Spring/Summer Insurance Market Report

MAY 2022

Gallagher

Insurance | Risk Management | Consulting

The Big Picture

Where we were: What we've seen through Q1 2022

- Companies faced a challenging insurance market overall from 2019 through Q1 2022. Our clients faced years of substantial rate increases, capacity issues and difficulties obtaining coverage.
- For a number of years, many carriers failed to get rate increases that could keep pace with what they paid out in losses. As loss costs trended upward, pricing surged.
- At the same time, carriers faced a number of escalating challenges that drove up claim costs, including social inflation—the trend of rising insurance costs as a result of increased litigation, plaintiff-friendly judgments and "nuclear" jury awards—as well as increased storm activity and pandemic-related losses. Ultimately, pandemic losses did not live up to carriers' worst-case scenarios.
- Carriers' ability to offset weak underwriting results through investment income remained a challenge through 2021 due to low interest rates.
- By Q1 2022, rate increases started to moderate in certain classes. Insurance companies have gotten their books of business in a better position than in the several prior years.

Where we are: What we're seeing now

- After three years of substantial rate increases, the market is moving towards rate adequacy. Rate increases have decelerated slightly. But, not every service line is equal. Cyber, for example, has kept up sizeable year-over-year rate increases, with median increases of 37.0%, while Workers' Compensation rates showed relatively flat pricing, with median increases at a mere 0.6%.
- There is much more certainty and stability among underwriters than a year ago, when carriers were still large-scale re-underwriting many segments of their business—cutting capacity, making sure terms and conditions were sufficient, and making sure rates were adequate across a large swath of their business.
- Carriers are staying disciplined and continuing to push rate increases—especially toward businesses with challenging risk profiles. Rate increases are not as industry-wide, but rather more likely to be done on an account-by-account basis now, with an average price increase (rate plus exposure) of 8% across all lines, according to Gallagher U.S. client data.
- With improving rate adequacy comes increased carrier competition. There are a number of new entrants to the market and increasing competition as underwriters look to write new business, especially for accounts that are in desirable classes and are priced well.
- The complicating factors of social inflation, storm losses and general inflation continue to be on carriers' minds, and continue to impact the overall market.

In This Report

Where we're going: Trends we are watching

- Inflation, if it continues unabated, will push up loss costs and ultimately will have to be passed through premium increases.
- In response to inflationary pressures, the Federal Reserve increased short term interest rates, which support stronger investment returns for carriers. Questions linger about how high interest rates will go.
- As storm losses continue to mount, pricing models are trying to catch up.
- Social inflation shows no signs of slowing. A backlog of cases, slowed by pandemic shutdowns and short-staffing, will be telling about the full impact as these cases begin to move through the court system.
- Third-party litigation funding remains a concern for insurance carriers, as it encourages prolonged litigation and larger monetary awards. It is also a growing contributor to social inflation because of its tendency to drive higher claims costs. Litigation funded by third-party investors is most prevalent in Commercial Auto, General Liability, Directors and Officers (D&O), and Umbrella/Excess insurance lines.
- How will carriers' continued investments in data and technology enable them to anticipate and react to changing risk trends in real time? If carriers are able to understand changing risk trends promptly, for example, how Workers' Compensation and Auto risks are affected as more employees work from home, they can be more responsive in adjusting premium.
- We think the uptick in new competition could moderate rate increases, likely further into 2022.

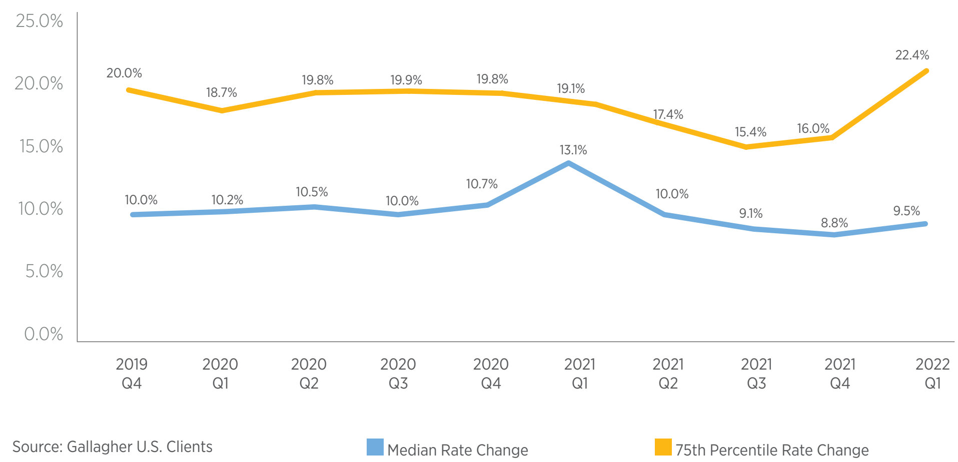
Read on for our analysis of the market conditions for each major line of coverage, and guidance that will help ensure a successful renewal outcome.

