2023 Commercial Property & Casualty Market Outlook

Forecast Insights From USI National Practice Leaders

THE USI ONE ADVANTAGE®

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As we enter 2023, a changing insurance market continues to impact coverage, premium, deductibles, and many other factors that are essential to your organization. Although the insurance market for some property and casualty (P&C) lines stabilized in 2022, organizations with below-average risk profiles or exposures to loss in certain states or industries faced severe upward rate pressure. In addition to the universal and ever-present need to effectively manage risk, several other challenges are affecting virtually all insureds across all insurance lines.

In late 2022, Hurricane Ian had and will continue to have an extreme effect on the insurance industry with many insurers expected to pay out billions in losses. The impact of Ian, as well as continued severe weather events, supply chain challenges, an increased focused on ESG risks and inflationary pressures will continue to affect market capacity, available coverage and premium costs. These factors reinforce the need for a comprehensive risk management strategy.

In this Market Outlook, we will discuss these challenges as well as the most impactful trends across all insurance lines and industries.

- **Property:** Global insured losses continue to outpace historical averages, with Hurricane Ian shattering the hope for a swift return to a more stable insurance market environment. Challenges will continue in 2023 for insureds with significant exposure to wildfire, named storm, convective storm and flood. Specific issues complicate these risks, which we discuss in depth in the Property section below.
- **General/products liability:** Average rate increases tended to hover in the 10% to 15% range in 2022, but we anticipate a slightly more competitive rate environment in 2023 with increases in the 5% to 10% range, with an expanding number of insureds experiencing flat to 5% increases as the year progresses. Some of this is attributed to insureds assuming more risk through higher deductibles or self-insured retentions (SIRs). However, a good portion is due to rate adequacy being achieved for many insurers, with exceptions for certain classes of business in perceived hazardous industries or insureds with a prior loss history.
- **Auto:** As a result of new capacity and the re-entry of dormant insurers, auto liability rates have stabilized for top-performing risk management. Those operations with adverse risk profiles continue to face challenges with securing affordable coverage. Many policyholders are increasing deductibles or SIRs to drive down costs.
- **Umbrella/excess:** This coverage line continues to be volatile from a rate perspective, with the majority of insurers employing continued underwriting discipline. However, an increasing number of insurers are more willing to negotiate on price rather than walk away from what they believe are unprofitable accounts.
- **Workers' compensation:** This insurance line was strong for insureds in most states during the third and fourth quarters of 2022. The challenges of 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 2023.
- **Cyber:** Three trends are emerging: stabilizing insurance rates, better understanding of cyber policy triggers by insureds, and the exclusion of war and terrorism coverage. To mitigate 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.
- **Directors and officers (D&O):** The overall public company D&O marketplace turned even further toward a true buyer's market in the second half of 2022. A softening market should continue, but much of that depends on the extent of the economic slowdown and the pace of inflation. Overall, we anticipate flat to slight premium decreases for D&O liability placements for most insureds with no significant claims.

Organizations should take advantage of risk control strategies to place their accounts in the best light with insurance carriers, and use all available tools to ensure asset values are in line with industry expectations. Opportunities exist to make positive impacts on insurance costs, coverage and risk quality. Take advantage of the "How USI Can Help" sections in this report to be in the best position to capitalize on insurance market opportunities going forward.

We wish you success and a happy new year!

MARKET UPDATE & RATE FORECAST

Product Line	Year-End 2022 (YOY)	Forecast 2023 (First Half)
PROPERTY		
Non-CAT Property w/Minimal Loss History and Good Risk Quality	Up 5% to 10%	Up 5% to 10%
CAT Property w/Minimal Loss History and Good Risk Quality	Up 15% to 50%	Up 15% to 50%
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 5% to 10%
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 10% to 15%+^
Primary Auto Liability w/Fleets in Excess of 200	Flat to up 5% *^	Flat to up 5% *^
Excess Auto Buffers	Up 40%+	Flat to up 10% ^
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%***	Up 5% to 15%***
Umbrella & Excess Liability (Risk Management)	Up 10% to 25% +***	Up 10% 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%	7.5% to 15%
Environmental Contractors' Pollution	10% reduction to inflationary increase	10% reduction to inflationary increase
Environmental Pollution Legal Liability	Flat to 5% increase	Flat to 5% increase

