2023 Commercial Property & Casualty Market Outlook Mid-Year Addendum

Forecast Insights From USI National Practice Leaders

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We are pleased to provide this supplement to our January Commercial Property & Casualty Market Outlook. As an addendum, this report seeks to update the insurance market trends that have changed since our January forecast, report the state of our current markets, and highlight important developments that are starting to emerge.

Our nation's shaky economy and uncertain economic future are common threads that run through this report. The global economy also impacts the insurance markets and organizations in general. Due to economic and inflationary factors, many insurers are becoming more conservative in their pricing models and prolonging an environment of rate increases. However, some markets remain stable despite inflation and other economic pressures. Now is a critical time to invest in the right risk management strategies and start the insurance renewal process early as insureds vie for available capacity.

The chart on pages 4 and 5 shows that insurance rates are trending both higher and lower than in the previous months, although they are increasing overall as insurers reassess their exposures due to inflation and other factors.

Property

Rate increases coupled with valuation increases are creating strains on insured budgets. The shortage of available capacity, especially on locations with exposure to natural catastrophe perils, will continue to drive pricing upward. Insureds need to review data accuracy, data quality and values closely to minimize larger premium increases.

Casualty

In general, we are seeing more flat renewals with insureds who are staying with their insurance carriers, and better rates for insureds who purchase multiple lines of coverage through a single insurer. In particular, a growing number of clients who are packaging their lead umbrella with the primary casualty lines are seeing significantly reduced pricing for the umbrella compared to mono-line placements with another carrier. This packaging allows the insurance company to discount the umbrella pricing more aggressively than they could without the benefit of premiums from the primary casualty lines.

Executive and Professional Risks

Despite a variety of challenges impacting these areas of risk — an unsettled economy, inflation, rising interest rates, the emergence of artificial intelligence, mounting layoffs, class-action litigation, cyber breaches, and social inflation — we are seeing a very competitive market for directors and officers (D&O) liability and a continued stable market for employment practices liability (EPL) and crime. The fiduciary liability market, which has begun to improve, is still digesting excessive fee claims. The cyber market, while vastly improved, is constantly facing new threats and therefore remains a critical area where insureds should stay up to date.

Specific Industries and Segments

If your industry is discussed separately in this report, be sure to check out our insurance experts' insights, since some markets can behave much differently in specific sectors. In the healthcare and life sciences industries, for example, cyber risks are impacting hospitals and other healthcare organizations worldwide in unique ways.

How USI Can Help

As always, we offer solutions specific to each business issue and line of insurance. The "How USI Can Help" sections within each coverage and industry section of this report can help you mitigate the risks and reap the rewards from our evolving insurance markets.

We look forward to helping you succeed as we complete another challenging year.

MARKET UPDATE & RATE FORECAST

Product Line	First Half 2023	Mid-Year 2023
PROPERTY		
Non-CAT Property w/Minimal Loss History and Good Risk Quality	Up 5% to 10%	Up 5% to 15%
CAT Property w/Minimal Loss History and Good Risk Quality	Up 15% to 50%	Up 25% to 150%
CAT or Non-CAT Property w/Poor Loss History or Poor Risk Quality	Up 25% to 150%	Up 25% to 150%
CASUALTY		
Primary General/Product Liability	Up 10% to 15%	Up 10% 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 10% to up 10%**
Workers' Compensation Loss Sensitive	Flat to up 5%**	Flat to up 5%**
Umbrella & Excess Liability (Middle Market)	Up 5% to 20%***	Flat to up 15%***
Umbrella & Excess Liability (Risk Management)	Up 10% to 25% +***	Up 10% to 25% +***
Medical Malpractice/Professional Liability - Primary & Excess Liability	Up 5% to 15%	Up 5% to 15%
INTERNATIONAL		
International Liability	Up 10% to 20%	Up 10% to 20%
International Property, CAT Exposure	Up 20% to 30%	Up 20% to 30%
International Property, Non-CAT Exposure	Up to 20%	Up to 20%
ENVIRONMENTAL		
Environmental Combined General Liability/Pollution	5% to 15%	5% to 15%
Excess Combined General Liability/Pollution	7.5% to 15%	5% to 7.5%
Environmental Contractors' Pollution	10% reduction to inflationary increase	Down 10% to flat
Environmental Pollution Legal Liability	Flat to 5% increase	Down 10% to up 5%

Product Line	First Half 2023	Mid-Year 2023
AVIATION		
Aviation	Up 10% to 20%	Up 10% to 25%
EXECUTIVE & PROFESSIONAL RISK (EPS)		
Public Company Directors & Officers (D&O) Primary Side ABC	Primary: Flat to down 5%	Primary: Flat to down 12.5%
Public Company Directors & Officers – Excess Side ABC and Side A DIC (Difference in Conditions)	Excess: Flat to down 15%	Excess: Flat to down 25%
Public Company Directors & Officers – Total	Total: Flat to down 10%	Total: Flat to down 20%
Private Company and Not-For-Profit (NFP) Directors & Officers	Down 7.5% to up 7.5%	Down 5% to up 5%
Employment Practices Liability (EPL)	Down 5% to up 15%	Flat to up 10%
Fiduciary	Flat to up 50%	Flat to up 25%
Crime	Down 5% to up 10%	Down 5% to up 10%
Kidnap & Ransom	Down 5% to up 5%	Down 5% to up 5%
Professional Liability/Errors & Omissions (E&O)	Up 5% to up 30%	Up 5% to up 30%
Representations & Warranties	Down 10-20%	Down 10%
Network Security & Privacy (Cyber)	20%+ for optimal risks; 100%+ for less optimal challenged risks	Flat for optimal risks; 15%+ for less optimal challenged risks
Technology E&O	35%+ for optimal risks; 100%+ for less optimal challenged risks	Flat%+ for optimal risks; 20%+ for less optimal challenged risks

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

View our Historical Rate Index charts

PROPERTY

Product Line	First Half 2023	Mid-Year 2023
Non-CAT Property w/ Minimal Loss History and Good Risk Quality	Up 5% to 10%	Up 5% to 15%
CAT Property w/Minimal Loss History and Good Risk Quality	Up 15% to 50%	Up 25% to 150%
CAT or Non-CAT Property w/Poor Loss History or Poor Risk Quality	Up 25% to 150%	Up 25% to 150%

View our Historical Rate Index charts

Looking Back: First Half of 2023

As anticipated and noted in our 2023 January Market Outlook report, insureds were faced with difficult decisions in the first half of this year. Higher retentions, lower available limits, tightening of terms and conditions, valuation adjustments and rate increases were the common trends seen on renewals.

Although rate increases mostly fell within our projected ranges, some outliers exceeded them. Florida, Texas and Louisiana wind-exposed properties , wildfire exposed accounts and locations with poor risk quality saw the largest rate increases, in some cases exceeding 300%. Buildings built prior to 1995 saw the most scrutiny, especially if wind-exposed and in poor condition. Metal, food, recycling and habitational risks continued to be difficult classes of business to insure, with risk quality being the most important factor of whether the market will offer valuable capacity.

Shared/layered programs fell short of the participants needed to complete them due to decreased offerings from incumbent insurers. Programs that were historically written by one insurer were more frequently restructured into shared/layered programs, especially if catastrophic (CAT) exposure was present or the risk quality was undesirable. Locations over $100 million in total insured value (TIV) were impacted negatively by increased reinsurance treaty renewal pricing, driving up the cost of capacity for these locations. The market conditions caused an increased interest level in alternative risk transfer solutions, like captives and parametrics, to help insureds minimize their premium spend and stabilize their programs long-term.

Trends to Watch: Second Half of 2023

As the property insurance market continues to work through the capacity challenges and shortage of available reinsurance, several issues are expected to develop for the second half of 2023.

