2022 Commercial Property & Casualty Market Outlook

Forecast Insights From USI National Practice Leaders

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With 2022 underway, we are pleased to see an influx of new insurance carriers that have helped expand overall capacity in the insurance market. Legacy markets, which have been deploying capital and surplus to compete for new business in certain lines of coverage, are also increasing capacity.

With the gradual market stabilization, some insureds should begin to see relief in 2022, as we discuss in more detail throughout this publication. Organizations that work closely with their brokers to improve their quality of risk will differentiate themselves to the insurance marketplace and position themselves to receive favorable outcomes.

Some insurance buyers, including ones in certain geographic areas, industries, and other risk categories, are exceptions to these positive trends and will continue to face enormous challenges. The supply chain crisis is expected to persist through 2022 as well, impacting virtually all organizations. It's critically important for organizations to leverage the best expertise and strategic resources available to evaluate and improve their risk profiles.

> "We saw a surge in insurers' probes into information security controls and practices, which severely impacted buyers' coverage when deemed 'less optimal.'"

In this Market Outlook, we take an in-depth look at major industries and discuss the most impactful trends in all insurance lines.

- **Property:** While market dynamics are still volatile for challenged geographic areas, we are seeing the market stabilize overall — and this benefits commercial insurance buyers that maintain quality risks with strong data to back them up.
- **General Liability:** General and products liability rates, while increasing quarter over quarter, will be less severe than other casualty lines. We anticipate rates to increase between 5% and 10%, with a growing number of insureds experiencing flat to 5% increases as the year progresses.
- **Auto:** Commercial automobile liability coverage rates are starting to flatten out, due to the reappearance of insurers that have been dormant, along with the entrance of new telematics and usage-based insurers.
- **Excess:** Umbrella/excess insurance continues to be the most adversely impacted casualty coverage line. The umbrella/excess market also continues to exhibit selective deployment of capacity per individual insured.
- **Workers' Compensation:** In most states, this line of insurance continues to perform well for many insureds. The impact of COVID-19 claims has been far less than anticipated, even in states that have enacted presumptive liability.
- **Cyber:** Ransomware attacks continued to plague the cyber insurance market throughout the second half of 2021. To mitigate their losses, insurance companies are tightening the terms and availability of certain cyber coverages, especially for organizations that cannot demonstrate strong cyber risk controls and overall cyber hygiene. We saw a surge in insurers' probes into information security controls and practices, which severely impacted buyers' coverage when deemed "less optimal." For year-end 2021, network security and privacy (cyber) insurance rates increased 40% to 50% for optimal risks, and 50% to 100%+ for less optimal risks (year over year). Good cyber hygiene is critical to securing insurance quotes and limits.
- **Directors & officers (D&O):** The overall public company D&O marketplace continued to stabilize due to a significant decrease in federal securities class actions (SCAs) in 2021 and the emergence of new capacity targeting excess layers of coverage. With some exceptions, moderate increases are the norm. Premium and retention increases moderated for private company/not-for-profit (NFP) D&O as well.
- **Other lines of executive and professional insurance:** The impact of excessive-fee litigation dominated the fiduciary liability insurance conversation in 2021, and many insureds saw double-digit percentage increases in premiums in the second half of the year. For employment practices liability (EPL), pricing increases moderated late in 2021, and single-digit increases were achievable in the absence of a poor claims history or a major increase in exposure.

While we continue to see costs increase in some coverage lines, the overall stabilization and improved capacity across the insurance market are reasons for optimism. As noted in this market forecast, we anticipate that rates will flatten or even decrease for some lines of coverage in 2022. Organizations that take advantage of the "How USI Can Help" sections in this report will be in the best position to capitalize on insurance market opportunities going forward.

We wish you success and a happy new year!

Robert Meyers
Senior Vice President,
Property & Casualty Leader
USI Insurance Services

MARKET UPDATE & RATE FORECAST

Product Line	Year-End 2021 (YOY)	Forecast 2022 (First Half)
PROPERTY		
Property Non-Catastrophic w/Good Loss History	Flat to up 10%	Down 5% to up 5%
CAT Property w/Minimal Loss History	Up 10% to 15%+	Up 5% to 10%+
CAT or Non-CAT Property w/Poor Loss History	Up 20% +	Up 15%+
CASUALTY		
Primary General/Product Liability	Up 10% to 20%	Up 5% to 15%
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/Fleets 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 5% to up 5%**
Workers' Compensation Loss Sensitive	Flat to up 5%**	Flat to up 5%**
Umbrella & Excess Liability (Middle Market)	Up 5% to 25%***	Up 5% to up 15%***
Umbrella & Excess Liability (Risk Management)	Up 25% to 50%+***	Up 10% to 35%+***
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 longer-term impact of COVID-19 presumptive liability rules.
***In some cases, depending on class of business and limits purchased. Factors in contraction in limits.
^Geographical radius of operations will impact pricing.

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MARKET UPDATE & RATE FORECAST

Product Line	Year-End 2021 (YOY)	Forecast 2022 (First Half)
ENVIRONMENTAL		
Environmental Combined General Liability/Pollution	5% to 15%	5% to 15%
Excess Combined General Liability/Pollution	5% to 20%	7.5% to 15%
Environmental Contractors' Pollution	10% reduction to flat	10% reduction to inflationary increase
Environmental Pollution Legal Liability	Flat to inflationary increase	Flat to 5% 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 +20% Excess: Down 10% to up 10% Total: Down 5% to up 15%
Private Company and Not-For-Profit (NFP)	Up 5% to 25%	Flat to up 20%
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	40% to 50% for optimal risks 50% to 100%+ for less optimal risks
Technology E&O	35% to 50% for optimal risks 50% to 100%+ for less optimal risks	40% to 50% for optimal risks 50% to 100%+ for less optimal risks
Representations & Warranties	Up 20% to 30%	Flat to down 15%
Kidnap & Ransom	Flat to up 10%	Flat to up 10%

View our Historical Rate Index charts

PROPERTY

Product Line	Year-End 2021 (YOY)	Forecast 2022 (First Half)
Property Non-Catastrophic w/Good Loss History	Flat to up 10%	Down 5% to up 5%
CAT Property w/Minimal Loss History	Up 10% to 15%+	Up 5% to 10%+
CAT or Non-CAT Property w/Poor Loss History	Up 20% +	Up 15%+

View our Historical Rate Index charts

Highlights/Changes Since Second Quarter 2021

As we discussed in our 2021 Mid-Year Commercial Property & Casualty Market Outlook, quality risks continue to receive the benefit of a stabilizing market. Market dynamics are still volatile for challenged geographic areas in the U.S., including southern coastal counties and wildfire zones in the West. Hurricane Ida, for example, caused extensive damage in Louisiana in August 2021, after which it took a path northeast, triggering an estimated $20 billion in damage from flooding.

Reinsurers are closely watching the development of 2021 losses as they negotiate 2022 reinsurance renewals. Hard-hit regions will continue to see unpredictable increases based mostly on extreme challenges in capacity supply and demand.

Anticipated Market Trends for 2022

In the first half of 2022, the rate and deductible adjustments seen since 2019 will create opportunities for carrier profitability, especially for lower hazard occupancies and non-catastrophic (CAT) regions. The current environment and opportunity to shrink CAT portfolios will create competition among carriers trying to attain their 2022 premium growth targets. This, combined with a slowing impact of COVID-19 and strong investment opportunities, allows carriers to be aggressive on quality risk with quality data.

Challenged Exposures

Coastal

Exposure - Over the past five years, hurricane season in the U.S. has produced 100 named storms as compared to 67 over the previous five years. In 2022, these events will continue to impact loss ratios for carriers that offer capacity in exposed regions. Carriers have responded with drastically reduced capacity offerings, increased rates, and increased deductibles for named storms.

USI's Response - It is imperative for property owners to know the loss-estimate results of their modeled portfolio. CAT modeling represents a significant part of the aggregation analysis used by carriers and determines pricing for individual risks. Carriers place considerable weight on modeling results when delineating pricing and governing capacity for named windstorms. USI's modeling capabilities include analytics around perils to include a named windstorm, wind/hail, earthquake, flood, and wildfire.

Wildfire

Exposure - Securing capacity for wildfire is extremely challenging in the current property market. In recent years, we have seen numerous large wildfire events impact western states, resulting in billions of dollars of insured damage. Many markets are withdrawing from offering fire capacity in areas with high wildfire risk scores. Those carriers that remain have severely reduced wildfire capacity and significantly increased pricing for the exposure capacity in exposed regions. Carriers have responded with drastically reduced capacity offerings, increased rates, and increased deductibles for named storms.

USI's Response - To determine actual exposures, USI accesses various data points to verify wildfire risk scores and will also conduct modeling. To improve risk quality and make a positive impact on carrier interest, our Risk Control team works with clients on hardscaping strategies, brush-control impact, and roof cleaning and maintenance measures.

Wind/Hail

Exposure - According to the National Weather Service, the U.S. has experienced nearly 10 significant severe thunderstorm outbreaks in each of the past three years. Carriers continue to manage rooftop aggregate amounts in exposed geographies. In addition, percentage deductible levels often equal full roof replacement, providing limited or no coverage for a hail event. As events have become more widespread, many geographies will be included in the higher deductible application.

USI's Response - USI can help property owners understand their modeled risk and deductible application. Deductible buydown options are available to reduce the financial impact of a large event and high deductible. USI's Risk Control team can provide a cost/benefit analysis related to the repair or replacement of a roof.

Flood

Exposure - River and flash flood occurrences continue to impact areas throughout the U. S., many of which were not in a flood zone designated by the Federal Emergency Management Agency (FEMA). Many businesses declined to purchase flood coverage and sustained damage in unforeseen flood events.

USI's Response - Property owners should know their flood zone and applicable flood limits before a loss occurs. USI works closely with our clients to triangulate flood zones and recommend appropriate flood limits for areas that could be susceptible to a flood event. In addition, we work with our partner carriers to ensure that coverage and deductibles remain unchanged if flood zones change during the policy period.

Challenged Occupancies

Habitational

The frequency and severity of losses persist for habitational risks. In our Mid-Year 2021 Market Outlook, we discussed Winter Storm Uri, a deep freeze event that struck Texas and surrounding states in February. Habitational accounts sustained very large losses because of the storm, which are contributing to an already poor overall loss history. The habitational occupancy faces continued capacity issues, as many accounts are based in challenging geographic areas. Those contending with fire and water damage losses will see increasing pressure on rates and deductibles.

USI's Response - To secure capacity, it is necessary to clearly communicate risk qualities after a loss has occurred, so that carriers will understand the actions taken by the property owner to prevent similar events in the future. Carriers need to understand current and future capital expenditure plans and how those plans can improve overall risk quality. Additionally, a well-thought-out tenant education program can positively impact a carrier's view of the property owner's risk.

Wood Products

As large fire events prompt carriers to exit the market, this occupancy tends to be unfairly categorized and treated as if all risks are the same. Quality risk features like fire protection, accurate construction details, and operational control information can impact the differentiation of risk and improve carrier appetite.

USI's Response - USI's Risk Control group works closely with woodworking clients to ensure that quality risk features are identified and communicated to the property market. The group can also provide a cost/benefit analysis on risk improvements and the impact on capacity and premium.