Property

Where we were: What we've seen through Q1 2022

- Following three straight years of rate increases, with double-digit rate increases for approximately half of our renewals, average Property rate increases are dipping into the single-digits.
- Last year was another record-breaking year for weather-driven losses, with the Texas storm Uri creating substantial losses that were not well-modeled or -predicted in the industry. These less-modeled and unmodeled risks continued to plague the Property marketplace.
- Hurricane Ida hit in August 2021, causing an estimated $95 billion in insured losses in Louisiana and other affected areas.[1]
- Carriers pushed for increased valuations, but fell short of outright requiring them. They did, however, require clients to address existing third-party engineering recommendations.

Property Rate Trends Q4 2019 – Q1 2022

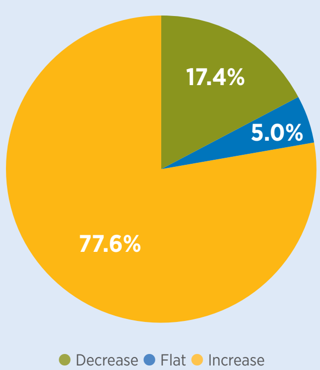


Source: Gallagher U.S. Clients

Where we are: What we're seeing now

- Market conditions are more favorable than a year ago, with most carriers still expecting moderate rate increases. However, the market is bifurcated between those in desirable industries that are seeing flat to low single-digit increases, and those in challenging asset classes and/or with significant loss history that are seeing double-digits or even higher rate growth.
- For those in challenging asset classes, Property remains a hard market. Wildfire in California and Florida condo business are two examples.
- Valuation has always been important in the Property market, but occasionally in prior years, carriers were willing to accept values that rolled over year-to-year. Now, carriers scrutinize their clients' statements of value, demanding that values be raised. For clients that resist increasing valuations, carriers either won't consider that client for coverage, they'll charge more, or restrict coverage to what the client is reporting on the statement of values.

Q1 2022 Property Rate Changes
Gallagher — U.S. Clients



9.5%

median rate change in Q1 2022*

[1] Stevens, Pippa. CNBC, "Hurricane Ida's damage tally could top $95 billion, making it 7th costliest hurricane since 2000," Sept. 8, 2021.

- Inflation indexes are up substantially in 2022, largely due to labor and material shortages and supply chain issues. Consequently, underwriters' claims payment losses are often greater than the statement of values.
- By now, insurers have had five years of rate increases to get to profitability in most placements. There's more competition now that premiums are at a certain level, with more carriers looking to grow by writing new business. There is a lot of competition for best-in-class clients, which has helped slow rate increases.
- The median increase in Q1 2022 for Property policies was 9.5% in Q1 2022, with 77.6% taking an increase.

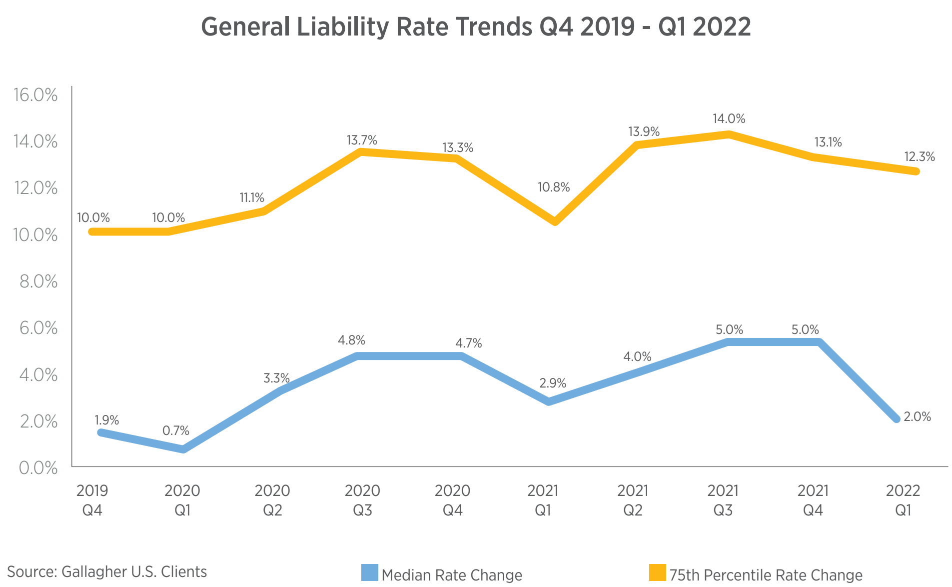
Where we're going: Trends we are watching

- Non-modeled weather events are becoming more severe and frequent which is adding uncertainty in pricing in the property market. While the first quarter of 2022 has been relatively benign, underwriters concerned about non-modeled losses may be looking to change terms and conditions, either through higher deductibles or limiting coverage.
- Companies with challenging occupancies, loss activity and/or CAT-exposed can expect to see rate increases in the higher quartile.