Dwindling Wind Aggregates

Coastal properties in Florida, Louisiana and Texas with renewal dates in the second half of the year will see increased pressure on rates, capacity and terms. As insurers deplete their allotted wind aggregates with little to no additional capacity available, these renewals will have difficulty finding the required capacity to fill out their programs or desired limits. Insureds may need to purchase lower limits, retain portions of their programs or consider alternative approaches, like parametric solutions, to finalize their renewals and mitigate premium increases. Insureds with these exposures present may need to consider renewing their programs earlier than the effective date (i.e. cancel/re-write) to avoid the expected shortfall of finite wind capacity later in the year.

Climate-Related Risk

Last year, Hurricane Ian caused considerable damage and was categorized as the fourth-strongest storm to ever hit Florida. We also saw catastrophic flooding in eastern Kentucky, tornadoes in the South and Midwest, and a crippling winter storm impacting 42 states and Canada. The U.S. endured 18 separate disasters in 2022, where damages exceeded $1 billion each, and insurance carriers have continued to reduce needed capacity in hard-hit areas. There will be prolonged pressure on pricing, deductibles and a strain on capacity with the frequency and severity of these storms.

Larger Locations Experiencing Higher Rate Increases

As we started to see in the first half of 2023, locations with total insured values (TIV) over $100 million are experiencing higher rate increases due to reinsurance treaties being triggered at much higher pricing. As insurers surpass the threshold for available capacity per risk or per location, the excess portions are then transferred to reinsurance treaties. Some reinsurance treaty renewals were up between 50% to 75% over expiring, with these increased costs being passed along to insureds when accessed. When an insurer needs to transfer this risk due to location size, which often occurs in excess of $100 million, the rate increases can be severe due to the shortage of available capacity. Therefore, insureds with locations over $100 million in TIV should expect to see higher rate and premium increases with these locations on their program. Insureds should take a close look at locations reported over $100 million to validate the accuracy of the valuation. Special attention should be directed towards building, content, machinery and business interruption values being reported to prevent these charges from being passed through unnecessarily.

Continued Focus on Risk Quality, Data and Valuations

As insurers must choose where and how to deploy their capacity, expect a continued focus on risk quality, data and valuations. If insureds do not provide the data that carriers are expecting to see at the appropriate valuations, then renewals will be negatively impacted. Insurers are requesting appraisals or risk control reports to validate information provided. Those insureds that fail to supply this information may receive less capacity, increased deductibles, less coverage or have insurers decline to quote the risk entirely. Completing outstanding risk control recommendations, replacing older roofs, reporting adequate valuations and providing complete building data are just some of the measures insureds can take to give the carriers the comfort level needed to offer terms. Teaming up with an appraisal company and/or risk control company to obtain the anticipated data will serve insureds well in this market as this trend will continue. Working with your broker to identify the locations most susceptible to additional data needs will increase your odds of obtaining the most favorable terms.

Scheduled Limits Versus Blanket Limits

As insurers seek to adjust valuations to align more closely with estimated replacement cost, more restrictions are expected to be placed on policies. The removal of blanket limits to a scheduled limit policy (i.e. recovery limited to what is being reported for building, contents, equipment, business interruption, etc.), margin clauses, coinsurance, actual cash value (ACV) valuation and occurrence limit of liability endorsements (OLLEs) are expected to be used more frequently. Some insurers will choose to single out specific locations to reduce coverage while others will apply these restrictions across all locations. All of these items can severely impact the amount of recovery expected following a claim. It is important to review these clauses for their potential impact prior to binding to avoid an unpleasant surprise following a claim.

Renewal Process Taking Longer

The market conditions have created an influx of submissions to insurers while underwriters have reduced authority, causing a delay in the quoting process. Every aspect of the underwriting review – from catastrophe modeling to risk control review, rating, referrals, quoting and negotiations – is taking longer to complete and often is being reviewed by multiple levels of management at the insurer to ensure compliance with underwriting guidelines. Quotes are often released within two weeks or less of an effective date after clearing the referral process, not allowing much time for review or negotiation. Starting the renewal process early, with submissions to market 120 days out from effective date, will allow for all the steps to be completed and quotes to be issued in a more timely manner. Communicating the renewal timeline with all parties involved will help everyone work towards the same goal and meet timing expectations.

How USI Can Help

As we enter another year of dwindling capacity, rate increases, increased retentions and insurers' focus on risk quality, insureds must be able to differentiate themselves in the market to mitigate these impacts and optimize the insurance spend. USI can help insureds navigate this market through a carefully planned and executed roadmap involving the following:

- Utilization of analytics and underwriting tools to identify exposures and improve data quality.
- Reviewing third-party insurance requirements to ensure alignment with terms and conditions.
- Designing a sustainable and efficient program around those exposures present.
- Exploring alternative program structures or products to minimize market impact.
- Employing risk control to improve risk quality and maximize risk improvement spend.

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

CASUALTY

Product Line	First Half 2023	Mid-Year 2023
Primary General/Product Liability	Up 10% to 15%	Up 10% 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 10% to up 10%**
Workers' Compensation Loss Sensitive	Flat to up 5%**	Flat to up 5%**
Umbrella & Excess Liability (Middle Market)	Up 5% to 20%***	Flat to up 15%***
Umbrella & Excess Liability (Risk Management)	Up 10% to 25% +***	Up 10% to 25% +***

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

View our Historical Rate Index charts

Looking Back: First Half of 2023

The year-end projections published in our January Market Outlook were on track for the first half of 2023 for workers' compensation, primary general liability, umbrella/ excess liability, and automobile liability, with no significant industry or market changes.

Trends to Watch: Second Half of 2023

General/Products Liability

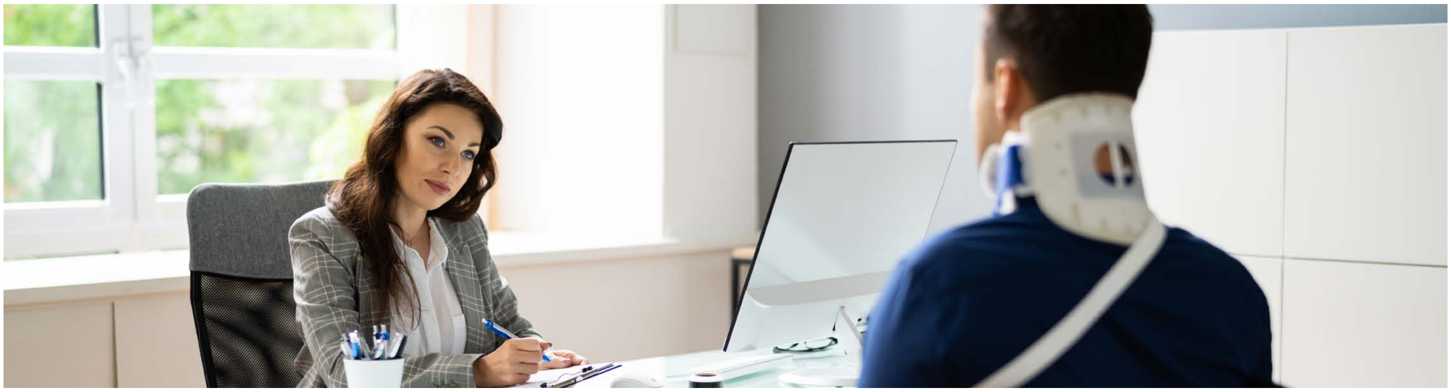
For general/products liability, we continue to see rate increases of 10-15%, but some trends provide optimism.

- **Higher deductibles and SIRs help improve rates.** By assuming more risk through higher deductibles or self-insured retentions (SIRs), insureds can achieve lower rate increases than in other casualty lines.
- **Insurer rate adequacy provides relief.** In some cases, where insurers have achieved rate adequacy and profitability of book, we have seen decreased rates. This excludes certain classes of business in perceived hazardous industries or risks with a prior loss history.