Food Manufacturing

The impact of fire loss frequency and severity has resulted in a reduction of capacity and limited markets that are willing to entertain this occupancy. Carriers perceive the industry as low-margin and high-volume, with limited capital to maintain electrical systems, machinery and equipment, and fire protection systems. It is not uncommon for a small fire in a food processing facility to result in a total loss of inventory and goods in process.

USI's Response - Our risk control resources are well-versed in the food industry (much like they are in the woodworking industry), and in the application of procedures and protection features that can dramatically improve the risk for carriers. Conveying a strong story around risk mitigation strategies and risk control tactics allows us to introduce carriers that may not have otherwise considered a food manufacturing operation.

Recycling

When fires occur, this loss-leading industry also contributes to large environmental losses. The industry is challenged by the age of facilities and limited protection features, and geography exposures can make this a very difficult class for carriers. Single carrier solutions remain quite limited and therefore drive costs upward when a shared and layered structure is required.

USI's Response - Risk differentiation is imperative for the recycling industry. Communicating effective safety, protection, and operational controls to carriers allows for an improved outcome. We recommend risk control engagement to gather and assess needed information, and to make risk improvement suggestions, which are then conveyed to carriers that review specific locations.

Alternative Structures

Following the market increases and impact of higher deductibles, many clients are interested in alternative ways to deal with this hard property market. Most considerations involve property captives and parametric products.
USI's Response - The unpredictability of property losses, especially as it relates to large CAT events, makes it challenging to move to a property captive. USI clients utilizing captive capacity typically employ the captive at the deductible level. Captives allow buyers to include coverage for uninsurable exposures like the impact of a future pandemic.

Parametric product discussions are prevalent for clients in CAT areas and are applied most often to protect against sizeable percentage deductibles. These products can address many different exposures, including named windstorm, earthquake, flood, and wildfire. In addition, some carriers are offering coverage to protect against the financial impact of future pandemics. The take-up rate on these products remains relatively low.

How USI Can Help

As the hard market moderates, buyers must work closely with their brokers to accurately determine their exposures, doing so analytically, and accurately portray and communicate their quality of risk.

Our goal is to help our clients secure the most capital-efficient property renewal by:

- Ensuring they have an audience with key property carriers.
- Maximizing the engagement and impact of risk control and our analytical tools.
- Exploring options to create or access captive capacity.
- Exploring parametric structures for high-risk areas.
- Establishing and agreeing to the expected timing for their renewal.

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

CASUALTY

Product Line	Year-End 2021 (YOY)	Forecast 2022 (First Half)
Primary General/Product Liability	Up 10% to 20%	Up 5% to 15%
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/Fleets 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 5% to up 5%**
Workers' Compensation Loss Sensitive	Flat to up 5% **	Flat to up 5%**
Umbrella & Excess Liability (Middle Market)	Up 5% to 25%***	Up 5% to up 15%***
Umbrella & Excess Liability (Risk Management)	Up 25% to 50% +***	Up 10% to 35%+***
Medical Malpractice	Up 10% to 35%	Up 5% to 20%

*Including need for primary limits up to $2 million.
**Dependent on state and longer-term impact of COVID-19 presumptive liability rules.
***In some cases, depending on class of business and limits purchased. Factors in contraction in limits.
^Geographical radius of operations will impact pricing.

View our Historical Rate Index charts

Highlights/Changes Since Second Quarter 2021

General/Products Liability and Umbrella/Excess Liability

The third and fourth quarters of 2021 remained a challenging market for most buyers of general/products and umbrella/excess insurance, but we are beginning to see a welcomed deceleration in rate increases and more competition for new business for a broader number of insureds.

Three to four years of consistent double-digit rate increases are beginning to create a profitable environment for most casualty insurers. Rate adequacy has favorably impacted the combined ratio for casualty related lines, and overall industry surplus now sits at more than $950 billion and growing. As a result, although rates continued to increase during the third and fourth quarters of 2021, the pace is moderating, which should lead to longer-term rate stabilization.

Umbrella/excess insurance continues to be the most adversely impacted casualty coverage line. In the first two quarters of 2021, this was no exception. For middle-market insureds that purchased $50 million or less in total limits, average rate increases of 10% to 25% were the norm. Sufficient capacity was available throughout towers of this size, although markets in excess liability layers continued requiring high rates online. Insureds that purchased greater than $50 million in limits experienced higher average rate increases of 25% to 35%.

Structuring competitively priced programs for which multiple insurers are required to fill out the tower remains a challenge, especially for insureds with adverse prior loss experience or that are in industry classifications perceived to be hazardous. In some cases, these insureds have experienced rate increases greater than 35%.

The umbrella/excess market also continues to exhibit selective deployment of capacity per individual insured. Quota sharing of capacity is becoming more common in lower layers as markets maintain lower maximum deployment of limits for many clients, no greater than $5 million to $10 million per insured. Coverage, terms and conditions remain restrictive to keep the insurer from being brought into protracted and costly litigation. We are seeing explicit non-negotiable exclusions required on almost every account, including communicable disease.

Additionally, leading umbrella markets continue to require higher underlying primary attachment points on an increasing number of insureds with fleets of 100 or more, including minimum primary automobile liability limits of $2 million and in some cases $5 million. Primary general liability underlying limits of 2/4/4 are becoming more common as well. The need for higher underlying limits is triggering primary markets and buffer markets to increase costs.

Workers' Compensation

Workers' compensation continues to perform well for many insureds in most states, and the combined ratio remains below 90%. The short-term impact of presumptive liability for COVID-19 claims was not nearly as high as expected, and the longer-term impact is expected to be muted as more workers are vaccinated and a work-from-home environment remains common for a greater number of employees.

For guaranteed cost buyers, we have seen a competitive premium environment with mid-single-digit reductions depending on the state and classification of business. In certain higher cost states, we are seeing rate increases upwards of 5% to 10%. For clients on loss-sensitive programs, the majority experienced flat renewals as rates have bottomed out for many buyers.

In circumstances where clients are experiencing greater loss severity or where clients have a real need for premium savings, the market is reacting with a need for increased retention levels. An increasing number of markets are looking to package workers' compensation with the liability lines when writing coverage, and many insurers refuse to write liability-only without adding workers' compensation.

Anticipated Market Trends for 2022

General/Products Liability, Umbrella/Excess, Workers Compensation and Commercial Auto Liability

Although rate increases are moderating for general/products and umbrella/excess liability lines, the market continues to be characterized by sustained underwriting discipline. This includes the need for greater deductible levels or underlying attachment points before risk transfer incepts, reduced capacity provided by insurers, and non-negotiable coverage terms and conditions for most insureds.

The headwinds of social inflation pressures remain as strong as ever, including the frequency of large awards and an aggressive and well-financed plaintiffs' bar. Combined with rising reinsurance rates, this trend continues to impact underwriters' perception of rate adequacy and underwriting profitability.

New market entrants are adding capacity, and legacy markets are beginning to deploy surplus capital to compete for new accounts, albeit slowly. We are seeing that an increasing number of markets are more willing to negotiate on price rather than walk away from what they believe are unprofitable accounts. This trend will further foster rate stabilization.

For general/products and umbrella/excess liability lines, an increasing number of insureds will experience less severe renewal rate increases and potentially some flat renewals, which will be a welcome result after years of costly rate increases. Selective competition for premium dollars should continue to emerge and further stabilize the market. However, we do not project an environment where flat renewals or rate reductions are more common until at least early-to-mid 2023.

Primary General & Products Liability

The magnitude of general and products liability rates, while increasing quarter over quarter, will be less severe than other casualty lines. Some of this is attributed to insureds assuming more risk through higher deductibles or self-insured retention (SIR), while a good portion is due to rate adequacy being achieved for many insureds, with exceptions for certain classes of business in perceived hazardous industries or risks with a prior loss history. We anticipate rates to increase between 5% and 10%, with a growing number of insureds experiencing flat to 5% increases as the year progresses.

Umbrella/Excess Liability

Competition is required to positively offset rate increases and ultimately create flat renewals or rate decreases. Throughout 2022, we expect competition for market share to emerge slowly and strategically for targeted customers with proven loss control and litigation procedures.

New capacity continues to enter the market, and some of the legacy markets in the U.S. are beginning to show signs of increased interest in accounts to deploy their capital and surplus and compete for new business. We anticipate increased competition for market share, which will further moderate rate increases. This gradual stabilization should result in low single-digit increases and even flat renewals for an increasing number of insureds, especially well-performing accounts with robust risk management and safety programs.

Those buying limits of $25 million or less should experience less volatility than those purchasing more. However, we do not expect to see an environment of rate decreases becoming the norm anytime in 2022.

Workers' Compensation

Workers' compensation will continue to remain competitive for most insurance buyers in 2022. Although still a profitable line overall for insurers, the combined ratio for workers' compensation rose from 85% in 2019 to 87% in 2020, per the National Council on Compensation Insurance (NCCI).* When all the data is analyzed, the ratio is expected to increase slightly for 2021.

The impact of COVID-19 claims on workers' compensation has been far less than anticipated, and these claims are not likely to have as material an impact on rates as expected, even in states that have enacted presumptive liability. Per the NCCI, 75% of workers'-compensation-related COVID-19 claims are from healthcare workers and other first responders. Additionally, the NCCI reported that over 45,000 workers filed COVID-related claims in 2020, totaling $260 million in incurred losses. However, most of these claims were very small and involved workers who were out of work for only a few days or weeks.

The $260 million in incurred workers' compensation losses is substantially lower than the $1 billion projected at the beginning of the pandemic. As vaccination rates increase, the impact of COVID-19 should further diminish.

A continued decline in claim frequency and an environment of overly conservative reserving practices have also contributed to reserve redundancies, which are offset somewhat by medical cost inflation. As a result, rate decreases are beginning to flatten out in more states. Some states are witnessing rate increases, but these changes will not result in any substantial impact to the market for workers' compensation.

An increasing number of guaranteed cost buyers for workers' compensation will be facing slightly higher rates than in years past. Coupled with higher payroll and subsequently higher premium costs, these insureds must look to assume more risk as a means of offsetting the increased costs. For clients on loss-sensitive programs, we expect a continued environment of flat renewals, with exceptions for clients that have adverse loss experience greater than the deductible level.

The cost/benefit analysis of paid loss deductible programs, self-insurance, group captives, and other types of loss-sensitive programs should be evaluated thoroughly. Insureds currently on a loss-sensitive program must consider assuming more losses through higher retentions and vertical quota sharing layers of a tower.

> "Workers' compensation continues to perform well for many insureds in most states."

*https://www.ncci.com/Articles/Pages/Insights-COVID-19-WorkersComp-What-We-Know-Now.aspx

Commercial Automobile Liability

Commercial automobile liability coverage rates are starting to flatten out, due to the reappearance of insurers that have been dormant, along with the entrance of new telematics and usage-based insurers. Despite the pricing improvements, underwriters are still heavily scrutinizing these risks.