Product Line	Year-End 2022 (YOY)	Forecast 2023 (First Half)
AVIATION		
Aviation	Up 10% to 20%	Up 10% to 20%
EXECUTIVE & PROFESSIONAL RISK (EPS)		
Public Company Directors & Officers (D&O) Primary Side ABC	Primary: Flat to down 10%	Primary: Flat to down 5%
Public Company Directors & Officers – Excess Side ABC and Side A DIC (Difference in Conditions)	Excess: Down 5% to down 20%	Excess: Flat to down 15%
Public Company Directors & Officers – Total	Total: Flat to down 20%	Total: Flat to down 10%
Private Company and Not-For-Profit (NFP) Directors & Officers	Down 10% to up 10%	Down 7.5% to up 7.5%
Employment Practices Liability (EPL)	Flat to up 10%	Down 5% to up 15%
Fiduciary	Flat to up 50%	Flat to up 50%
Crime	Down 5% to up 10%	Down 5% to up 10%
Professional Liability/Errors & Omissions (E&O)	Up 5% to up 30%	Up 5% to up 30%
Network Security & Privacy (Cyber)	20%+ for optimal risks; 100%+ for less optimal/ challenged risks	20%+ for optimal risks; 100%+ for less optimal/ challenged risks
Technology E&O	35%+ for optimal risks; 100%+ for less optimal/ challenged risks	35%+ for optimal risks; 100%+ for less optimal/ challenged risks
Representations & Warranties	Down 10-20%	Down 10% or up 5%
Kidnap & Ransom	Down 5% to up 5%	Down 5% to up 5%

*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	Year-End 2022	Forecast 2023 (First Half)
Non-CAT Property w/ Minimal Loss History and Good Risk Quality	Up 5% to 10%	Up 5% to 10%
CAT Property w/Minimal Loss History and Good Risk Quality	Up 15% to 50%	Up 15% to 50%
CAT or Non-CAT Property w/Poor Loss History or Poor Risk Quality	Up 25% to 150%	Up 25% to 150%

*Higher end of range reserved for those risks with high concentrations in critical CAT zones, insureds facing non-renewal by incumbent insurers, unresolved risk quality issues or large unsettled claims.

View our [Historical Rate Index charts]

Highlights/Changes Since Second Quarter 2022

After three years of a firming market with increased deductibles, valuation adjustments, reductions in capacity and consecutive rate increases, the collective property market was looking forward to some stabilization in the second half of 2023 or early 2024. However, global insured losses continue to outpace historical averages,[1] with Hurricanes Ian and Nicole shattering the hope for a return to a more stable market environment in the near future. Loss estimates for Hurricane Ian are projected to fall between $41 billion and $70 billion for this one event, including $10 billion to $17 billion in uninsured losses,[2] with Hurricane Nicole adding nearly another $2 billion in losses.[3]

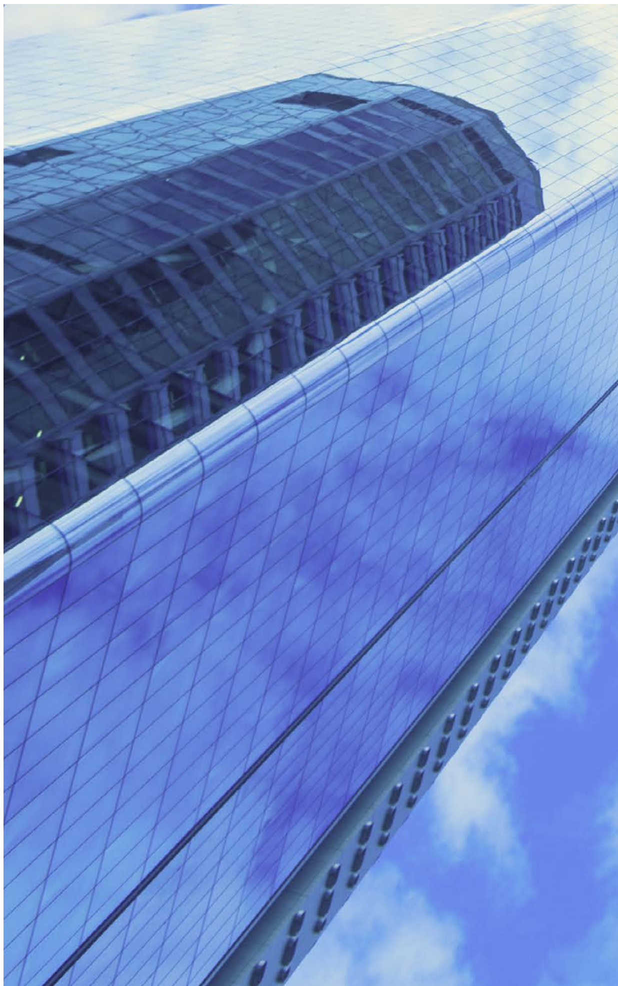
Insurers are grappling with the decreased supply of and increased demand for reinsurance, with global dedicated reinsurance capacity reduced by over $40 billion[4] in the past year alone. With minimal new meaningful capacity entering the market from either the insurance or reinsurance side, insurers entrenched within strict underwriting guidelines, and continued scrutiny on underwriting data provided, 2023 may prove to be the most difficult property renewal season yet.