Umbrella/Excess Liability

Although the market is performing better for a greater number of insureds, there are still challenges. Selective competition for premium dollars should continue to grow throughout 2023, which will further stabilize the market, especially for targeted insureds with aggressive loss control and litigation procedures. However, we do not project an environment where most insureds experience flat renewals or rate reductions until early-to-mid-2024. After years of dramatic high-double-digit rate increases, the 2023 market is far better relative to the market of two to three years ago.

- **Capacity and rates are improving.** Umbrella/excess liability will be characterized by sufficient market capacity for both middle-market and risk management clients. We are seeing more flat renewals for insureds who stay with their incumbent carriers.
- **Combining coverages can create discounts.** A growing number of clients who are packaging their lead umbrella with the primary casualty lines are seeing reduced pricing for the umbrella compared to mono-line placements. This packaging allows the insurance company to discount the umbrella pricing more aggressively.
- **Limits are increasing.** We will continue to see more markets increase their limits output by $5 million to $10 million per individual account on some lead umbrellas, bringing the average limits up closer to $25 million, which was common in past years. In addition to an increase in limits being deployed, an increasing number of insurers are more willing to deploy their capacity for the lower umbrella/excess tower. In particular, we are seeing more interest in lead umbrella layers below $15M where the rate on line in today's market is acceptable to more insurers and considered profitable.
- **Insureds are leveraging multiple markets.** With the help of resourceful brokers, insureds are approaching multiple insurer channels (retail and wholesale) and marketplaces, including those in the U.S., Bermuda, and London.
- **Negotiating on price is trending.** Overall, we are seeing an increasing number of carriers that 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 both middle-market and larger accounts, and in particular for those with robust risk management and safety programs.

- **Limits impact rate increases.** For middle-market insureds that purchase $50 million or less in total limits, we expect less volatility compared to larger companies, with average rate increases ranging from flat to 15%. Insureds that purchase greater than $50 million in limits will face higher average rate increases ranging from 10% to 15%.
- **Higher limits may require quota-share participation.** Filling out a program with required limits capacity will present a challenge for some insureds that purchase $200 million or higher and necessitate large blocks of quota-share participation, which is becoming the norm above the lead umbrella and first/second excess liability layer.
- **Challenges for GL/products and auto liability.** The need for increasingly higher underlying primary attachment points of at least 2/4/4 for GL/products and $2 million for automobile liability will persist for insureds with greater exposures to loss, including insureds with fleet sizes of 250 or greater and/or insureds with challenging products or premises risks. These requirements have resulted in high demand for buffer markets to sit in between the primary and lead umbrella markets, resulting in higher fixed costs. However, an increasing number of primary insurers are beginning to offer higher limits within their programs thereby negating the need for buffer layers.
- **Corridor retention is a potentially valuable tool for cost reduction.** This is a self-insured layer separating the primary layer of risk from the layer immediately in excess of the primary. Typically, the corridor layer is unfunded. It's used to lower the cost of (or provide access to) excess or umbrella insurance, while relieving the insured from the requirement to fund for expected losses.

Common Ground

The following trends apply to both general/products and umbrella/excess liability:

- **Tough jurisdictions are another factor driving underwriting scrutiny.** Because claims and verdicts are on the rise in jurisdictions where courts tend to be more favorable to plaintiffs, insurers are adjusting their underwriting accordingly.
- **Key coverage exclusions can leave insureds vulnerable.** We are seeing coverage exclusions for many exposures, including abuse and molestation, perfluoroalkyl and polyfluoroalkyl substances (PFAS), assault and battery and territory exclusions for Russia and Ukraine. These exclusions can leave insureds vulnerable if they fail to offset them with the appropriate risk mitigation strategies.
- **Comprehensive submissions are critical.** With strict underwriting discipline, it is vitally important to produce comprehensive submissions that outline the key attributes and qualities of the insured's risk profile, allowing underwriters to make a more informed underwriting decision.

Workers' Compensation

Due to a variety of positive forces, the workers' compensation market remains stable. Rising wages and the hiring of more employees have increased payroll for the past year, which is causing a rise in overall premium volume. However, the benefit of reserve redundancies coupled with competition in some states is helping to offset the impact of rising payroll and resulting in lower premiums than expected. Payroll is up by 25%, but premiums are up by only 17%, according to the National Council on Compensation Insurance (NCCI).

- **Serious challenges pose longer-term threats to existing rates.** Rising medical costs, wage growth, an aging workforce, the transition back to an in-person work environment, and job shifting will put pressure on workers' compensation rate adequacy in the coming years. Although it will not have any meaningful impact in the current year, we expect rising medical cost inflation to become an increasingly significant concern in the next 2-4 years as existing rates in many states may not be adequate to compensate for these higher costs.
- **Insurers like to bundle.** Continuing the trend established two years ago, we will again witness an increasing number of carriers refusing to underwrite workers' compensation or liability coverage on their own and instead looking to package them together, resulting in greater economies of scale.

Automobile Liability

Addressing overlooked auto exposures will help to prevent costly uncovered claims.

- **Telematics can reduce risks and claims costs.** We have seen a reduction of approximately 30% in total claims costs when insureds use telematics, data analysis, and other technology. Court cases highlight the importance of telematics in which motor carriers are found negligent for failing to adopt widely available safety technology, such as a telematics system.
- **Increased costs fuel instability.** As a result of increased loss costs, performance in the commercial auto segment may be unstable for the remainder of 2023 and beyond.
- **Tech and safety matters**. 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 have options.** They are still experiencing higher pricing but can secure more favorable terms with increased deductibles, self-insured retentions (SIR), and alternative program structures.

How USI Can Help

Opportunities exist to make positive impacts on insurance costs, coverage and risk quality. Take advantage of the following sections to be in the best position to capitalize on insurance market opportunities going forward.

General/Products and Umbrella Liability

Insureds and their brokers need to maintain their vigilance and work proactively to ensure the best possible outcome. Identifying markets and program structure solutions may minimize or offset rate increases, reductions in capacity, and more restrictive coverage terms and conditions.

In today's market, it's key to prepare early, communicate often and implement a well-thought-out plan of action that includes innovative and practical alternatives. USI recommends:

- Proactive dialoguing with both incumbent and new markets about a plan of action at least 150 days in advance. Discussions should consider reductions in capacity, corresponding rates on a price-per-million basis, and any additional exclusionary wordings such as those pertaining to infectious disease or similar exclusions.
- Developing a quality underwriting submission and differentiating the quality of the risk profile, so it will stand out.
- Using data analytics to evaluate risk financing alternatives.
- Analyzing the cost-benefit of program structural changes:

Workers' Compensation

Insureds and their brokers need to be proactive in terms of identifying differentiating factors to achieve the most favorable renewal terms in program structure, pricing and coverage.

- 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.