Insurers are exceptionally competitive and are heavily pursuing accounts that deploy the use of technology and intensely focus on safety. Fleets with an adverse risk profile are still experiencing higher pricing, but can secure more favorable terms because of increased deductibles, self-insured retentions (SIR), and alternative program structures.

How USI Can Help

General/Products and Umbrella Liability

Organizations should proactively work with their insurance brokers to identify markets and program structure solutions to:

- Minimize or offset rate increases
- Resolve reductions in capacity
- Address restrictive coverage terms and conditions

Understanding and resolving these issues is vital to the ongoing success and profitability of any organization, especially in a challenging insurance market. Business leaders should prepare early, communicate often, and devise a plan of action that includes innovative and practical solutions.

USI recommends:

- Starting a dialogue with both incumbent and new markets at least 150 days in advance. Discussions should consider reductions in capacity, corresponding rates on a price-per-million basis and any exclusionary wordings such as those pertaining to infectious disease or similar exclusions.
  - Determine as early as possible the minimum underlying limits that the umbrella markets are willing to attach over.
  - Consider self-insuring above contractually required limits.
  - Benchmark overall umbrella/excess limits purchased against peer groups to validate total limits purchased.
- Developing a quality underwriting submission and differentiating the quality of the risk profile from others, so it will stand out. Since markets continue to be characterized by sustained underwriting discipline, it is important to:
  - Think critically about the risks that underwriters will be most concerned about and address them in the submission.
  - Differentiate the nature of the risk, a step that is more important than ever, and clearly describe the qualities of the risk in carrier submissions. Risk quality comes in several forms, including loss control/safety, contractual risk management, risk mitigation and capital expenditures, and willingness to engage risk control and overall risk management philosophy.
- Using data analytics to evaluate risk financing alternatives.
- Analyzing the cost/benefit of program structural changes, such as:
  - Performing a cost-benefit of assuming higher retention levels for buyers of guaranteed cost or low deductible insurance programs.
  - Including defense costs in the limit of liability where feasible.
  - Aggregating all coverage lines including those that are traditionally not aggregated, such as automobile liability.
  - Amending umbrella/excess aggregate drop-down provisions.
  - Having the insured or its captive take on a quota-share participation of the umbrella/excess program tower.
  - Looking at structured approaches, such as swing plans in which the ultimate cost is dependent upon losses.
  - Analyzing multiyear, single-limit policies.
  - Considering the pricing impact of changing the policy trigger from "Occurrence" to "Claims Made" or "Occurrence Reported."

How USI Can Help

Workers' Compensation

To help achieve favorable results for their workers' compensation renewals, USI suggests clients:

- Continue maintaining a COVID-19 containment plan.
- Monitor COVID-19-related workers' compensation claims closely, and ensure applicable local, state, and federal health and safety guidelines are being followed in the workplace to strengthen any rebuttable positions.
- Leverage proper loss and financial analytics to determine if a loss-sensitive program structure makes sense, as well as the capacity of insureds to assume risk at various retention levels.
- Ensure that payroll by classification codes is accurate, adjusted and monitored accordingly for repurposed employees, employees working remotely, and/or for employers whose operations have changed. Accordingly, maintain separate payroll records for the change in operations or the wages earned for employees whose duties/roles have changed.
- Educate underwriters about any changes to the promotion of wellness and activities that protect workers from occupational injury, as well as any changes made to claims-handling initiatives that may reduce claim duration.

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

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

How USI Can Help

Commercial Automobile Liability

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

- Preparing early for renewal, developing a plan of action, and dialoguing with both incumbent and new markets at least 150 days in advance.
- Developing a quality underwriting submission that best expresses the risk characteristics of insureds.
- Taking inventory of telematics tools and other safety initiatives insureds have invested in to reduce risk exposure and improve driving behavior. This includes GPS and speed monitoring systems, interior and exterior cameras, and other technological loss prevention tools.
- Reviewing applicable compliance, safety, and accountability (CSA) scores and taking corrective actions (i.e., motor carrier operations). The CSA score, which is used to rate motor carriers in various categories such as unsafe driving, crash indicator, hours-of-service compliance, and driver fitness, is a key underwriting consideration used by insurers to assess a company's risk profile and determine coverage rates.
- Determining early in the process the minimum underlying limits that umbrella markets are willing to attach above, and working with the primary insurers or buffer markets accordingly.
- Updating driver lists and safety protocols, providing complete analytics on loss history and exposure, and providing a data-rich submission with clear underwriting goals from the clients' perspective.
- Reviewing alternative program structures to ensure the current structures are the most optimal from cashflow, retention level, cost, and collateral perspectives.

INTERNATIONAL

Product Line	Year-End 2021 (YOY)	Forecast 2022 (First Half)
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

Since the publication of our 2021 Mid-Year Market Outlook, the market remains impacted by 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 2022.

Continued Impacts of COVID-19:

- **Foreign voluntary workers' compensation** (FVWC) remains the most noteworthy coverage for the highest probability to pay claims. It is generally accepted that working from home will not impact available coverage for local nationals, U.S. expatriates, or third country nationals (TCN). Employees who have elected to work remotely outside of their assigned country of work may find they are not provided coverage for a work-related injury, because some insurers define U.S. expatriates and TCNs as employees "hired or assigned" by their employer to work outside of their country of hire.
- Insurance carriers are still including **communicable disease exclusions** in their foreign casualty and property coverages. These exclusions apply to local policies in addition to master "difference in conditions" (DIC) policies. They are not only being applied to certain classes of business, but have become standard in policy forms. We have been successful in removing these exclusions in some cases.
- Carriers are still requiring insureds to provide documentation related to their **COVID-19 mitigation strategy**.
- In countries where workers' compensation is provided through a **governmental social scheme**, we have seen no change. The schemes continue to address sickness and death related to COVID-19, as they would any other infectious disease.
- Since travel is still somewhat restricted because of the pandemic, it has been difficult for clients renewing coverage to estimate their **foreign travel exposure**. There is some good news, however, in that insurers are still willing to make foreign package policies non-auditable.

Primary Foreign Casualty

Through the first three quarters of 2021, we saw rates decline from a starting position of +5% for liability and +15% for auto liability to flat for both coverage lines. In 2022, rates on loss-free guaranteed cost programs are projected to remain flat on renewal business. While carriers are looking for new business, they are not competing to win it on rate. Attritional losses and high-hazard risks continue pushing price increases.

While primary international general liability remains flat, rates and minimum premiums continue to be the driving forces in the excess liability marketplace. As an example, Canada's umbrella market is usually higher than the norm. Automobile coverage in the United Kingdom and Europe is also stabilizing, although carriers are being very selective as related to risk acceptance.

Primary Foreign Property

Carriers have been requiring detailed construction, occupancy, protection and exposure (COPE) information prior to offering quotations, a situation not likely to change in 2022. Risks exposed to natural catastrophe continue to see increased rates and deductibles. Many carriers are now requiring risk engineering surveys on foreign property for high-hazard risks and locations over $20 million insured values (in U.S. dollars). This requirement will extend into 2022.

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

How USI Can Help

USI facilitates its global risk assessment process for multinational companies by working with clients to review their international exposures and determine the best international program structure that works within their risk management strategy. USI has found that by moving to a centralized master program, clients can achieve overall premium savings, have concurrency and consistency of coverage, and eliminate coverage redundancy and potential gaps. We do this by:

- Preparing early for renewal, developing a plan of action, and dialoguing with both incumbent and new markets at least 150 days in advance.
- Reviewing alternative program structures to ensure the current structures are the most optimal from primary layer limit, cashflow, retention level, cost, and collateral perspectives.
- Utilizing our market connections at the highest level. This helps secure the best terms and conditions available in the market while also providing complete and clear exposure information to showcase a full picture of the risk. Given the current market, this includes additional trip/travel information, COPE data on international locations and COVID-19 safety protocols.
- Reviewing and confirming that all necessary admitted (local) insurances are purchased in alignment with local regulations while also partnering with umbrella coverages to eliminate duplication of coverage.
- Engaging continually with USI's Preferred Broker network of international broker partners to understand changes in local coverages, requirements, and laws related to insurance that could impact their ongoing operations. In addition, we suggest quarterly check-ins to get ahead of any new expansions into a new country/risk.
- Continually tracking international total cost of risk(TCOR), which allows clients to manage their TCOR on a global and local basis.

ENVIRONMENTAL

Product Line	Year-End 2021 (YOY)	Forecast 2022 (First Half)
Environmental Combined General Liability/Pollution	5% to 15%	5% to 15%
Excess Combined General Liability/Pollution	5% to 20%	7.5% to 15%
Environmental Contractors' Pollution	10% reduction to flat	10% reduction to inflationary increase
Environmental Pollution Legal Liability	Flat to inflationary increase	Flat to 5% increase

View our Historical Rate Index charts

Highlights/Changes Since Second Quarter 2021

We are seeing more rate stability on combined casualty and excess placements. Additionally, underwriters in the marketplace are being more cautious and scrutinizing all risks regarding the emerging chemical, perfluoroalkyl and polyfluoroalkyl substances (PFAS), known as "the forever chemical." Some underwriters are quick to apply a broad exclusion for cleanup liability and toxic tort; others are being more thoughtful in analyzing the risk.

Anticipated Trends for 2022

The marketplace is still dealing with the exit of two long-time industry giants, AIG and most recently Zurich, which occurred in the past few years. While the transition to other carriers has gone smoothly, structuring a large amount of capacity is not as easy. The capacity is there, but more insurers are needed to participate than in the past.

Secondly, the double-digit growth of capacity in this industry continues, forcing environmental insurers to embrace "big data" and identify better efficiencies to handle the business (big data are gigantic data sets that inundate businesses daily and are hard to manage). We are seeing improvements with certain insurers utilizing big data to turn around transactions more rapidly, particularly for large portfolios. This is certainly a positive trend.

Tougher risks requiring significant limits must generally have more excess layers to reach the required capacity. However, there is good news for those that can go to the market early and have a generous amount of time to implement: it's now easier to develop a quota share structure when significant capacity is needed to improve costs and efficiencies.

PFAS Coverage

In another trend expected to continue into the foreseeable future, insurers are pulling back coverage for PFAS. Many are automatically including broad exclusions for cleanup and third-party coverage. Some, but not all, are willing to assess the risk for those that have good information or arguments.

Claims related to PFAS substances are developing at a faster pace for targeted classes of risks like airports, landfills, wastewater treatment and industrial sites with exposures. These materials are considered ubiquitous in the environment because they are in so many products. With liability potentially everywhere, there is much uncertainty from a regulatory standpoint, although New Jersey seems to be a role model for the Environmental Protection Agency (EPA) and other states because of its stringent groundwater requirements and pending soil requirements.

Further, the EPA has recently announced that it will set up new requirements for manufacturers to report PFAS in their products. Commercial general liability (GL) insurers are beginning to add PFAS exclusions to standard GL policies. We anticipate it will be more difficult to secure product pollution coverage in the environmental market for any product that contains these materials.

Lastly, state regulators are issuing many requests for information to determine potential responsible parties for PFAS contamination in groundwater. The question is whether these requests for information will trigger the "duty to defend" clause on pollution policies, assuming no PFAS exclusion exists.