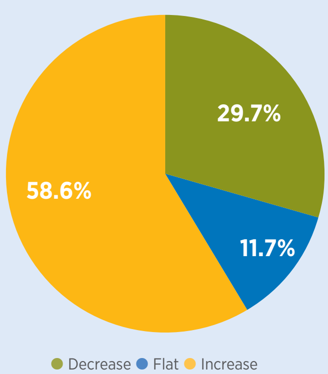
General Liability

Where we were: What we've seen through Q1 2022

- As a result of the pandemic, claims in General Liability were down in 2020.
- Because most primary General Liability's policy limits have not changed in many years, carriers remained somewhat insulated from trends such as social inflation, which impacted other lines of insurance, like D&O, Auto and Umbrella/Excess.



Q1 2022 General Liability Rate Changes
Gallagher—U.S. Clients



2.0%

median Rate Change In Q1 2022*

Where we are: What we're seeing now

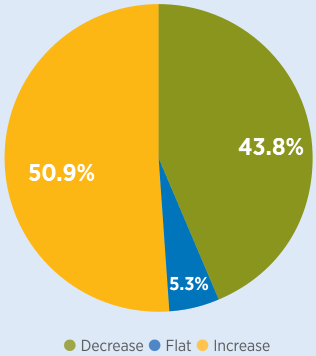
- Even though primary General Liability carriers are somewhat protected, they remain concerned with the impact of third-party litigation funding (TPLF) and the impact of social inflation on the General Liability line.
- Carriers continue to push for communicable disease exclusions on General Liability policies.
- The median rate change for General Liability policies in Q1 2022 was 2.0%, with 58.6% of companies taking increases.

Where we're going: Trends we are watching

- We expect rate increases to continue into 2022, albeit smaller increases than many of the other major lines of insurance, such as Property, Umbrella/Excess and Auto.
- We expect to see third-party litigation continue to drive up claim costs and prices in the coming years. With the rise in inflation, General Liability claim costs will likely increase as well.
- How high carriers can push the primary General Liability limits remains to be seen. Will limits go from $1 million/$2 million to $2 million/$4 million, or go even higher?

Workers' Compensation

Q1 2022 WC Rate Changes
Gallagher — U.S. Clients



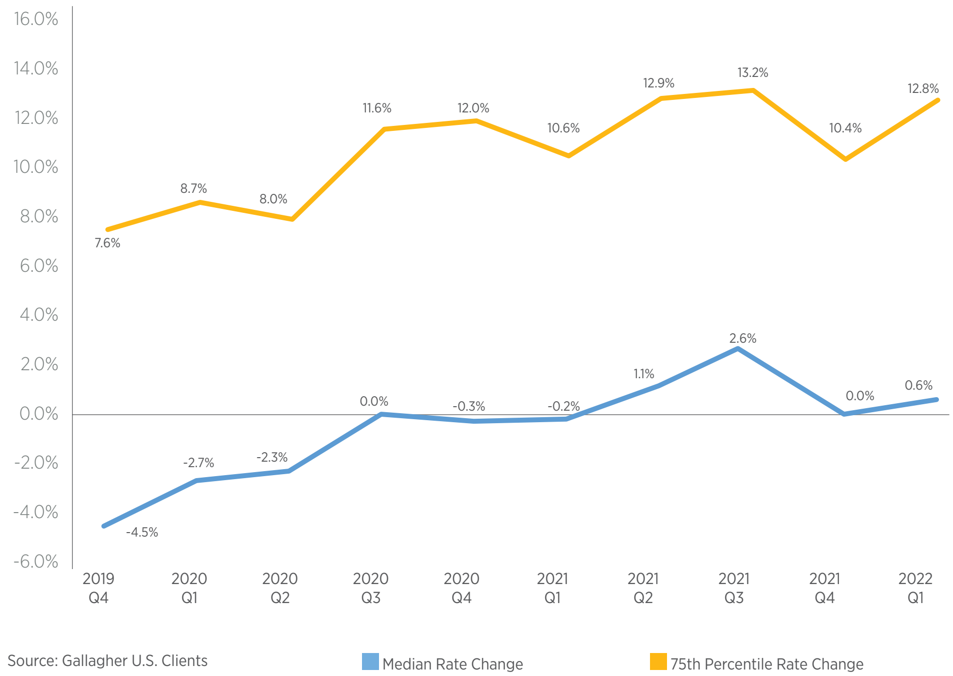
0.6%

median rate change in Q1 2022*

Where we were: What we've seen through Q1 2022

- Rates have been low for Workers' Compensation coverage for several years in a row. Favorable loss development in prior years continues to positively impact most carriers.
- There's been a lot of competition and rate reductions over the past two years.

Workers' Compensation Rate Trends Q4 2019 – Q1 2022



Source: Gallagher U.S. Clients

Where we are: What we're seeing now

- Workers' Compensation continues to be a profitable and stable line of insurance for most carriers. It is often purchased in conjunction with less profitable lines, such as Commercial Auto and General Liability.
- There are signs that the Worker's Compensation market may be firming as employees return to the workplaces. Claim frequency will likely rise as less experienced employees return to the workplace.
- The median increase in Q1 2022 for Workers' Compensation policies was 0.6%, with 50.9% taking an increase. More than four in 10 (43.8%) of respondents saw Workers' Compensation rates drop in Q1 2022.

