2022 Commercial Property & Casualty Market Outlook Mid-Year Addendum

Forecast Insights From USI National Practice Leaders

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In this mid-year update, some of the traditional (non-COVID-19-related) trends continue to take center stage, such as the frequency and severity of claims, underwriting discipline, insurance capacity, the cost of reinsurance, natural disasters, cyber risks, and others. At the same time, emerging trends demand our attention, including challenges related to the supply chain crisis, the conflict in Ukraine, and environmental, social and governance (ESG) issues.

What do the trends, rates, and other details mean to you? Any trend will affect some organizations more than others, and few solutions will work universally across all industries, size of business, geography, line of coverage and program structure. That's why we feature insights from our national practice leaders and industry experts in this report. Here are highlights for the major insurance lines:

- **Property:** Insurance carriers are carefully deploying capacity with an eye on catastrophic events, the supply chain crisis and its effect on material costs, and the skyrocketing cost of repairs due to the impact of inflation. Despite these challenges, the rate and deductible environment established in 2019-2021 has resulted in a stabilization of the property market.
- **General Liability:** Since year-end 2021, general and product liability rates are up 10% to 20%. New market entrants are adding much needed capacity, but this capacity is not necessarily resulting in widespread competition for premium dollars across all industries.
- **Auto:** Commercial automobile liability rates have stabilized for top-performing risks due to new capacity and the re-entry of dormant insurers. However, the new capacity is being cautiously deployed and underwriters are heavily scrutinizing the submissions.
- **Excess:** Although we are beginning to see a more competitive market with the pace of rate increases moderating, insurance buyers are still facing coverage restrictions and challenges with the cost of insurance. Umbrella and excess liability rates are up 5% to 25% for middle market and up 25% to 50% for larger accounts.
- **Workers' Compensation:** In most states, this line of insurance continues to perform well for many insureds. Workers' compensation is down 10% or up as high as 10%, depending on the type of program.
- **Cyber:** Since our January Market Outlook, we have continued to see rates increase and more technical and focused underwriting. The dramatic increase in ransomware attacks has prompted insurance companies to tighten the terms and availability of certain cyber coverages, especially for organizations that cannot demonstrate strong cyber risk controls and overall cyber hygiene. Russian-backed or supported cyberattacks will be a trend to watch throughout 2022.
- **Directors & Officers (D&O):** Rates continued to stabilize in the first half of 2022, and abundant capacity for excess D&O liability allowed some programs to see overall decreases in premium.
- **Other Lines of Executive and Professional Insurance:** Many areas of evolving risk continue to weigh on insurers, resulting in laser-focused underwriting. The professional liability/errors and omissions (E&O) market remains firm, while employment practices liability (EPL) and crime/fidelity bonds see moderate premium increases. Increases in premium and retentions continue for fiduciary liability, including dramatic increases in retentions for excessive fee-related claims.

> "Any trend will affect some organizations more than others, and few solutions will work universally."

We expect 2022 to be a challenging year for insurance buyers, who will need to implement innovative risk management strategies to remain successful. The "How USI Can Help" sections within each coverage and industry section of this report are a valuable step toward capitalizing on today's top insurance market opportunities.

We wish you continued success.

MARKET UPDATE YEAR-OVER-YEAR (YOY) RANGES

Product Line	Year-End 2021	Mid-Year 2022
PROPERTY		
Property Non-Catastrophic w/Good Loss History	Flat to up 10%	Flat to up 10%
CAT Property w/Minimal Loss History	Up 10% to 15%+	Up 10% to 15%+
CAT or Non-CAT Property w/Poor Loss History	Up 20% +	Up 20%+
CASUALTY		
Primary General/Product Liability	Up 10% to 20%	Up 10% to 20%
Primary Auto Liability w/Fleet Less Than 200 & Good Loss History	Flat to up 5%*^	Flat to up 5% *^
Primary Auto Liability w/Fleet Less Than 200 & Poor Loss History	Up 20% to 30%+^	Up 20% to 30% +^
Primary Auto Liability w/Fleet in Excess of 200	Flat to up 5%*^	Flat to up 5% *^
Excess Auto Buffers	Up 40%+	Up 40%+
Workers' Compensation Guaranteed Cost	Down 10% to up 10%**	Down 10% to up 10%**
Workers' Compensation Loss Sensitive	Flat to up 5%**	Flat to up 5%**
Umbrella & Excess Liability (Middle Market)	Up 5% to 25%***	Up 5% to 25%***
Umbrella & Excess Liability (Risk Management)	Up 25% to 50%+***	Up 25% to 50%+***
Medical Malpractice	Up 10% to 35%	Up 5% to 20%
INTERNATIONAL		
International Liability	Flat	Flat
International Property, CAT Exposure	Up 25%	Up 25%
International Property, Non-CAT Exposure	Flat	Flat

*Including need for primary limits up to $2 million.
**Dependent on state and assuming impact of COVID-19 remains limited.
***In some cases, depending on class of business, historical losses and limits purchased. Factors in contraction in limits.
^Geographical radius of operations will impact pricing.

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MARKET UPDATE YEAR-OVER-YEAR (YOY) RANGES

Product Line	Year-End 2021	Mid-Year 2022
ENVIRONMENTAL		
Environmental Combined General Liability/Pollution	5% to 15%	5% to 15%
Excess Combined General Liability/Pollution	5% to 20%	5% to 20%
Environmental Contractors' Pollution	10% reduction to flat	10% reduction to flat
Environmental Pollution Legal Liability	Flat to inflationary increase	Flat to inflationary increase
AVIATION		
Aviation	Up 15% to 25%	Up 10% to 20%
EXECUTIVE & PROFESSIONAL RISK (EPS)		
Public Company Directors & Officers (D&O)	Down 5% to up 25%	Primary: Flat to +15% Excess: Down 10% to up 5% Total: Down 5% to up 10%
Private Company and Not-For-Profit (NFP) Directors & Officers	Up 5% to 25%	Flat to up 15%
Employment Practices Liability (EPL)	Up 5% to 20%	Up 5% to 20%
Fiduciary	Up 10% to 100%	Up 10% to 100%
Crime	Up 5% to 15%	Flat to up 15%
Professional Liability/Errors & Omissions (E&O)	Up 10% to 50%	Up 10% to 35%
Network Security & Privacy (Cyber)	40% to 50% for optimal risks 50% to 100%+ for less optimal risks	60%+ for optimal risks; 100%+ for less optimal risks/challenged risks
Technology E&O	35% to 50% for optimal risks 50% to 100%+ for less optimal risks	60+% for optimal risks; 100%+ for less optimal risks/challenged risks[1]
Representations & Warranties	Up 20% to 30%	Flat to down 10%
Kidnap & Ransom	Flat to up 10%	Flat to up 10%

[1] Includes industries with the potential for systemic/aggregate exposures - including managed security service providers, and firms managing infrastructure solutions and providing solutions to distressed industries.

View our Historical Rate Index charts

PROPERTY

Product Line	Year-End 2021 (YOY)	Mid-Year 2022 (YOY)
Property Non-Catastrophic w/Good Loss History	Flat to up 10%	Flat to up 10%
CAT Property w/Minimal Loss History	Up 10% to 15%+	Up 10% to 15%+
CAT or Non-CAT Property w/Poor Loss History	Up 20% +	Up 20%+

View our Historical Rate Index charts

Property renewals remain in line with the projections noted in our January Market Outlook.

Balance of 2022: Trends to Watch

Overall

Carriers are carefully deploying capacity and maintaining this position as the insurance market watches the impact of three continuing factors:

1. The frequency and severity of natural catastrophe events, which have not subsided since 2017
2. The increased material costs and project delays stemming from supply chain issues that continue plaguing the insurance industry, due to the lingering effects of the COVID-19 pandemic
3. The skyrocketing cost of repairs, based on the overall impact of inflation

Reinsurance Renewals

Except for stressed natural catastrophe (CAT) capacity, the market remained stable on April 1, the industry's primary renewal date. Carriers with stressed treaty renewals that experienced large CAT losses were required to pay more for capacity or move attachment points to secure reinsurance protection. Coastal-exposed treaty books will be required to pass on these increased reinsurance costs. Specific exposures are addressed in the sections that follow.

Coastal Properties

Insurance appetite and capacity on the U.S. Gulf Coast have changed dramatically in the early months of 2022. Several carriers and capacity providers have cut back

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positions on accounts, repositioned (in a shared and layered structure), or exited programs completely. This movement often occurs when new capacity comes in at multiples above the expiring premium.

Some carriers and programs have run out of capacity for named windstorms/hurricanes and therefore cannot write any new business with exposure on the Gulf Coast. We have seen carriers move toward providing inferior coverage, increased deductibles, unfavorable warranties and/or conditions, expanded exclusions, and higher rates that generally start at 15% to 25% or more over expiring.

Underwriters are heavily scrutinizing roof age and condition through physical inspections or other methods, and are imposing restrictive warranties, actual cash value valuations, or coverage exclusions. Some carriers are quoting subject-to-roof inspections within a certain period of binding, which gives the carrier the ability to cancel mid-term. Buildings more than 20 years old without updated roofs are experiencing the greatest pressure along with reduced capacity and pricing increases.