We project the upward trend of environmental claim severity and frequency will continue into 2022 and beyond. The marketplace is still highly competitive, and with several new entrants, it will stay this way for some time to come.

Other Emerging Risks

- More companies are seeking product-pollution liability coverage as the result of additional toxic tort litigation around products that are toxic to humans or the environment. This is an area for growth in the marketplace, either as a stand-alone solution or combined on a site policy or blended with a GL policy.
- There is tremendous focus on environmental, social and governance matters (ESG). There are several trends to note in this area:
  - Environmental insurers have been watching the uptick of climate change risk and ongoing litigation, with some exiting the market for industries that are primarily involved in coal, or whose revenue is primarily derived from coal. This will make finding environmental solutions for the coal industry even more challenging in an already limited marketplace.
  - Environmental justice issues are moving to the forefront, with claims rising in underserved communities where there is environmental contamination (i.e., toxic and hazardous substances in the air and groundwater).
  - The EPA defines environmental justice as "the fair treatment and meaningful involvement of all people regardless of race, color, national origin, or income with respect to the development, implementation, and enforcement of environmental laws, regulations, and policies."* In 2020, New Jersey became the first state in the U.S. to pass environmental justice legislation, requiring mandatory permit denials if an environmental justice analysis determines a new facility will have a disproportionately negative impact on overburdened communities.**
  - By imposing higher fines and penalties, we are seeing regulators across the country take a more targeted approach to companies with operations that contaminate or release hazardous substances into underserved communities. For those interested in advancing environmental justice across their states, New Jersey will likely be a role model.

Once the pandemic settles, environmental insurers may perhaps develop viable new solutions and innovations in mergers and acquisitions, cost cap policies, climate change, and coverage for future pandemics.

The Market Today

- Highly competitive
- 50+ insurers

Market Capacity

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

*https://www.nj.gov/dep/ej/docs/furthering-the-promise.pdf
**https://www.nj.gov/governor/news/news/562020/20200918a.shtml

Overall Marketplace Trends

- **Expansion of coverage:** More markets offering some broader coverage enhancements to capture greater market share, such as first-party "diminution in value." For "defense outside of limit," either at a defined limit or in some cases on a contractors' pollution policy, insurers may provide unlimited defense coverage. A new cost cap policy has been reintroduced for cleanup projects that exceed $5 million.
- **Transactional risks:** 10-year term policies for historical pollution legal liability are still available from a short list of insurers.
- **Higher hazard risks:** These, such as energy, mining, petrochemical, power and utility firms, and fuel hydrant systems (including airports), may find only short policy terms of one-to-two years.
- **Other claims:** Typical claims continue, such as those related to mold, legionella, dry-cleaning solvents, and petroleum.

How USI Can Help

USI assists its environmental clients by:

- Creating an environmental profile to identify exposures associated with operations, helping to quantify and qualify the impact on the organization to determine appropriate risk management and insurance solutions.
- Developing formal and customized risk maps to identify the frequency and severity of fines and penalties for non-compliance, spill events, known and unknown remediation, and toxic tort liability
- Developing sophisticated risk model platforms for significant liabilities, using Monte Carlo analytics (an analytical technique for modeling probability outcomes) to look at a range of probabilities and forecast potential liabilities over a long horizon.
- Developing effective environmental risk insurance strategies for acquisitions or divestitures of businesses and/or real estate to facilitate transactions and protect corporate assets.

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

AVIATION

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

View our Historical Rate Index charts

Highlights/Changes Since Second Quarter 2021

The global aviation insurance market experienced three years of shrinking capacity and hard market conditions from 2018 to 2021, with many aviation insurance buyers paying consecutive double-digit rate increases. Many operations have experienced higher levels of underwriting scrutiny.

Major renewals in 2021 showed a decreasing rate curve, with many aviation carriers demonstrating a renewed willingness to compete for new accounts. The anemic capacity levels experienced in 2019 and 2020 have stabilized somewhat, and there have not been any carrier exits from aviation since 2019.

Anticipated Market Trends for 2022

The moderating rate curve is expected to continue into the first half of 2022. Even though we are seeing the rate environment stabilize, underwriting standards remain high across the industry, and underwriters are continuing to seek rate increases on most renewal accounts.

In the first quarter of 2022, a new carrier will be entering the aviation insurance market. This is expected to bring new capacity into the marketplace and will likely result in a more competitive environment among underwriting companies. There are also signs that existing carriers are looking to expand their offerings and appetite. The combination of a new market entrant and the potential expansion by existing markets should help 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 and increasing liability awards in aviation settlements and judgements.

Here is a closer look at how some segments of aviation may be impacted by market conditions in the first half of 2022:

Owner-Flown Aircraft

- Coverages are being reduced by the scarcity of higher liability limits.
- Pilot training is being scrutinized more heavily, and new training requirements are being mandated.
- Pilot age is being closely scrutinized, and older pilots may have trouble finding coverage.
- Premium increases are in the double digits, between 10% to 20%.

Charter Operations

- Extensive loss history could mean difficulty in finding 100% placement. In many cases, a layered program is needed.
- Single pilot charter operations are under intense underwriting scrutiny and limits have been drastically reduced.
- Large fleets with a history of attritional losses are facing 5% to 15% rate increases and higher deductibles.

Rotor Wing Aircraft

- This category has been especially hard hit, with rate increases of 10% to 50%, depending on loss history.
- Large commercial rotor wing fleets require a vertical program structure in which multiple insurers participate.

Manufacturers' Product Liability

- Potential rate increases of 5%+, depending on the critical nature of the product and limit needed.

Airport and Municipality Coverage

- Potential rate increases of 10%+, with some supplementary coverages being reduced.

> "The moderating rate curve is expected to continue into the first half of 2022. Even though we are seeing the rate environment stabilize, underwriting standards remain high across the industry, and underwriters are continuing to seek rate increases on most renewal accounts."

How USI Can Help

USI works closely with our aviation clients to develop a comprehensive risk management strategy tailored to their unique exposures and focused on mitigating their cost of risk. Processes include:

- Generating complete analytics to understand and quantify exposures.
- Reviewing program options and retention opportunities.
- Evaluating program limits and coverage needs.
- Developing an extensive, comprehensive underwriting submission an loss mitigation narrative highlighting training and safety protocols, risk control claim management measures, and more. This narrative helps demonstrate "best in class" status.
- Researching markets and identifying carriers with whom clients can build strong relationships.

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

To achieve a favorable coverage outcome, USI suggests:

- Starting the renewal process as early as possible to allow time for renewals to be fully marketed and to schedule virtual meetings with underwriters.
- Consulting with USI's National Aviation team, who can help guide the process. The team suggests ways to improve submission integrity and timelines, and advocates on the client's behalf.
- Providing detailed information that allows us to better understand your company's risk management situation and needs.
- Completing applications and questionnaires completely.
- Highlighting your company's focus on safety and pilot training protocols, especially training that goes above and beyond Federal Aviation Administration (FAA) requirements.
- Being open to underwriter and loss control visits.

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)	Forecast 2022 (First Half)
Public Company Directors & Officers (D&O)	Down 5% to up 25%	Primary: Flat to +20% Excess: Down 10% to up 10% Total: Down 5% to up 15%
Private Company and Not-For-Profit (NFP) D&O	Up 5% to 25%	Flat to up 20%
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	40% to 50% for optimal risks; 50% to 100%+ for less optimal risks
Technology E&O	35% to 50% for optimal risks; 50% to 100%+ for less optimal risks	40% to 50% for optimal risks; 50% to 100%+ for less optimal risks
Representations & Warranties	Up 20% to 30%	Flat to down 15%
Kidnap & Ransom	Flat to up 10%	Flat to up 10%

View our Historical Rate Index charts

Public Company Directors & Officers (D&O)

Highlights/Changes Since Second Quarter 2021

The overall public company D&O marketplace continued to stabilize due to a significant decrease in federal securities class actions (SCAs) in 2021 and the emergence of new capacity targeting excess layers of coverage. Moderate increases are now the norm, with some exceptions.

A limited number of companies that have outperformed peers, stabilized their financial condition and/or enhanced their environmental, social and governance (ESG) risk profile saw small (5% or less) decreases on their overall D&O programs, driven almost exclusively by competition for excess and excess Side A layers. Retention levels generally stayed the same or increased slightly.

Initial public offerings (IPOs), particularly special purpose acquisition company (SPAC) IPOs and the subsequent de-SPAC IPOs (the new public company formed after the business combination of the SPAC and the target company), continued to pay considerably more for D&O insurance than their long-established publicly traded brethren, but even those costs and retentions lessened from the first half of 2021. Where retentions of $15 million or more were standard for traditional IPOs and de-SPAC programs, retentions of $10 million or less emerged as 2021 ended. For SPACs, retentions of $5 million or less began to materialize.

Anticipated Market Trends for 2022

Conditions should continue to moderate unless there is a major stock market correction and/or a tip into an economic recession. Companies should continue to market their D&O programs to obtain optimal results.

Overall, we anticipate programs renewing with flat-to-modest increases for most insureds with no significant claims. Retention levels and other coverage terms should also remain stable. Importantly, industries and organizations with the most concerning risk profiles — cryptocurrency, biotechnology, life sciences, general healthcare and technology industries, cannabis, and those that have had significant D&O claims activity in the past five years — will have a more limited group of interested insurers. This 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 will be evaluated more deeply in 2022 as related to climate-change exposures, cyber risks, commitments to diversity, equity and inclusion (DEI), and post-COVID-19 return-to-work strategies.

How USI Can Help

USI can assist clients by:

- Starting the placement process early.
- Approaching multiple insurer channels (retail and wholesale) and marketplaces (U.S., Bermuda, and London).
- Strategizing with clients about marketing efforts, incumbent relationships, and available new capacity.
- Preparing clients for corporate governance questions in relation to ESG, cybersecurity, regulatory exposure, and supply chain exposures.
- Using analytics and benchmarking to focus on appropriate program structures.
- Evaluating all options, including:
  - Buying different D&O coverage. Buying more Side A Difference in Conditions (DIC) versus Side ABC coverage, which can lessen a company's premium spend.
  - Retaining more risk. Buying D&O coverage with a higher retention, which can help mitigate cost.

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

Highlights/Changes Since Second Quarter 2021

Private Company/NFP D&O premium and retention increases moderated, with some renewals staying flat at the end of 2021. However, companies with particular risk drivers continued to experience higher premiums and retentions, as well as more restrictive coverage terms.

Predominant risk drivers include:

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

Firms in industries with significant antitrust exposures (healthcare, for example) struggled to retain antitrust coverage extensions. The largest privately held companies saw limited coverage (securities claims only) offered for the organization/entity itself (a pullback from the full entity coverage historically offered) and/or a cut in capacity offered by insurers (from $10 million to $5 million, for example).

Anticipated Market Trends for 2022

Modest increases should remain achievable for many organizations. However, companies will continue to face underwriting questions about the return-to-work environment (e.g., employee reintegration, vaccine mandate/exceptions), as well as questions related to ESG commitments, cybersecurity, regulatory exposure, and supply chain risks.