Where we're going: Trends we are watching

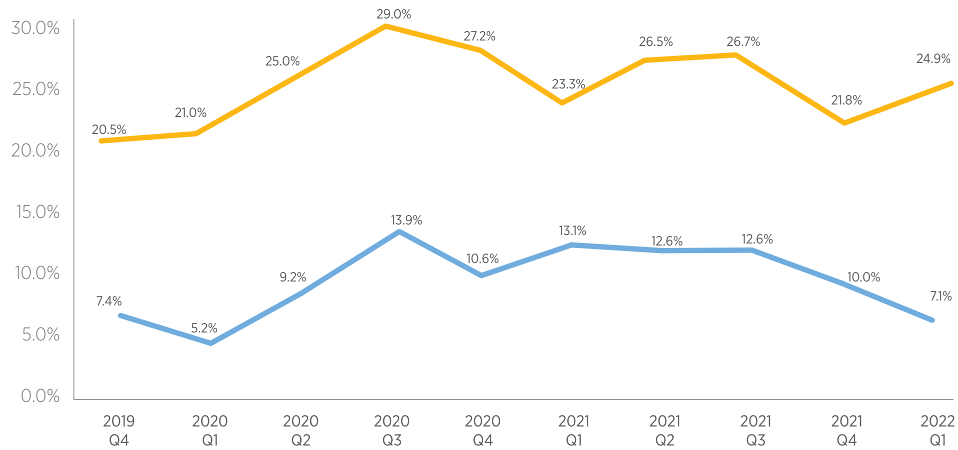
- For the first time, we're starting to see broader rate increases in Workers' Compensation. They're not nearly as significant as the ones that we've seen in the other lines, but noteworthy given how rates trended last year.
- Workers' Compensation, for instance, has been a very profitable line of coverage. And we have been able to achieve rate decreases for most of the past two-plus years. It's still probably the most competitive line of coverage that we see in the casualty space. But we are starting to see the rates tick up, a reflection of inflation.

Umbrella/Excess

Where we were: What we've seen through Q1 2022

- Umbrella/Excess has been a challenging market for the last few years. Accounts in 2020 and in 2021 often experienced significant rate gains—a "right-sizing" effect.
- COVID-19 paused some of the impact of social inflation in 2020, but social inflation remains a factor in rate changes.
- Carriers continued to cite an increase in plaintiff activity, with the rate of attorney involvement increasing.
- Litigation funding remained a concern for insurers.
- Large judgments and settlements targeted the deep pockets of big corporations, leading to hefty rate increases for Fortune 500 companies.

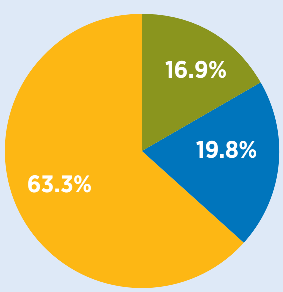
Umbrella Rate Trends Q4 2019 – Q1 2022



Source: Gallagher U.S. Clients

Median Rate Change   75th Percentile Rate Change

Q1 2022 Umbrella Rate Changes
Gallagher—U.S. Clients



Decrease Flat Increase

7.1%
median rate change in Q1 2022*

Where we are: What we're seeing now

- The Umbrella and Excess Casualty marketplace continues to remains challenging. Rate increases and capacity contraction continue, given rising claim costs and poor historical results in this segment for much of the last decade.
- We continue to see rate increases, but increases are on a smaller scale than in the past.
- The first layer—or "burn layer" of Excess is not particularly competitive, however, in the next few layers, we're starting to see some more competition. New markets are looking to come in.
- Most placements with minimal adverse loss history, including renewals, continue to require full marketing efforts and restructuring with varying attachment points.

Where we're going: Trends we are watching

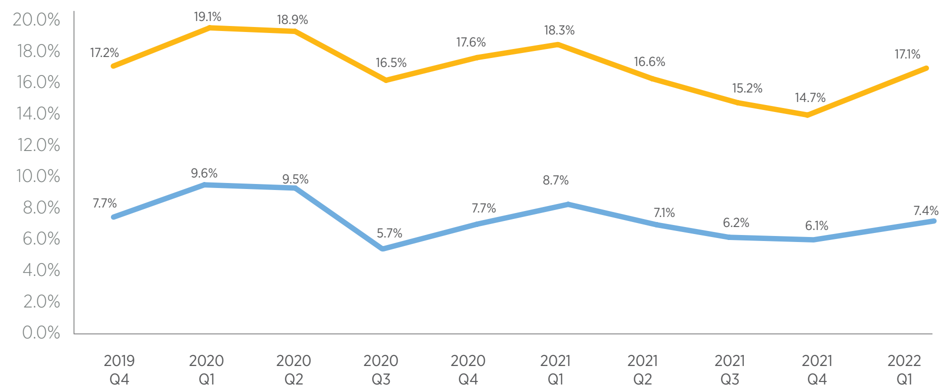
- We expect rate increases to moderate in 2022, yet with more moderate growth.
- Social inflation and nuclear verdicts continue to be areas of concern and uncertainty for Umbrella and Excess lines.
- Will new market entrants bring down rate increases further?