Other coverage impacts are being seen in the following areas:

- Named windstorm deductibles of more than 5%
- Introduction of water damage deductibles
- Actual cash value on roof coverings if replaced more than 5 to 10 years ago
- Reduction or removal of flood coverage along with increased flood deductibles
- Reduction or removal of coverage for outdoor property, including landscaping, signs, light posts, pavements, outdoor structures, etc.

The 2022 hurricane season is likely to be very active, according to recently released predictions by AccuWeather. AccuWeather has forecast 16 to 20 named storms and six to eight hurricanes. Of those hurricanes, about three to five are forecast to reach major hurricane status, which occurs when a storm reaches Category 3 strength with winds exceeding 111 mph or higher.[1]

AccuWeather notes that its forecast of 16 to 20 named storms is higher than the 30-year average of 14 per year, while its projection of six to eight hurricanes is about in line with the average of seven. These predictions are nearly identical to how 2021 played out — there were 21 named storms last year that included seven hurricanes and four major hurricanes. Eight of those storms made a direct impact on the U.S., while for 2022, four to six are predicted to make a direct impact.

Push to Increase Insured Values

Carriers are closely evaluating client values and, in some cases, requiring values to be increased up to 20%. As the rate and pricing basis, increased values can drastically impact the overall cost of insurance. The carrier argument for these valuation adjustments is based on the factors described in the previous sections. The challenge here is that once values are increased and these factors diminish, it is very difficult to convince carriers that values should trend downward in the future.

Positive Market Trend

As predicted in our previous Market Outlook reports, the rate and deductible environment established in 2019-2021 has resulted in a stabilization of the property market. Current market conditions are allowing carriers to consider providing capacity for previously restricted and challenged occupancies and geographies. It is imperative to closely evaluate these renewed carrier interests because losses relate to long-term market stability. We have traditionally seen a "quick to flight" mentality by some carriers when loss trends turn negative.

How USI Can Help

USI is working closely with carriers and our clients to determine fair and equitable values as we navigate through the property market. We also suggest that insurance buyers:

- Know their key underwriting data and update the data for both valuation accuracy and to reflect when improvements are made
- Take advantage of the risk control services provided by their broker to put their account in the best light for carriers
- Send carriers to their key locations to help carriers better understand exposures and risk improvement qualities
- Start the renewal process as early as possible to drive the expected renewal timing and results (we have regularly stressed the importance of starting this process early)
- Use all available tools to ensure asset values are in line with industry standards

[1] https://www.accuweather.com/en/hurricane/accuweathers-2022-atlantic-hurricane-season-forecast/1164507

CASUALTY

Product Line	Year-End 2021 (YOY)	Mid-Year 2022 (YOY)
Primary General/Product Liability	Up 10% to 20%	Up 10% to 20%
Primary Auto Liability w/Fleet Less Than 200 & Good Loss History	Flat to up 5% *^	Flat to up 5% *^
Primary Auto Liability w/Fleet Less Than 200 & Poor Loss History	Up 20% to 30% +^	Up 20% to 30% +^
Primary Auto Liability w/Fleet in Excess of 200	Flat to up 5% *^	Flat to up 5% *^
Excess Auto Buffers	Up 40%+	Up 40%+
Workers' Compensation Guaranteed Cost	Down 10% to up 10%**	Down 10% to up 10%**
Workers' Compensation Loss Sensitive	Flat to up 5% **	Flat to up 5% **
Umbrella & Excess Liability (Middle Market)	Up 5% to 25%***	Up 5% to 25%***
Umbrella & Excess Liability (Risk Management)	Up 25% to 50% +***	Up 25% to 50% +***
Medical Malpractice	Up 10% to 35%	Up 5% to 20%

* Including need for primary limits up to $2 million.
** Dependent on state and assuming impact of COVID-19 remains limited.
*** In some cases, depending on class of business, historical losses and limits purchased. Factors in contraction in limits.
^ Geographical radius of operations will impact pricing.

View our Historical Rate Index charts

The year-end projections published in our January Market Outlook were on track for the first half of 2022 for workers' compensation, primary general liability, umbrella/excess liability, and automobile liability, with no significant industry/market changes.

Balance of 2022: Trends to Watch

In an environment of continued and perhaps permanent underwriting discipline, it is vitally important for insurance brokers to work proactively with clients to ensure the best possible outcome. This can be achieved by producing comprehensive submissions that outline the key attributes and qualities of the clients' risk profile, allowing underwriters to make a more informed underwriting decision.

Umbrella and Excess Liability

Although we are beginning to see a more competitive market for umbrella and excess liability insurance with the pace of rate increases moderating, the majority of USI's client base is still experiencing rate increases and facing coverage restrictions.

- **Capacity.** New market entrants are adding much needed capacity, but this capacity is not necessarily resulting in widespread competition for premium dollars across all industries. Further, those new market entrants are heavily scrutinizing the risks they are entertaining.
- **Large claims.** Severity of loss for casualty lines continues to increase with no slowdown in multimillion-dollar settlements.

- **Insurance industry stability.** The property and casualty (P&C) industry's combined ratio for 2021 increased to 99.6% from 98.4% in 2020.[1]
  - Inflationary pressures and the conflict in Ukraine will lead to an unstable investment market. Although increasing bond yields will benefit insurers in the long run, the overall market instability will negatively impact insurers' returns.

NOTE: The factors referenced above will contribute to maintaining upward rate pressure on primary general/product liability and umbrella/excess liability.

- **Risk retention.** To reduce premiums, many insureds have had to assume more risk themselves by increasing deductible/retention levels, self-insuring buffer layers, quota-sharing layers of risk, increasing the utilization of captive insurance subsidiaries and/or reducing total limits purchased.
- **Environmental, social and governance (ESG).** Insurance companies are becoming increasingly aware of the importance of addressing ESG issues in their underwriting standards.
  - More and more insurers will cease underwriting for certain industries or individual insureds exhibiting poor product safety and quality that negatively impacts customer health or climate change, causes environmental degradation, or has other risks that carry a negative social perception.
  - Insurers will seek to develop products that have a more positive impact on ESG issues and encourage better risk management.[2]

Automobile Liability

- **Capacity.** As a result of new capacity and the re-entry of dormant insurers, auto liability rates have stabilized for top-performing risks. However, the new capacity is being cautiously deployed and underwriters are heavily scrutinizing the submissions. Those with adverse risk profiles continue to face challenges with securing affordable coverage.
- **Large claims.** Nuclear verdicts, especially those in the heavy vehicle sector, continue to present challenges for auto liability insurers.
- **Insurance industry stability.** The P&C industry's auto liability loss ratio for 2020 was 101.6%.[3] This was almost an eight-point improvement over 2019. As a result of appropriate rate adjustments, it is expected 2021 will close out at near-break-even levels. However, crash frequency increased 42%, and crash severity 43% when comparing data from 2020 versus 2021. Further, due to supply chain disruption, the cost of parts needed to repair damaged vehicles has increased 13%.[4] Hence, the rate relief that some policyholders have achieved may be short lived.
- **Risk retention.** Much like umbrella and excess casualty, many insureds are increasing deductibles or self-insured retentions to further drive down costs.

How USI Can Help: Umbrella & Excess Liability

Complete a detailed, comprehensive, and well-organized underwriting submission, which should begin at least 150 days out from renewal. This will allow the underwriters to make a quick, efficient and objective assessment of your risk. We help our clients:

- Think critically about the risks that underwriters will be most concerned about and address these risks in the submission
- Perform a cost-benefit analysis, to help them understand the economic benefits and risks that may result if they assume more risk early in the process
- Provide a benchmark of the total limits purchased against a peer group
- Determine market appetite if more coverage lines (such as primary casualty, lead umbrella and property) are packaged with the same insurer

How USI Can Help: Automobile Liability

In addition to the recommendations noted throughout the Casualty section, USI helps policyholders:

- Analyze alternative program structures to ensure options are feasible and align with the policyholders' risk appetite and financial goals
- Complete an operational narrative that addresses adverse trends and corrective action, accentuating positive improvements
- Evaluate existing or assist in the development of driver qualification criteria
- Identify negative trends in regulatory violations or claims, and develop corrective action plan to reduce likelihood of occurrence

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

[1] "U.S. P&C Insurers Suffer $4.1B Net Underwriting Loss in 2021," Commercial Risk, March 10, 2022
[2] www.unpri.org
[3] "U.S. Commercial Auto Insurance Sector Sees Positive Underwriting Result," Commercial Risk, May 18, 2021
[4] "What's Happening With Auto Insurance Rates," Insurance Information Institute, 2022

INTERNATIONAL

Product Line	Year-End 2021 (YOY)	Mid-Year 2022 (YOY)
International Liability	Flat	Flat
International Property, CAT Exposure	Up 25%	Up 25%
International Property, Non-CAT Exposure	Flat	Flat

View our Historical Rate Index charts

With the exception of the following updates, the year-end projections published in our January Market Outlook were on track for the first half of 2022, with no significant industry/market changes.

Impact of the Ukraine Conflict

Insurance companies outside Belarus, Russia and Ukraine are not prepared to renew insurance contracts or write new business, in view of the situation and sanctions imposed by the international community.

Multinational insurance companies are applying territorial exclusions on all lines of coverage for the Republic of Belarus, The Russian Federation as recognized by the United Nations (or its territories, including territorial waters, or protectorates where they have legal control), and Ukraine including the Crimean Peninsula and the Donetsk and Luhansk regions.

Regarding war coverage, insurance contracts that provide war coverage will continue until their natural expiration date, however losses directly or indirectly related to war events may be excluded under certain policy terms.

