# State of the Market

Q2/Q3 2022

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As we enter the second quarter of 2022, we expected to see more of a slowdown of the hard market conditions than what has materialized. Even with many carriers reporting improved loss ratios and record earnings, tightening capacity and rate increases are not quite behind us due to the following factors.

Carrier performance isn't a one-size-fits-all, with the top 25% of carriers significantly outperforming the rest of the market. Additionally, some carriers had more work to do to achieve rate adequacy based on their portfolio mix.

For most of the last five years, E&S loss performance has lagged the standard market, and as a result, E&S is continuing to harden while certain sectors of the standard market seem to be transitioning to a softer market. The market also appears to be bifurcating renewal pricing based on loss performance.

We continue to see carriers shift away from volatility as they reduce the amount of limit deployed in high hazard classes, locations, and perils, as well as simply exiting classes of business.

Russia's invasion of Ukraine is expected to generate meaningful losses for certain lines of business and the economic effects of sanctions are putting additional pressure on oil prices and further accelerating U.S. and global inflation.

The Federal reserve has started raising rates in an effort to slow inflation. Rising interest rates are good for insurance companies in the long term (and could contribute to market softening) by allowing them to earn a greater return on their fixed income investment portfolios. However, the immediate impact of rising rates is unrealized losses on the current fixed income investment portfolios which negatively impact surplus.

The pace of interest rate increases and the impact on inflation are wild cards, and we likely won't know their full impact until further into 2022 and 2023.

## Property

In our **[Q1 2022 Pricing Guide]**, we predicted that challenged classes and perils would continue to see increases into 2022 and 2023, and accounts with better risk characteristics would experience flat to moderate increases. This is holding true as the market seems to be bifurcating between what the standard markets deem adequate rate for exposure and what the E&S market will tolerate.

The theme of natural catastrophe losses impacting the property market remains consistent. With insured loss estimates ranging from $100 billion to $145 billion, 2021 proved to be the second costliest year for the insurance industry after 2017. Although the severe storms cannot be directly attributed to climate change, climatologists at the large insurers believe this is a pattern we are likely see continue.

Most of the domestic CAT reinsurance treaties date in May and June, therefore the impact will be felt in the second quarter, just in time for wind season.

Carriers continue to de-risk their portfolio by limiting their exposure to high-risk perils and locations, including Florida, wildfire-prone areas and coastal property.

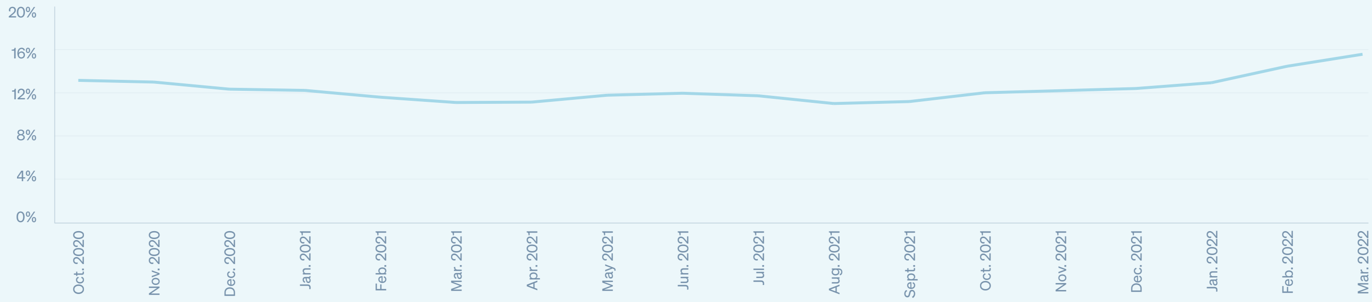
London is seeing a significant flow of middle market accounts where some large domestic MGAs and other domestic carriers are reviewing their appetite, particularly those with CAT exposures. In London, rate increases across the board are anywhere from flat and 10% on non-loss affected business, with tougher classes seeing the higher end. Accounts with significant attritional losses or sizeable CAT losses in 2021 are seeing considerably higher increases. Underwriters continue to address attritional accounts by imposing higher deductibles and tightening terms.

There is a continued focus in London on valuations across all property classes. More syndicates are relying on modelling results than ever before and with the new version of RMS, we expect this to have an effect both on pricing and capacity.

This report will take a closer look at how property markets are behaving in specific industry segments.

– **Harry Tucker**, Amwins' National Property Practice Leader
*With contributions from **Toby Colls**, Managing Director with Amwins Global Risks.*

**Renewal Pricing Trends –** Property Renewals, Rolling Quarterly



## Casualty

The overall casualty market remains strong with primary general liability remaining flat in most areas on risks with favorable loss histories. In the excess space, after 24 months of dramatic rate increases and capacity reductions, the market has noticeably settled down.

Carriers remain comfortable with the rate environment, attachment points and deployed capacity on individual accounts. In fact, we have recently seen instances of carriers offering additional limits on single accounts and, at times, cutting rates slightly to remain on the renewal. While indications from carriers are that overall rate is still needed, new capacity in the excess space is influencing the rate environment.

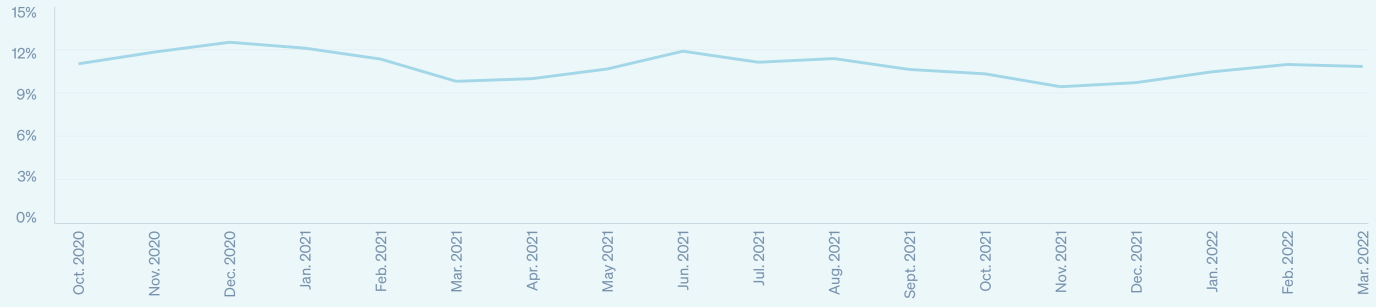
That said, carriers are keeping a close eye on loss trends as the court system continues to open across the country. We can expect to see the continuation of large settlements and judgements from sympathetic juries as social inflation will continue. This may have an impact on the marketplace and carriers are keeping a close eye on the legal environment.

Within certain classes of business, especially in the areas of real estate, hospitality, social services and public entity, we have seen tightening of terms and conditions around assault and battery (A&B), sexual misconduct/molestation liability (SML), wildfire and communicable disease. Carriers are shielding their exposure from potential “nuclear” verdicts by excluding cover in these areas.

Workers’ compensation is an area that remains extremely competitive as underwriting profitability remains solid, and the industry is still reporting strong reserve adequacy. We’ve seen several carriers become more aggressive in the past six months, not only in terms of pricing, but also in terms of the higher hazard business they are willing to underwrite. However, growing concerns include rate adequacy, rising medical costs, the impact of COVID-19 due to the presumption laws as well as overall changes in the workplace.

– **Tom Dillon**, Amwins’ National Casualty Practice Leader
*With contributions from **Kim Weisse** and **Todd Pollack**, Workers’ Compensation specialists with Amwins Brokerage.*

**Renewal Pricing Trends –** Casualty Renewals, Rolling Quarterly



## Professional Lines

Professional lines rates have been relatively stable since the start of the pandemic, save the following exceptions.