Commercial Auto

Where we were: What we've seen through Q1 2022

- Claims in Auto associated with pandemic shutdowns were down in 2020, with the biggest reduction in Commercial Auto. Claims returned to more or less normal level by Q1 2022.
- A significant uptick in home delivery during the pandemic meant more drivers were on the roads. This helped to offset the reduction in driving for those employees who no longer commuted to their workplace/office.

Commercial Auto Rate Trends Q4 2019 – Q1 2022



Source: Gallagher U.S. Clients

Where we are: What we're seeing now

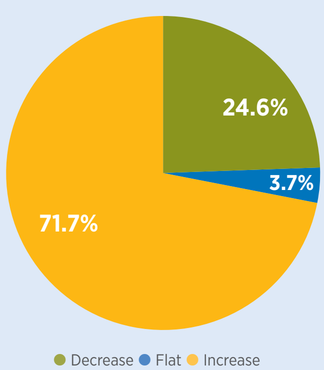
- Total miles driven is almost back to pre-pandemic levels.[2] In particular, large jury awards in Commercial Auto insurance (in excess of $10 million) are becoming increasingly prevalent.[3] Companies with large fleets or poor loss history may experience more significant rate increases, and carriers insuring large fleets are looking to attach excess layers above $1 million.
- Social inflation is leading to larger and catastrophic claims, particularly affecting companies with large fleets.
- The median rate change for Auto policies in Q1 2022 was 7.4%, with 71.7% taking increases.

Where we're going: Trends we are watching

- With the rise in inflation, Auto claim costs are more expensive than ever.
- New cars were also less available as automakers faced semiconductor chip shortages and supply chain disruptions, including bottlenecks at ports, that made it hard to meet demand. Prices for both new and used cars have skyrocketed. This ultimately drives up claim costs and Auto insurance rates.
- Labor shortages meant that repairs took longer than before, and were worsened by shortages of replacement parts.
- We expect to see third-party litigation continue to drive up claim costs and prices in the coming years.
- We expect rate increases to continue into 2022, yet be more moderate in the coming months.

[2]Federal Reserve Bank of St. Louis, "Moving 12-Month Total Vehicle Miles Traveled", March 2022
[3]Travelers Insurance, "What's Driving Huge Jury Awards? Navigating Legal Liability in the Era of the Nuclear Verdict"