How USI Can Help

USI can assist clients by:

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

Employment Practices Liability (EPL)

Highlights/Changes Since Second Quarter 2021

With the COVID-19 pandemic dissipating and relatively less economic uncertainty, pricing increases moderated late in 2021. Single-digit increases were achievable in the absence of poor claims history or a major increase in exposure (e.g., acquisition or large layoff, etc.). Insurers were willing to compete on EPL renewals if the insured's business conditions were improving, an effective 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, etc.).

Claims began to arise in late 2021 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 EPL insurers because of their employee-friendly regulatory and legislative activity.

Anticipated Market Trends for 2022

Moderate increases are expected to continue, and an increased focus on retention structures is likely. Insurers may look to increase retentions in certain areas, such as claims by higher compensation earners, class or mass action claims, and/or claims brought in certain states (e.g., California).

In the face of resistance to vaccine mandates in the U.S., there 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). The continuation of additional underwriting and exclusions involving biometric information are also likely to continue. Regarding claims, additional areas of concern include:

- The recently announced initiative by the U.S. Department of Labor (DOL), the National Labor Relations Board (NLRB), and the Equal Employment Opportunity Commission (EEOC) to target employers that unlawfully retaliate against workers.
- Continued discrimination claims based on disability, age, race, gender, gender identity, sexual orientation, and other protected classes.
- Potential claims stemming from employee social media use.
- Wage and hour claims as companies adjust their workforce classifications, including making distinctions between employees and independent contractors.
- Third-party claims brought by non-employees for harassment or discrimination.
- Potential claims regarding medical marijuana use.

How USI Can Help

USI can assist clients by:

- Preparing clients to respond to expanded underwriting questions regarding the impact of COVID-19 and any vaccine mandate or incentive protocols.
- Preparing clients to discuss their vision of a more remote workforce, if applicable.
- Alerting clients to the recently announced initiative by the DOL, NLRB and EEOC to target employers that unlawfully retaliate against workers.
- Reviewing their EPL policies for "who is an insured" and for any exclusions to determine if the coverage is suitable for their needs, especially when transitioning back to the office.
- Evaluating whether specific coverages will be available (such as punitive damages and wage and hour coverage).
- Helping engage all available risk management services that are negotiated as part of standard EPL coverage.
- Reminding them to review and update all internal employment checklists and contracts, consult with counsel, and develop any needed internal process or checklist to ensure that their workers are properly classified as employees or independent contractors.

Fiduciary Liability

Highlights/Changes Since Second Quarter 2021

The impact of excessive-fee litigation dominated the fiduciary liability insurance conversation in 2021, and many insureds saw double-digit percentage increases in premiums in the second half of 2021. Significantly higher retentions for excessive-fee litigation also became the norm, as insurers looked to insulate themselves from claims alleging breaches of duty in the management of investment-related and recordkeeping fees.

Leading insurers have pushed for retentions as high as $5 million for excessive-fee and or other class-action claims related to the Employee Retirement Income Security Act (ERISA). Originally aimed at companies with defined contribution plan assets above $500 million, these higher retentions are now also in play for companies with smaller plan sizes. Furthermore, insureds have had to answer more underwriting questions about retirement plan management protocols, commitments to measuring fee levels and fund performance, selection processes for recordkeeping services and other governance-related issues.

Anticipated Market Trends for 2022

Insurers will continue to focus on excessive-fee litigation exposures, with some leading carriers contemplating pushing retentions higher than $5 million. Standard fiduciary liability retentions that remained very low in 2021 ($0 to $250,000) will likely be pressured upward by insurers.

Underwriters will continue to manage capacity offered ($5 million to $10 million maximums) and ask questions regarding plan governance and investment management practices. Underwriting questions will undoubtedly extend to cyber protections, especially as the DOL issued formal guidance to ERISA plan fiduciaries confirming that they must take appropriate steps to identify and mitigate risks associated with internal and external cybersecurity threats. Plan fiduciaries have a responsibility to ensure the proper mitigation of cybersecurity risk.

Other areas of heightened ERISA-related risk where limited competition could drive rates higher include:

- Employee stock ownership plans (ESOPs), as company valuations may be outdated or severely and negatively impacted in a down economy.
- Proprietary funds in the retirement plans (financial institutions).
- High levels of company stock holdings in retirement plans.
- Industries with challenging claims, such as higher education institutions, church plans, and healthcare organizations.
- Prohibited transaction(s) between a plan and a disqualified person.

Also, recent court decisions have weakened ERISA statute of limitations protections for defendants, such as Intel Corp. Investment Policy Committee v. Sulyma and Walsh v. Bowers. As a result of these continued challenging conditions, we recommend considering alternative quotes for 2022 fiduciary liability renewals.

Potential good news for plan sponsors and fiduciaries does exist, however. All eyes are on an upcoming Supreme Court decision that may reduce the number of retirement-plan excessive fee lawsuits in the future. In Hughes v. Northwestern Univ., U.S., No. 19-1401, the university seeks affirmation of a previous decision by the U.S. Court of Appeals for the Seventh Circuit that rejected a proposed class action claim alleging a breach of fiduciary duty because lower-cost options were available to a retirement plan it sponsored, but the lower-cost options were not selected by the plan fiduciaries. As some existing excessive fee cases have been put on hold pending this ruling, a win for Northwestern should have a favorable effect on the fiduciary liability insurance market in 2022.

How USI Can Help

USI can assist clients by:

- Preparing them for new or expanded underwriting questions about service provider selection and comparison processes.
- Supporting the establishment of prudent processes in making fiduciary decisions, documentation of the processes, and compliance with ERISA, DOL and IRS regulations regarding participant disclosures and government reports.
- Working with clients on appropriate governance controls, which can include the creation of ERISA/fiduciary advisory boards and regular updates to a plan sponsor's board of directors.
- Supporting the addition of a forum selection clause to plan documents, specifying the jurisdiction for litigation filed against the plan/fiduciaries.
- Sharing risk management support made available by fiduciary liability insurers.

Crime/Fidelity Bonds

Highlights/Changes Since Second Quarter 2021

Modest increases continued in the second half of 2021. Underwriting of internal controls and payment verification procedures continued to be a focal point, particularly around phising/social engineering risks.

Anticipated Market Trends for 2022

We anticipate the continuation of 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 client's 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. Overall, we anticipate more competition on excess layers than primary placements. Finally, the industries that will continue to face the most consternation in the market include cryptocurrency, casinos, and cannabis companies.

How USI Can Help

USI can assist clients by:

- Preparing clients to share details sought by underwriters regarding transaction verification processes and procedures. Clients that highlight thoughtful risk practices for underwriters will differentiate their risk profile.
- Developing industry-specific strategies. For example, risk controls implemented by companies that have staff working from home (such as professional services groups) differ from the specific controls maintained by employers whose staff works on location (such as construction companies).
- Addressing potential crossover with cyber insurance. USI can explain the differences and seek to manage coverage applicability across different policies. In the event of a reduction in limits overall, or a reduction for social engineering coverage, USI can seek additional limits in the excess market.

Professional Liability/Errors & Omissions (E&O)

Highlights/Changes Since Second Quarter 2021

The market related to professional liability/E&O continued to be firm, but with signs of stabilization in some areas. Many sectors experienced premium and/or retention increases between 10% to 50%. M&A activity, professional services expansion, and/or claims activity increased this range in certain circumstances. We saw a pullback overall in carrier willingness to "draw outside the lines" in miscellaneous professional liability.

Anticipated Market Trends for 2022

Non-financial/non-technology: Law firms, mortgage processors, accountants, consultants, architects and engineers, project-specific construction and those performing any valuation-based service will need to differentiate their risk profiles to obtain optimal terms. We expect increases in premiums of 10% to 35%, along with increased retentions. E&O insurers are also examining limits offered at renewal. For example, a carrier previously offering $10 million in limits may seek to reduce capacity to $5 million. We are currently seeing maximum capacity of $10 million.

Exclusions for regulatory exposures, deeper underwriting processes (particularly the management of subcontractor and third-party consulting arrangements) and reviews of "professional services" definitions are likely to continue. Supply chain questions and contractual requirements around provider agreements will likely be probed.

Financial institutions: Investment advisors, broker-dealers, deposit-taking institutions, and insurance companies will continue to be scrutinized at renewal. Investment advisors with above-average investment performance and no claims should see more competition from insurance carriers, keeping premiums close to flat/modest increases. There will still be limited primary markets for family office/trustee financial institution E&O, bankers' professional liability (BPL), investment bankers' professional liability, and insurance company professional liability (ICPL).

In a hybrid office/home return-to-work model, where high turnover can be an issue, there will continue to be overall underwriting focus on how professional services firms are addressing deadlines and the continuity and quality of services performed. As a result, firms may face increased questions from underwriters related to staffing shortages and/or the use of independent contractors and business process outsourcing.

How USI Can Help

USI can assist clients by:

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

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

Transaction Liability: Representations & Warranties Insurance

Highlights/Changes Since Second Quarter 2021

The transaction liability market firmed dramatically in the third and fourth quarters of 2021, with the rate per million dollars of coverage increasing to 4% to 5% on average from 3.2% to 3.8% at mid-year. M&A activity is the key driving factor, having increased significantly over 2020 levels, with insurers reporting twice as many submissions than in 2020.

Claims are also a consideration, with most insurers citing a 20% frequency rate (one claim for every five transactions) and increased severity. The total number of claims has also increased, due to the continued uptake of representations and warranties insurance (RWI) coverage as part of the standard M&A process. Although coverage terms remain relatively broad, underwriters are pushing back on overly broad representations and continue underwriting to COVID-19 impacts (specific to the transaction), with greater focus on cyber exposures than ever before.

Anticipated Market Trends for 2022

We expect transaction activity to moderate in 2022 as firms assess how sellers and buyers may be impacted by proposed tax law changes. Rather than falling dramatically, rates will likely moderate if M&A activity levels drop back to more historical norms. We believe the rates will moderate because a considerable amount of capital is still "on the sidelines" — capital that investors would prefer to see deployed.

How USI Can Help

Our extensive experience and capability in transaction liability helps clients work through standard acquisitions and more challenging transactions that involve distressed assets, heavy international exposures, and bankruptcy-related asset sales.

We pave the way for a "no surprises" experience for the client in a rapidly changing transaction liability market. When engaged early in the transaction planning and strategizing process, USI will share current market trends, demystify procurement methods, and shed light on expected pricing, underwriting requirements, policy terms, timing, and other variables.