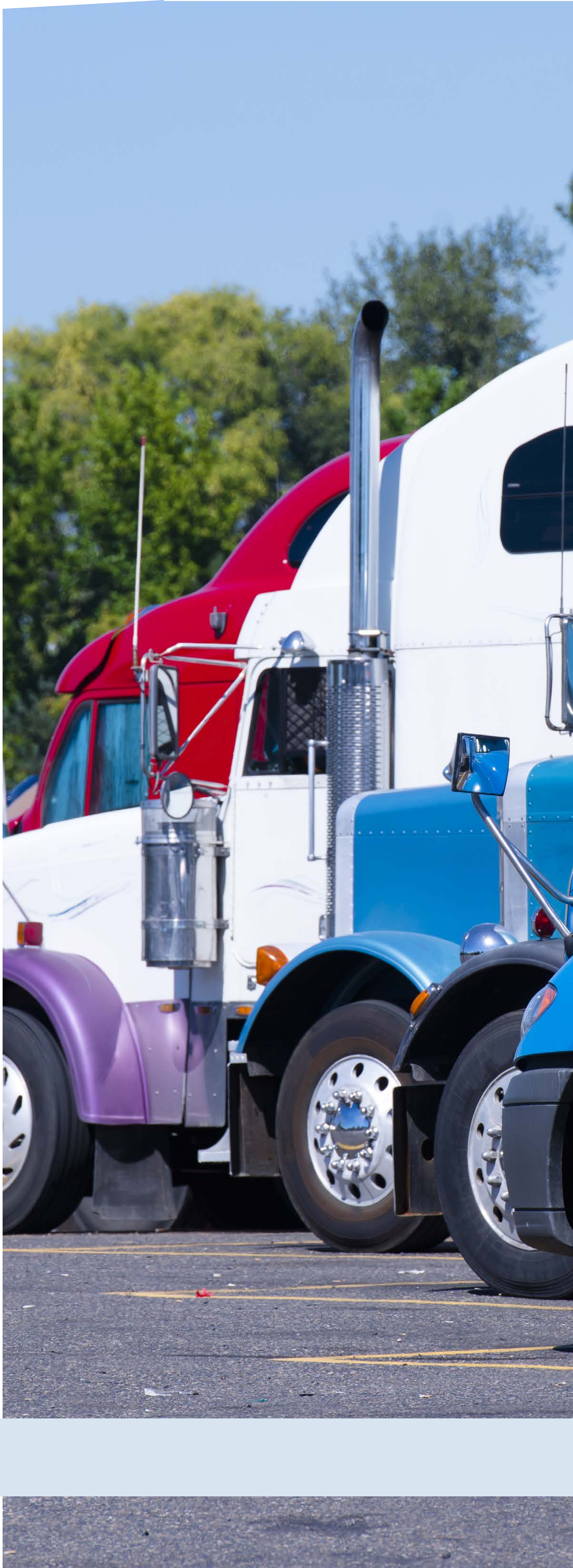
- Be prepared to market the account selectively.
- By presenting objective evidence and investing more time and energy into the renewal process by educating the markets, customers can often reduce rate increases and obtain more favorable renewal terms than otherwise.
- Work with your broker to leverage proper loss and financial analytics to determine your capacity to assume risk at various retention levels.

Automobile Liability

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

- Analyze alternative program structures to ensure the current structures are the most optimal from cashflow, retention level, cost, and collateral perspectives.
- Evaluate existing driver qualification criteria, or assist in the development of such criteria.
- Prepare early for renewal, develop a plan of action, and dialogue with both incumbent and new markets at least 150 days in advance.
- Develop a quality underwriting submission that best expresses the risk characteristics of insureds.
- Take 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.

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



INTERNATIONAL

Product Line	First Half 2023	Mid-Year 2023
International Liability	Up 10% to 20%	Up 10% to 20%
International Property, CAT Exposure	Up 20% to 30%	Up 20% to 30%
International Property, Non-CAT Exposure	Up to 20%	Up to 20%

View our Historical Rate Index charts

Looking Back: First Half of 2023

The year-end projections published in our January Market Outlook were on track for the first half of 2023 for all international lines of insurance, with no significant industry/market changes.

Trends to Watch: Second Half of 2023

Primary Foreign Casualty

- **Rate increases** – Insureds with frequent or severe loss history should continue to expect rate increases consistent with the rest of the marketplace.
- **Rate moderation** – Markets remain willing to maintain rates on accounts with good loss histories.

Primary Foreign Property

- **Mitigating catastrophic (CAT) events** – Organizations today must adjust their risk management strategies to keep up with this increasing threat landscape. The insurance industry is responding with reduced capacity as well as increased premiums and retentions. Learn what your organization should do to navigate these threats and protect itself against damage, disruption and changing property market conditions with our article, "Is Your Risk Management Keeping Pace With Increasing Catastrophic Liabilities?"

- **Improving risk quality** – With CAT losses, global inflation, and treaty reinsurers seeking larger increases at renewal, insureds will continue to experience rate increases and face pressure to improve risk quality as underwriters become more selective.

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 optimal limits, cash flow, retention level, cost, and collateral perspectives.
- Reviewing and confirming that all necessary admitted (local) insurance is purchased in alignment with local regulations, while also partnering with umbrella coverages to eliminate duplication of coverage.
- Continually engaging with our network of international broker partners to understand changes in local coverages, requirements and laws related to insurance that could impact ongoing operations. In addition, we suggest quarterly check-ins to get ahead of any new expansions into a new country/risk.

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

ENVIRONMENTAL

Product Line	First Half 2023	Mid-Year 2023
Environmental Combined General Liability/Pollution	5% to 15%	-5% to 15%
Excess Combined General Liability/Pollution	7.5% to 15%	5% to 7.5%
Environmental Contractors' Pollution	10% reduction to inflationary increase	Down 10% to flat
Environmental Pollution Legal Liability	Flat to 5% increase	Down 10% to up 5%

View our Historical Rate Index charts

Looking Back: First Half of 2023

- **Environmental contractors, waste management, and industrial** - The majority of these risks saw rates remain in the lower tier of the projected range for combined general liability products, including professional, contractors pollution, and pollution legal liability coverage.
- **Excess follow-form liability** – All combination forms, regardless of coverage, also remained in the lower tier of the projected market range. The only factors negatively affecting rates were the size, type, and loss experience on the underlying auto liability line. To that point, risks with larger fleets, heavier units, and poor loss experience saw rate increases in the higher rate range.
- **Contractors pollution liability** – Rates for the first half of 2023 were in the projected range.
- **Environmental pollution legal liability** – Rates remained very competitive and for some risks fell below the first-half projections, but tougher classes of risk may have had slight increases.

Trends to Watch: Second Half of 2023

- **General liability/pollution** – We expect rates for all combined products to remain competitive for all classes of business. In fact, for the majority of insureds, we expect market rates to continue to decrease to the range projected in the table above.
- **Excess follow-form liability** – Insurance rates are difficult to project due to factors influencing international reinsurance markets. However, we do expect further rate reductions overall. Insureds with larger fleets and poor loss experience should encounter rates on the higher end of our projections.
- **Contractors pollution liability** – Rates will continue to decline due to more competitors entering the market and insurance companies continuing to realize underwriting profitability.
- **Environmental pollution legal liability** – Rates will continue to decline due to the overabundance of insurance carriers competing for business.

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.
- Delivering formal and customized risk maps to identify the frequency and severity of fines and penalties for noncompliance, spill events, known and unknown remediation, and toxic tort liability.
- Creating sophisticated risk model platforms for significant liabilities, using Monte Carlo analytics to look at a range of probabilities and forecast potential liabilities over an extended period.
- 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	First Half 2023	Mid-Year 2023
Aviation	Up 10% to 20%	Up 10% to 25%

View our Historical Rate Index charts

Looking Back: First Half of 2023

The first half of 2023 has been consistent with the forecast in our 2023 January Market Outlook. The underwriting standards remain high across the industry, and we are seeing underwriters continue to seek rate increases on all aviation lines.

Trends to Watch: Second Half of 2023

The second half of 2023 is expected to see significant changes to the aviation reinsurance marketplace, particularly to war coverages. Due to significant war hull losses in Sudan and Russia, we are seeing carriers reduce overall capacity and increase pricing significantly for war coverages. Aviation reinsurance carriers are imposing tougher restrictions on all domestic aviation insurance markets. The impact of these changes will vary greatly by segment, so some aviation insurance buyers will be affected differently. Aviation operations that purchase low limits will likely see a slight increase in war costs, while operations that carry war liability limits above $100 million are likely to see the highest rate increases.