Impact of the Pandemic, Social/Civil Commotion, and Economic Pressures

This instability has pervaded the market, even though capacity remains abundant. With interest rates expected to remain low, insurers are looking to maintain the rate increases gained in 2020 and 2021 to keep premiums at current levels, while retaining profitable business and moving away from riskier exposures in the next half of 2022.

How USI Can Help

- USI can assist you with any claims questions
- USI can provide information on the possibility of insuring risks under the coverage constraints that have resulted from the conflict in Ukraine and the global sanctions imposed on Russia.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

ENVIRONMENTAL

Product Line	Year-End 2021 (YOY)	Mid-Year 2022 (YOY)
Environmental Combined General Liability/Pollution	5% to 15%	5% to 15%
Excess Combined General Liability/Pollution	5% to 20%	5% to 20%
Environmental Contractors' Pollution	10% reduction to flat	10% reduction to flat
Environmental Pollution Legal Liability	Flat to inflationary increase	Flat to inflationary increase

View our Historical Rate Index charts

Mid-Year 2022

The year-end projections published in our January Market Outlook were on track for the first half of 2022 for environmental, with no significant industry/market changes.

Second Half of 2022

Given today's extraordinary inflation, there may be pressure at some point for the environmental markets to increase rates slightly above our forecast, but thus far there is no movement. We are cautiously watching the market on this front.

How USI Can Help

To learn how USI assists environmental clients, see the "How USI Can Help" section of our January report. For additional information, contact your USI representative or email us at pcinquiries@usi.com.

AVIATION

Product Line	Year-End 2021 (YOY)	Mid-Year 2022 (YOY)
Aviation	Up 15% to 25%	Up 10% to 20%

View our Historical Rate Index charts

Mid-Year 2022 Update

The aviation insurance market in the U.S. has been relatively stable in the first half of 2022 after a prolonged hard market that began four years ago. This has brought some predictability to many aviation insurance buyers who have experienced significant rate increases and additional underwriting scrutiny since 2018. During the first half of 2022, the severe rate increases experienced between 2018 and 2021 have been moderate for accounts with good loss experience.

The moderating rate curve is expected to continue throughout 2022 for many segments of the aviation industry. Even though the rate environment appears to be stabilizing, underwriting standards remain high across the industry, and underwriters continue to seek rate increases on most renewal accounts.

A new carrier entered the aviation insurance market in the first quarter of 2022, bringing new capacity into the marketplace and a more competitive environment among underwriting companies. We have also seen existing carriers looking to expand their offerings and appetite. The combination of a new market entrant and the potential expansion by existing markets has helped alleviate the capacity shortcomings experienced since 2018.

Insurance buyers should keep in mind that aviation insurers and reinsurers are seeking consistent profitable returns from their aviation portfolios. There is a strong shared desire across the industry to establish a profitable floor in an environment of rising claims costs, increasing liability awards, and high inflation.

Market Conditions

Our January Market Outlook was on track in reporting how market conditions would impact these aviation segments: owner-flown aircraft, charter operations, rotor wing aircraft, manufacturers' product liability, and airport and municipality coverage. An additional update follows:

- Owner-flown aircraft: premium increases are in the double digits, between 10% to 20%.

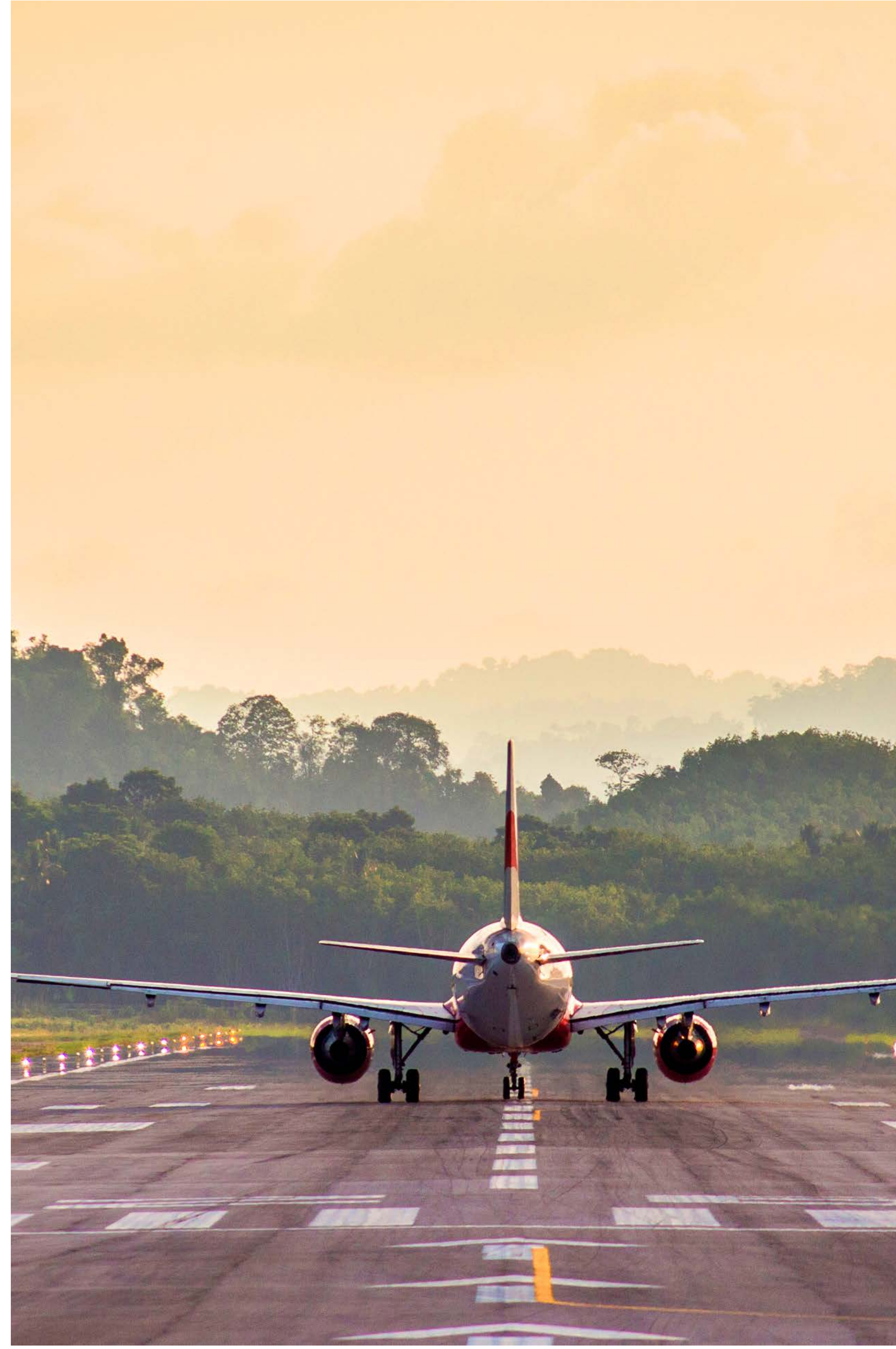
Turbulence Ahead – Second Half of 2022

While the domestic U.S. aviation insurance market has been stabilizing and capacity appears to be returning, there are storm clouds forming in the greater global aviation insurance and reinsurance market. The Russian confiscation of more than 500 foreign-owned and leased airliners has led to billions of dollars of claims being submitted from aircraft leasing companies to aviation insurers. The potential claims exposure is estimated to be in the range of $9 billion to $15 billion dollars. It is unclear at this stage whether aviation insurers will have to pay all these claims or how long it may take for some to be paid. If these claims are ultimately paid by the aviation insurance industry, it would be the highest loss event in the history of aviation insurance, eclipsing the losses paid following the 9/11 tragedy. Potentially, these claims could have a staggering impact on the aviation insurance and reinsurance market around the world. U.S. aviation insurance buyers should be aware of the negative impact these claims may bring and prepare for the third and fourth quarters of 2022.

How USI Can Help

USI guides aviation clients toward developing a comprehensive risk management strategy, one that is tailored to their unique exposures and focused on mitigating their cost of risk. The steps in our process can be reviewed here.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.



EXECUTIVE & PROFESSIONAL RISK SOLUTIONS (EPS)

Product Line	Year-End 2021 (YOY)	Mid-Year 2022 (YOY)
Public Company Directors & Officers (D&O)	Down 5% to up 25%	Primary: Flat to +15% Excess: Down 10% to up 5% Total: Down 5% to up 10%
Private Company and Not-For-Profit (NFP) D&O	Up 5% to 25%	Flat to up 15%
Employment Practices Liability (EPL)	Up 5% to 20%	Up 5% to 20%
Fiduciary	Up 10% to 100%	Up 10% to 100%
Crime	Up 5% to 15%	Flat to up 15%
Professional Liability/Errors & Omissions (E&O)	Up 10% to 50%	Up 10% to 35%
Network Security & Privacy (Cyber)	40% to 50% for optimal risks; 50% to 100%+ for less optimal risks	60%+ for optimal risks; 100%+ for less optimal challenged risks
Technology E&O	35% to 50% for optimal risks; 50% to 100%+ for less optimal risks	60+% for optimal risks; 100%+ for less optimal risks/ challenged risks.[1]
Representations & Warranties	Up 20% to 30%	Flat to down 10%
Kidnap & Ransom	Flat to up 10%	Flat to up 10%

[1] Includes industries with the potential for systemic/aggregate exposures - including managed security service providers, and firms managing infrastructure solutions and providing solutions to distressed industries.