### Cyber

Despite three years of steady cyber insurance rate increases, carriers have not seen the improvement in profitability to begin to offer decreases, and in fact, we expect to see a continuing hard market in that space. For a full discussion of the state of the cyber market, read our special cyber report . Carriers are showing signs of optimism over the push for usage of Multifactor Authentication and Endpoint Protection as a prerequisite for being eligible for cyber insurance. Insureds have been improving their security posture, which should ease some of the pain in the market. Risks coming to market without acceptable security controls remain very difficult to insure.

### D&O

While the Directors & Officers insurance market for initial public offerings (IPO) and Special Purpose Acquisition Companies (SPAC) remains challenging in both pricing and capacity, the overall market predictions for public and private D&O are cautiously optimistic as we head into the second and third quarters of 2022. Rates for excess capacity are becoming more competitive as some of the newer capacity looks to gain market share.

The D&O market remains in a holding pattern with 5% to 10% price increases as the world continues to experience economic uncertainty in the aftermath of the pandemic. The initial concerns about high volumes of company bankruptcies and/or security claims following COVID-19 have not materialized, and while inflation is a known concern, its impact on the economy is yet unknown. Thus, insurers and underwriters are taking a more individualized approach to pricing D&O policies.

### EPLI

As courts reopen and more employees return to work, carriers are watching to see if employment practices liability insurance claims arise from vaccine mandates, lockdown layoffs, rehiring, or any of the typical mistakes that happen when employees are working face to face again.

### London Market

The financial institutions market in London has been consistent over the last two to three years. We were seeing increases throughout 2021 of between 10% to 20%, but that is probably closer to 5% to 15% now for a risk with nominal changes in exposures.

One area that is challenging is broker dealers' professional liability. There has been high volume and frequency of claims which has driven a number of markets from writing the class and forced others into retrenching and adjusting their appetite.

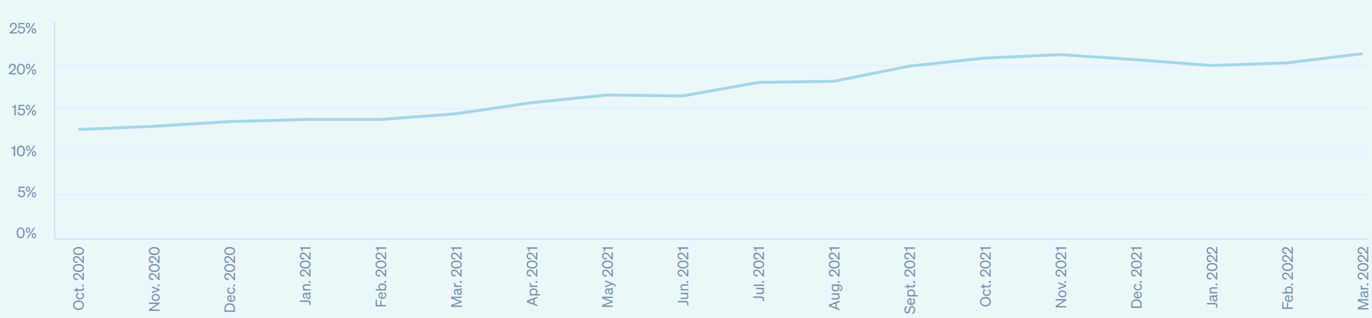
The cannabis and cryptocurrency sectors also remain challenging with limited capacity available. The primary solution is currently an unrated Bermuda carrier, but the process is very slow due to the high volume of submissions.

London's primary D&O rates have plateaued considerably, and reductions have been achievable on excess layers since the beginning of the year. Whilst the market for SPACs and de-SPACs remains tough, there is more appetite for de-SPACs in London since the start of the year.

Over the past 12 months, London has seen a significant increase in the number of insureds requesting abuse and molestation coverage due to contractual requirements (e.g., school districts and government contractors). Also, as carriers in the U.S. cut back on their SML limits, London has had success in providing excess terms above the GL/packaged policy.

– **David Lewison**, Amwins' National Professional Lines Practice Leader
*With contributions from* ***Kirsty Mitchell, Dom Calcott, Oli Doran*** *and* ***Alex Marsh*** *of Amwins Global Risks.*

**Renewal Pricing Trends –** Professional Lines Renewals, Rolling Quarterly



# Reinsurance

**Insight provided by:**

– Jessica Zuiker – Assistant National Property Practice Leader with Amwins Group

– Rich DiClemente – President of Amwins Re

It's no secret in the insurance industry that when insurers (admitted and non-admitted) lose money, reinsurers meet the same fate. After all, they pay the bulk of those losses after the insurer's retentions are exhausted.

But since "insurance for the insurer" isn't necessarily an attention-grabbing topic, the role reinsurance plays in the market doesn't get a lot of attention. Until it does.

As insurance losses have mounted exponentially due to a global pandemic, an increase in cyberattacks, and some of the costliest weather disasters we've ever seen, the critical role reinsurance plays in capacity and pricing has been thrust into the spotlight.

Insurers and reinsurers alike are re-evaluating their risk exposures in loss-prone regions and lines of business and are either exiting entirely or significantly limiting their capital deployment in those areas. Because these actions make it more challenging to secure adequate coverage for insureds, it's important to examine the state of the reinsurance market.

## Facultative Property Market

Facultative markets suffered heavy losses in 2021, both attritional and shock losses. Combined loss ratios finished the year around 100% which will sharpen underwriting pens for the remainder of 2022.

Property reinsurers routinely reject flat pricing on renewals and on loss-affected business, reinsurers will be pushing rates even further.

Reinsurer retro costs increased by 10% to 15% which will be reflected in higher pricing, especially on CAT-exposed business.

With losses totaling $145 billion, 2021 was the third costliest year for weather and climate disasters. **The U.S. saw 20 separate events with economic losses of at least $1 billion each**, according to NOAA. Climate change will cause larger and more frequent loss events and will increasingly factor into property reinsurers pricing, inhibiting any reduction in pricing for the near term. CAT budgets are under review for many reinsurers—particularly for the Gulf Coast, Florida and severe convective storm-affected locations.

Facultative demand has increased year over year since 2019 and it's clear that this capacity is critical in completing most layered placements. Like insurers, however, re-insurers prefer to move out of layers that are more heavily loss-affected, and many will not look at layers affected by attritional losses. As a result, reinsurers have vacated primary and low layer business and are moving into higher attachment points whenever possible on new or renewal business.

## Facultative Casualty Market

In the casualty sector, carriers are approaching reinsurers with minimal increases and are prepared to retain business if reinsurance pricing is too high.

The casualty sector is more competitive with new carriers and MGAs entering the space and the placements are more easily completed due to smaller limits in the working layers.

Jury awards continue to be excessive, and this will remain problematic in the casualty sector.

# Construction

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- Addison Beall – Senior Marketing Broker with Amwins Brokerage in Atlanta, GA

## Overall Segment Trends

If you pay attention to the news, the two words on everyone's lips are infrastructure and inflation. Both will undoubtedly impact the construction market in the near term, but the precise effects are yet unknown.

### Infrastructure Investment and Jobs Act (IIJA)

The IIJA, which includes spending on infrastructure projects from transportation to the electrical grid, is a complex law involving more than ten separate federal agencies, state governments and private investors for public-private projects.

The projects funded by the act will create both opportunities and challenges for contractors as well as the retail agents and brokers who serve them.

On the builder's risk side, it will be interesting to see the standard market focus on infrastructure as they have transitioned to more four wall/soft occupancy projects in recent years due to the increase in project activity in that space. In venues like New York where public projects have been on hold for the past two years, there is optimism that more projects will begin in 2022.

From a casualty perspective, there is some concern that the IIJA could tighten the market as competitive capacity gets deployed into the more desirable infrastructure work, leaving less capacity for challenged risks.