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. The process includes:

- Generating complete analytics to understand and quantify exposures.
- Reviewing program options and retention opportunities.
- Evaluating program limits and coverage needs.
- Developing an extensive, comprehensive underwriting submission and loss mitigation narrative that highlights 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 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 2022	Forecast 2023 (First Half)
Public Company Directors & Officers – Primary Side ABC	Primary: Flat to down 5%	Primary: Flat to down 12.5%
Public Company Directors & Officers – Excess Side ABC and Side A DIC (Difference in Conditions)	Excess: Flat to down 15%	Excess: Flat to down 25%
Public Company Directors & Officers – Total	Total: Flat to down 10%	Total: Flat to down 20%
Private Company and Not-For-Profit (NFP) Directors & Officers	Down 7.5% to up 7.5%	Down 5% to up 5%
Employment Practices Liability (EPL)	Down 5% to up 15%	Flat to up 10%
Fiduciary	Flat to up 50%	Flat to up 25%
Crime	Down 5% to up 10%	Down 5% to up 10%
Kidnap & Ransom	Down 5% to up 5%	Down 5% to up 5%
Professional Liability/ Errors & Omissions	Up 5% to up 30%.	Up 5% to up 30%.
Representations & Warranties	Down 10-20%	Down 10%
Network Security & Privacy (Cyber)	20%+ for optimal risks; 100%+ for less optimal/challenged risks	Flat for optimal risks; 15%+ for less optimal/challenged risks
Technology Errors & Omissions	35%+ for optimal risks; 100%+ for less optimal/challenged risks	Flat%+ for optimal risks; 20%+ for less optimal/ challenged risks

View our Historical Rate Index charts

Looking Back: First Half of 2023

Executive and Professional Lines

- **Public Company Directors & Officers (D&O)** — The softening of rates continued, with competition pushing both primary and excess rates down even more than expected. Most incumbent carriers reacted to the competition from new capacity by agreeing to decreases in order to retain business. Environmental, social and governance (ESG) issues continued to develop as an added focal point for D&O underwriters.
- **Private Company/Not-For-Profit (NFP) Directors & Officers (D&O)** — The marketplace proved to be stable despite a shaky economy, inflation, and distressed financial positions mounting for insureds.
- **Employment Practices Liability (EPL)** — Similar to private company D&O and NFP D&O, the marketplace proved to be stable despite increased layoffs. Issues such as biometric data collection and privacy issues have impacted EPL underwriting, as questionnaires from carriers on the topic are common. Illinois and California are the two states presenting the most risk.
- **Fiduciary Liability** — The marketplace became less volatile in the first half of 2023, and the ability to achieve close-to-expiring terms became more likely. The retention levels for excessive fees and/or class action claims remained elevated.
- **Crime** — The market was stable for crime liabilities.
- **Professional Liability** — Upward rate pressure remained for professional liability as defense costs inflation and social inflation (the propensity of juries to look to punish companies for wrongdoing through "nuclear" [aka punitively high] verdicts) continued. Some newer market entrants and some established carriers did begin to open their appetite more for professional liability risks, allowing for some alternative markets, if needed.
- **Kidnap and Ransom (K&R)** — The market was stable for K&R coverage.

Transaction Liability: Representations & Warranties Insurance

Similar to year-end 2022, merger and acquisition activity has continued to lag behind typical levels so far in 2023. As such, we are seeing rates continue to fall by another 10%, which is the upper end of our previous year-end predictions.

Cyber: Network Security and Privacy

In December 2022, the uncertainty of reinsurance renewals made it challenging to predict cyber insurance conditions and drivers for 2023. Therefore, our projections were intentionally conservative. While the cyber threat landscape has increased as expected, the good news is that we have seen YOY decreases in premiums, as you can see in the previous rate chart.

In the first half of 2023, three factors dominated cyber and cyber-technology renewals:

1. **New and existing cyber insurers have increased capacity** — This has impacted the overall rates as new insurers have put up their cyber insurance shingle. Increased capacity has created more competition and lower premiums.
2. **Policyholders have listened** — Overall, the quality of cyber and cyber-technology insurance submissions has improved. Most policyholders have endeavored to address baseline information security controls or, at the very least, have provided a detailed roadmap of compensating controls. These efforts have helped to create better submissions, and better submissions have led to lower rates.
3. **The cost of excess coverage has decreased** — During the past two years, underwriters offering excess cyber coverage have applied an increased limit factor (ILF) of 85% and up to more than 100%. However, during the first quarter of 2023, we have seen these rates decrease to 65% (at the lowest) and 80% (on the high end). This dramatic improvement has impacted the aggregate cost of cyber and cyber-technology insurance programs.

Trends to Watch: Second Half of 2023

Executive and Professional Lines

- **Public Company D&O** — Carriers may begin to push back on a second year of significant rate decreases, feeling that the rate adequacy is no longer there to support profitability. Also, year to date, the number of federal securities class-action lawsuits is outpacing the previous two years by approximately 15%, according to Cornerstone Research/Stanford University Law School. Of course, much depends on the performance of the economy, including any continuing fallout from the large bank failures in the first half of 2023.
- **Private Company/NFP D&O** — The marketplace should remain stable. If merger and acquisition activity increases, there could be an uptick in regulatory scrutiny and litigation due to alleged antitrust violations.
- **EPL** — If layoffs mount, the likelihood of more claims for wrongful termination, discrimination and/or retaliation will increase. Also, to the extent that employers utilize artificial intelligence (AI) in the hiring and resume-screening process, any adverse impact on protected classes (i.e., race or gender) could lead to allegations of implicit bias and discrimination. In fact, the Equal Employment Opportunity Commission (EEOC) has already issued guidance that using algorithms in the hiring process could result in claims of discrimination.
- **Crime** — There is concern that the evolution of artificial intelligence, especially via ChatGPT, could increase the level of social engineering losses (the fraudulent inducement of employees to wire money or securities by impersonating senior executives, customers or vendors).
- **Fiduciary Liability, Professional Liability, and K&R** — All of these markets should remain stable.

Transaction Liability: Representations & Warranties Insurance

- **Mergers and Acquisitions (M&As)** — Transaction liability insurance volume is largely dependent on M&A activity. The consensus on the street for the remainder of 2023's M&A activity is extremely dependent on interest rates. If they moderate, we expect M&A activity later this year to pick up.
- **Premiums** — These will likely continue to be soft and flatten, or rise slightly once more typical levels of M&A activity returns.
- **Underwriting appetite** — This will remain broad for the remainder of the year, with more insurers able to write secondary funds, acquisitions of financially distressed targets, healthcare and smaller (sub-$25 million) transactions.

Cyber: Network Security and Privacy

Evidence from USI's Answerlytics Curated Providers (ACPs) confirms that the cyber threat landscape is increasing, and threat actors and gangs have pivoted and grown. Cybercriminals continue to diversify their attacks, including:

- **Attack surface expansion** — Cloud accounts contain workloads filled with resources that can expose your organization to attacks when they are misconfigured or if vulnerabilities are allowed to persist. During the height of the pandemic, many workers were forced to pivot to remote environments, and many have remained remote. Employers continue to rely heavily on cloud-based technology and embedded supply chains to allow for the greater utilization of these remote environments. This shift has expanded both the need for and awareness of endpoint detection and response (EDR) and managed detection and response (MDR) solutions.
- **Identity system defense** — We continue to see identity systems compromised. The cybersecurity firm CrowdStrike Overwatch indicates that 80% of breaches are identity-driven. These attacks often directly leverage compromised credentials to launch larger, more catastrophic attacks. The increased threat landscape has significantly impacted cyber insurance. A strong identity protection strategy and mitigation solutions to boost cyber security can help organizations look better to cyber insurers.
- **Supply chain concerns** — These present a double-edged sword. On the one hand, the proper utilization of the supply chain has created greater efficiencies; on the other hand, bad actors have continued to bombard organizations that rely on a software supply chain. Organizations are uniquely vulnerable to software supply chain attacks for two major reasons: first, many third-party software products require privileged access; and second, many third-party software products require frequent communication between a vendor's network and the vendor's software product located on customer networks. Policyholders have begun inventory of their critical vendors to assess, evaluate and consider their inherent risks.
- **Diversified attacks** — Bad actors will utilize multiple attack surfaces including smishing, phishing and vishing to trick people. They continue to show their flexibility by playing the long game. Cybercriminals will target disgruntled employees and offer them nominal amounts for access to their credentials.