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 Second Quarter of 2021

Ransomware attacks continued to plague the cyber insurance market throughout the second half of 2021. We saw a surge in probes into information security controls and practices by insurers, which severely impacted coverage when deemed less optimal. Simultaneously, organizations faced large extortion demands, wayward business interruption losses, and increased regulatory scrutiny, which resulted in devasting losses when combined with the average network downtime of 21 days.[1] All in all, 2021 was a year in which insurers were presented with simultaneous market forces, including:

1. Increasing frequency and severity of ransomware attacks and network intrusions.
   - Large ransomware breaches (e.g., Colonial Pipeline, ACER, Kia Motors, EXAGrid, Accenture, Kaseya, Blackbaud).
   - Between 2018 and 2021, attacks on technology vendors included SolarWinds Orion and Microsoft Exchange.
   - "Cyber hurricanes" became a familiar term, meaning an attack on a vendor may potentially cascade to customers of that vendor. Insurers have become increasingly concerned about the potential for supply chain liability in ransomware attacks.[2]
2. The reduction of carriers offering cyber coverages.
   - Some cyber insurers have discontinued writing cyber insurance or are offering terms that are not commercially viable (e.g., coinsurance, onerous exclusions, and restrictive forms).
   - The market for programs including cyber and technology E&O liability has reduced.
3. Carriers closely monitored and reduced capacity deployed on each account.
   - $5 million has become the "new normal" limit (versus $10 million).
   - Excess premiums provided only small (if any) discounts to the layers beneath, as insurers began to view the first $50 million as exposed in any given claim.
4. Renewed focus on the underwriting of critical information security controls and practices, which required the following to be fully implemented to receive the "optimal risk" designation:
   - Multifactor authentication (MFA).
   - Endpoint detection and response (EDR) and extended detection and response (XDR) specifically in place and utilized on the entire network.
   - 24/7 network monitoring of all logs and reports and security operations center (SOC).
   - Network backups.
   - Network segmentation.
   - Privileged access management.
   - Regular use of domain administrator assignments.

Premium Changes

Primary Layers

+40% to +50%

with a complete submission and optimal ransomware controls and no material loss events.

+50% to 100% or higher

if losses and/or suboptimal internal information security controls and processes were presented.

Excess Layers (with the first $50 million)

+35% to 50%

no losses/complete submission and optimal ransomware controls.

+50%

if losses and/or suboptimal internal information security controls and processes were presented.

Policy Wording Changes

For ransomware controls and mitigation techniques, insurers typically classified a risk as either "best-in-class," "above average," "average," or "below average."

For average or below-average categorization, insurers looked to insulate themselves by:

- Adding a ransomware exclusion.
- Reducing limits/capacity and increasing the retention of relevant coverage sections for ransomware events.
- Applying a form of coinsurance percentage for relevant coverage sections for ransomware events.
- Applying coinsurance for contingent (dependent) business interruption/extra expense.
- Requiring increased waiting periods for cyber property coverage sections.
- Adding "specific event" exclusions for events that can potentially impair multiple networks.
- Adding infrastructure exclusions.
- Reevaluating, where included, the underwriting and limits deployed for local cyber and cyber/E&O policies.

Cyber Insurer Appetite Changes

While ransomware affected all industries, insurers managed their exposures by reducing the deployed capacity or increasing the overall retentions in certain hard-hit industry verticals, including:

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

Anticipated Market Trends for 2022

As we enter 2022, the rules of cyber insurance engagement have permanently changed. Legislation is potentially expanding the definition of personally identifiable information (PII), adding to cybersecurity risks. Insurers have course-corrected their view on cyber premiums, focusing on the targeted critical information security risks and refining their underwriting. This has culminated in the push that an organizations' cyber risk strategies be grounded in a solid understanding of its unique cyber risk exposures and the measures taken to mitigate existing and future exposures.

Today, cyber criminals are evolving ransomware beyond "hacking for cash" toward more destructive methods, such as "killware," a type of malware that is being deployed with the sole intention of causing physical harm, even death (for example, by attacking the networks that control traffic signals or flight control systems). The U.S. Department of Homeland Security warns that killware is the next big cyber threat.[3]

This exposure trigger, in turn, may shift the focus to other lines of coverage just as insurers are seeking to remove "silent cyber" (risks that are neither expressly covered nor excluded) from those lines. Other game changers might include increased global regulatory outreach and the normalizing of ransomware legislation (which may impact the payment of extortion demands and the continued concern over losses related to an IT supply chain).

Reinsurance cyber renewal challenges:

Post January 1, 2022, global reinsurers are targeting increases of at least 50.5%.[4] When questioned about the top 5 risks impacting profitability, reinsurers ranked cyber second for the first time, only eclipsed by climate change.[5]

Ultimately, we expect the cyber insurance market to continue to harden in 2022 as insurers persist in raising the benchmark on optimal risk profiles. On the brighter side, we see the cyber market innovate every year, offering policyholders access to mechanisms tailored to monitor and elevate their cyber hygiene.

How USI Can Help

USI can assist clients by:

- Engaging strategic resources, many exclusive to USI, aimed at evaluating and improving cyber hygiene and profile.
  - Utilizing Answerlytics™, USI's proprietary cyber solution designed to reduce exposure to risk from urgent vulnerabilities and emergent threats, and to bridge the gap between traditional cyber insurance offerings and the next generation of solutions. Learn more.
- Leading a deliberate placement process, which shapes the conversation around client risk profiles.
- Leveraging customized terms in our PrivaSafe solution, which offers broader coverage than the standard market, competitive pricing, and pre- and post-cyber event services.
- Identifying viable cyber insurers for harder-to-place risk profiles.
- Providing analytical input on limits, claims impact, and cyber underwriting concerns.

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

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[1] https://securityboulevard.com/2021/09/downtime-the-real-cost-of-ransomware/
[2] https://www.isaca.org/resources/news-and-trends/newsletters/atisaca/2021/volume-35/surge-in-ransomware-attack-and-10-biggest-attacks-in-2021
[3] https://siliconangle.com/2021/10/13/dhs-secretary-warns-killware-next-big-cyber-threat/
[4] https://www.artemis.bm/reinsurance-survey/2021.html, "Where Are Reinsurance Prices Likely to Rise and Fall at the January 2022 Renewals?"
[5] https://www.artemis.bm/reinsurance-survey/2021.html, "What Are the Biggest Challenges to Reinsurance Profitability Over the Next 5 Years?

INDUSTRY UPDATES

MANUFACTURING & DISTRIBUTION

Manufacturing and distribution renewals are in line with the projections noted in this report for each line of coverage, with the following additions:

Highlights/Changes Since Second Quarter 2021

In the second half of 2021, manufacturers enjoyed a rebound in production following the COVID-19 pandemic and post-pandemic recovery. As a result of this rebound, and with the rapid increase in consumer demand, driver shortage and resulting port congestion, manufacturers experienced significant disruption of their supply chains.

Anticipated Market Trends for 2022

We expect these trends will carry through 2022 and potentially into 2023; they are currently affecting vendor-customer relations and the cost of goods. In response, many manufacturers have placed anticipatory orders, which have resulted in higher carrying charges in their operations. In fact, shipping costs reached an all-time high in September 2021 — double the shipping costs recorded in July.*

Cargo/Stock Throughput

Highlights/Changes Since Second Quarter 2021

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 during the second half of 2021. Underwriting, premium uplift, and coverage limitations are the tools being used to improve market conditions. New entrants have emerged in the market resulting from this shift, and, while this would appear to create rapid moderation, change has been minimal. Underwriting scrutiny on business operational risk profiles remains high.

Anticipated Market Trends for 2022

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

Trade Credit Risk

The global trade credit risk market is poised for significant growth over the next several years. This growth will largely be fueled by underwriting profitability and low combined ratios, both of which contributed to the demand created by post-pandemic insolvency fears and ongoing supply chain issues.

Losses in 2021 have generally been lower than anticipated, but as the challenges continue, rate increases in 2022 are expected to be in the 10% to 20% range. Tougher classes of business, including risks with losses, technology, and private equity, could see rate increases even higher.

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*https://www.foxbusiness.com/economy/shipping-container-costs-record-high-china-us

How USI Can Help

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

- Work with their broker to evaluate all supply chain exposures.
- Work with their broker to evaluate all market and program design options to identify cost saving and exposure reduction opportunities.
- Begin the renewal process at least 150 days prior to inception. Complete a loss analysis early to assess the impact of program structure, retention, and risk mitigation efforts. This establishes the "ask" of the market, allowing for early indications from incumbents and understanding of their options around limits, retentions, coverage and price.
- Clearly identify and differentiate each risk to the marketplace, reinforcing risk quality and mitigation efforts. This step is imperative and includes evaluating domestic and international supply chain exposures as well as any continuity/contingent plans.
- Review and consider retention strategies for premium impact.

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

REAL ESTATE

Highlights/Changes Since Second Quarter 2021

Real estate renewals are in line with the projections noted in this report for each line of coverage.

Insurance Capacity: Property capacity has increased overall in the second half of 2021, although carriers maintain a controlled approach when deploying capacity on loss leading or CAT exposed accounts. As outlined in other sections of this report, cyber and excess liability pricing and capacity remain strained. Real estate companies are not isolated from the impact of these stressed lines of coverage. Cybercriminals continue to find ways to breach IT systems and protocols to wreak havoc on vulnerable companies.

Anticipated Market Trends for 2022

Excess liability for real estate companies remains challenged due to higher-than-expected settlements resulting from problematic claims. Many umbrella carriers refuse to offer capacity for certain real estate classes, due to crime-related claims as well as geographies that are quick to file lawsuits against property owners and managers. Both cyber and excess liability coverage lines will not see any relief as we move into 2022.

How USI Can Help

To help maximize renewal outcomes, USI assists clients by:

- Engaging USI cyber experts to analyze exposures.
- Making improvement and coverage recommendations.
- Accessing USI's Risk Control team to assess security and location exposures to reduce liability claims.
- Ensuring contractual arrangements are properly aligned with the client's insurance coverage or their transferee's insurance coverage.
- Reviewing non-traditional alternative structure opportunities to supplement the client's overall risk management strategy.

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

CONSTRUCTION

Highlights/Changes Since Second Quarter 2021

Plans for 2022 construction projects were underway well before the end of 2021, with many U.S. contractors optimistic about the overall growth of the industry. With the passing of the $1 trillion infrastructure bill in November, consumer confidence continues to be strong, and the construction industry plans for a robust pipeline of projects (both public and private) through the new year.

This positive trend was noted in FMI's third quarter 2021 Construction Industry Roundtable (CIRT) Index survey, which reported all-time highs and suggested a positive momentum in backlog, business outlook, and labor costs into 2022.* The survey also saw some mixed results, with notable declines across the cost of materials, and a less optimistic view of the national economy and the local economies where CIRT members do business.

Additionally, BaseRock Capital Partners released its Q3 2021 M&A report that highlighted the economic, political, and social factors that together generated growth and kickstarted 2022.** The report discussed challenges that persist in supply chain and skilled labor, issues that were also reported in USI's previous Market Outlooks. As the report indicates, material cost volatility in critical path components is creating a difficult contracting process for all stakeholders. In fact, it takes only one internet search of "Backlogged Ships in Port" to illustrate the stress on the supply chain.

*FMI Third Quarter 2021 CIRT Sentiment Index
**BaseRock Partners Third Quarter 2021 M&A Report

Anticipated Market Trends for 2022

Continued advancements in technology are exposing contractors to additional cyber risks, like advanced building information modeling (BIM), asset tracking, financial management, wearables, and digital twins, to name a few. As federal mandates regarding COVID-19 vaccinations are being imposed, companies will need to be considerate of employees in how they navigate this process and compliance.

Finally, as corporate environmental, social and governance (ESG) initiatives are developed and executed, companies are facing increased scrutiny on the execution and implementation of their corporate goals, which is creating more opportunities for claims in financial and environmental lines, among other coverage areas.