For architects and engineers, the IIJA will present more opportunities for the discipline in general, with civil, structural, electrical and environmental engineers likely to see the highest percentage of associated project engagements.

### Inflation

The cost of materials remains high, and inflation is further increasing costs all around.

For builder's risk, inflation has been a key factor on recent claims where the cost to rebuild is considerably higher compared to when the original guaranteed maximum price (GMP) was put together.

And on the casualty side, we're hearing from many underwriters that a 7% increase is the new "flat." Insureds are begging for pricing relief which is causing shopping and BOR letters.

## Property Capacity and Pricing

Capacity and pricing both seem to be stabilizing except for large single structure wood frame in less desirable areas of the country. Overall, pricing has levelled off in the last three to six months after steady rate increases over the past three years.

The pandemic has been an obvious cause of project delays to most building projects. Where delays are significant, some incumbent markets may be unable to provide the required contract period extensions.

This void of capacity has created mid-term opportunities in the domestic and London marketplace, as construction underwriters are keen to provide solutions to insureds who have lost insurance capacity midway through a construction project. This capacity, however, may come with higher extension rates and more restrictive terms and conditions.

#### Be on the Lookout

Communication and recommunication are key in our space as the market is very fluid. Carriers are focusing on TIV / GMP costs and details of the construction schedule relative to the purchasing of builder's risk coverage as they look to obtain project term rate adequacy for the exposure.

Water damage continues to be a considerable topic of conversation in the construction market, given the volume of losses that have occurred. This has predictably pushed up the deductibles for this coverage extension, a trend that we expect to continue in both the overall marketplace regardless of construction type.

**Florida residential construction continues to get worse with carrier participation at an all-time low.**

## Casualty Capacity and Pricing

In general, capacity is staying the same, and pricing seem to be stabilizing with increases slowing down. Lead $10 million players are still getting increases, but above $10 million there is competition, and we are seeing some reductions. A few carriers have started to offer primary 5/5/5 limits on wrap-ups, which helps with the scarcity of capacity in the 3×2 layer.

Florida residential construction continues to get worse with carrier participation at an all-time low and claims post Surfside tragedy increasing. Practice policies are dominated by the MGAs with very few direct carriers writing any of this business.

We are still seeing excess liability on frame condo projects in construction defect states firm on pricing. Even with the injection of new capacity into excess construction in 2021, this is one area new entrants are avoiding.

In New York construction, there are several new markets excess of $5M that are making the space more competitive. In some cases, we are not seeing increases except for in the lead $5M.

#### Be on the Lookout

As submission activity increases, quality submissions are going to get the fastest service. Everyone is swamped and the submissions with details "to follow" will be put on the bottom.

As courts reopen and work through the backlog of cases, insureds should be prepared for an increase in claims to affect pricing. Everyone would prefer to see a softening market, but it's unlikely that carriers have an accurate picture of their actual results with the courts closed.

## Architects & Engineers Capacity and Pricing

The availability of capacity in the A&E space continues to be plentiful. While a few carriers are pushing significant rate increases of 15% to 25%, most appear to be looking for more modest increases of 2% to 10%.

Capacity and pricing continue to be affected by the discipline or project type. High hazard disciplines such as structural and geotech engineering drive the highest pricing and lowest capacity available from carriers. Regarding project type, condominiums and multi-family residential are at the top of the list of most hazardous with many carriers not entertaining these risks at all.

In general, carriers are far more selective when offering limits greater than $5 million.

The most notable change in the A&E space is project specific professional liability due to a main provider exiting the space. Alternative solutions include annual policies specific to the project rather than the traditional project specific placement. Infrastructure act projects are likely to exacerbate this issue.

#### Be on the Lookout

While pricing is an important consideration when choosing an A&E carrier, an insurance company's claims handling experience should be another critical factor in the decision-making process.

Inquire about the carrier's in-house claims handlers. Are they attorneys? Have they ever practiced? Do they have testimonials they can share? In the end, it's the insurance company's "promise to pay" that insureds are paying for, and they want a financially solid carrier with experienced claims professionals managing the claims process.

# Energy

**Insight provided by:**

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- Ben Abernathy – VP and Energy Practice Leader with Amwins Brokerage in Atlanta, GA
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## Overall Segment Trends

Throughout the world, there's an overriding political and ESG (environmental, social, and governance) pressure on the energy industry to move away from fossil fuels, especially coal, because of the negative impacts on climate change and the environment in general. At the same time, there's been tremendous push on insurers, banks, legal groups, developers, and corporations to invest in clean energy.

While the industry is on track to experience explosive growth in renewable energy in 2022 and 2023, thanks in part to funding attached to the U.S. Infrastructure Investment and Jobs Act (IIJA), there is still a need for traditional fuels as the current power generation from renewable sources is not sufficient or reliable enough to meet current demands.

## Capacity and Pricing

### Downstream Energy (U.S. & London)

In general, there has been little change to capacity except for one insurer who has taken on large shares of primaries over the last 18 months and is now short on capacity, creating a need for a replacement.

For the most part, renewal rates are based on individual accounts and loss histories, rather than specific market factors. Accounts with clean loss histories are seeing single digit increases at renewal whereas accounts with losses, especially from catastrophic storms, are likely to see large increases at renewal.

**There's been tremendous push on insurers, banks, legal groups, developers and corporations to invest in clean energy.**

### Upstream Energy London

Rate increases remain at 5% to 10% on clean upstream business. Midstream rate rises are usually somewhere between 7.5% and 10% depending on the risk.

Capacity in Upstream Property Damage (PD) and Operators Extra Expense (OEE) classes remains steady although some markets are now looking for increases on $50,000 minimum premiums on renewal business.

Due to continuing recovery/spike in the oil price, we are seeing many insureds start to drill more wells and purchase OEE insurance coverage again. On rig PD renewals, we are continuing to see more operational rigs.

Risks involving fracking, oil sands, geothermal and/or saltwater disposal (SWD) tanks remain challenging to place in the London market due to limited appetite. SWD tanks can be considered, however, if satisfactory lightning protection is available, but a significant deductible should be expected. Otherwise, as in the past, lightning and static discharge will be excluded completely.

### U.S. Casualty

There are a few new entrants in the market who are very selective about the types of business they write. After years of double-digit rate increases, we have seen the rates drop into a more sustainable 5% to 10% range.

The current administration's stance on traditional oil and gas is another contributing factor to price increases over the past 14 months, and the push towards funding ESG-related projects will continue to raise prices for the foreseeable future. The drilling of wells and infrastructure projects face scrutiny by the administration and without regulatory certainty, most pipeline projects have slowed or been cancelled as oil and gas companies do not plan to invest capital into projects that can be shut down at any time (e.g., the Keystone pipeline). With all of these contributing factors, it is hard to see prices declining anytime soon.

Coal has become difficult to place for both property and casualty as reinsurers have withdrawn their capacity in both coal mining and power generation over the last few years. While there is still some capacity in the marketplace, building large towers remains difficult because the markets that are willing to participate are keeping their limits low.

While the price of oil and natural gas has increased dramatically over the past 12-18 months, this has not resulted in dramatic revenue growth for service companies. One reason is the large operators are not investing profits in new wells like in past bull markets.

**Coal has become difficult to place for both property and casualty as reinsurers have withdrawn their capacity in both coal mining and power generation over the last few years.**

There is some growth with smaller and private operators, but large companies have yet to ramp up new investment. Another factor limiting growth of service companies is a shortage of CDL drivers needed to perform the work.

In West Texas, Oklahoma, and northern Louisiana, we've seen the upstream and midstream oil/gas insurance pricing level off from the market correction of 2020 and early 2021, when most insureds were dealt a sizable rate increase on auto and excess liability. Admitted markets are actively writing new accounts and, outside of trucking risks, their appetite is strong. New market entrants have made placing excess liability easier on oilfield trucking risks along with service contractors.