Q1 2022 Commercial Auto Rate Changes
Gallagher — U.S. Clients



7.4%

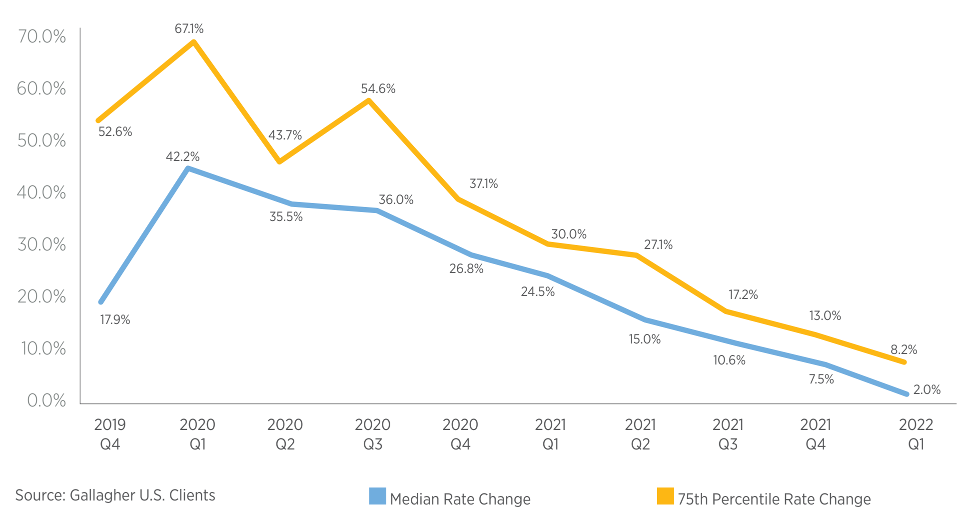
median rate change in Q1 2022*

Directors & Officers

Where we were: What we've seen through Q1 2022

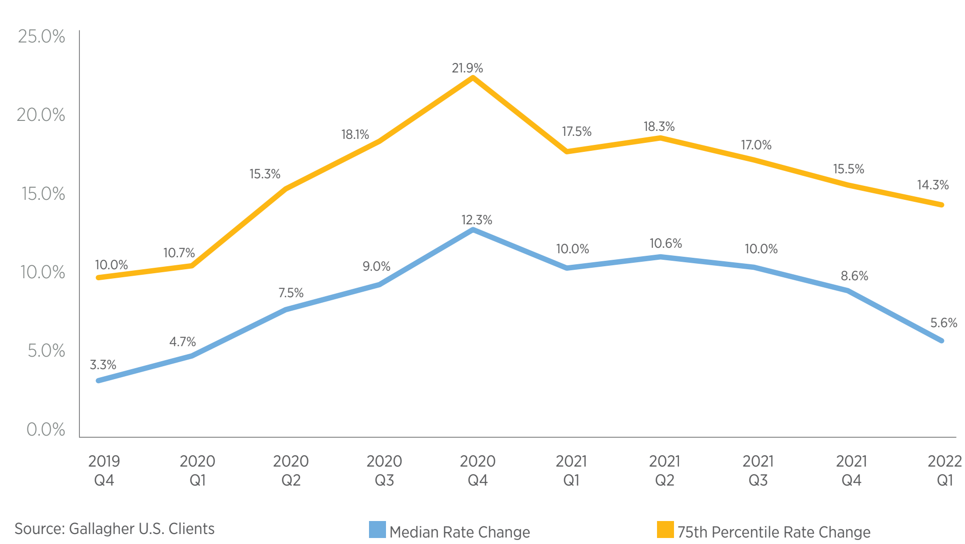
- After the COVID-19 shut down, economic factors and adverse D&O loss trends hardened the market by Q2 of 2020. Every aspect of D&O placements was impacted: premium, retention, deployed capacity, excess attachment decisions, and even terms and conditions.
- We saw two years of tightly controlled increases by D&O carriers. After large rate increases through 2021, carriers have repaired their books and are looking to write new business. Price increases decelerated throughout 2021.
- We began to see carrier loss results improve through 2021, and new capacity started impacting renewals by the beginning of 2022.
- Emerging plaintiff attorneys continue to bring cases targeting smaller companies, including smaller market cap drops.

D&O Public Company Rate Trends Q4 2019 – Q1 2022



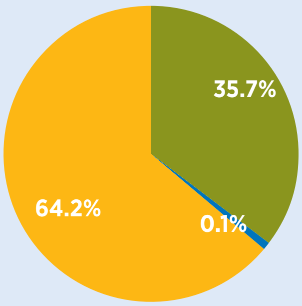
Source: Gallagher U.S. Clients

D&O Private Company Rate Trends Q4 2019 – Q1 2022



Source: Gallagher U.S. Clients

Q1 2022 D&O Public Company Rate Changes
Gallagher — U.S. Clients

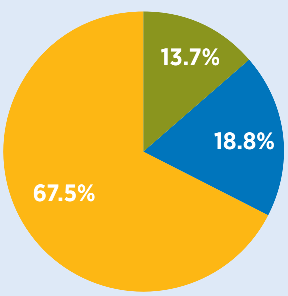


Decrease Flat Increase

2.0%

median rate increase in Q1 2022*

Q1 2022 D&O Private Company Rate Changes
Gallagher — U.S. Clients



Decrease Flat Increase

5.6%

median rate change in Q1 2022*

Where we are: What we're seeing now

Public Company D&O

- There's more competition in the marketplace due to new market entrants, as well as established D&O carriers quoting lower down on programs across the board. For example, a large account could see eight primary quotes now versus two to three a year ago.
- 2022 began with small price increases on average, with continued pressure to maintain larger retentions mostly achieved in 2021. While there is still reluctance to deploy large chunks of capacity on challenged accounts, this may shift soon. Flat renewals have emerged, especially late in Q1 and reductions have become prevalent for good risks in a few sectors. This favorable trend is likely to continue throughout 2022.
- Some pressure on capacity remains in the pharmaceutical and biotech space; however, clients in these sectors are seeing premium reductions in many cases. Meanwhile, increases continue for those companies adversely impacted by the pandemic or under financial stress in general.
- The toughest market sectors to attract capacity continue to be IPOs, especially DeSPACs, and reverse-flow companies, the latter being defined as corporations trading on major U.S. exchanges but with headquarters outside the U.S. But even these sectors are improving.
- Median rate increases for D&O public companies have come down quite a bit in the last year. The median rate increase in Q1 2022 was 2.0%, a notable decline from 10% in Q1 2021, and 42% in Q1 2020. We anticipate the median rate change may be negative in the coming months.

Private Company D&O

- For private company D&O, underwriters are requiring additional information aside from the typical application and financial statements, such as questionnaires regarding continuity plans, return to the workplace, vaccine mandates, etc. In addition, underwriters in the private D&O space are reducing limits, increasing retentions, eliminating [the previously no charge] additional D&O Side A limits, and for some accounts, introducing exclusions such as antitrust, insolvency and infectious disease.
- Given the broad entity coverage provided under private D&O policy forms, insurers often find themselves paying more and costlier claims than anticipated, particularly when compared to average premiums. The more expensive claims are often related to bankruptcies, antitrust, and mergers and acquisitions, including some DeSPACs.
- According to Gallagher's proprietary data, the median increase for private company D&O was 5.6%, with 67.5% taking an increase. Carriers we interviewed suggested their private company D&O books continue to need rate, projecting typical increases of 5% to 10% for most 2022 renewals.