All organizations, regardless of industry or the location of their operations, will be expected to continue to improve their cyber hygiene and take a holistic view of cyber risk management. Further, the threat of Russian-backed or supported cyberattacks and counterattacks (intended to disrupt supply chains, IT suppliers, governmental agencies, financial services organizations, critical healthcare/transportation/energy infrastructure, and other critical national institutions) will continue to weigh on insurers.

How USI Can Help

USI's Executive and Professional Risks team makes the following recommendations:

Public Company Directors & Officers (D&O)

- Continue to start the renewal process early (at least 120 days prior to expiration).
- Prepare a D&O risk profile analysis and review it with buyers to determine perceived strengths and weaknesses.
- Set appropriate and realistic expectations based on individual company risk profiles.
- Encourage commitment to reducing risk by:
  - Establishing sound board reporting protocols.
  - Making sure that boards closely monitor operations, especially mission-critical operations.
  - Creating a committee to improve the high-level communication of critical issues.
  - Instituting tests to see how effective a board's oversight governance is performing.
- Support and encourage the addition of federal forum selection clauses to organizing documents, specifying that the federal court is the exclusive jurisdiction for litigation brought under the Securities Act of 1933.
- Perform a benchmarking analysis to determine an optimal D&O program structure.
- Evaluate captive solutions, where appropriate.
- Market all layers and access multiple insurer channels.

- Ask primary insurers for options, including multiple retention options.
- Opine on the historic claims-paying performance of current and prospective D&O insurers, especially primary insurers.

Employment Practices Liability (EPL)

- Alert clients to evolving legislation and any notable changes in claims activity.
- Prepare clients to respond to underwriting questions about post-COVID-19 return-to-work strategies, adherence to new pay transparency laws, abortion services post-Dobbs, and any changes to employee handbooks or HR manuals addressing these issues.
- Help familiarize organizations with the Equal Employment Opportunity Commission (EEOC) guidance regarding the use of algorithms in the hiring process, and consult with human resource departments to help them be diligent (and consult counsel) in setting policies to guide their employees on the use of ChatGPT and other artificial intelligence.
- Host underwriting calls with EPL underwriters and clients' human resources and legal departments.
- Negotiate coverage grants and navigate coverage restrictions that could impact evolving EPL risks.
- Approach the broader marketplace (U.S., Bermuda, other) for additional and emergent EPL considerations.
- Analyze the historic claims-paying performance of EPL insurers, especially primary insurers.

Fiduciary Liability

- Prepare clients for underwriting questions about plan service provider selection and comparison processes.
- Assist in the establishment of prudent processes for fiduciary decisions, documentation of the processes, and compliance with ERISA, DOL and IRS regulations regarding participant disclosures and government reports.
- Discuss emergent items, like the addition of a forum selection clause to plan documents, specifying the jurisdiction for litigation filed against the plan/fiduciaries.
- Share risk management support made available by fiduciary liability insurers and USI resources.

Crime/Fidelity Bonds

- Facilitate underwriter discussions regarding transaction verification processes and procedures. Clients with advanced and thoughtful risk practices will differentiate their risk profile.
- Update insurers on remote work strategies of the company, including any internal controls and procedures to improve oversight.
- Address potential coverage crossover with cyber insurance, helping clients understand differences, and seek to manage coverage applicability across different policies.
- Encourage organizations to have a clearly stated position on the use of ChatGPT within the company, and remain vigilant of any suspicious activity regarding the impersonation of any fellow employee, executive, vendor, customer, financial institution, or other third parties. ChatGPT's ability to produce believable word patterns makes it a potential phishing tool. Also, Chat GPT can be used to impersonate speech patterns, something that can be abused by criminals.

Professional Liability/Errors & Omissions (E&O)

- Start the renewal process early (at least 120 days prior).
- Provide clients with curated, advanced underwriting questions, and help craft appropriate responses specific to operations early in the renewal process.
- Track the most competitive insurers in the E&O space to understand their underwriting appetites and willingness to address risks creatively.
- Identify and highlight risk control and management differentiators across the insured's operations (including third-party risk management, vendor risk management, subs, etc.)
- Examine the scope of professional services, as many firms have modified and diversified their offerings. Amend and address as needed.
- Discuss any minimum limit requirements by the insured's clients in managed service agreements and contracts.

Transaction Liability: Representations & Warranties Insurance

- Engage early in the M&A process to help identify the risk profile for contemplated transactions.
- Detail current market conditions and expected areas of concern insurers are likely to raise for planned M&A transactions.
- Provide clarity and set expectations around the procurement process and timeline, as the process is unlike most other insurance coverages.
- Provide a dedicated team of transaction liability specialists with 24/7 service for the insured's M&A activity.

Cyber: Network Security and Privacy

We will continue to closely monitor the conflict in Ukraine for elevated sanctions, any increase in global cyberattacks and counterattacks, and any sudden and/or significant disruptions to the global supply chain. We will also continue to monitor any other major developments that impact the cyber risk environment (i.e., cryptocurrency hacks).

We also work with clients to:

- Start the renewal process early (at least 120 days prior to expiration).
- Set appropriate and realistic expectations based on individual company risk profiles.
- Encourage commitment to reducing risk by offering our comprehensive cyber risk control continuum, which includes services and solutions designed to assess current cyber hygiene and exposures.
- Connect them with curated third-party providers that specialize in addressing emergent cyber risks. Our Answerlytics™ and customized eRiskHub solutions can help clients improve their cybersecurity and insurance marketability, pricing, and terms.
- Perform a benchmarking analysis to determine an optimal program structure, and evaluate captive solutions, where appropriate.
- Market all layers and access multiple insurer channels.
- Ask primary insurers for options, including multiple retention options.
- Opine on the historic claims-paying performance of current and prospective insurers, especially primary insurers.

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

INDUSTRY UPDATES

MANUFACTURING & DISTRIBUTION

Trends to Watch

The manufacturing and distribution market continues to perform in line with the projections noted throughout this report. These additional trends are worthy of mention:

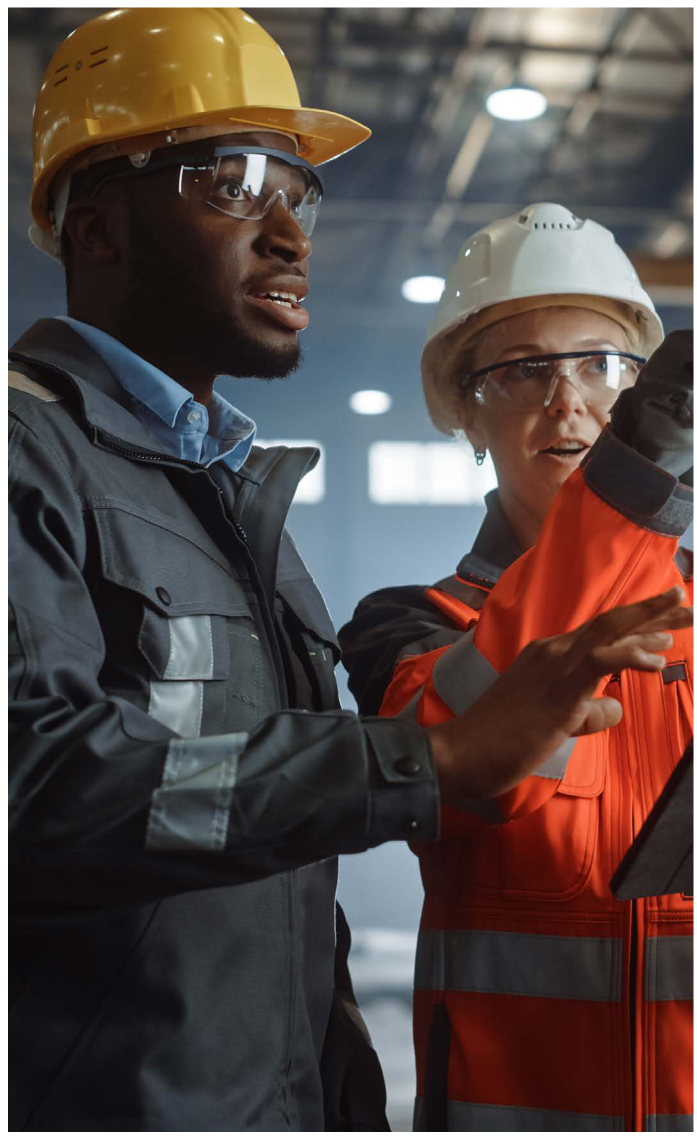
- **Property/stock throughput (STP)** – For manufacturers, property insurance continues to be a challenge. Many maintaining higher inventories from the supply chain crisis are seeing challenges with property insurance costs and limited capacity. STP coverage has been useful in segregating stock from the traditional property program and thereby providing additional capacity and reducing premiums.
- **Trade credit risk** – With impacts from inflation and fears of recession, risks associated with nonpayment of accounts receivable may warrant a review of your accounts receivable portfolio and potential investment in trade credit insurance.