Coverage Line Updates

The following coverage updates go beyond our 2021 Mid-Year Market Outlook and may not include all lines of business.

General Liability

We are still seeing a differentiation in pricing based on individual account merits, rather than a broad-brush approach by industry. Most markets have, however, budgeted positive rate increases going into 2022, which are expected to range in the high single digits to low teens.

Auto Liability

After umbrella liability, auto liability is the second most challenging line of business for most contractors. Its challenges are exacerbated by the lack of a skilled driver pool, social inflation, and the increased cost of vehicle repair. Telematics, driver profiling, and robust training and education have become necessary operational protocols to stave off large increases at renewals.

Umbrella/Excess

Excess pricing, layering and capacity remain the biggest challenges for contractors, regardless of size or industry segmentation. Price increases are beginning to show signs of slowing down, with single-digit percent increases generally viewed as a win. Residential risks (any frame variety) continue to require more time and creativity than others. New capacity is coming into the market, and carriers are re-evaluating layering and their overall appetite.

We are cautiously optimistic that when the dust settles, the market will again attract two or three carriers per layer, instead of one carrier per layer for certain risks, as is the general situation today.

Wildfire-exposed risks continue to draw attention. Losses from natural perils that occurred during the summer months will impact balance sheets, even though there may be associated losses.

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

Because of supply chain delays, labor shortage and volatility in material costs, project durations are extending beyond what treaty or carriers can afford. This situation is creating challenges with carrier availability and capacity for certain types of projects.

How USI Can Help

USI's construction team strategically works with our clients by utilizing analytics, technical resources, and claims advocates in a team-based environment. This structure and process allows us to proactively stay ahead of emerging issues, advise clients on the most efficient financial risk transfer programs, and aggressively manage and support our clients' claims. By working in this way, we can create a blueprint to help clients effectively maximize their cash flow while protecting their assets. Together, employing these strategies will allow for more efficient bidding while driving growth and simultaneously managing risk for our clients.

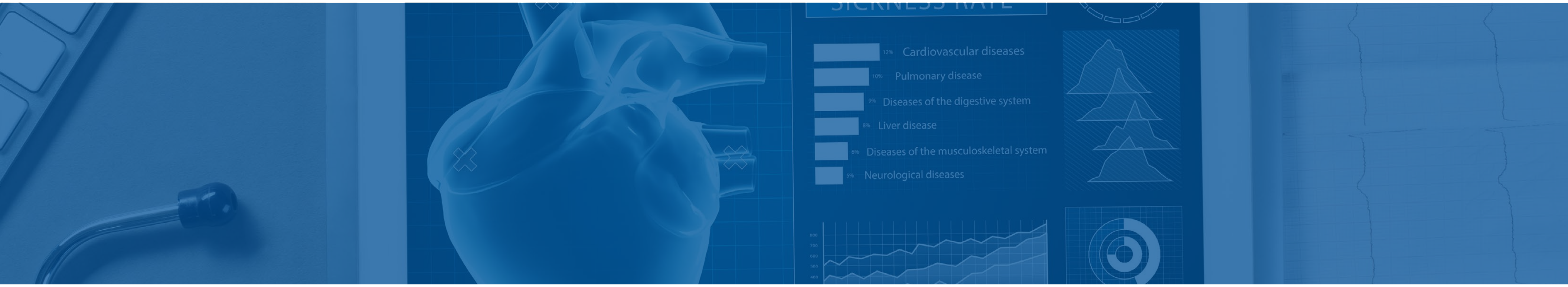
When considering first-quarter 2022 renewals and those beyond, USI's construction team suggests construction companies do the following:

- **Take ownership of the data.** Renewals are no longer about exposure data or mere storytelling. Provide lessons learned, areas of operational improvements, and innovations being adopted to effectively manage immediate, interim, and long-term risk.
- **Communicate early and often** with the USI construction team and with your insurance carriers and sureties. As we move out of the pandemic into recovery, operational issues will persist, and more complex contracting structures will emerge. Proactive strategic decision-making can be encouraged by effectively communicating changes to partners.
- **Audit the effectiveness of internal controls** for areas of improvement. Carriers and sureties want to be confident in the company's ability to pivot when necessary to ensure quality and stability. Contract risk management, supply chain management, and sourcing labor are three major areas at the top of mind for construction insurers and sureties. Be proactive in the assessment of the company's risk appetite and profile.
- **Stay abreast of emerging technology platforms** that can help contractors effectively manage a project and solve for operational efficiencies. These platforms can also be used as creative and effective tools to help demonstrate and execute a risk management program.
- **Consider the variety of risk financing opportunities** available, and be open to new methods of transferring, mitigating, or managing risk beyond traditional insurance procurement options. As the market continues to harden, companies that can successfully do this will have less pricing volatility and ultimately more control

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

> "Plans for 2022 construction projects were underway well before the end of 2021, with many U.S. contractors optimistic about the overall growth of the industry."

HEALTHCARE



Highlights/Changes Since Second Quarter 2021

- **Primary professional liability:** Domestic capacity continues to be available, but at higher rates. Accounts that underwrite well are being offered single-digit renewal increases, and those that do not underwrite well (because of losses) are experiencing renewal rates in the double digits, higher retentions, and reduced limits. Capacity is available in London and Bermuda and should be considered.
- **Excess professional liability:** Domestic capacity continues to be available, but at higher rates. Capacity is available in London and Bermuda and should be considered.
- **Property:** CAT exposed properties are experiencing renewal-rate increases in the "admitted," "non-admitted" and London and Bermuda markets. Non-CAT-exposed properties with good losses can access the domestic admitted market and expect flat- to single-digit renewal rates.
- **Workers' compensation:** Ample capacity and a competitive market. Rate decreases are readily available for well-performing accounts.
- **Primary automobile liability:** Accounts that can demonstrate effective risk mitigation and good loss history are experiencing flat- to single-digit renewal rates. Ample domestic capacity is available in the admitted market.
- **Excess automobile liability:** Accounts that can demonstrate effective risk mitigation and good loss history are experiencing flat- to single-digit renewal rates. Domestic capacity in the admitted market is available, but non-admitted, London and Bermuda capacity should also be considered.
- **Management liability:** Domestic capacity is available, but accounts are experiencing single- to double-digit rate increases with upward pressure on deductibles and retentions, especially for employees classified as "healthcare professionals."
- **Cyber:** Strict underwriting guidelines are being applied to all accounts. Accounts that are unable to demonstrate adequate exposure mitigation are likely to be non-renewed or renewed with significantly less favorable terms. In other words, if they do not comply with the underwriters' requirements, they will pay more for less coverage at policy renewal. For this reason, it is essential for healthcare businesses to maintain a detailed and affirmative description of key risk mitigation procedures. For a more detailed cyber update, see the EPS/Cyber section of this report.

Anticipated Market Trends for 2022

- **Primary professional liability, excess professional liability, workers' compensation** and **primary automobile liability** should improve due to downward pressure on rates as increased competition returns to these market segments.
- **Excess automobile liability** and **management liability** should face continued challenges with available capacity.
- **Cyber event coverage** should face continued challenges with available capacity and underwriting requirements.

How USI Can Help

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

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

USI also supports clients in the renewal process with:

- USI's Answerlytics™ solution for comprehensive cyber risk control. For more information about Answerlytics, see the EPS/Cyber section of this report.
- Risk identification and mitigation techniques for professional liability, automobile liability, D&O liability, EPL, and property.

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

PUBLIC ENTITY & HIGHER EDUCATION

Highlights/Changes Since Second Quarter 2021

The P&C marketplace for public entity (PE) and higher education was challenging for insurance buyers during much of 2021 and will likely remain this way into 2022. Contributing factors:

- **The loss of carriers and markets** have led to loss of capacity. Over the last two years, the PE casualty marketplace has seen a mass exodus of carriers, with large losses clearly the driving force. The excess liability market is particularly affected.
- **Reinsurance rates continue to rise** due to escalating losses. In recent years, the reinsurance marketplace has been impacted by increased litigation, nuclear verdicts, defense costs, and frequency of global natural disasters.
- **The impact of COVID-19 on insurance costs** has not yet been felt within the marketplace. This may change as variants continue to emerge and as uncertainty about managing workplace vaccine requirements lingers. In fact, 2022 may prove pivotal, as lawsuits arise from EPL insurance claims, and from employees contracting COVID-19 at work after transitioning from their remote environments. While there have been few concrete cases and verdicts so far, it is highly likely there will be an increase in lawsuits going forward.
- **Sexual abuse and molestation (SAM) coverage** has been a hot topic for many years 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.
- **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, impacting insurer ability to provide necessary capacity at an affordable price.

Anticipated Market Trends for 2022

Cyber Market Update for Public Entity & Higher Education

We are witnessing 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.

The increase in frequency and severity of ransomware attacks is also leading to significant pull-backs on dependent business interruption (BI) coverage. It is common to see this coverage excluded or significantly sublimited when the exposure is deemed too great. Given the breadth of recent ransomware incidents, this situation is likely to expand and continue into 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.

Although no single IT security process, patch, or software can fully prevent cyberattacks, insurers have identified multifactor authentication (MFA) as one of the most effective risk management tools for deterring ransomware. Today, nearly all insurers require MFA for remote access to sensitive information — without it, buyers may not qualify for a cyber insurance policy or renewal coverage. For additional cyber updates, see the Cyber Liability section of this report.

Additional Updates

Early indications of double-digit increases in the casualty lines of business petered out in the first quarter of 2021 and are ranging from 5% to 7% for many of our municipalities and universities. 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.

Competition for desirable accounts remains in the marketplace and will continue into the new year. Rate increases ranged from 0% to 7% during the last half of 2021 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.

Regarding student-athlete employment status, the situation gained momentum in September 2021, after a memorandum was released by the general counsel of the National Labor Relations Board (NLRB). The memo indicated that, in the general counsel's prosecutorial view, college athletes are statutory employees under the National Labor Relations Act with rights and protections under federal labor laws. This decision will likely affect workers' compensation and other forms of insurance available to colleges, lead to increased litigation and organizing activity by athletes, and result in broader protections for employee conduct.*

*https://www.businessinsurance.com/article/20211012/NEWS08/912345171/Student-athlete-employment-status-memo-poses-comp,-insurance-questions-NLRB

How USI Can Help

USI helps its PE and higher education clients win in a challenging market by:

- Reminding them to start the renewal process 150 to 180 days prior to inception, to encourage a prompt response from incumbent markets regarding available options (e.g., limits, retention, coverage and price).
- Preparing a comprehensive market submission with the intention of highlighting a strong or improving safety culture and risk management approach.
- Developing analytics around risk financing opportunities focused on total cost of risk (TCOR), which can result in improved decision-making and outcomes.
- Using catastrophic property modeling to identify the appropriate amount of wind, flood, and earthquake coverage, and ensuring that COPE data is detailed and accurate.
- Evaluating all U.S. and London market options, focusing on risk appetite and industry.
- Performing a cyber policy review to ensure an organization's program includes current coverage updates; using USI's eRiskHub and other risk management tools to help navigate cyber exposures and claims.
- Offering our proprietary programs to address specific needs. For example, USI's suite of threat/terror solutions with broad coverage option for strikes, riots, and civil commotion; our new Answerlytics cyber solution that bridges the gap between risks and loss prevention.