Many areas with prominent oil/gas activity are in tough litigation jurisdictions (Louisiana, South Texas, West Texas, New Mexico). So, while pricing has levelled off for now, this could change rapidly.

## Limitations and Exclusions

On the casualty side, conditions have remained stable in the market.

On the U.S. property side, we are seeing extreme pressure for updated valuations and consideration of indemnity periods for business interruption. With the supply chain still in disarray, if a large downstream energy risk were to have a loss, replacement times for key components could well exceed current indemnity periods on most renewals.

### Be on the Lookout

The big issue that energy clients should focus on in the near term is valuation to ensure that they have enough insurance to cover replacement values as well as business interruption costs in the event of a loss.

U.S. inflation will, no doubt, impact the value of global energy operations in 2022 as the USD is the global currency on which oil is traded. The cost of a barrel of oil in March 2021 was $62 and as of March 22, 2022, it was $109.

Agents and brokers will want to keep an eye not only on domestic inflation, but also the compounding impacts the war in Ukraine will likely have on supply chain disruption, valuations and current market conditions.

# Environmental

**Insight provided by:**

- Daniel Drennen – VP and Environmental Practice Leader with Amwins Brokerage in Birmingham, AL

## Overall Segment Trends

The environmental sector remains strong overall. The number of environmental markets writing General Liability (GL), Contractors Pollution Liability (CPL) and Pollution Liability (PL) for small and lower middle market accounts continues to grow with underwriters leaving long-time carriers and moving to the MGA space.

In the GL/site pollution space, which typically covers “environmental” operations such as waste management and recycling operations, we have seen a broader appetite for manufacturers with “non-environmental” operations, such as carpet, furniture, pallet, non-critical automotive parts, resins, soap and detergents, metal products, paints and coatings, and food additives.

Using environmental markets to place these more generalized manufacturers has the advantage of getting better rates than standard E&S manufacturing markets while also accessing broader coverage that can include site pollution, non-owned disposal coverage, transportation pollution, and products pollution.

Many environmental markets are also writing alternative energy risks such as solar manufacturers and installation contractors as well as waste to energy operations. Additionally, there is an increase in development of brightfields (old industrial sites, brownfields, and capped landfills that are being turned into solar operations).

Some market areas are hardening and tightening terms due to increased environmental, social and governance (ESG) initiatives affecting coverages in certain industries. Carriers are reevaluating their books to limit exposure to industries that contribute to climate change. For example, CPL and CPL/PL markets in the oil/gas space are pulling back, especially on pipelines and high hazard classes, leaving fewer coverage options.

The Environmental Protection Agency (EPA) has put an emphasis on environmental justice initiatives, resulting in increased regulatory enforcement of industries located in lower income and minority areas. Regulators are filing lawsuits against these companies for natural resource damages and are forcing environmental cleanups.

## Capacity and Pricing

Capacity remains strong, and we still have the ability to build towers well above $100 million. We are seeing rate increases in the single digit range on CPL. Combined GL and environmental accounts are seeing around 5% increases.

Site pollution is increasing between 5% and 20% percent depending on the type of locations, and we are seeing a hardening in multi-year site pollution policies (greater than three year) with restrictions in coverage limitations, policy term length, and overall capacity.

The New York environmental contractors market continues to be a challenge due to action over claims on GL/CPL/PL accounts. The number of markets willing to offer combined forms is fairly limited.

Mold and legionella have become more difficult to secure coverage for in the hospitality, habitational, and healthcare spaces and more often is offered with higher retentions, per door retentions and sub-limits.

## Limitations and Exclusions

We continue to see contaminant exclusions for per- and polyfluoroalkyl substances (PFAS).

There are currently **class action lawsuits pending around PFAS**, and carriers are expecting to see additional litigation targeted at companies using PFAS in their products. As a result, PFAS limitations are being added to product pollution coverages unless the insured can show limited exposure to this class through environmental testing of their site or limited exposure to their products.

We expect site pollution coverage will continue to be difficult to obtain without a PFAS exclusion in the near term unless the insured has the proper due diligence to make carriers comfortable.

Additionally, there is the possibility this year that PFAS could become a hazardous substance regulated by the EPA. This change in regulation would substantially increase risk exposures for many existing sites as they would now be covered under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) which forces anyone deemed responsible for environmental contamination to pay to clean it up regardless of fault.

If this becomes the case, we can expect to see an expansion of PFAS exclusions in pollution coverage.

### Be on the Lookout

The world economic forum continues to list environmental-related issues (e.g., climate change, extreme weather, environmental disasters, and biodiversity loss) as one of the highest risk exposures facing the planet.

To address climate change, we anticipate additional interest in coordinated programs with a combination of environmental policies (addressing remediation and tort exposures) and parametric products (addressing economic damages).

The Infrastructure Investment and Jobs Act (IIJA) will likely lead to increased requirements to purchase environmental coverage for site pollution, contractor's pollution and CPL/Professional risks.

Emerging contaminates to keep your eye on include Micoplastics, 1,4 Dioxane, pharmaceuticals in groundwater and ethylene oxide.

# Healthcare

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## Overall U.S. Trends

Market conditions for healthcare liability in the U.S. remain challenging as the industry continues to face the lingering effects of the COVID-19 pandemic.

From overwhelmed hospitals to the emergence of COVID-testing sites across the country, we are seeing significant growth in medical staffing agencies to address the staffing shortfalls. This trend has increased the risk exposure for credentialling and put a greater focus on practices and procedures for agencies as well as the facilities that employ them. Insureds on both sides of the staffing relationship will need to take steps to mitigate any potential future claims and communicate those risk-management efforts to underwriters.

With many court systems still playing catch up from COVID-19 delays, we can expect to see pandemic-related claims on the docket for 2022. Healthcare providers were afforded various **federal and state protections** during the height of the pandemic that are likely to be tested by plaintiff attorneys. While outcomes will vary by jurisdiction, we can expect litigation costs to be meaningful.

Insureds in the long-term care space continue to choose self-insurance and Risk Retention Groups (RRG) over traditional carriers due to higher pricing. While RRGs can be an effective risk transfer vehicle, retailers should educate their clients about **potential pitfalls in placing coverage** (as well as possible issues in tail coverage when moving back to the traditional insurance market) and ensure they are choosing the right partner.

## Capacity and Pricing

In our [2021 Q2/Q3 State of the Market](), we predicted that new market entrants would bring increased capacity and more stability to the healthcare insurance market in 2022, and this has proven largely true.

We've seen several new markets and MGAs enter the marketplace since 2021, and while we continue to see rate increases in the overall market, the emergence of new capacity has slowed the pace of acceleration. These new market players are putting pressure on existing carriers to lower increases at renewal and to offer more competitive pricing on desirable classes of business.

**We've seen several new markets and MGAs enter the marketplace since 2021, and while we continue to see rate increases in the overall market, the emergence of new capacity has slowed the pace of acceleration.**

In general, we are seeing a 5% to 10% rate increase on healthcare accounts. More specifically, renewal rates for long-term care and miscellaneous medical have gone down to 5% to 15%, and hospitals are seeing an increase of 7.5% to 15%.

For challenging venues and tougher classes of business—correctional healthcare, for-profit nursing homes, etc.—however, we continue to see double-digit rate increases and limited capacity available in the excess layer.

## Coverage Limitations and Exclusions

We continue to see exclusions for correctional, cyber, opioids, communicable disease, and certain markets are adding a biometric information privacy claim exclusion on their proposals. These exclusions have been around for years, but we are now seeing language variations.

