability and excess lines of business. Insurance carrier participation is also shrinking due to lack of appetite and market constriction.
  - An emerging concern that should be watched carefully relates to insurers that are restricting SAM coverage limits to a single limit for one perpetrator, to avoid the stacking of limits over consecutive policy terms.
- Events in the news about police reform and policing practices have placed pressure on underwriters, who are concerned about the erosion of qualified immunity. As a result, premiums and retentions are likely to rise quickly. Insurance carriers will require more detailed underwriting information to provide bindable terms and conditions.
- Continued civil unrest could create blurry lines between civil commotion and terrorism allegations, leading to denied claims and coverage disputes. Higher retentions for riots and civil commotion perils are becoming the norm.

How USI Can Help

- USI’s Cyber Risk Management team can help businesses learn more about their cyber risks and how to mitigate them as the COVID-19 work-from-home environment continues. USI can perform a cyber policy review to ensure current coverage updates are included in an organization’s program. We also use our eRiskHub and other risk management tools to help clients navigate cyber exposures and claims.
- USI’s Public Health Emergencies site provides information and resources to help organizations in their COVID-19 response efforts.
- USI’s TerrorSafe Plus suite of products, administered by our U.S. Risk group, offers broad coverage options for Strike, Riot and Civil Commotion (SRCC), in addition to the benefits and features of the original TerrorSafe program. SRCC, which provides coverage against direct physical loss or physical damage caused to a property, is available as a stand-alone policy or by endorsement to USI’s Sabotage & Terrorism or Active Response policies.

USI assists public entities and universities by:

- Using catastrophic property modeling to help them identify the appropriate amount of wind, flood and earthquake coverage
  - It is vital to ensure that construction occupancy protection exposure (COPE) data is detailed and accurate
- Evaluating all options in the U.S. and London markets, focusing on risk appetite and industry
- Preparing a comprehensive market submission with the intention of highlighting a strong/improving safety culture and risk management approach
- Developing analytics around various risk financing opportunities, which can lead to improved decision-making and better outcomes
- Reminding clients to start the renewal process 180 to 150 days prior to inception, to encourage an early response from incumbent markets regarding their options (e.g., limits, retention, coverage, and price)
During 2020, excess supply, reduced demand, limited availability of personnel, and severe weather constricted profitably for businesses across the nation. Coverage lines will cost more for consumers in 2021 and the agriculture industry is no exception.

**Property:** Catastrophic (CAT) losses taxed the insurance industry with the agriculture sector among the hardest hit. Severe weather has diminished carriers’ profitability for agribusinesses and forced them to take a hard look at property rates. In addition, reduced demand for many agricultural commodities has left businesses sitting on increased inventory, stressing the current storage capacities of the sector, and increasing insurance costs. Pandemic restrictions have also increased the cost of building materials and labor, thus inflating the cost for new construction and repairs as the agribusiness industry struggles to meet storage needs. Although current market predictions are for 10% to 15% increases on property, many agribusinesses in the hardest hit areas will see even more substantial rate activity.

**General Liability:** Counteracting sluggish revenues, agribusinesses sought new product distribution channels and enhanced service offerings during the first half of this year. This has created a shifting risk profile for many in the industry. A proactive loss control approach will be necessary to allow for favorable positioning in the renewal process.

**Product Liability and Product Recall:** An influx of claims activity has taxed the marketplace and forced carriers to reduce capacity and increase rates, with 2021 renewals expecting to see a 20% to 25% uptick. Within the agribusiness sector, we continue to see the most claims activity in product recalls due to allergens and product liability claims related to crop application services.

**Directors & Officers (D&O) Liability:** Product liability and recall, employment practices liability, and employer’s liability claims have put stress on this coverage line as well. Increased claims activity will push rates up a predicted 10% to 15%.

**Umbrella/Excess Liability:** The most significant of coverage lines, umbrella/excess liability, continues to encounter the greatest difficulty. Increased claims activity (both frequency and severity) and large settlements not only continue to increase rates an estimated 20% to 25%, but also affect capacity limitations for many in the agriculture industry.

**Cyber Liability**

The agriculture industry has also been impacted by the hardening cyber market. Three key factors are leading the influx of cyber claims within the sector:

1. The shift towards “precision agriculture”
2. The industry’s traditional focus on performance and safety rather than cyber security
3. The industry’s reliance on an extended supply chain (thus making it more difficult to secure)

These factors have made the agriculture industry a growing target for cybercriminals. When combined with the overall hardening of the cyber market, these factors have pushed cyber liability prices up 20% to 50%.
How USI Can Help

Not only have carriers seen an increase in claims activity, but also in the costs of those claims. Pandemic restrictions have made investigating, settling, and closing claims much more costly. This will continue to put pressure on the market, driving up rates and shrinking capacity in the coming months.