View our Historical Rate Index charts

Public Company Directors & Officers (D&O)

Highlights/Changes Since First Half 2022

The overall public company D&O marketplace continued its trend toward a buyer's market. The significant decrease in federal securities class actions (SCAs) in 2021 and early 2022, and the emergence of new capacity targeting excess layers of coverage, have brought about flat-to-moderate increases on primary placements and consistent reductions in premiums for excess layers and Side A layers. Retention levels for public D&O placements (Sides B&C) have generally stayed the same. Exceptions, of course, exist for financially distressed and/or claims-impacted companies.

Average and median settlement amounts for SCAs came down in 2021, but insurers have pointed to larger-than-usual derivative claim settlements as negatively impacting their profitability. Historically, derivative claims were seen as incidental tag-along-type exposure compared to the more severe SCA exposure, but no more. Importantly, these settlements are typically paid under the Side A portion of D&O programs.

Initial public offerings (IPOs), including special purpose acquisition company (SPAC) IPOs, slowed markedly in the first half of 2022. For companies that did go public, including through a deSPAC business combination, premium and retention levels were still more inflated than standard D&O placements, but were improved relative to similar placements in 2021.

Captive use. On February 7, 2022, Delaware's governor signed into law an amendment to the Delaware General Corporation Law (DGCL) to explicitly allow the state's businesses to use captive insurance as an alternative to traditional D&O liability insurance coverage. This new development affirmatively answers a key question that has lingered for Delaware companies: "Could a captive insurer cover non-indemnified losses of individuals (Side A)?" A captive solution for D&O liability may be the right answer for some buyers, but not for all. Time will tell.

Anticipated Market Trends for Second Half 2022

Conditions should continue to moderate unless there is a major stock market correction and/or major economic slowdown. The conflict in Ukraine and resulting withdrawals by businesses in the region and the impact of sanctions on certain industries could add some dark clouds to the otherwise clear skies.

Another issue that could impact the public D&O marketplace is the increasing activity of the U.S. Securities and Exchange Commission (SEC), which has just recently proposed rules for more disclosures regarding cyber breaches, climate-change efforts, and SPACs. Further, a company's environmental, social and governance (ESG) risk profile continues to draw interest from D&O insurers. Questions from underwriters regarding a company's commitment to combatting climate change, its level of cyber risk hygiene, and its diversity, equity, and inclusion (DEI) initiatives are now standard.

Overall, we anticipate near-flat renewals for most insureds with no significant claims. Retention levels and other coverage terms should also remain stable. Industries and organizations with the most concerning risk profiles — cryptocurrency, biotechnology, life sciences, general healthcare and technology, cannabis, and those that have had significant D&O claims activity in the past five years — will have a more limited group of interested insurers. This will lead to relatively less favorable terms.

D&O insurance buyers should expect continued underwriting scrutiny and a more rigorous renewal process, especially around ESG frameworks. Disclosures and representations related to climate-change exposures, cyber risks, commitments to DEI, post-COVID-19 return-to-work strategies and exposures to Ukraine, Russia and Belarus will be evaluated more deeply throughout 2022.

Companies should continue to market their D&O programs, especially the excess layers, to obtain optimal premium results.

How USI Can Help

USI's strategies for assisting clients are noted in the "How USI Can Help" section of our January report, with these additions:

- Supporting the addition of federal forum selection clauses to organizing documents, specifying that the federal court is the exclusive jurisdiction for litigation brought under the Securities Act of 1933
- Evaluating captive solutions, where appropriate

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

Highlights/Changes Since First Half 2022

Private company/NFP D&O premium and retention increases moderated, with many renewals falling within a flat to up 15% range. Companies with particularly challenging risk profiles, however, continued to experience premium increases beyond 15% as well as increases in retentions. In extreme cases, more restrictive coverage terms were applied.

Challenging risk drivers include:

- SPAC targets and/or likely IPO candidates
- High debt burdens/bankruptcy potential
- Significant exposure to supply chain disruption
- Heightened antitrust exposures
- Healthcare, energy, cryptocurrency, cannabis, biotech and life science companies
- Heightened cyber-related exposures
- Mergers and acquisitions (M&A) activity, contemplated or in progress
- ESG-related risks
- Claims reported or recent losses

Firms in industries with significant antitrust exposures (e.g., healthcare) struggled to retain antitrust coverage extensions. The largest privately held companies saw more focused underwriting on board involvement in risk management and more questions about ESG commitment and progress.

Small to middle-market (SME) private companies are being targeted by more insurers. Both legacy and new insurers see an opportunity to grow in this sector. This should drive competition through the end of 2022.

Anticipated Market Trends for Second Half 2022

Flat to modest increases should remain achievable for many organizations. However, companies will continue to face underwriting questions about potential macroeconomic impacts, as some economic experts fear a recession potentially starting in the second half of 2022.

Inquiries about ESG commitments and cybersecurity engagement, regulatory exposure, and supply chain risks will also be a part of the underwriting process for many organizations. Finally, companies with significant claims and/or meaningful merger or acquisition activity will face challenges.

How USI Can Help

USI can assist clients by:

- Setting appropriate and realistic expectations based on individual company risk profiles
- Starting the placement process early and accessing multiple insurer channels
- Preparing directors and officers for underwriting questions on issues such as ESG amendments and implementation, cyber resiliency, and financial flexibility
- Identifying potential financial distress and/or social justice exposures and helping to establish practices to mitigate these risks

Additional strategies can be found in the "How USI Can Help" section of our January report.

Employment Practices Liability (EPL)

Highlights/Changes Since First Half of 2022

Buyers with good claims histories and no major changes in exposure (e.g., an acquisition, an increase in California employees or a large layoff) saw moderate premium increases (+5% to +15%). Insurers were willing to compete if the insured's business conditions were improving, an effective post-pandemic return-to-work transition plan existed, and employment policies were keeping up with newer areas of exposure (e.g., gender identity discrimination, medical marijuana uses, and claims regarding social media use). Pressure and incentives to increase EPL retentions were commonplace.

Claims continued to be submitted by employees terminated for refusing to get vaccinated against COVID-19, while employment-related social issues like discrimination, harassment, gig-worker classification, and gender-pay disparities continued to worry insurers. Further, states like California, Illinois, New York, New Jersey and Florida remained more problematic for insurers because of their employee-friendly regulatory and legislative activity. Insurers continued to push hard to add biometric-related privacy exclusions to policies that did not have them.

Anticipated Market Trends for Second Half 2022

Moderate premium increases are expected to continue, and a continued focus on retention increases is likely. Insurers will continue to try and increase retentions for claims by higher compensation earners, class action or mass action claims, and/or claims brought in certain states (e.g., California). As COVID-19 wanes, there still may be an increase in retaliation and/or discrimination claims under the Americans with Disabilities Act (ADA) and/or Civil Rights Act of 1964 (specifically, for religious discrimination) related to vaccine refusals. The continuation of additional underwriting and exclusions involving biometric information are also likely to continue. Additional areas of continued concern include:

- Discrimination claims based on disability, age, race, gender, gender identity, sexual orientation, and other protected classes
- Potential claims stemming from employee social media use and/or medical marijuana use
- Wage and hour claims as companies adjust their workforce classifications, including making distinctions between employees and independent contractors
- Third-party claims brought by non-employees for harassment or discrimination

How USI Can Help

In addition to the steps listed in our January report, USI can assist clients by preparing them to respond to underwriting questions about post-COVID-19 back to work decisions. This includes preparing clients to discuss their vision of a more remote workforce, where applicable.

Fiduciary Liability

Highlights/Changes Since First Half of 2022

The impact of excessive-fee litigation continued. Many insureds, even those with smaller defined contribution plans, faced detailed underwriting questions about retirement plan management protocols, and continued to see double-digit percentage increases in premiums and significantly higher retentions for excessive-fee claims. Leading insurers have pushed for retentions as high as $15 million.

Anticipated Market Trends for Second Half 2022

Expect more of the same, with excessive fee litigation exposure being the core underwriting issue and premiums increasing significantly. Any standard fiduciary liability retentions that remain very low ($0 to $250,000) will likely be pressured upward by insurers.

Underwriting questions will continue to extend to cyber protections as plan fiduciaries have a responsibility to ensure the proper mitigation of cybersecurity risk. Employee stock owned plans (ESOPs) will continue to have a more limited selection of insurers, tempering competition and keeping rates higher. Other areas of heightened ERISA-related risk where limited competition could drive rates higher were listed in our January report.

How USI Can Help

See the Fiduciary section of our January report to review steps USI takes to assist clients.

Crime/Fidelity Bonds

Highlights/Changes Since First Half of 2022

Modest increases continued in the first half of 2022. Underwriting of internal controls and payment verification procedures continued to be a focal point, particularly around phishing/social engineering risks.

Anticipated Market Trends for Second Half 2022

As the year progresses, we anticipate modest increases with only best-in-class risk profiles obtaining flat renewals or better. Getting full limits (or excess limits over sublimits) for social engineering exposures will likely be challenging but should remain available. USI will continue the strategy of seeking excess sublimits for social engineering coverage from clients' cyber programs, where possible.