Some of the newer MGAs are adding more sub-limited coverages or exclusions on long-term care facilities, such as an "elopement exclusion" that would deny coverage when a resident wanders away from the facility and the staff is unaware the resident is gone. Brokers should review these proposals carefully and be cautious when they see such limitations.

## London Trends & Pricing

Similar to the U.S., capacity, pricing, and terms depend greatly on business class and venues. Psychiatric and correctional facilities remain tough, and some carriers are pulling back from intraoperative neuromonitoring and fertility accounts due to losses.

There are some new entrants into the space with volatile capital and some established carriers are looking to move from lower layers and participate higher up the tower. Most remediation around capacity has been performed and most carriers are now comfortable with their limits on accounts. Some hospital markets are offering multi-year deals.

Hospital accounts with larger limits, however, are seeing some limit reductions, and smaller rural hospitals have been seeing rate increases higher than prior years due to increased claims activity. Some carriers are non-renewing accounts above $100,000 in premium without any obvious cause.

The London markets and syndicates are adding a cyber exclusion to their medical professional liability policies to address the issue of silent cyber. Otherwise, we are seeing a continuation of exclusions from the past few years. Abuse and controlled substances are common endorsements with abuse regularly sub-limited or excluded.

### Be on the Lookout

There have been many changes to underwriting guidelines and personnel at several of the major insurance carriers which can result in delays for policy issuance. Agents and brokers should encourage insureds to request renewals early—45 to 60 days from policy expiration—to obtain the coverages needed.

### Inflation

Costs for healthcare facilities have gone up significantly (15%+) while reimbursement levels have remained the same. In the U.S., Medicare spending increases by only 1%-2% annually, which has not been keeping pace with standard inflation. With existing operating margins already so thin, increased inflation will have an adverse impact on the healthcare industry in general.

**Costs for healthcare facilities have gone up significantly (15%+) while reimbursement levels have remained the same.**

# Public Entity

**Insight provided by:**

- Brian Frost – EVP and Public Entity Practice Leader with Amwins Brokerage in Woodland Hills, CA
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## Property Pricing and Trends

**U.S.**

Markets have continued to support clean accounts with relatively modest increases in the primary layers, but the lack of big capacity players is taking its toll on the higher layers.

Buffer and excess layers are pushing for close to double digit increases, and filling towers typically involves more markets than the one or two previously needed.

The excess and non-CAT layers are pushing increases well beyond double digits.

Markets are looking to monitor/review their CAT capacity deployed and in some cases are reducing line size. From what we are seeing, this reduction in capacity is more targeted than in years past but can cause issues if insureds aren't prepared.

While we continue to see rates influenced by loss history and carrier capacity, the prevailing issue in the space for 2022 is valuation. Markets have been hit with large losses where locations were extremely undervalued. As a result, all markets are keying in on valuation on both new and renewal business.

We have seen insureds with strong valuation processes work through renewals with no more than a minimum rate increase and no change in terms or conditions. However, where insureds cannot fully explain and detail how the valuation is maintained, we have seen large increases as well as CAT percentage deductibles put in place.

To avoid potential cutbacks in capacity or more restrictive terms and conditions, insureds must be able to show how they track values and how they ensure values are correct. Some carriers will ask insureds to show valuation over the history of an account. For example, have the values been increased year over year; why or why not? New additions, selling of assets, etc. will need to be addressed to put the markets at ease.

### London

For U.S. municipalities and schools, clean accounts are seeing flat to 10% rate increases with the norm being in the 5% to 7.5% range. If the account has been in the market for a long time and remained loss-free, it might be more in the flat to 5% range, subject to its individual merits. Loss-affected accounts are likely to experience higher increases.

Primary capacity continues to be strong in this space, and we are also seeing success in the excess layers—particularly buffer layers.

## Casualty Pricing and Trends

Much of the past two years have seen an increased focus on ensuring both profitability and longer-term viability for the market, which not only means rate increases but also re-evaluating loss history and setting appropriate retention levels. Rates continue to be risk (and loss) dependent, while many of the major structural corrections have now taken place in the more volatile venues where historical severity assumptions have proven insufficient.

Capacity remains challenging as carriers continue to vacate the market either by capacity reduction, overall loss of paper or supporting reinsurance treaties. MGA and start-up E&S carrier entrants are showing limited appetite for public entity liability given the loss volatility, but there is developing interest in Bermuda, a select London syndicate and MGA operations.

Atypical capacity offerings are being vetted around structured solution markets, blending elements of combined coverage annual aggregates at multiples of the per occurrence limit with corresponding overall term aggregates, mixing in additional deal levers such as stretched corridors, and retrospective premium calculations for both additional and return amounts – as well as commutation considerations and aggregate reinstatements.

Among the more traditional excess tower structures, markets continue to exhibit caution around drop-down positioning as underlying aggregates become more prevalent in the intervening terms.

**Capacity remains challenging as carriers continue to vacate the market either by capacity reduction, overall loss of paper or supporting reinsurance treaties.**

Carriers are continuing to monitor the impact of changes in the claim adjudication process (virtual court processes, mediations), and are watching to see the impact of COVID-19 on exposure, loss metrics, and actuarial content reliability after a “two-year breather” from court decisions and effective exposure bases.

Underwriting and their claims counterparts continue to keep a close eye on plaintiff efforts around the bypass of state tort protections afforded to governmental entities with novel civil rights assertions, creating pathways to the federal court system. Historical pricing assumptions have become tested in light of the increased loss severity potential of the federal acts.

Non-tort protected venues, including California, Washington, New York and New Jersey, all remain challenging with continued loss severity escalation, historical rate insufficiency and loss costs outpacing rate increases.

**Carriers are continuing to monitor the impact of changes in the claim adjudication process and are watching to see the impact of COVID-19 on exposure, loss metrics, and actuarial content reliability after a “two-year breather” from court decisions and effective exposure bases.**

## Coverage Limitations and Exclusions

As noted above, we are seeing efforts to impose aggregation on both individual risk as well as pooled membership placements; as well as tightening of absolute cyber liability exclusions, inclusive of the removal of previously agreed contingent bodily injury exceptions granted.

### Be on the Lookout

Due to the post-COVID employment environment and return to work initiatives, underwriting concerns are manifesting around staffing quality (hiring, training, retaining) in significant operational segments of municipal exposures (teachers, drivers, emergency responders, etc.)

Insureds can help ease some of these concerns by taking advantage of carrier loss control content and best practices as well as highlighting the use of risk management programs—sharing any successes—when providing information for submission content.

# Real Estate

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Additional contributions from Johnny Tolland, Patrick Tolland, Frank Gainey, Mike Wood, Tom Tio, Ryan Telford, Geion Bright and Wil Cooper with Amwins Brokerage.


### U.S. Property Overall Segment Trends

The current U.S. real estate market is facing a level of uncertainty it hasn't experienced in decades. The combined macroeconomic effects of climate change, 40-year record high inflation, ongoing supply chain issues, skyrocketing oil prices and the potential ripple effects associated with Russia's invasion of Ukraine, have created an environment where renewal outcomes for insureds will vary dramatically (flat to 100%+) through the second and third quarters of 2022.

Key factors which will determine an insured's rate increase include geographic location, valuation adequacy, class of business, loss history and whether the incumbent carrier panel (or key carriers within the panel) renew or non-renew.

#### Geographic Location

The following geographies currently represent the most challenging areas for property (including multi-family) placements, with many exposures in these areas experiencing 25% to 35%+ rate increase.

- California locations with high wildfire scores
- Houston and Galveston, Texas, and other coastal Texas cities/counties
- South of I-10 in Louisiana (Tier 1 Louisiana Parishes)
- Waterfront and Tier 1 Mississippi, particularly lesser construction types and condominium business
- Waterfront and Tier 1 Alabama, particularly lesser construction types and condominium business
- Florida Panhandle, particularly condominium business
- Hillsborough and Pinellas Counties in Florida
- Dade, Broward and Palm Beach Counties in Florida

**Valuation Adequacy**

While the marketplace in general has made a strong push over the past 24-36 months to require undervalued accounts to report appropriate valuation, the recent upward spike in inflation has added an additional level of urgency. Notable market behaviors around valuation include the following.