Anticipated Market Trends for 2023

Challenges will continue in 2023 for risks with significant exposure to wildfire, named storm, convective storm and flood. Certain occupancies like food, habitational, wood products, recycling and frame builder's risk projects will continue to face pressure to improve risk quality while experiencing rate increases, limited capacity and increased deductibles.

Reinsurance treaty renewals on January 1, 2023, are expected to finalize at rate increases of 20% or more with a limited supply available due to losses, increased exposure basis from raw material costs and supply-chain disruptions along with increased demand from insurers. Renewals effective in the second half of 2023 may experience limited supply of necessary capacity from their incumbents as portfolio catastrophic event (CAT) aggregates are depleted with little to no opportunity to replace it. Insureds will continue to face difficult decisions balancing risk tolerance, third-party insurance requirements and budgetary restrictions.

As these challenges continue, there are some additional trends starting to impact insureds across the spectrum, regardless of occupancy or risk profile. These trends are identified below with strategies to address and mitigate their impact.



1. Increased Deductibles and Limitations for Water Damage

Water damage claims from failed plumbing, HVAC equipment, sprinkler systems or appliances are increasing in both frequency and severity. Frozen pipes bursting, failed connections or supply lines, sprinkler system leakage or accidental impact are just some of the causes behind the increasing claims property insurers are experiencing. Winter storm Uri in 2021 in Texas resulted in over 500,000 water damage claims alone, totaling over $15 billion in insured losses, caused by broken pipes following freezing temperatures and loss of utilities. High rise buildings, multifamily buildings, hotels, healthcare facilities, vacant buildings and new construction projects are highly susceptible to severe water damage losses.

Insurers have started to take action to protect their balance sheets, including adding protective safeguards for heat maintenance or vacant buildings, using policy forms or endorsements with built-in exclusions or limitations for water leaks or increasing deductibles higher than the all other perils deductible, often $100,000 or more per occurrence. Some insurers are refusing to quote without water mitigation plans in place and therefore are affecting the available capacity for programs, most commonly seen on builder's risk projects. As this trend continues to evolve, insureds are facing the reality of non-compliance with third-party insurance requirements from lenders or landlords.

Risk Control, Technology, Water Management Plans and Deductible Buy-Downs

Water damage losses can be mitigated using loss control inspections, preventative maintenance programs, installation of low-cost technology such as water flow sensors or automatic shut-off valves, an emergency response plan and quick response from local restoration companies. Your risk control team can help identify the most vulnerable equipment, develop a best-in-class preventative maintenance program, perform a cost-benefit analysis on the available technologies and implement an aggressive response plan including preferred vendors that can assist when losses do occur. In addition, deductible buy-down products can be implemented to address the gap between the required deductible from third parties and the deductible available in the market.

2. Terrorism, Sabotage and Political Violence Market Tightening

Recent events around the world have insureds taking a second look at products designed to protect their assets and income streams from losses that are typically excluded from property policies. Whether it be the war in Ukraine, the riots in major cities across the U.S. in 2021, the Nashville bombing in December 2020, or the frequency of mass shootings, these events are creating an increased demand for customizable products to respond to multiple perils far beyond the scope of traditional property insurance.