Where we're going: Trends we are watching

- We expect to see pricing levels eventually flatten out with some price decreases before 2022 ends. The better risks will be characterized by strong capital adequacy, earnings power and management excellence.
- Environmental, social and governance (ESG) focus has amplified over the last five years, and going forward, underwriters may put heavier emphasis on ESG issues, especially diversity/equality/inclusion components and how they may be reflected by the board and key executives, plus climate change financial disclosure, among other things.
- We also expect to see close scrutiny of cybersecurity measures and cyber insurance as relates to D&O concerns, impact from the pandemic and related threats to business health or any contributor to economic uncertainty.
- We expect many fewer increases in retentions in 2022, absent of large growth in exposures, which may also continue to drive some rate increases, as exposures are now reviewed more closely.

Cyber

Where we were: What we've seen through Q1 2022

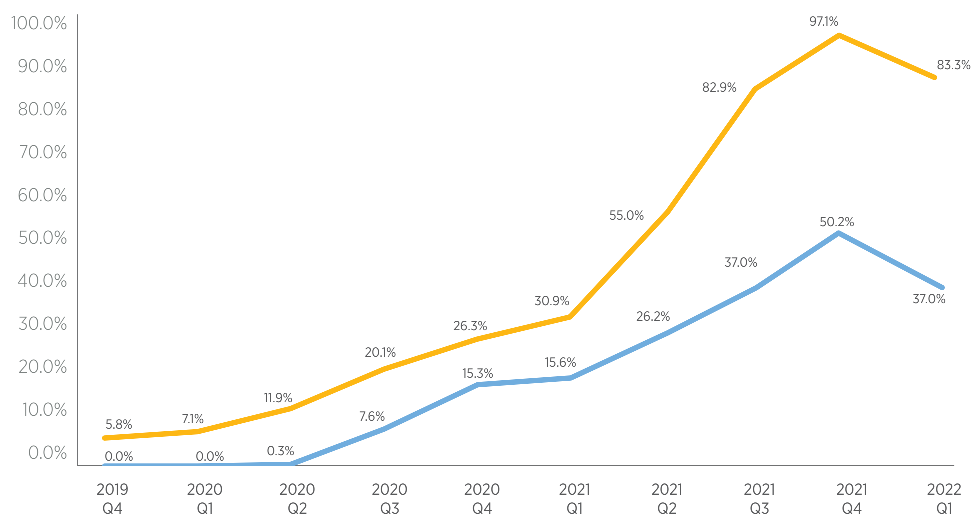
- Last year was a stark reminder that hackers are pivoting—and succeeding—in deploying new attack strategies. There is clear evidence that they now favor targets in the supply chain that could provide a gateway to multiples of additional victims, providing efficiencies to their methods. There were a wide variety of victims that ranged from global software providers, email platforms, the largest U.S. meat supplier and a fuel supplier that provides nearly half the fuel to the east coast of the U.S.
- Ransomware attacks continued to ravage the bottom lines of both their victims and insurance carriers. In fact, during the first six months of 2021, there was $590 million paid in ransom payments, as opposed to $416 million paid in all of 2020.[4]
- The impact of heightened cyber risk due to COVID-19 was also apparent in 2021. Organizations were forced to continue to operate in remote working environments, while cyber threat actors continued to exploit inherent data security weaknesses. Consistent with this finding, the 2021 Ponemon-IBM's Cost of a Data Breach Report, showed a correlation between increased remote workforce and the increased cost of a data breach.[5]
- The hard market trend that began in 2020 continued to intensify throughout 2021 and into 2022 as the risks in specific industry sectors became subject to greater underwriting scrutiny and increased premiums.

The top 25% of companies saw

Cyber rate increases of 83.3%

in Q1 2022.

Cyber Rate Trends Q4 2019 – Q1 2022

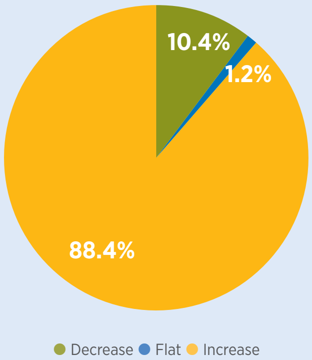


Source: Gallagher U.S. Clients

[4] Cohn, Carolyn. "Insurers Cut Their Appetite for Cyber Cover as Ransomware Losses Mount," Insurance Journal, November 19, 2021.

[5] IBM Security and Ponemon Institute, "Cost of a Data Breach Report 2021."

Q1 2022 Cyber Rate Changes
Gallagher — U.S. Clients



37.0%

median rate change in Q1 2022*

Where we are: What we're seeing now

- The Cyber marketplace is very concerned about systemic cyber risk, cyber underwriting practices and where hackers may hit next, as ever-escalating ransomware and cybersecurity risks continue to plague the Cyber insurance market.
- Growing geopolitical tensions have increased cyber risk for organizations worldwide as the conflict between Russia and Ukraine has raised concerns for the potential for increased nation state cyber attacks. These could impact global organizations well beyond the geographic boundaries of Eastern Europe, whether they are the intended target or not.
- Carriers have responded to the hard market with higher rates, higher retentions and larger coinsurance requirements. Many carriers impose sublimits and coinsurance provisions specific to ransomware claims.
- Cyber premiums increased in Q1 2022 across the board, regardless of the industry sector or size of the organization.
- In addition to rate growth, carriers seek to limit exposure through limiting capacity. The policy limits are approximately half of those limits offered during the 2021 renewal cycle, both at the primary and excess layer levels.
- All carriers now require attestation of at least some preventive controls, which likely include multifactor authentication, remote desktop protocol, data backup practices, segregation of networks, encryption, patch management, privileged account management, employee training and a host of others. A number of carriers require ransomware supplemental applications to assess how well insureds manage threats.
- Organizations that lack specific data security controls are seeing rate jumps as high as 100% to 300%.
- The median increase in Q1 2022 for Cyber companies is 37.0%, with 88.4% taking an increase.