- Carriers have become much more aggressive in their demand for valuations to be increased.
- Certain carriers are declining to quote accounts with valuations lower than a pre-set valuation threshold they view as appropriate for specific ISO construction types.
- Carriers are comparing the expiring building valuations and rent/business income figures to the renewal values submitted, requiring an upward adjustment and explanation of how it was calculated.
- Meaningfully undervalued accounts are now more likely to receive scheduled limits with a margin clause, coinsurance and/or actual cash value (ACV) rather than blanket limits.
- Select carriers are allowing long-term buyers to upwardly "stair-step" their valuations over a period of one or two years.

## Capacity and Pricing

Non-problematic small (<$100 million TIV) and medium sized accounts ($100 to $750 million TIV) many times experienced controlled rate increases of between 5% and 12.5% during Q1 2022. We anticipate similar results in Q2 and Q3 2022.

Primary layers for best-in-class and desirable large accounts ($750 million+ to $25 billion+ TIV), with location footprints falling outside of the problematic geographies noted above, were the most likely to experience oversubscription during Q1 2022. We anticipate the same in the next two quarters.

First and second buffer layers for large accounts are likely to be the most challenging layers to fill, with wide-ranging layer prices in certain situations. This reality exists namely because carriers are providing smaller line sizes and often requiring increased attachment points. There have also been limited new entrants into the buffer layer space (and numerous exists over the past several months) impacting capacity.

Excess layers for best-in-class and desirable large accounts are likely to continue to experience oversubscription, while PML heavy accounts (from a Named Storm and Convective Storm exposure perspective) are much more likely to experience pricing and/or capacity challenges within the excess layer.

## Limitations and Exclusions

In certain circumstances, carriers are increasing named storm deductibles and/or convective storm (wind/hail) percentage deductibles for exposures in Texas, Oklahoma and Colorado. Additional states (or counties within the states) which may be subject to convective storm deductible(s) include (but are not limited to): Kansas, Missouri, Nebraska, New Mexico, South Dakota and Wyoming.

Numerous carriers have begun to apply "Anti-Public Adjuster Endorsements."

For years, it could be taken for granted that MGAs would allow for mid-term additions to a policy via simple endorsement. It is becoming increasingly common, however, for MGAs to reject the addition of assets which they view as problematic compared to their current PML management objectives, thus these mid-term additions now require an alternative stand-alone solution.

## Additional Market Observations

**Multi-family Placements**

Retailers and insureds alike should be cautious to not overload the primary layer of their large multifamily placements with one market, lest one or more incumbent carriers choose to exit the class altogether or meaningfully reduce their support for the class. Instead, it is wise to maintain carrier diversification within the primary layer to minimize the chance of needing to replace a large portion of the primary layer carrier panel.

Carriers continue to be heavily focused on requiring adequate AOP deductibles and Plus Aggregates (when appropriate) to minimize loss frequency (attritional losses).

**Florida Condo Market**

The Florida condo marketplace has only gotten more challenging since we shared our previous update.

The best-case renewal scenario is when the incumbent carrier once again offers full limits for the insured's renewal placement. In this scenario, rate increases are commonly between 25% and 35%+.

The worst-case renewal scenario is when the incumbent carrier either non-renews or meaningfully reduces the capacity deployment for renewal. In this scenario, 100%+ rate increases are not uncommon as the placement needs to be restructured and usually requires capacity from new carriers.

Older Florida condominiums (built in 1982 or earlier) are the most likely to fall within the worst-case scenario and select carriers have limited the amount of capacity they are willing to dedicate to these accounts.

True non-renewals, requiring an entirely new carrier panel, will likely experience a renewal rate in excess of 100%. A general rule of thumb is that the more restructuring/carrier replacement that is needed, the higher the upward rate change.

The condo space is a growth area for London, particularly on an excess of loss basis. A few carriers have become very active in this space (mainly in Florida) and have indicated ambition to grow in 2022.

**London Habitational**

London is competitive on primary layers, increasing orders significantly on renewals and providing large amounts of capacity for new business.

Limitations and exclusions mirror the U.S. markets with percentage deductibles a must for convective storm areas and underwriters pushing for plus aggregates where possible in respect of AOP, especially on larger TIVs or where there is attrition.

Valuations are also being closely scrutinized with some markets pushing for valuation clauses.

**Be on the Lookout**

With the market as firm as it is, submission quality and detailed submissions are more important than ever.

We recommend that retailers issue their final/fully updated submission to brokers 45 to 60+ days in advance of the policy effective date whenever possible. This allows time for analytics to be run and a strategy to be formulated prior to engaging the marketplace with the opportunity.

Long-term/consistent buyers with deep and established carrier relationships are sometimes seeing superior results. Carriers in every instance, however, are asking many underwriting questions and retailers who provide fully populated, accurate and current SOVs will have the greatest likelihood of superior results. Information to submit includes:

- 100% roof replacements, true gut rehabs, and substantial capital expenditures to locations or schedules
- Clearly identify vacant locations
- Smart technology implementation details (water sensors, fire sensors, stove-top fire suppression systems, etc.) and quality risk management measures (risk manager, renter's insurance, implementation of carrier recommendations, etc.).

Due to a variety of factors, including understaffing at the underwriter level, a record number of accounts subject to referral, and the second quarter representing the busiest of the year, we anticipate programs being quoted closer to the effective date than usual.

## Casualty Segment Trends & Pricing

On the casualty side, the multi-family environment is stable overall. Occupancies remain high and rents are increasing. Even with the increased rents, they are not seeing pressure on occupancy.

With inflation, however, most services for properties have increased in cost, especially as they relate to renovations/construction. The increased cost of materials and labor are making it increasingly difficult to get jobs completed on the timetables set for them.

There have been a few carriers traditionally in the space that have narrowed their appetite, but also some new entrants within both the GL and excess. Any new carrier remains cautious with majority subsidized risks and quoting within the first $5M. The biggest increase in competition is in excess of $5M, especially if subsidized percentage is small.

Coverage for older Florida condos continues to be a challenge as markets react to the Surfside tragedy. Many carriers require an engineering report within the last five years to even consider quoting.

**A few direct carriers have been re-evaluating their habitational book and have begun non-renewing accounts versus increasing rates or retentions.**

A few direct carriers have been re-evaluating their habitational book and have begun non-renewing accounts versus increasing rates or retentions.

Rate increases on good accounts with no big change in losses have been trending down from 25% to below 10% for the better risks.

Where crime scores or losses are challenging, there continue to be sub-limits and exclusions on assault and battery (A&B). There has also been a recent uptick in carriers reducing their per location limit for A&B – sometimes giving per location capped at $5M to $10M for slip/fall type losses but restricting the A&B to a one-time $1M/$2M or $1M/$1M limit. When the A&B general aggregate is dropped to $1M, some excess carriers treat this as a sublimit and will not provide coverage for that exposure.

**Be on the Lookout**

Since its inception in July of 2019, the Mississippi Landowners Protection Act seems to be making a difference in reducing unwarranted lawsuits against landlords. We expect to see continued pressure on other states to pass similar legislation.

# Transportation

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## Overall Segment Trend

The biggest issue facing the transportation industry remains the shortage of commercial drivers. The average age of a commercial driver is 54 and the industry has been working for years to recruit younger drivers into training programs where beginners can learn from experienced drivers.