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

AGRICULTURE

During 2020 and 2021, profitability for many businesses across the U.S. was constricted by excess supply, reduced demand, limited availability of personnel, and severe weather. As a result, insurance coverage will cost more for consumers, including the agriculture industry, into the first half of 2022.

Property

2021 Overview

Catastrophic (CAT) losses taxed the insurance industry during the second half of 2021, with the agriculture sector among the hardest hit. Severe weather has diminished carriers' profitability for agribusinesses and forced them to take a hard look at property rates. In addition, reduced demand for many agricultural commodities has left businesses sitting on increased inventory — stressing the current storage capacities of the sector and increasing insurance costs.

COVID-19 pandemic restrictions have also increased the cost of building materials and labor, thus inflating the cost for new construction and repairs as the agribusiness industry struggles to meet storage needs. Although current market predictions suggest 10% to 15% increases on property, many agribusinesses in the hardest hit areas will see even more substantial rate activity.

Already struggling with CAT losses from the first half of 2021 — with wildfires, winter freezes and hailstorms as the primary driver — the insurance market is responding with higher rates and reduced capacity.

Anticipated Market Trends for 2022

The market will likely continue hardening through 2022 and increases on property lines from 10% to 25% should be expected. Some package carriers will withdraw from property altogether and only offer coverage on the other lines.

General Liability

2021 Overview

To counteract sluggish revenues, agribusinesses sought new product distribution channels and enhanced service offerings during the first half of 2021. This has created a shifting risk profile for many in the industry. A proactive loss control approach will be necessary to allow for favorable positioning in the renewal process.

General liability (GL) rates remained relatively flat in 2021 as compared to other lines. For the first half of 2022, we anticipate the same.

Anticipated Market Trends for 2022

Property, cyber and umbrella are the primary lines of coverage driving the insurance market. GL has performed well, and we expect rates to remain relatively flat on GL lines.

Product Liability and Product Recall

2021 Overview

An influx of claims activity has taxed the marketplace and forced carriers to reduce capacity and increase rates, with 2021 renewals seeing a 20% to 25% uptick. Within the agribusiness sector, we continue to see the most claims activity in product recalls. This is due to allergens and product liability claims related to crop application services. Despite a challenging year overall in the insurance marketplace, the product recall market is still relatively strong.

Anticipated Market Trends for 2022

Product recall has been viewed as an ancillary line of insurance, and most companies have not purchased it because of the price. Now that there is a better understanding of the marketplace, more carriers are offering the coverage, driving prices down.

D&O Liability

2021 Overview

Product liability and recall, EPL, and employer's liability claims also placed stress on this coverage line, and increased claims activity will push rates up a predicted 10% to 15% in 2022.

The pandemic has negatively impacted management liability lines in the agriculture sector. Most agriculture companies chose to stay open during the pandemic and continued having employees come to work, a decision that contributed to a great deal of claims activity in 2021.

Anticipated Market Trends for 2022

We expect to see substantial rate increases for D&O coverage in 2022. Pandemic-related D&O claims will take several years to work themselves out, which is why it is difficult to quantify the long-term impact.

Umbrella/Excess Liability

2021 Overview

Umbrella/excess, the most significant of coverage lines, remained challenged during the second half of 2021. More frequent and severe claims and large settlements continue to increase rates by an estimated 20% to 25% and affect capacity limitations for many in the industry.

Anticipated Market Trends for 2022

The umbrella markets are still impacted by an increasing number of nuclear verdicts, a situation that is leading carriers to increase premiums and reduce capacity. Rate increases in 2022 should be much like those of 2021, ranging from 20% to 25%.

Cyber Liability

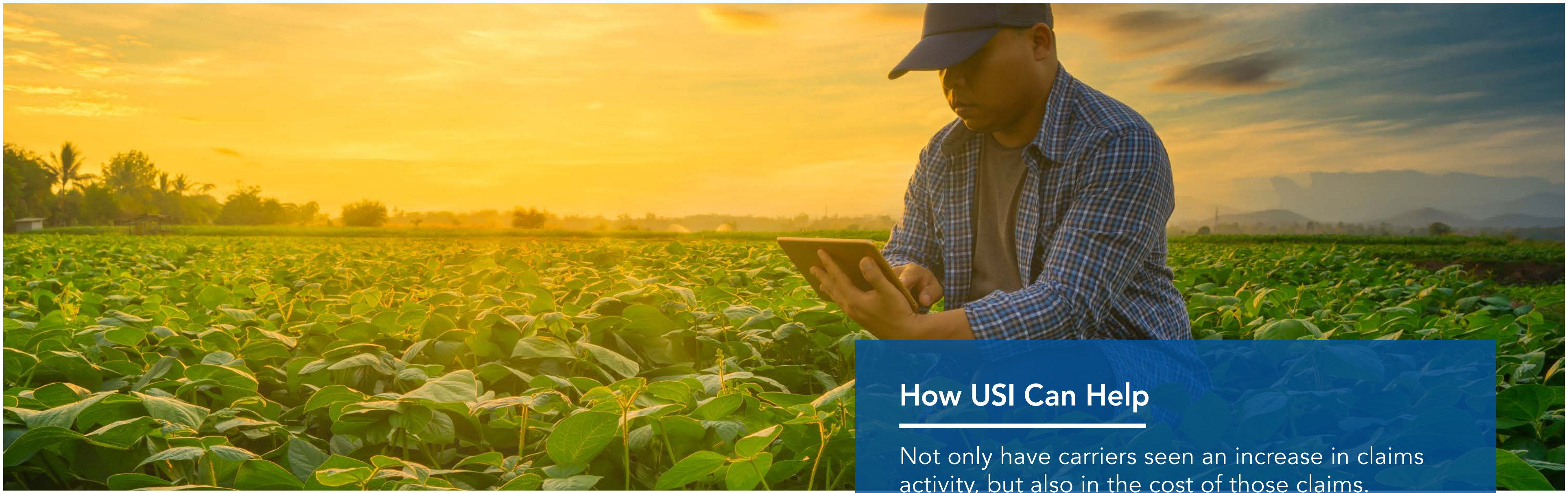
Highlights/Changes Since Second Quarter 2021

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

1. The shift towards computerized "precision agriculture"
2. The industry's traditional focus on performance and safety rather than cybersecurity
3. The industry's reliance on an extended supply chain (thus making it more difficult to secure)

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

In 2021, the agriculture industry had many large ransomware claims, raising its awareness to cyber liability threats and increasing the demand for cyber coverage.



Anticipated Market Trends for 2022

Because of the large cyber claims that affected all industries in 2021, including agriculture, cyber insurance rate and underwriting scrutiny will increase significantly. In 2022, we expect the price of cyber insurance to increase from 50% to 200% in the agriculture sector.

Cannabis

Anticipated Market Trends for 2022

Cannabis is one of the few industries seeing rate decreases in the marketplace, a change that is being driven by loss experience. The industry was originally priced very conservatively by carriers because it did not have an underwriting history.

As the history has developed, the markets have found these businesses to be quite profitable on most lines and are now pricing them accordingly. Because cannabis businesses are subject to strict government oversight and compliance requirements, they are viewed as great insurance risks.

Some cannabis businesses are now offering home delivery of their product, which will contribute to substantial auto liability rate increases in 2022. The D&O coverage line, which has had ongoing challenges, is also priced extremely high in the cannabis industry.

How USI Can Help

Not only have carriers seen an increase in claims activity, but also in the cost of those claims. Pandemic restrictions have made investigating, settling, and closing claims a costly and lengthy process. This will place continued pressure on the market, driving up rates and shrinking capacity in the first half of 2022.

For these reasons, it is more important than ever for agriculture companies to work closely with their USI consultants. USI helps clients understand and evaluate their specific exposures and loss control efforts and communicate them effectively to their insurance carriers. To help encourage a positive outcome during a challenging market, we suggest starting as early as possible, either at mid-term or well in advance of renewal.

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

LIFE SCIENCES

2021 Overview

The life sciences market outperformed the overall insurance market throughout 2021, with certain coverages experiencing premium reductions. Insurance companies continue to view life science companies as desirable risks because they operate in a highly regulated Federal Drug Administration (FDA) environment, which is why some insurers have introduced or expanded their underwriting appetite. This is especially true for product liability and traditional "package" policies, while other lines, such as D&O, cyber, and cargo/stock throughput, are experiencing rate increases on the middle to upper end of USI's rate guidance.

Anticipated Market Trends for 2022

Product Liability

- There is ample capacity available in the domestic and international marketplace, except for opioids, cannabis, and CBD, which are more closely scrutinized.
- Renewal rates remain stable, with declines of more than 10% available when competition is brought into the renewal process.
- NDMA exclusions arising from the actual or alleged presence of nitrosamines, considered a "probable" contaminant, are being added to most policies, and the wording is inconsistent. This may negate coverage for an entire class of products unless careful language negotiation takes place with underwriters.

Cargo/Stock Throughput

- Price increases are being driven by complex supply chains, increases in catastrophe activity, lack of comprehensive underwriting data, and a higher incidence of claim activity.
- Premium increases were more dramatic in 2020. While this has moderated in the past few quarters, capacity remains limited, and deductibles continue to increase.
- Insurers are intensely focused on identification of underwriting data for third-party locations so they can offer credible limits.
- Poor loss history is no longer viewed as bad luck. Insurance carriers expect companies to qualify their suppliers and contract manufacturers.

D&O Liability

- Special purpose acquisition company (SPAC) transactions spiked dramatically in the first half of the year. While the pace has slowed recently, life science entrepreneurs will continue to use SPACs as a strategic tool and means to capitalize on promising new therapies.

- Private company D&O price increases can be managed similarly to the public marketplace by arranging meetings with current and prospective underwriters.
- Almost all transactions involving public companies experience litigation. Life science companies should be prepared to articulate their due diligence strategy as part of the renewal underwriting process.

Cyber

- The industry is seeing increased claim activity for business interruption and systems failure.
- The adoption of advance technologies with internet connectivity will create coverage challenges between traditional product liability, professional liability, and cyber liability. To avoid coverage disputes, it is imperative to understand all possible loss scenarios and work with underwriters to identify which policy will best respond.

How USI Can Help

USI suggests life science companies take the following steps to encourage a favorable coverage outcome:

- Begin the renewal process 150 days prior to inception.
- Evaluate all market options with their brokers, focusing on risk appetite and product mix.
- Assess U.S. and London markets and be open to having multiple insurers on the program as opposed to one insurer that offers all coverages in a "package" format.
- Clearly identify and differentiate each risk to the marketplace, reinforcing risk quality and mitigation efforts — this is imperative. When marketing, it is critical to have data on facility characteristics, safety programs, and global supply chain exposures.
- Delineate the product liability risk profile (high, medium, low) to help underwriters understand therapeutic class and specific product risk factors.
- Review contracts carefully to determine risk transfer/assumption language that impacts the revenue exposure base associated with product liability premium rating.
- Assess all clinical trial activity to determine which studies have been impacted either in a delayed start, longer duration, or reduced patient population.

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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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