How USI Can Help

To achieve favorable coverage outcomes, USI recommends that clients take the following steps:

- Begin the renewal process at least 150 days prior to inception. Complete a loss analysis early to assess the impact of program structure, retention and risk mitigation efforts.
- Establish the "ask" of the market, allowing for early indications from incumbents and an understanding of options related to limits, retentions, coverage and price.
- Work with broker to evaluate all:
  - COPE (construction, occupancy, protection, exposure) data to mitigate property insurance market headwinds.
  - Property, business interruption, equipment, stock and inventory values.
  - Contracts with customers and vendors/suppliers to ensure contract compliance, appropriate limits, and the transference of risk where possible.
  - Market and program design options to identify opportunities for cost savings and exposure reduction.
- Review and consider retention strategies for premium impact.
- 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.

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



REAL ESTATE

Trends to Watch

Real estate renewals remain in line with the projections noted in this report for each line of coverage. The following trends will be critical for the remainder of 2023.

Lender and loan compliance

When financing properties, lenders will have specific insurance requirements for limits, coverages or deductibles. If not met, the loan could be subject to forced-placed insurance or default. These requirements have become more expansive and, in some cases, very difficult to meet in today's market conditions.

Lenders are requesting specific valuations on buildings or business income, requesting 18-24 months indemnity periods on business income coverage, higher limits on ordinance and law, confirmation on blanket coverage or very low deductibles for fire or CAT deductibles. For instance, some lenders will require a $25,000 All Other Peril deductible for habitational risks, yet the market is reluctant to provide anything below $100,000 for this class of business, creating the potential for non-compliance with the loan covenants.

Alternatively, a lender may request a flood or earthquake limit equivalent to the total insured values reported, yet purchasing that limit could cost more than the entire property premium with adequate limits already in place. As underwriters continue writing to restricted guidelines for capacity and terms, the ability to meet these requirements is becoming very difficult, putting insureds at risk of defaulting on their loans.

Cyber

Real estate companies have traditionally not purchased cyber coverage, but the take-up rate for coverage has increased significantly over the past few years. Real estate transactions contain large amounts of personal information, such as financial data, social security numbers, driver's license numbers, passport numbers, insurance information, and passwords. Cybercriminals know this and are ready to exploit vulnerabilities at any point. In addition, the growing demand of smart-device-enabled buildings, expected to reach about 142 billion globally by 2028 (PR Newswire), puts increasing pressure on the real estate industry to adopt solutions to help protect against potential Internet of Things attacks and other cyberthreats.

Environmental, Social and Governance (ESG)

The trends mentioned above — including climate risk and data security risks, combined with increased regulatory pressures and shifts in social principles — represent increasing risks for real estate investors. The current economic environment has affected real estate companies' exposure to ESG risks and their ability to manage them, as they face increasing and complicated investor scrutiny.

Deferred maintenance

With many real estate owners and managers facing lower post-pandemic occupancy levels, there may be less maintenance needed. However, deferred maintenance may lead to asset deterioration and losses related to infrastructure such as HVAC, electrical, and plumbing. This especially holds true for older assets and can also impact the "health" of the building. Carriers are closely reviewing and monitoring maintenance plans and procedures to ensure adequate money and resources are prioritized to reduce potential losses.

How USI Can Help

- Effectively communicate capital expenditure as it relates to risk mitigation and the potential positive impact to future loss events.
- Engage USI's cyber experts to navigate the exposures, needed controls, and placement strategies to achieve the best outcome for your cyber risk.
- Evaluate your risk of natural catastrophe events. USI's property resource team utilizes multiple tools to include hurricanes, earthquakes, severe thunderstorms, floods, and wildfires in the evaluation. It is critical to know your exposure and make a risk-based insurance purchasing decision.
- Assess ESG risks. USI's Executive & Professional Risk Solutions (EPS) team is evaluating the impact of ESG on real estate companies and the potential insurance solutions related to ESG strategies. The EPS team can conduct a detailed review of your risk profile and corresponding exposures.
- Communicate effective maintenance strategies and how, ultimately, better loss results can have a positive financial impact. USI can help real estate clients employ effective risk control strategies related to maintenance that can create competitive advantages over their peers.

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

CONSTRUCTION

Trends to Watch

A new set of challenges is keeping construction firms cautiously optimistic about the growth of the industry through the rest of 2023 and into 2024. A potential recessionary environment, regional banking concerns, increasing interest rates, prospects of a federal debt-ceiling crisis, and persistent skilled labor shortages all hit the top of risk issues currently plaguing contractors and subcontractors.

On the positive side, supply chain issues have dissipated, and material cost volatility has started to show signs of slowing down. These headwinds and tailwinds are forcing contractors to be mindful of contract terms, budgets and schedules while enjoying some of the healthiest backlogs across most major market segments for the rest of 2023 and beyond.

These macro industry forces impact casualty insurance and surety programs by bringing a new level of data and analysis into risk management decision-making. Diligence in financial controls, workforce safety, and quality will help construction clients separate themselves from peers and competitors alike. Continued breakthroughs in technology, materials and innovations will transform a company's efficiency and productivity but will also bring a whole host of new risk issues to define, educate and monitor.

How USI Can Help

When considering renewals, construction companies can follow these suggestions from USI's construction team:

- We cannot emphasize enough to lead with the data of what you are doing and how you are doing it. Quantitative discussions coupled with qualitative storytelling will lead to better discussions with carriers. Any innovations and lessons learned included in the submission will help underwriters see the vision of your risk. Underwriters want insureds to continue to improve, stay ahead of risk trends, and seek operational and financial excellence.

- Focused and intentional communication with all business partners should happen early and often. Companies should speak, virtually or in person, proactively with insurance and surety underwriters and USI's construction team. This will allow for proactive planning around risk issues and growth, as well as transparency, flexibility, and adaptability of the team.

- Strive for innovation in all things risk mitigation and documentation. The ability to demonstrate the "how" you are mitigating risk will be critical for setting yourself apart from your peers. Internal controls and implementation on contractual risk management, owner and subcontractor prequalification, and financial results, will allow a company to assess its risk appetite proactively and continuously.

- Adopt and implement of technology. Now more than ever, effective and cost-efficient construction technologies are available to help mitigate risk. Wearables, asset management/tracking, water mitigation, fire mitigation, site security, and project management, and other technologies are available to demonstrate to a carrier your commitment to manage risk effectively.

- Alternative risk management strategies will continue to be attractive for construction companies wanting to avoid market volatility in the traditional market procurement process. As we continue to move into a challenging insurance market, companies should continue to assess how a different risk financing plan may meet their current and future needs.

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

HEALTHCARE

Trends to Watch

Healthcare renewals remain in line with the trends and projections noted in this report for each line of coverage, with the following additions:

- **Medical malpractice** — Professional and excess liability carriers that provide medical malpractice coverage are returning to the market and, in many cases, are offering competitive premium rates.
- **Senior care** — Returning professional and excess liability carriers are also offering competitive premium rates to many firms in the senior care industry.
- **Human and social services** — Competitive pricing continues to be available from carriers that target this industry for all coverage lines.
- **Environmental, social and governance (ESG) scores and ratings** — ESG is expected to become a factor in underwriting decisions for medical malpractice.