Coverages for exposures like extortion, computer and funds transfer fraud, and destruction of data will continue to be underwritten very carefully by crime underwriters, and maximum limits/capacity available per insurer will typically be capped at $10 million. Cryptocurrency, casinos, and cannabis companies will all likely remain on the list of more difficult risks.

How USI Can Help

See the Crime/Fidelity Bonds section of our January report to review steps USI takes to assist clients.

Professional Liability/Errors & Omissions (E&O)

Highlights/Changes Since First Half of 2022

The professional liability/E&O market continued to be firm, but with some risk categories outpacing others. Many buyers experienced premium and/or retention increases between 5% to 25%, while companies with more challenging risk profiles saw 50% or higher premium increases. Some also experienced higher retentions. The most concerning insured activities included significant M&A activity, meaningful professional services expansions or changes, and adverse claims activity. Some E&O insurers are still examining limits offered at renewal, reluctant to offer more than $10 million for any one insured. We saw maximum capacity of $5 million offered to some higher-risk classes of business.

Financial institutions: For some financial services companies, namely investment advisors and less-complex fund companies, the market remained competitive and rate increases were often in the single digits. For bankers, non-bank lenders, insurance companies and private equity firms (general partnership liability), the E&O marketplace was more challenging with increases often up 7.5% to up 25%.

For firms with heavy hybrid employee use, overall underwriting focus has been on how professional services firms are addressing deadlines, complaints and quality of services performed.

Finally, exclusions for regulatory exposures, deeper underwriting processes (particularly focused on the management of subcontractor and third-party arrangements), supply chain questions and reviews of "professional services" definitions persisted.

Anticipated Market Trends at Second Half 2022

Non-financial/non-technology: Law firms, mortgage processors, accountants, consultants (particularly management or financial), architects and engineers, project-specific construction and those performing any valuation-based service will need to differentiate their risk profiles to obtain optimal terms, as they may be seen as challenging. We expect minimum increases in premiums of 10% to 30%, along with increased retentions. Media E&O (stand-alone) is also a challenging class overall with higher-than-average retentions and premium increases.

Financial institutions: Broker-dealers, deposit-taking institutions, non-bank lenders, family office/trustee financial institutions, and insurance companies will continue to be scrutinized as challenging classes. There will still be limited primary markets for these classes. Investment advisors that have performed well should continue to see competition that could keep their premium changes closer to flat.

How USI Can Help

See the Professional Liability/E&O section of our January report for steps USI takes to assist clients. USI's processes also include:

- Identifying and highlighting risk control and supplier management differentiators
- Seeking alternate coverage structures.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

Cyber Insurance: All Packaged Policies That Include Cyber/ Privacy Coverage Components

Highlights/Changes Since First Half of 2022

During the first half of 2022, the cyber insurance market has continued to correct. The full strength of this correction was originally felt when rates increased in the July 2021 renewal season and well into the last quarter of the year. Post January 1, 2022, we continue to see rates increase and more technical and focused underwriting. In 2021 and the first half of 2022, we also saw the rise of regulations that will deeply impact companies, as well as increased threat landscapes and what they may mean for future generations.

Cyber Reinsurance Rates on the Rise and Why This Matters

To best express the trends that will be experienced in 2022, it is important to provide some perspective. Consider for a moment that by the middle of 2021, the number of ransomware attacks was up more that 150% over the entirety of 2020. With reinsurance being a contributing factor in overall premium increases, this shows a disturbing trend in which the cyber insurer loss ratio continues to be as high as 80% and appears to be trending higher.

If this is not enough, consider that a few short years ago insurers ceded around 45% of the business they wrote to reinsurers, a number that today is about 55%. The message is simple: insurers are not increasing their commitments to the cyber sector, but will write more if the reinsurer assumes more of the burden. Reinsurers are also becoming more cautious as losses increase in frequency and cost.[1] As a result, insurers have tightened terms and conditions and seek to insulate themselves from potential cyber exposures by introducing ransomware restrictions. Given the recent increases in reinsurance, we continue seeing rate creep and higher premiums.

Evolving Privacy Regulations

During the first half of 2022, the trend toward more expansive and stricter privacy regulations continued. In 2021, we saw significant developments in U.S. privacy laws. On the local level, states like Virginia and Colorado tightened their privacy laws to mirror the California Consumer Privacy Act (CCPA) and General Data Protection Regulation (GDPR).[2]

What's more, breach notifications laws, notably in Connecticut, Nevada, Texas and Mississippi, expanded the scope of what is considered personal information and, most

importantly, hardened penalties for an actual or potential breach of personal information. New York expanded its privacy purview to include a biometric law intended to prohibit the sale of biometric information. Most critically, this law mandates that commercial establishments that collect this information provide notice to individuals.[2]

In 2021, there were increased enforcement actions related to CCPA. In 2021 and the first half of 2022, there was a resurgence of federal regulations/regulators. To combat the drastic increase in ransomware, the Office of Foreign Assets Control (OFAC) reiterated the prohibition on paying an entity on the Specially Designated National and Blocked Persons list (SDN).[3]

The beginning of 2022 was marked by two additional federal regulations currently under consideration:

- The Strengthening American Cyber Security Act of 2022 (SACA). This federal law will require critical infrastructure entities to report substantial cyber incidents within 72 hours and ransomware payments made within 24 hours of the incident.[4]
- The Securities and Exchange Commission (SEC) has ramped up cybersecurity enforcement actions and has introduced a proposal that would require companies to disclose:
  - Management's and the board's role and oversight of cybersecurity risks
  - Whether companies have cybersecurity policies and procedures
  - How cybersecurity risks and incidents are likely to impact the company's financials[5]

If adopted, this rule would have a drastic impact by compelling publicly traded companies to disclose their cyber security practices publicly, which would expose them to bad actors.

Increased Threat Landscape

There were continuous and severe cyber incidents throughout 2021 and the first half of 2022, and the attacks continue to persist. All industries are vulnerable, and organizations that have historically not viewed increased information security as a return on investment are most at risk.

The costs of ransomware attacks are increasing as bad actors make it easier, cheaper, and more efficient to launch attacks. A hacker does not need a background in developing malware to launch an attack, since "ransomware as a service" allows them to simply sign on and receive help to be successful. Hackers have morphed from single-person fringe shops to multibillion-dollar enterprises with institutional hierarchies and R&D budgets, according to a recent report by McKinsey & Company.[6]

The growth in size mirrors a troubling increase in sophistication behind ransomware as a service, which is a subscription that allows affiliates to use ransomware tools that are already developed to carry out ransomware attacks. Bad actors no longer need to develop the tools to attack, they just need to sign for a subscription. The subscription is complete with tips and a help desk. The creators behind these services are further incentivized by the fact that they receive a percentage of the ransom.[7]

While the use of tried-and-true tools like phishing, smishing and ransomware continue, bad actors have begun to evolve to more destructive methods like deploying spyware and wiper malware. Consider for a moment the prospect of a system being overwritten, resulting in the permanent removal of data from a victim's environment.

Another trend on the horizon is quantum computing and its implications. Threat actors are beginning to harvest encrypted information for the sole purpose of using future technologies as they relate to advances in quantum computing. Quantum computing represents a new paradigm in computation that utilizes the fundamental principles of quantum mechanics to perform calculations to break encryption keys.[8]

Cyber Insurance Implications

- Carriers are closely monitoring and typically reducing capacity
  - $5 million has become the "new normal" limit (versus $10 million)
  - Excess premiums provide only small (if any) discounts to the layers beneath, as insurers view the first $50 million as exposed in any given claim
  - Insurers are requiring higher retentions and waiting periods
- Renewed focus on the underwriting of critical information security controls and practices that require full implementation to receive the "optimal risk" designation. In addition to those listed below, see our January report.
  - Multifactor authentication (MFA)—remove access, privileged accounts, and email accounts
  - Number of services accounts and methods to deprivilege them
  - Third-party risk management controls (TPRM)
  - Number of personally identifiable records, including biometrics, and privacy controls around them
  - Increased phishing campaigns

Premium Changes

- Primary Layers
  - +80% with a complete submission and optimal ransomware controls and no material loss events
  - +100% or higher if losses and/or suboptimal internal information security controls and processes were presented
  - +100% for clients in the professional services industry; especially technology companies
- Excess Layers (within the first $50 million)
  - + 80% to 100%+ no losses/complete submission and optimal ransomware controls
  - +100% if losses and/or suboptimal internal information security controls and processes were presented

Policy Wording Changes

As listed in the Policy Wording Changes section of our January report with this addition:

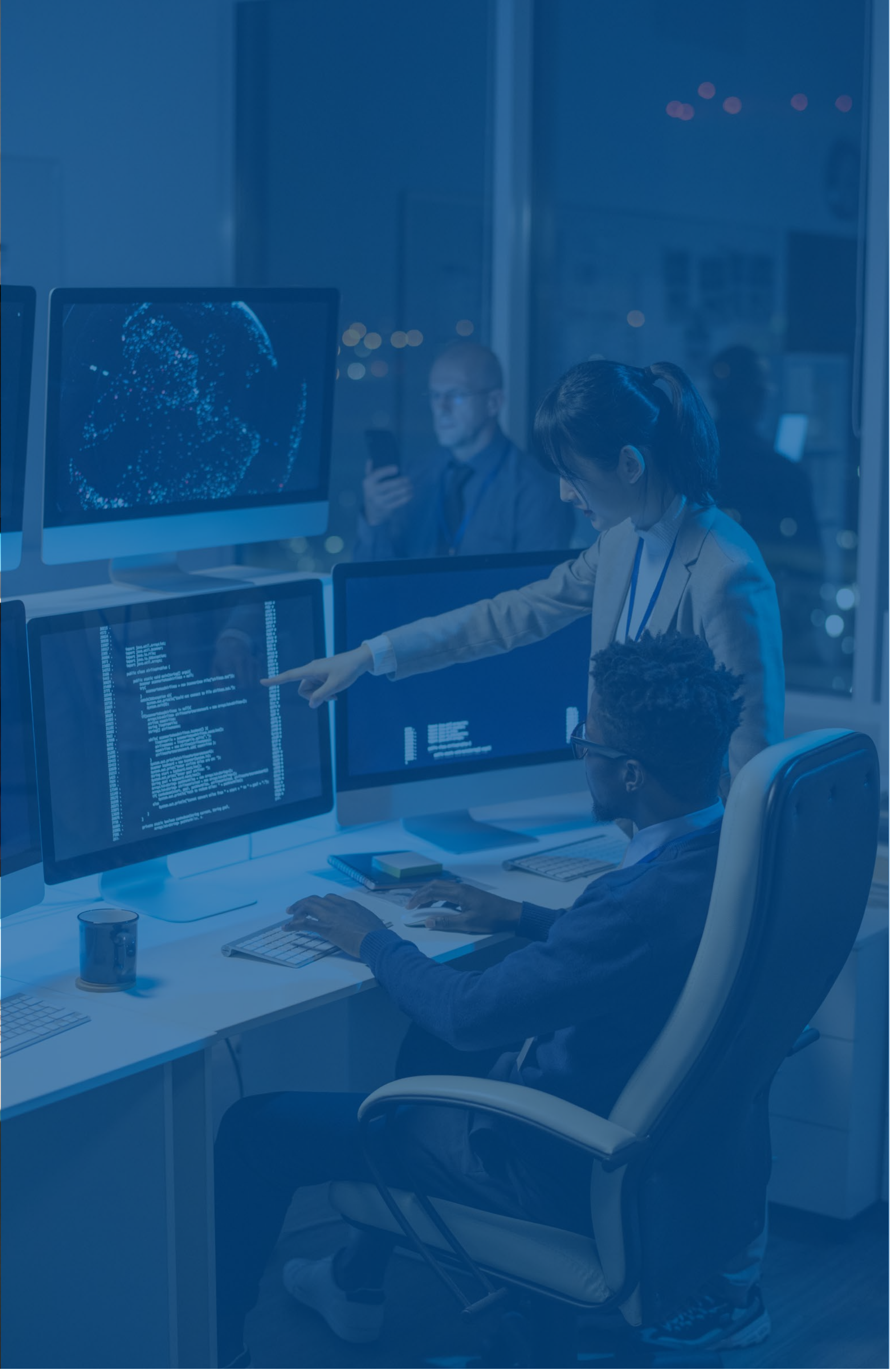
- CVE (common vulnerabilities and exposures) is a publicly available list of information security vulnerabilities

Cyber Insurer Appetite Changes

As listed in our January report in the "Cyber Insurer Appetite Changes" section.

Balance of 2022: Trends to Watch

Cyber risk experts agree that Russian-backed or supported cyberattacks and counterattacks intended to disrupt supply chains, IT suppliers, governmental agencies, financial services organizations, critical infrastructure (including healthcare, transportation and energy) and other critical national institutions, will likely continue.



Cyber Risk Management Protocols

All organizations, regardless of the location of their operations, should seek to improve their cyber hygiene and take a holistic view of cyber risk management. Recent underwriter focus suggests the following control areas may be linked to increased likelihood of ransomware incident or susceptibility to cyberattack. Areas to review include:

- Employee training and awareness of suspicious phishing communications (from email but also text message, social media and voicemail), particularly in regard to targeted "spear phishing" related to the conflict in Ukraine
- MFA
- Endpoint detection and response (EDR) and/or extended detection and response (XDR)
- 24/7 network monitoring and security operations center (SOC)
- Encrypted, secure network backups
- Network segmentation, particularly for "end of life" (EOL) systems, and cadence for pathing vulnerabilities
- Incident response plans
- Vendor and supply chain risk management (third-party risk management) — especially critical as attacks spread widely

Challenges With Cyber Insurance: Cyber Risk and War

Policy language may affect how claims are covered, if at all. Review your policy for several key definitions and exclusions:

- Cyber war definitions/exclusions, including:
  - Causation wording for war exclusions
  - Potential cyber terrorism carve-backs: typically limited to cyberattacks conducted by individuals or groups with ideological goals, not conducted on behalf of a nation state (e.g., Russia, North Korea, etc.)
  - Cyber terrorism extensions or exclusions
- The scope of sanction and OFAC exclusions
- The scope of computer network/operations

How USI Can Help

- As the conflict in Ukraine continues to evolve and sanctions potentially elevate, experts expect to see an increase in global cyberattacks and counterattacks, as well as significant and likely sudden disruptions to the global supply chain. We will continue to closely monitor the situation and advise clients.
- USI's comprehensive cyber risk control continuum includes services and solutions designed to assess current cyber hygiene and exposures to cyber risk, and connect clients and prospects with curated third-party providers that specialize in addressing emergent cyber risks. Our Answerlytics™ and customized eRiskHub solutions can help clients improve their cybersecurity and insurance marketability, pricing, and terms.

For additional information or assistance addressing cyber risks, contact your USI representative or email us at pcinquiries@usi.com.

Transaction Liability: Representations & Warranties Insurance (RWI)

Highlights/Changes: First Half of 2022

The transaction liability market has moderated a bit from where it was at year-end 2021. We reference our commentary in the Transaction Liability section of our January 2022 Market Outlook. Noted below are mid-year 2022 trends and observations to watch, and what we are expecting for the remainder of 2022.

Observations:

- **Mergers and acquisitions (M&A):** Activity is down roughly 10% from record-high levels in the third and fourth quarters of 2021. There are currently no impending significant tax law changes like the ones that drove some record-high M&A activity in 2021. The conflict in Ukraine has reduced or slowed the pace of large transactions in which the parties have larger international footprints/dependencies.
- **Human capital:** Transaction liability insurers have and continue to hire underwriting professionals to better address the increased presence of RWI policies in M&A transactions. As a result, we can provide more quote options (non-binding indications) for our clients than we could in late 2021, when we were often limited to only two or three insurers.
- **Premium rates:** Flat to down 10% from year-end 2021 levels.
- **Claims:** Persist at similar frequency levels (20%) and insurers note severity levels continuing to rise (which is keeping rates from falling more than they have).
- **Number of insurers/underwriting capacity (limits):** Both remain high, much like in 2021.
- **Ukraine conflict:** Underwriters are specifically reviewing and evaluating the exposures any target business has in Russia, Ukraine, and Belarus and where they are material, excluding those risks.

As the year continues, rates will likely keep softening if M&A activity remains at current levels. However, we do not anticipate a significant drop, given the large amounts of capital "on the sidelines" waiting to be deployed by both strategic and financial sponsor investors.

How USI Can Help

USI can assist our clients by:

- Engaging early in the M&A process to help identify the risk profile for contemplated transactions
- Detailing current market conditions and expected areas of concern insurers are likely to raise for planned M&A transaction(s)
- Providing clarity and setting expectations around the procurement process and timeline, as the process is unlike most other insurance coverages

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

[1] https://hbr.org/2022/03/the-cyber-insurance-market-needs-more-money
[2,3] https://www.jdsupra.com/legalnews/kennedys-cybersecurity-and-privacy-us-4834637/
[4] https://www.natlawreview.com/article/us-senate-unanimously-passes-cybersecurity-legislation-requiring-72-hour-cyber
[5] https://www.sec.gov/news/statement/gensler-cybersecurity-20220309
[6] https://www.mckinsey.com/business-functions/risk-and-resilience/our-insights/cybersecurity-trends-looking-over-the-horizon
[7] https://www.afcea.org/content/sponsored-81-ransomware-statistics-data-trends-and-facts-2021
[8] https://www.investopedia.com/terms/q/quantum-computing.asp#:~:text=Quantum%20computing%20is%20the%20study,of%20both%200%20and%201

INDUSTRY UPDATES

MANUFACTURING & DISTRIBUTION

Manufacturing and distribution (M&D) renewals remain in line with the projections noted in this report for each line of coverage, with the following additions:

Highlights/Changes Since Fourth Quarter 2021

In the second half of 2021 and through the first half of 2022, manufacturers continued increasing production output and revenue. To keep up with demand, they are steadily increasing job openings, many of which have been in key supply chain areas. The continuous threat to this growth is inflationary costs, worker shortages, and supply chain instability. Supply chains had previously showed slight easing in recent months, but we are seeing further disruption from the conflict in Ukraine and lockdowns following China's resurgence of COVID-19 infections.

Anticipated Market Trends for Balance of 2022

We expect these trends will carry throughout 2022 and potentially into 2023. Labor shortage, supply chain problems, and the costs of inflationary issues are now being felt in vendor-customer relations and the cost of goods. In response, many manufacturers have begun to increase pricing, placing significant anticipatory orders, that have resulted in higher carrying charges in their operations, to offset some of the increases.