The pandemic exacerbated this longstanding workforce challenge and drew national attention to the critical role transportation plays in the U.S. supply chain and economy. As a result, the White House has tasked the Department of Transportation and Department of Labor (DOL) with expanding the Registered Apprenticeship programs for drivers.

Under the programs, younger drivers can operate outside their home state during 120-hour and 280-hour probationary periods under a mentor's supervision and other protocols. After probation, these drivers can drive on their own, but companies must monitor their performance until they are 21 years old.

The DOL encourages transportation employers, industry associations and training providers to join the apprenticeship mission by both expanding existing training and launching new training under the registered programs.

To kick off expansion efforts, the White House issued a 90-Day Trucking Apprenticeship Challenge to the industry on December 16, 2021. Within the first 60 days, more than 260 employers and industry partners stepped forward to expand Registered Apprenticeships.

While this effort helps with driver shortage, the issue of insurance remains. Many markets still have restrictions on driving age (usually no one under 21 years old) and years of CDL experience (most want two years).

We are increasingly seeing more requests for leniency on these restrictions so transportation companies can hire 18-year-old drivers fresh out of training. Some insurers are responding with mandatory telematics as a tactic to offer more rate flexibility for inexperienced drivers.

For more on transportation staffing issues and their impact on insurance, check out our article **Pricing Commercial Auto Insurance Amidst Driver Shortage**.

## Casualty Capacity and Pricing

### Primary Auto

While nominal rate increases for renewals still appear to be the norm, preferred transportation risks are seeing reduced rates. In general, there is new capacity entering the marketplace which continues to put pressure on rates for both new business and renewals.

Several new "insurtech" entrants and new fronting capacity is entering the primary auto space and we expect the trend toward telematics implementation and adoption will allow underwriters not only more rate flexibility on new and renewal business, but also the ability to insure less experienced drivers.

### Excess Auto

Insureds' growth and loss trends remain the main drivers of capacity and pricing for excess auto. We have found that the softening market conditions have, slightly, opened the door to more flexibility from our carriers to retain renewal business or write new opportunities.

This flexibility is noticeable on mid-size accounts (100-500 units) and has included carriers that were willing to narrowly extend their appetites over certain classes of business or consider alternate attachment points to win or retain the account. These cases have been circumstantial and have not been industry-wide regular occurrences, but they have been more prevalent of late compared to the iron-clad underwriting guidelines we've seen over the last few years.

With a few exceptions, most excess markets are only willing to put up $2 million in capacity. Where primary carriers are offering higher limits, we are seeing a willingness to write larger layers. Rates in the first $10 million excess of the primary layer continue to remain flat with more pressure to get decreases.

### Workers' Compensation

During COVID-19, claims frequency and loss experience saw a significant decline, resulting in lower rates. As activity resumes, however, carriers are seeing pressure to raise rates.

So, after more than three years of rate decreases in the transportation space, workers' compensation rates have started to show signs of flattening.

The last-mile market for Amazon is maturing, with several years of loss experience under their belts, and DSPs now being experience rated by NCCI and the bureaus.

Telematics based real-time monitoring and rating is starting to enter the Workers' Compensation market and will likely have an impact on pricing in the near future.

## Inland Marine Trends and Pricing

There are new entrants in the Inland Marine market, including a few quick turn Auto Physical Damage (APD) and Motor Truck Cargo (MTC) insurtechs for mid-size type fleets.

With the continued hardening of the property market, some insureds have been subject to significant rate increases on standalone property policies. We have had some success stabilizing rates by packaging property with MTC/WLL/Contractor's equipment policies.

### Warehouse Legal Liability (WLL)

Capacity has been impacted by the hardening property market. As a result, we're facing limit issues for large warehouse schedules. Insureds which historically had a single carrier for their property/warehousing schedule are often moving to shared and layered programs on their renewals to maintain the limits required by their customers.

### Motor Truck Cargo (MTC)

As consumer buying habits continue to evolve, so are the commodity mixes being hauled by motor carriers. More are hauling loads for online marketplace items as well as PPE and vaccines/pharmaceuticals. As a byproduct, we are seeing more demand for broadened coverages and better forms. Frequently requested MTC coverage extensions include driver error, spoilage and employee dishonesty coverage.

### Auto Haulers

While we saw a dramatic crash in the auto hauling sector in 2020, we've seen the pendulum swing the other way in 2022. Demand is so high for new/and used vehicles, that we're seeing more new venture auto haulers than ever. The outlook is positive for established auto shippers/haulers as freight rates continue to climb, and their revenue forecasts are substantially higher than previous years.

**Demand is so high for new and used vehicles that we're seeing more new venture auto haulers than ever.**

### Auto Physical Damage (APD)

Vehicle valuations are currently subject to underwriter scrutiny. For the first time, possibly ever, the values of in-use tractors and trailers have been on a steep incline as supply chain issues have caused delays and increased demand for equipment and critical components. We are encouraging our clients to carefully appraise their fleets, as the actual cash value of units listed on their policy may not be sufficient to replace with a comparable unit in their marketplace if they were to experience a loss.

### London

London rates haven't changed over the past six months and we continue to see most of our larger APD renewals being placed with domestic carriers.

London markets continue to move away from offering $1,000 APD deductibles, with some increasing their standard rate reduction if risks are willing to entertain a $5,000 per unit deductible option.

London underwriters are aware of the U.S. driver shortage, but most still require two years minimum CDL driving experience. Drivers with only one year of experience are accepted by certain markets, but there will be a higher deductible applicable to those drivers.

### Be on the Lookout

Carriers continue to stress the importance of safety and technology, and an insured's CSA/CAB performance. This focus includes addressing any issues that are negatively impacting an insureds sub-par performance.

Inflation, too, is impacting the industry. As fuel costs and shipping rates increase, they are putting more pressure on trucking and we expect renewal underwriters to push rate, driven by inflationary pressure, including increased cost of repair and medical claims.

Underwriters continue to have significant submission activity, which may delay new business and renewal quoting.

# Special Section: Cannabis

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## Overall Industry Segment Trends

Demand for cannabis continues to increase with more than half of U.S. states legalizing some form of medical or recreational marijuana. The division between state and federal law, however, still makes the space too hot of a risk pool to tempt mainstream insurance carriers to dip their toes in writing business.

This legal environment is unlikely to change anytime soon as both the Secure and Fair Enforcement (SAFE) Banking Act and the Clarifying Law Around Insurance of Marijuana (CLAIM) Act are stalled in congress, and unfolding global events are taking priority over domestic discussions.

Despite lagging federal law, the business of cannabis continues to grow and small- to mid-sized operators are increasingly targeted for acquisition by fully integrated multi-state operators (MSO) who control the entire supply chain "from seed to sale." Typically, within the MSO structure, grow operations, extractions, retail sales, delivery, etc. function as separate entities wholly owned by one parent company.

MGAs continue to be very relevant in the space because of their ability to package property and casualty products. While such policies don't necessarily provide comprehensive coverage, many cannabis insureds will opt to purchase less coverage with lower premiums.

## Capacity and Pricing

We are seeing increased property capacity and competition among existing insurers in the market which has led to broadening terms and conditions. In effect, insurance for established name-brand cannabis companies is beginning to look more like the coverage that their non-cannabis peers can obtain.

New critical CAT capacity has entered the cannabis industry, and we are seeing trends of large MSOs moving toward greater risk retention in the lower layers with a greater focus on catastrophic perils versus theft or vandalism.