Given the expanded coverage offered by these products covering a wide array of perils, insurers are being impacted by frequent losses which are beginning to affect pricing and available capacity. Insurers are reducing current capacity, increasing deductibles, increasing rates or exiting the space altogether. Recent guidance suggests some programs may see up to a 20% rate increase on renewals after the January 1, 2023, reinsurance treaties are finalized. Certain soft-target occupancies like stadiums, hotels, places of worship, shopping malls and municipal buildings will be negatively impacted as the rate and capacity pressure mounts.

Product Alignment, Event Modeling, Coverage Design, Risk Control

As the products and threats evolve, it is important to understand which product is best-suited for the coverage desired. The variables in forms, definitions, exclusions and coverage options need to be carefully considered to address the need presented. Some of these policies, like USI's proprietary crises management program called ThreatSafe, combine a number of risks and coverages into one program covering property damage, business interruption and expenses related to these events. Numerous coverage extensions are available, including, but not limited to: active assailant; loss of attraction; loss of business income due to a threat or hoax; terrorism liability; riot/strike/civil commotion; chemical/biological/nuclear/radiological coverage; workplace violence, including stalking threat or crisis prevention and response coverage.

Once the correct product is identified, an analysis should be conducted to determine exposure to loss from a single event. For instance, terrorism modeling can be completed to identify high-risk targets within a specific radius of insured locations providing loss estimates based on certain scenarios. Coverage can be designed around these scenarios to optimize the insurance spend where the vulnerabilities exist. The last step is to engage your risk control team to provide guidance on those vulnerabilities and employ best practices to mitigate or prevent losses from happening. Many insurers providing these products offer on-site assessments to evaluate threats and make recommendations for protection, procedures or employee training.

3. Market Scrutiny on All Valuations, Not Just Building Valuations

As we enter the third year of adjustments to building valuations to account for increased material costs, supply chain disruptions, labor shortages and lessons learned from industry losses, insurers have started to question the adequacy of business personal property, machinery and equipment and business income valuations. Some insurers are requiring appraisals on such property as a subjectivity to quoting renewals while others are using various software or benchmarks to determine if reported values are within expected ranges.

Requests for Business Income worksheets have increased to substantiate the values reported, with various restrictions such as scheduled limits, monthly limit of indemnity, co-insurance or occurrence limit of liability being placed on policies if not provided. Although some insurers are further along than others, insureds need to prepare for the inevitable reality of increased scrutiny around valuations.

Valuation Software, Benchmarking, Third-Party Valuation Services, Alternative Loss Settlement Options

As the scrutiny on valuations continues, it is important to utilize the tools and resources available to assist with establishing an appropriate baseline for your property valuations. Various software platforms are used by the insurers to evaluate the expected replacement cost by building at each location. As many of these systems use assumptions on building data, construction quality and other factors, it is critical to make sure the assumed characteristics are representative of the building in question, so the correct replacement cost is calculated.

Other platforms or industry benchmarking can help evaluate the adequacy of contents, machinery or business income valuations. If the previous options are not available, then engaging with a third-party appraisal firm would be recommended. Other actions may include discussions regarding alternative loss settlement options like actual cash value, functional replacement cost or stated value when appropriate.

4. Risk Quality Is Paramount in Underwriting Decisions and Available Capacity

As insurers rebalance their books to shed poor-performing accounts and improve profitability, one key measure they are evaluating is risk quality. Accounts with numerous outstanding loss control recommendations, unaddressed hazards and lack of engagement in loss prevention are experiencing the most severe reductions in capacity and increases in pricing. Many of these programs end up paying multiples of current premiums if incumbent insurers decide they are no longer willing to tolerate the risks present.

Human element recommendations, which are those typically requiring no to minimal cost to complete, must be reduced or insurers will start taking negative actions on the upcoming renewal. Physical recommendations that are high priority are also prompting insurers to reconsider capacity and terms provided, often resulting in reduced capacity, increased deductibles, increased pricing or vacating programs completely.