Cargo/Stock Throughput

Stemming from loss results over the past decade, overall market premium decline, and recent loss unpredictability, the cargo/stock throughput markets in the U.S. and United Kingdom remained challenging throughout 2021. Underwriting scrutiny, premium uplift, and coverage limitations are being used by carriers to improve book performance. New entrants have emerged in the market, although change has been minimal. Underwriting scrutiny on business operational risk profiles remains high.

Anticipated Market Trends for Balance of 2022 - Cargo/Stock Throughput

For more challenging classes of business such as leafy greens, tobacco, wine, nuts, grains, fish, and liquor, manufacturers will continue noticing upward rate pressure, increased retentions, and decreased coverage capacity in 2022. More desirable classes of business will experience moderation in rates. We expect these conditions to continue into 2022 and likely into 2023.

Trade Credit Risk

Losses were lower than anticipated during the pandemic and post-pandemic recovery. Rate increases and terms and conditions have remained more moderate than expected.

Anticipated Market Trends for Balance of 2022 - Trade Credit Risk

Challenges include inflationary pressure, supply chain disruptions, material scarcity, and labor shortage, which remain high drivers for demand of credit risk insurance. As rates remain moderate for now, the market sentiment is that claims will increase. This could result in terms of pricing and insurability of receivables. Further, credit risk insurers have pulled back on insuring businesses exporting to Ukraine and Russia.

How USI Can Help

To learn how USI guides clients toward achieving favorable coverage outcomes, see the steps listed in the "How USI Can Help" section of our January report.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

REAL ESTATE

Highlights/Changes Since Second Quarter 2021

Real estate mid-year 2022 updates remain in-line with the projections noted in our January Market Outlook.

Balance of 2022: Trends to Watch

Cyber: Challenges remain in the cyber insurance market with increases in pricing due to the strict underwriting guidelines required by carriers.

Climate: Natural catastrophe losses remain above 10-year average levels. The frequency and, more importantly, the severity of events is driving carriers to take measures to better manage their capacity for these events.

Employment claims: Employment related claims continue to rise with settlement amounts increasing over the past several years. Keep an eye on potential repercussions from the "big resignation."

Excess liability pricing: For buyers, the price for capacity remains objectionable, with many clients settling for lower limits at a higher cost. There appears to be little in relief based on most recent renewals.

Environmental, Social, Governance (ESG)

Considerations for ESG in Real Estate:

- Environmental consideration for maintenance practices including chemicals used at a location
- Environmental sensitivity for the types of construction materials used and the ability to recycle those materials
- Increasing use of renewable energy sources for energy needs
- The social impact of robust diversity and inclusion programs
- Governance that includes risk management strategies that address the various degrees and ever-changing risk landscape

How USI Can Help

Clients engage USI to:

- Effectively communicate their company strategies to mitigate a cyberattack and provide coverage as needed
- Run their portfolios through our platform to quantify exposures and show pricing for various levels of coverage as it relates to natural catastrophe (supported by USI's property analytics team)
- Fully comprehend their employment contractual obligations and enhance the coordination with their carriers for any claim scenarios
- Differentiate their risk from their competitors, especially as related to risk management and risk mitigation, to better compete for excess liability capacity

CONSTRUCTION

The year-end projections published in our January Market Outlook were on track for the first half of 2022 for construction, with no significant industry/market changes.

Anticipated Market Trends for Second Half 2022

As the construction industry continues to make its way through 2022, bright spots and blind spots are creating opportunities and challenges for the industry. Two obvious bright spots include the federal government's recently passed Infrastructure Investment and Jobs Act, which directed $550 billion in new federal funding to transportation, water, and power infrastructure. Projects funded by this act should begin over the next six months and contractors of all sizes can expect to benefit from the influx of projects. Additionally, we are seeing project starts from the recently passed $1.9 trillion American Rescue Plan Act, which includes $10 billion for critical infrastructure.

As a result of these efforts, industry economists are cautiously optimistic. Furthering this optimism is some compelling information published recently by BaseRock Partners. The group noted in its 2022 "Engineering and Construction (E&C) Mergers and Acquisition (M&A) Outlook" that 44 of its E&C index constituents have a 2022 S&P standard growth target of 12.4%— an impressive number.[1] The positive outlook is also fueled by the anticipated increase in infrastructure spending and the continued growth in residential and non-residential spending, the latter of which gained momentum in the second half of last year.

"Construction starts continue to climb, mostly unimpeded by rising materials prices and shortages of labor and key materials," according to Richard Branch, chief economist for Dodge Construction Network. The number of projects in the planning pipeline suggest the rising trend in construction should continue for the time being, he noted, and will be spread across more sectors than last year. And while the outlook is positive, Branch warns that the many challenges facing the sector will limit upside potential.[1]

Among the blind spots or challenges being watched carefully are the conflict in Ukraine, inflation, rising interest rates, material cost volatility, continued supply chain deterioration and sustained shortages of skilled labor. As BaseRock notes in its report, "Inflation will be the most critical challenge facing businesses operating in 2022."

All sectors of the construction market are impacted by input costs—whether related to labor, commodities (lumber, copper, steel, and fuel) or finished building products.[2] While these costs continue to rise, bids have been creating additional pressure on margin health. Coupled with the invasion in Ukraine, which further deteriorates an already fragile supply chain, there are many obstacles this year for contractors to maneuver.

Coverage Line Updates

The following coverage updates go beyond those listed in our January Market Outlook and may not include all lines of business.

General Liability

A flattening of rate increases is trending across most industry sectors outside the five boroughs of New York City. Differentiation can still be achieved based on the quality of an individual risk. Positive rate increases are expected to range in the mid- to high-single digits. New York City construction remains firm, with losses pressuring rates. Capacity is restricted, with only a limited pool of carriers willing to write in the city. This is due, in large part, to the existing labor laws.

Workers' Compensation

The skilled labor shortage in all industry segments remains the single most challenging issue, according to the Associated General Contractors of America, Inc. (AGC) and FMI Consulting in their recently published "Risk Management Survey." Medical costs continue to rise because of inflationary pressures, and loss trends in terms of both fatal and nonfatal injuries point to the need for employers to create stronger and better executed behavior-based safety programs to keep workers' compensation and experience modification rates from getting out of control.

Vaccine mandates and marijuana legislation create additional clouds of uncertainty within the construction industry. Opioid misuse among construction workers remains relatively high, leading to greater lost time injuries. Carriers are looking at rate adequacy as these macro environmental influencers affect contractor performance.

Umbrella/Excess

Price increases are stabilizing after a perceived over-correction in the market during the last two years. New capacity continues to enter the market, increasing options and competition. The lower layers are still challenged with upward rate pressure and availability of limits. To help ease financial costs, the underlying limits and buffer layers may need to be increased or restructured.

Cyber

As noted in our January Market Outlook, construction's reliance on technology is expanding and showing no signs of retreating. Cyber threats against contractors have escalated since the invasion in Ukraine, exposing cyber protocol vulnerabilities in IT infrastructure. "Cyber hygiene," which includes a detailed outline of a company's workplace cyber policies, incident response planning, employee training, and security software capabilities, has become an industry buzzword. In fact, to access cyber insurance coverage, carriers generally require stringent underwriting processes focusing on cyber hygiene.

Builder's Risk/Course of Construction

Capacity is strained for coastal or wildfire exposed projects. Greater emphasis on risk mitigation protocols and more stringent underwriting requirements are being imposed by carriers as part of the underwriting process to deploy needed capacity. Wood frame and cross laminate timber (CLT) projects are increasing in size while capacity remains low, requiring multiple carriers to complete a placement.

As supply chain issues have delayed more projects and reinsurance costs climb, rates continue increasing and extensions are becoming costlier. Compounding the situation are the large number of water damage claims, which have resulted in carriers increasing deductibles and requiring the installation of water sensors.

Architects and Engineers Professional Liability (A&E PL)

After multiple years of market stability, the A&E PL space is beginning to show slight signs of hardening. However, the overall marketplace includes a wide variety of insurers competing for business, which will keep these rate increases in check. Project-specific professional policies saw the most tightening with respect to limits and coverage terms, and there is reduced appetite for residential and large-scale infrastructure projects.

Owner's Protective Professional Indemnity and Contractor's Protective Professional Indemnity (OPPI/CPPI)

As construction contracting methods continue to evolve and design-build is no longer seen as an alternative delivery method, project owners and general contractors are employing OPPI/CPPI policies as an additional risk management strategy. Interest in these rolling programs continues to grow because they help maximize cost efficiencies and coverage terms and conditions. Yet as with A&E PL, there is a strained appetite for residential frame for-sale projects. Nevertheless, the overall outlook remains competitive.

Surety

The surety industry was profitable again last year, but we are seeing an uptick in loss activity. Several sureties remain concerned about subcontractors because so many received paycheck protection program (PPP) money, which may have hidden underlying financial issues.

Many companies also bid projects that were awarded in early 2021, and now cost escalations and supply chain issues are eroding profit margins. We hope the federal government's recently passed infrastructure act will provide relief, but there are lingering concerns regarding the soft urban office market, interest rate increases, and cost to build, especially in the private sector.