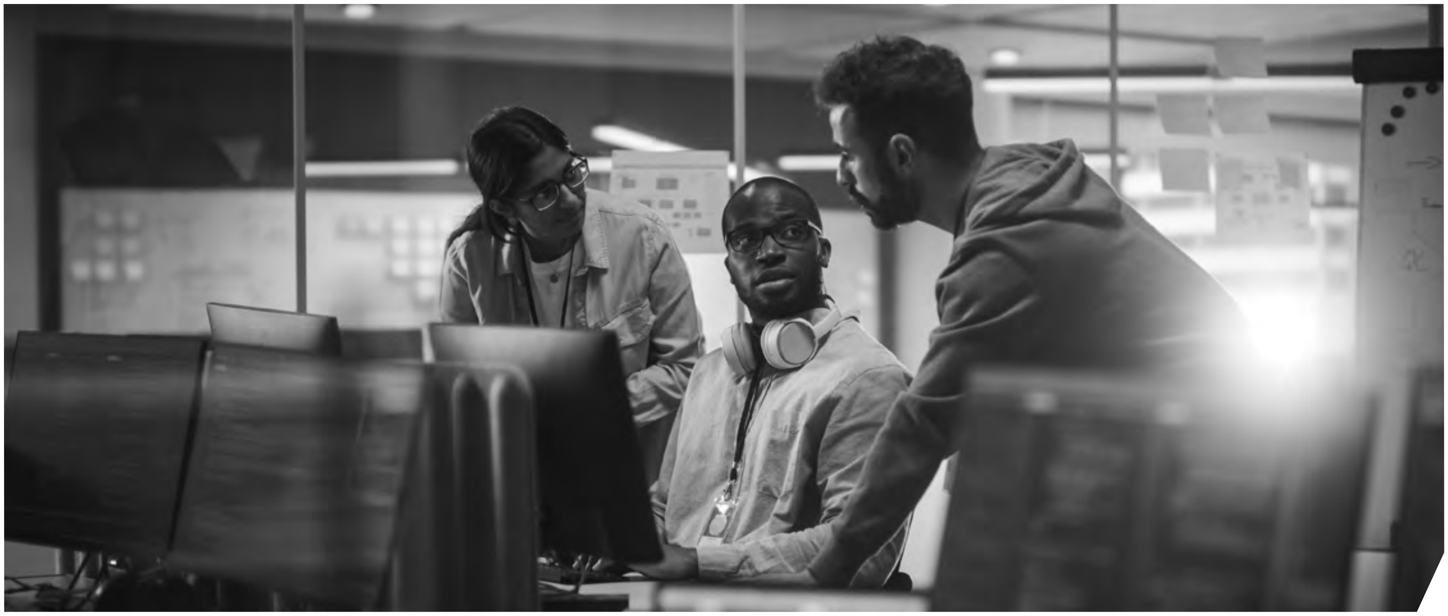
Several new management liability market entrants in the last six months have helped to increase capacity, and we are seeing better coverage/policy forms become available.

**The era of some insureds buying a policy without reading the actual coverage forms is ending...**

### Be on the Lookout

As cannabis evolves to more closely resemble big business in both demand and organizational structure, it has become a race for operators to produce and deliver product for the lowest price per ounce. As a result, there is also increasing pressure for companies to reduce overhead, back-office expenditures and insurance costs.

Prepare to see professional risk managers take a greater role in the insurance buying process, particularly for MSOs. The era of some insureds buying a policy without reading the actual coverage forms is ending and there will be much greater scrutiny on quality of coverage versus amount of capacity or bottom-line price.



# Special Section: Cyber

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In three short years, the increased frequency and severity of global cyberattacks has turned the cyber insurance marketplace on its head.

Since 2020, cyber pricing has skyrocketed as carriers have either pulled out of the market entirely or significantly reduced capacity. Policy limits have been cut and underwriting requirements for security controls have become mandatory.

This impossibly hard market position is expected to continue through the third quarter of 2022 with the silver lining that renewal pricing in the fourth quarter is expected to flatten—not due to a rate decrease, but because insureds will have already experienced a brutal renewal hike in the previous cycle and will have put security controls in place to avoid another.

In the meantime, the best course of action to maintain coverage is to monitor the evolving market and keep insureds proactively informed about the conditions that are likely to impact the availability of coverage, pricing and conditions.

## Capacity and Pricing

In general, primary aggregate limits have shrunk from $10 million to $5 million or lower and there remains a dire need for new primary capacity for small- to medium-sized enterprises (SME) as more carriers, vying for excess positions instead, have pulled back from that space in the past 18 months.

Even with several new entrants providing high excess, capacity for 2022 renewals of large towers is still very hard to come by as carriers are often decreasing their line on a particular risk by 50% affecting limits throughout the tower. As a result, we're seeing towers invert rate (sometimes more than once).

The London market is facing the same extreme hardening market with many of the same trends, including a shift from writing primary to writing excess, extremely limited capacity for SME-related risks, and carriers no longer accepting risks with weak controls.

**Requirements for Security Controls**

In the past year, underwriters have been getting stricter in their requirements for certain baseline controls such as multi-factor authentication (MFA) for email, remote access and privileged accounts, and endpoint detection and response (EDR).

Network backup procedures are also being looked at with more scrutiny and some carriers are requiring security calls with engineers (similar to property carriers requiring a site inspection).

There is little tolerance for risks with sub-par controls, especially if there are issues with the insured's security posture that are lingering since the last renewal. Failure to take network security seriously will negatively impact access to renewal policies.

## Especially Challenged Classes

Classes like manufacturers, distributors and engineers have become harder to place recently as carriers have determined that claims stem from poor controls not only in their information technology, but also their operational technology. Historically, equipment has run on separate systems often using outdated software that has become increasingly easier to exploit.

Carriers have started to focus on operational controls as well as network controls when writing these classes, coming out with specific supplementals and becoming more selective about which accounts they'll write.

**For new and previously challenged classes, it is especially important to communicate to underwriters what security controls are in place to mitigate risks.**

Problematic risks—public entities (e.g., municipalities, cities, towns, school districts), managed service providers (MSP) and payment processors—have historically been harder to place due either to the large caches of confidential data they hold and/or a general weakness in security controls.

For new and previously challenged classes, it is especially important to communicate to underwriters what security controls are in place to mitigate risks. The more information that can be supplied, the better the expected outcome.

Some classes, however, are a non-starter in U.S. markets. The extreme volatility of cryptocurrency and the legal issues with cannabis exposures are finding solutions in the Bermuda market only.

### Exclusions and Limitations

Markets continue to amend coverage with exclusions running the gambit from common endorsements to very specific coverage restrictions in response to a particular scenario.

Most carriers now sub-limit ransomware, particularly on tougher risks, and many are attaching coinsurances on ransomware as well with some pushing coinsurance regardless of controls in place. We are also seeing dependent business interruption and dependent system failure sub-limits in the current market.

Many carriers are introducing widespread event restrictions which speaks to systemic supply chain exposures. Some are limiting widespread event exposure with coinsurance and others outright excluding coverage.

We are also seeing a resurgence of the "failure to patch" exclusion from cyber yesteryear where markets are applying coinsurance based on how late insureds are in updating systems.

Additionally, carriers are no longer voluntarily broadening coverage—throwing in bricking, reputational harm, dependent business interruption, etc.—and brokers are having to fight harder for the enhancements and amendments that were easily obtained in the past.

#### Be on the Lookout

It will continue to be an underwriter's market with limited capacity, increased rate conditions, and little tolerance for sub-par controls through 2022 and likely beyond.

The best thing agents and brokers can do for their clients is to think like an underwriter and communicate the importance of mitigating risk with security controls. While agents and brokers may not be cybersecurity experts, there are **services available to insureds** that provide guidance from cybersecurity professionals to help them implement proper controls to get the best terms possible in the marketplace.

Additionally, many carriers have pre-breach services available as a benefit to policy holders and taking advantage of this perk could make a difference in the next renewal.

Touch base with insureds mid-term to discuss their security posture and encourage them to start the renewal process early for the best opportunity to find the coverage they need.

**It will continue to be an underwriter's market with limited capacity, increased rate conditions and little tolerance for sub-par controls.**

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