Where we're going: Trends we are watching

- Debates between brokers and underwriters continue to rage on exactly what Cyber insurance policies should cover and to what extent an insured's cyber risk management maturity requirements need to adapt to the 2022 threat landscape.
- Capacity questions have not been settled, and exactly how much will be available in the U.S. and global Cyber markets in 2022 remains an open question.
- We expect a continued disciplined underwriting approach that remains laser-focused on data security controls, with rates continuing their upward trend.
- Cyber insurance buyers can also expect more restrictive coverage terms, mandatory sublimits and exclusionary language specific to certain global and widespread Cyber incidents, reflecting decreasing carrier appetites to fully cover ransomware costs. Additionally, the underwriting process has become much more intense.
- As rate hikes are likely to continue, insureds may offset these costs by assuming greater self-insured retentions and taking an even greater role in actively managing cyber risk.

Maximizing Renewal Success: Best Practices Across Coverages

We recommend the following actions and considerations in preparing for a successful renewal. These tips and best practices apply to all lines of coverage.

- Start early; build in time for delays in the quoting process. We recommend four to six months ahead of your renewal date to begin gathering data.
- Communicate early and often with your internal and external stakeholders.
- Create a thorough underwriting submission that is accurate and up-to-date, including narrative regarding lessons learned from losses and steps you are taking to prevent future losses. Risk managers need to be willing to change and evolve with the times or will face an uphill battle with regard to renewal.
- Take the opportunity to strengthen your risk readiness by identifying and remediating vulnerabilities. Showcase positive risk factors.
- Be proactive with providing information such as third-party valuation reports, third-party engineering reports, information on assets, lists of tenants in a warehouse, outstanding recommendations from their incumbent carrier, operations, loss mitigation and loss prevention plans, etc. Providing accurate and ample information is important given how selective underwriters have become.
- Be ready for supplemental applications that may involve highly specific questions around specialized areas such as Cyber. For example, a Cyber renewal may have dozens of questions around controls specifically designed to prevent or mitigate the effects of ransomware attacks.
- If a carrier offers or discounted risk management services, such as the services offered by many Cyber insurance carriers, such as employee training; incident response planning; and technology scans to flag known vulnerabilities, identify intrusions and address security flaws, take advantage of the opportunity.
- Develop relationships with underwriters, including your incumbent and alternatives.
- Align primary and excess marketing strategies to maximize options. If appropriate, consider leveraging ancillary lines or alternative structures, such as captives and other layered and shared solutions.
- With rate adequacy improving, it may be time to broaden your horizons in marketing your business. There are more companies now than in the recent past that may be interested in underwriting your risks. There are many more insurers willing to listen to your story and, at a minimum, consider what's in it for them.

While market conditions have begun to stabilize, this remains a somewhat challenging marketplace overall. We expect to see rates to continue to moderate in many lines throughout 2022, with the exception of Cyber and Workers' Compensation insurance, which remains the most challenging lines. Gallagher has expert leaders in all industries and coverage lines to provide solutions for our clients in this marketplace.

About Our Data

Gallagher Drive® is our premier data and analytics platform that combines market condition, claims history and industry benchmark information to give our clients and carriers the real-time data they need to optimize risk management programs. When used as part of **CORE**360®, our unique comprehensive approach to evaluating our client's risk management program, Gallagher Drive creates meaningful insights to help them make more informed risk management decisions, find efficient use of capital, and identify the top markets with the best solutions for their risks.

Rate changes in this report were calculated by using the changes in premium and exposure of Gallagher clients renewing in Q1 2022.

About the Contributors

Linton "B." Puckett is responsible for the leadership of Gallagher's National Market Relations practice. In this role, B. is responsible for developing and managing strategic carrier and intermediary relationships in Gallagher's U.S. Brokerage division. B. leads SmartMarket, Gallagher's platform that couples data with a dedicated engagement model to enhance carrier relationship strategies. B. also leads Gallagher's Client Advantage strategy, which partners with carriers to bring proprietary products and solutions to clients.

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Mark Stachura is responsible for the leadership of Market Relations & Placement, and developing and managing strategic carrier relationships in Gallagher's Central Zone. In addition, Mark is responsible for all placement teams and activities within the Midwest, South Central and Great Lakes regions.

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*Source: Gallagher Drive U.S. Client Data, January 2022 – March 2022. The median is the value separating the higher half from the lower half data sample (or the middle value). Due to the variability that we're seeing in this market and specific account characteristics, individual rates may vary.

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