How USI Can Help

When considering renewals for the second half of 2022, construction companies can follow these suggestions from USI's construction team:

- **Lead with data.** Companies should outline their risk exposures and claims trends within their operations, emphasizing remediation techniques and technology innovations. This will lead to more quantitative submissions. Underwriters want insureds to continue to improve, stay ahead of risk trends, and seek operational and financial excellence.
- **Increase communication with all business partners.** As the economic recovery continues, despite increased strains on project delivery due to labor shortages and supply chain woes, companies should speak proactively with insurance and surety underwriters and USI's construction team. This will allow for greater transparency, flexibility, and adaptability of the team.
- **Seek continuous improvement in internal risk management controls.** Companies should strive to set themselves apart from their peer groups, which is vital to the underwriting process. Internal controls and implementation on contractual risk management, owner and subcontractor prequalification, and financial results, will allow a company to assess its risk appetite proactively and continuously.
- **Embrace technology.** Companies should employ construction technologies in wearables, asset management, water mitigation, fire mitigation, site security, and project management, which can help manage risk more efficiently while demonstrating the effectiveness of their risk management strategies to carriers. In addition, the data from these programs can be utilized to help contractors improve the efficacy of their risk management programs.
- **Seek alternative ways to construct your risk management program.** Buying insurance in the marketplace is not the only way to manage risk. As the market continues to evolve, companies should proactively give thought to how a risk financing plan may meet their current and future needs while effectively managing risk. Risk can be self-managed through deductible structures, captives, and self-insurance, in some cases without having to rely on macro-economic pressures and insurance market cycles.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

[1] https://www.construction.com/news/Total-Construction-Increase-in-January-2022
[2] BaseRock Partners Q1 2022 Engineering and Construction M&A Outlook,https://baserockpartners.com/category/insights/

> “The number of projects in the planning pipeline suggests that the rising trend in construction should continue for the time being and will be spread across more sectors than last year.”

HEALTHCARE

With the exception of the following updates, the year-end projections published in our January Market Outlook were on track for the first half of 2022, with no significant industry/market changes.

Balance of 2022: Trends to Watch

- Competitive pricing is available with carriers that target the human and social services industry.
- Workers' compensation pricing, especially for large deductible plans, is very competitive.
- **Environmental, social and governance (ESG) scores.** Although ESG scores and ratings are expected to become a big factor in underwriting decisions[1], medical malpractice, other liability, and property underwriters have yet to apply good or poor scores into their standard underwriting process. This may change in the future. As a best practice, it is important to make underwriters aware of good ESG scores, as they can be helpful in negotiating more attractive pricing and coverage terms for clients.

How USI Can Help

See the "How USI Can Help" section of our January Market Outlook for steps USI takes to support clients.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

[1] "ESG scores set to become big factor in underwriting decision," Commercial Risk, April 14, 2022

PUBLIC ENTITY & HIGHER EDUCATION

Highlights/Changes Since the Fourth Quarter 2021

The P&C marketplace for public entity (PE) and higher education was challenging for insurance buyers during much of 2021, and has stabilized through 2022 with a few exceptions. Contributing factors:

- The loss of carriers and markets in 2021 and 2022 have led to a loss of capacity with large losses clearly the driving force. The excess liability market is still volatile and price increases of 10% to 25% are still common.
- The impact of COVID-19 on insurance costs has not yet been felt within the marketplace. To date, most of the 250+ lawsuits filed against colleges and universities for tuition reimbursement have been dismissed. One recent lawsuit yielded a judgement of $12.5 million against a prestigious New York university.
- There is a communicable disease product available to cover third-party liability in the event of a disease outbreak. Except for wholesale distribution centers, prisons, cruise ships and tour operators, coverage is available for almost all industries and includes third-party bodily injury resulting from an infectious disease outbreak. Coverage for known issues like COVID-19 is included, and only diseases that are known to be endemic, such as the common cold, will be excluded. Endemic diseases will be pre-determined on the policy and will be state-/country-specific. Limits are generally available up to $5 million with $10,000 deductible per claim.
- Sexual abuse and molestation (SAM) coverage remains a hot topic within the public sector, education, religious, and non-profit classes of business. Recently, SAM coverage has garnered significant attention due to the exploration of increasing "lookback windows" by various jurisdictions. These lookback windows, which identify a period in which alleged victims can seek justice, have been established in eight states and the District of Columbia.
- In higher education, liability and excess marketplace remains challenging. Lead/excess umbrella and educators' legal liability (ELL) coverages have been hit the hardest. Capacity has been cut with many markets re-underwriting their books and exiting this space—and communicable disease exclusions are being added. These factors are also driving adverse market conditions:
  - Social inflation: Increased litigation and headlines driving up claim costs
  - Reviver statutes: Extending the tail and altering the tort landscape
  - Nuclear verdicts: Jury awards are drastically increasing, partly from third-party litigation funding (investing in plaintiff lawsuits and trials)
- Law enforcement issues have become a primary force behind the market shift over the last few years. Law enforcement liability claims are increasing in frequency and severity for various reasons and are impacting insurers' ability to provide necessary capacity at an affordable price.

Anticipated Market Trends for 2022

Cyber Market Update for Public Entity & Higher Education

We continue to see a re-underwriting process necessary to ensure the long-term viability of cyber insurance coverage offerings. In fact, most insurers have reduced capacity and are increasing retentions and underwriting requirements at a time when public entities and higher education institutions are high on the list of businesses targeted by bad actors.

One change noted from our January Market Outlook is a modification of war exclusions resulting from the conflict in Ukraine. Underwriters are concerned this conflict will increase cyberattacks on countries supporting Ukraine. The situation may prompt discussions about political risk insurance for entities with operations outside the U.S.

The increase in frequency and severity of ransomware attacks is also leading to significant pullbacks on dependent business interruption (BI) coverage. It is common to see this coverage excluded or significantly sub-limited when the exposure is deemed too great. Given the breadth of recent ransomware incidents, this situation is not likely to change for the balance of 2022.

We remain concerned about insurers placing significant restrictions on available limits of coverage. Cyber insurers are implementing aggressive de-risking strategies to reduce their exposure to catastrophic loss. Primary layers of $10 million are becoming scarce, for example, and insurers are more frequently building towers in layers of $5 million or less to minimize risk.

Additional Updates and Trends to Watch

1. In 2022, markets may continue to offer lower rates than expected in the absence of global catastrophes or pandemic lockdowns. For example, we are presently seeing a slight stabilization in the property marketplace with rate increases of 5% to 9%, versus more than 10% on average over the past two years. Increasing property valuations is an issue to watch; supply chain issues and the current inflation rate have underwriters seeing this as an opportunity to increase premium by increasing replacement cost values insured.

2. In the marketplace, competition for desirable accounts will continue through the end of 2022. Rate increases ranged from 0% to 7% during the first half of 2022 for all lines of insurance except cyber liability, law enforcement liability, and umbrella limits (above $10 million). The trend is favoring those who submit for coverage or renewal early with a favorable risk profile.

How USI Can Help

See the "How USI Can Help" section of our January report to learn how USI helps clients win in a challenging market.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

AGRICULTURE

Mid-Year 2022

The year-end projections published in our January Market Outlook were on track for the first half of 2022, with no significant industry/market changes except for those noted below.

Russia-Ukraine Conflict

The U.S. agriculture economy has changed significantly since the start of this year, with the conflict in Ukraine having a major impact. Russia is one of the world's largest players in the fertilizer market and Ukraine is the largest wheat exporter in the world. Fertilizer prices have increased dramatically since the beginning of the invasion and are now sitting at record highs, with many types of fertilizer tripling in price since the beginning of the year. Ukraine is responsible for exporting about 15% of the world's wheat supply. While the conflict has led to a significantly higher wheat price, U.S. farmers have not had a competitive advantage because their seasonal wheat supply had already been sold.

The conflict between Russia and Ukraine is also adding excessive financial pressure amid rising fuel prices, employee shortages and supply chain challenges, and the industry remains affected by rising insurance premiums.

Highly Pathogenic Avian Influenza (HPAI), Including H5N1 Bird Flu Virus

The latest bird flu virus to hit the U.S. is considered the deadliest outbreak in the last seven years. Aggressive measures are being taken by U.S. farmers and producers to stop the spread of HPAI in commercial and backyard flocks. These measures include destroying chickens and turkeys en masse to prevent the spread of the virus.[1,2] According to the U.S. Department of Agriculture (USDA), 319 flocks were confirmed with HPAI as of May 17, 2022. This has resulted in significantly reduced inventory and higher prices.[3] Consumers will feel the pain at the supermarket and in restaurants as the year progresses, especially during the holidays.

How USI Can Help

The USI agriculture team will be monitoring the rapidly evolving bird flu situation carefully and will provide a more detailed report in our next Market Outlook. In the meantime, clients with questions or concerns should contact their USI agriculture representative or email us at pcinquiries@usi.com.

[1] https://www.npr.org/2022/04/06/1091061758/bird-flu-outbreak

[2] https://www.npr.org/2022/04/09/1091491202/bird-flu-2022-avian-influenza-poultry-farms

[3] "2022 Confirmations of Highly Pathogenic Avian Influenza in Commercial and Backyard Flocks" USDA, modified April 20, 2022

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How We Can Help

To help clients navigate complex business challenges, USI shares expert insights and key solutions through our Executive Series. Our cross-functional teams work to provide timely information on new and evolving topics in risk management, employee benefits, personal insurance and retirement. We then share tailored solutions to help you guide your organization successfully, enhance insurance coverage, and control costs. For additional information and resources, please visit our Executive Insights page: usi.com/executive-insights

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