How USI Can Help

USI supports our clients by taking these and other important steps:

- Advocating on behalf of the 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 expenses.
- Ensuring that the employer's liability limit is adequate for the exposure.

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

PUBLIC ENTITY & HIGHER EDUCATION

Trends to Watch

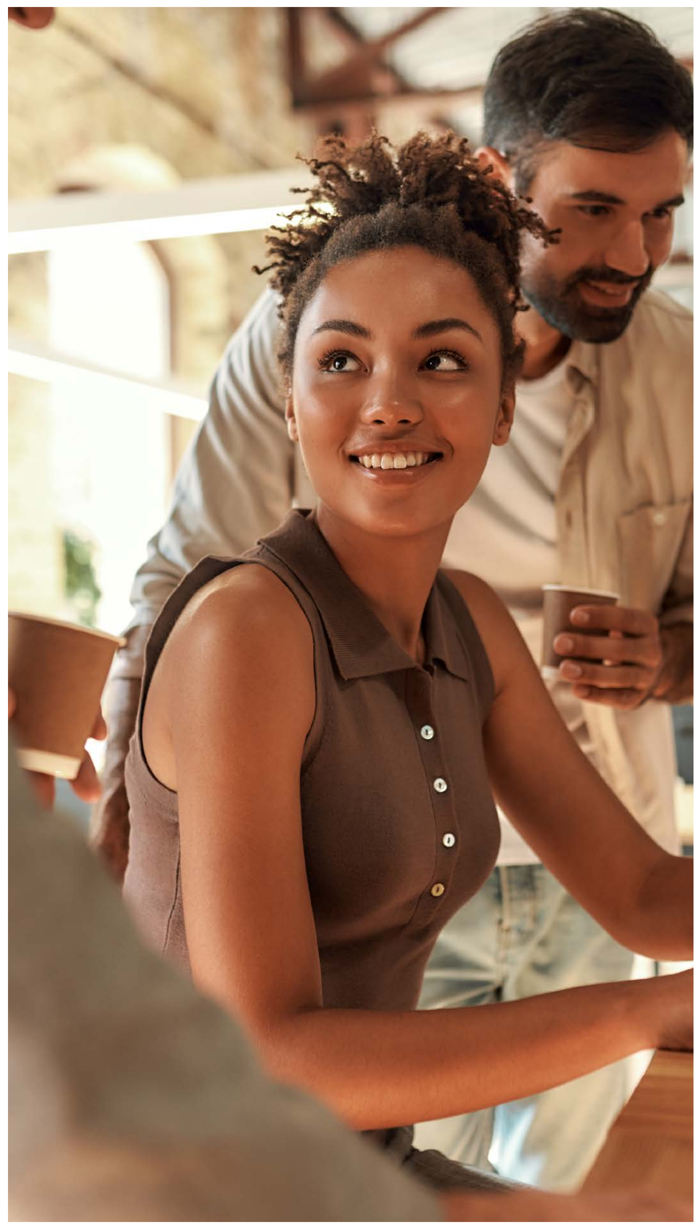
For public entities and educational organizations, trends remain largely unchanged — with some exceptions. In general, we have seen increased competition and new entrants in the cyber market, but the impact has been slow to materialize. In education, there is limited capacity for higher liability limits, especially including abuse or traumatic brain injury (TBI). On the positive side, we have seen more competition on P&C lines for mid-sized and smaller clients. Strong claims performance and data analytics have been integral to maximizing outcomes.

How USI Can Help

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

- Working with clients 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 construction, occupancy, protection, and exposure (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, and 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 offers a broad coverage option for strikes, riots, and civil commotion, and our Answerlytics™ cyber solution bridges the gap between risks and loss prevention.

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



AGRICULTURE

Trends to Watch

Multiple insurance carriers across all P&C lines have been pulling out of the agricultural market over the past 12 months, leaving limited capacity in the domestic marketplace. Some of the domestic markets that continue to write agribusiness accounts will run out of capacity and not be able to take on new accounts later in the year.

The property insurance market has been even more difficult than what was originally anticipated for 2023. We anticipated a 10-20% increase, and it turns out that such a figure is actually the best-case scenario. We have seen a lot of non-renewals on property insurance and increases on some accounts of over 500%. On average, we are seeing premium increases of 25% to 50% on the property lines. We are also seeing carriers requiring clients to take much higher deductibles and, in some cases, putting percentage deductibles on accounts for wind and hail.

How USI Can Help

It has never been more important for agricultural businesses to partner with a broker that will assist them and incorporate robust risk management and maintenance programs into their business practices. USI recommends that clients:

- Have an overall risk management plan for everyone to follow and update.
- Formalize a building maintenance program to ensure that essential work is carried out and future work is budgeted.
- Complete property valuation to ensure that insured values remain accurate following rapid, recent inflation in materials and labor.
- Train employees about the risks to which they are exposed.
- Review claims history and identify avoidable recurring losses.
- Consider different risk financing alternatives for insurance purchases.

With uncertain weather, supply chains depleted by labor shortages, and increasing cybercrime, organizations must focus on mitigating risk. For additional information, contact your USI representative or email us at pcinquiries@usi.com

LIFE SCIENCES

Looking Back: First Half of 2023

With the exception of the following updates, the year-end projections published in our January Market Outlook were on track for the first half of 2023, with no significant industry/market changes.

Recent developments:

- **Cyber risks** – With Section 3305 of the Consolidated Appropriations Act, the Food and Drug Administration (FDA) responded to cyber events that have been impacting healthcare and hospitals around the world. It will be important for manufacturers to know that insurance and indemnification provisions including cyber risk transfer will be front and center. The new cybersecurity guidelines for internet-connected medical devices are intended to prevent hacks and ransomware attacks. New medical device applicants must now submit a plan on how to "monitor, identify, and address" cybersecurity issues and create a process that provides "reasonable assurance" that the device in question is protected. Provisions for regularly scheduled security updates must be submitted as well as disclosures of any open-source software or other programs their devices use.
- **Artificial intelligence (AI) and machine learning (ML)** – Medical devices will continue to be enhanced by AI and machine learning, as investment continues to increase in this rapidly emerging technology. Cardiovascular medicine is particularly affected by this trend, with over 150 transactions since 2020 specifically to develop AI-enabled cardiovascular medical devices, according to Medmarc. Product liability issues will arise if AI provides doctors with medical data that lacks integrity or veracity, or if treatment algorithms are proven to be faulty.

Trends to Watch: Second Half of 2023

- **Supply chains** – Chief Marketing Officers (CMOs) are solving supply chain shortages by working with original equipment manufacturers (OEMs) to "reshore" manufacturing back to the U.S. According to MPO Magazine, for example, a U.S. CMO was able to revalidate a 90-tool manufacturing process that had taken 18 months to complete. This allowed a manufacturing process that was previously in China to be fully replaced in the U.S. A recent survey in MPO Magazine indicated that 80% of executives expect to be reshoring in 2023, compared to 54% last year.
- **Coverage exclusions** – As reported in our January Market Outlook, carriers are now applying microplastics/PFAS (polyfluoroalkyl substances) exclusions.
- **Clinical trials** – Only around 5% of Americans have ever participated in a clinical trial, according to the Health Information National Trends Survey. Enrollment of subjects across racial and gender lines is particularly challenging. This impacts the cost of clinical trials as well as the quality of research and development. Industry groups are calling on the FDA to provide guidance for researchers and sponsors to simplify clinical trials and employ fit-for-purpose protocols as one way to promote the recruitment of trial populations that are racially and ethnically diverse.

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 and professional liability risk profile (high, medium, low) to help underwriters understand therapeutic class, specific product risk factors, and scope of services.
- 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. Disclose countries where future studies are planned, to address coverage requirements early.

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

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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