As a result, it will be more important than ever to work closely with your USI consultant to evaluate, understand and communicate effectively to insurance carriers and underwriters your organization’s specific exposures and loss control efforts. By doing so mid-term or well in advance of renewal, you will be more likely to achieve positive results in a challenging market.
In the first two quarters of 2021, the life sciences market continued to perform better than the overall insurance market, with certain coverages experiencing premium reductions. Insurance companies view life science companies as desirable risks because they operate in a highly regulated Federal Drug Administration (FDA) environment, which is why insurers have introduced or expanded their underwriting appetite. This is especially true for product liability and traditional “package” policies, while other lines, such as D&O and cyber, experience rate increases on the upper end of USI’s rate guidance.

A few trends are worth noting:

**Product Liability**

Renewal rates remain stable, with declines of more than 10% for the larger life science companies when competition is brought into the renewal process. There is competition for both the primary layer and excess layers, with ample capacity available in the domestic market. We are also seeing a handful of aggressive London syndicates.

Capacity trends are worth watching. Some insurers have started to reduce their limit offerings — such as from $20 million to $10 million, or $10 million to $5 million. However, there is ample capacity available today for life science companies to adequately complete coverage towers without impacting premiums. It is possible that this will result in higher premiums down the road, similar to what has been experienced in the broader casualty marketplace outside of life sciences.

Specific to litigation, a new phenomenon may be emerging because of the rapid industry response to vaccine development and other COVID-19 therapies: juries in the courtroom may be more sympathetic to life science companies. Plaintiff’s lawyers may be focusing on other classes of business, looking for the next big multi-plaintiff litigation event. It is too early to suggest there is evidence to support this as a “trend,” but USI will be keeping a close eye on developments.

**Supply Chain**

The supply chain continues to grow more complex and global. Insurers offer various forms of coverage globally for known and unknown risks through contingent business interruption limits, as well as for inventory at third-party locations. Traditionally, underwriters required less data of these locations, unless limits greater than $5 million were requested.

That trend is clearly changing, and life science companies are expected to gather traditional building data on their key suppliers and vendors to obtain coverage. A fire last December at the Taiwan-based Xufu Pharmaceutical Factory, owned by SCI Pharmtech Inc., accelerated this trend because of the damage at the facility and the fire’s spread to adjacent factories.

India is instrumental to global supply of pharmaceutical products and active pharmaceutical ingredients (API). As such, the catastrophic surge in COVID-19 cases that India experienced this spring could impact global supply of critical therapies. We are seeing more companies establish FDA-approved back-up manufacturing capacity for the more valuable products in their portfolios, although this may not
always be practical or economical for smaller companies. A few insurers are creatively offering a small sublimit for “delays,” but not nearly enough to cover the true exposure.

**Contract Manufacturing**

Consumer confidence in the manufacturing process remains the most important goal of the industry and can be accomplished through strict adherence to FDA quality control regulations. Companies large and small rely on contract development and manufacturing organizations (CDMOs) to produce products, and expect those CDMOs to operate to their standards. Unfortunately, given the intense pressure on profitability, these companies may cut corners to meet their contractual obligations and production goals.

We are seeing this play out in the COVID-19 vaccine marketplace. Johnson & Johnson’s COVID-19 vaccine CDMO partner experienced a series of issues this April in its Baltimore, Maryland, facility. After these issues resulted in the destruction of 15 million doses of the Johnson & Johnson vaccine, consumer confidence in COVID-19 vaccines eroded.

As related to the use of CDMOs, these factors should be considered:

- Contract review for insurance and indemnification provisions is essential, inclusive of requiring CDMOs to contain credible professional liability limits in line with product liability limits.
- Consideration of non-direct damage business interruption (NDDBI) should be explored. While it was once very expensive compared to product liability, the cost for NDDBI coverage has fallen significantly in the last few years. Whereas traditional business interruption requires an element of obvious property damage, NDDBI can cover the loss of profits and associated expenses from a regulatory disruption or contamination event.

**How USI Can Help**

USI suggests taking the following steps to encourage a favorable coverage outcome:

- Begin the renewal process 150 days prior to inception.
- Work with your broker to evaluate all market options, focusing on risk appetite and product mix.
- Assess U.S. and London markets, and be open to multiple insurers on your program as opposed to one insurer offering all coverages in a “package” format.
- It is imperative that each risk be clearly identified and differentiated to the marketplace, reinforcing risk quality and mitigation efforts. It is critical to have data on facility characteristics, safety programs, and global supply chain exposures when marketing.
- Delineate the product liability risk profile (high, medium, low) to help underwriters understand therapeutic class and specific product risk factors.
- Review contracts carefully to determine risk transfer/assumption language that impacts the revenue exposure base associated with product liability premium rating.
- Assess all clinical trial activity to determine which studies have been impacted either in a delayed start, longer duration, or reduced patient population.
How Can We Help?

To help clients navigate these challenging times, USI has implemented a STEER (Steer Through Epidemic & Economic Recovery) Task Force. This cross-functional team is working to provide timely COVID-19 information, understand cross-industry and geography impact and evolving responses, and to develop and deliver tailored solutions to help clients steer through this epidemic challenge and economic recovery. For additional resources, tools, information and links, please visit our COVID-19 resource page [www.usi.com/public-health-emergencies](http://www.usi.com/public-health-emergencies).