Risk Control, Risk Improvement Narrative, Insurer Alignment

Working with risk control to identify, track and prioritize loss control recommendations is the first step in formulating a plan to improve risk quality. A cost-benefit analysis can be performed identifying where valuable risk improvement dollars should be spent while tracking human element recommendations through completion. The process improves risk quality while also demonstrating to the insurers a genuine interest in loss prevention or mitigation. Summarize any corrective actions taken, especially following a loss, then include these actions within the submission to the markets.

Risks that are taking steps to mitigate losses will be viewed more favorably than those with limited progress on recommendations. It is important to identify and align the risk with the appropriate insurer based on risk profile and types of outstanding recommendations. Some insurers may seek specific conformity to recommendations made while others will consider alternative methods for completion. For instance, one insurer may require a retrofitting of the sprinkler system whereas another may be agreeable to rearrangement of how inventory is stored to comply with the same recommendation.

Other insurers are offering premium credits for completion of certain recommendations or offering "resiliency" premium credits, assisting insureds with improving the building envelope or installing mitigation equipment like flood protection devices for locations affected by rising sea levels.

5. Lender Requirements Becoming More Expansive and Detailed

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.

Contract Review, CAT Modeling, Deductible Buy-Downs, Risk Control

As lenders become more stringent and expansive in their expectations for insurance requirements, it is critical to understand their expectations and the viability of obtaining those items under current market conditions. Review your insurance requirements to confirm alignment and identify those terms which could be unrealistic or cost-prohibitive. Use catastrophe modeling and exposure analysis tools to evaluate the probability of loss for various perils for a specific location or group of locations. Once armed with this scientific and actuarial analysis, engage in discussions with the lenders around those requirements with the goal of improving the required terms.

Should the deductible requirements remain unchanged and the terms not be available from the current insurer, implement a deductible buy-down program to help fill the gap between market terms and lender requirements. Lastly, engage with risk control to help mitigate physical damage or business interruption claims, lowering the likelihood of a worst-case scenario loss that would breach the agreed limits.

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[1] Insurance Journal
[2] PropertyCasualty 360
[3] Insurance Journal
[4] Business Insurance Magazine
[5] Texas Department of Insurance
[6] Reuters

How USI Can Help

As we enter another year of dwindling capacity, rate increases, increased retentions and insurer's focus on risk quality, insureds must be able to differentiate themselves in the market to mitigate its 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	Year-End 2022	Forecast 2023 (First Half)
Primary General/Product Liability	Up 10% to 15%	Up 5% to 10%
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 10% to 15%+^
Primary Auto Liability w/ Fleets in Excess of 200	Flat to up 5% *^	Flat to up 5% *^
Excess Auto Buffers	Up 40%+	Flat to up 10% ^
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%***	Up 5% to 15%***
Umbrella & Excess Liability (Risk Management)	Up 10% to 25% +***	Up 10% to 15% +***

* 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

Highlights/Changes Since Second Quarter 2022

General/Products Liability and Umbrella/Excess Liability

Although not as acute as in prior years, the third and fourth quarters of 2022 were again characterized by rate increases for more insureds relative to those who experienced flat renewals or rate decreases for both general/products liability (GL/PL) and umbrella/excess liability.

General/Products Liability

Average rate increases tended to hover in the 10% to 15% range, but an increasing number of insureds experienced increases lower than this range and in some cases flat rate renewals. Insureds with poor loss experience and/or in industries considered to be more hazardous from a loss perspective experienced 10% to 25% higher rate increases.

Umbrella/Excess Liability

Umbrella/excess insurance continues to be a very volatile coverage line from a rate perspective with continued underwriting discipline being employed by most insurers. Although they are still requiring higher rates on line, the increase in these rates has decelerated quarter over quarter as a result of rate adequacy and profitability being achieved for an increasing number of insurers, moderately more competition for new business for more insureds, and the packaging of more lines of business within an insurance company.

However, the pace of this deceleration remains stubbornly tepid, as competition for new business has been much slower to materialize than we expected. Continued underwriting discipline, selective deployment of capital, and pressure on rate adequacy have prevailed longer than anticipated. This can be partly attributed to current global economic market uncertainties and the continuation of legal financing trends of a well-financed plaintiff bar and subsequent large settlements and jury verdicts.

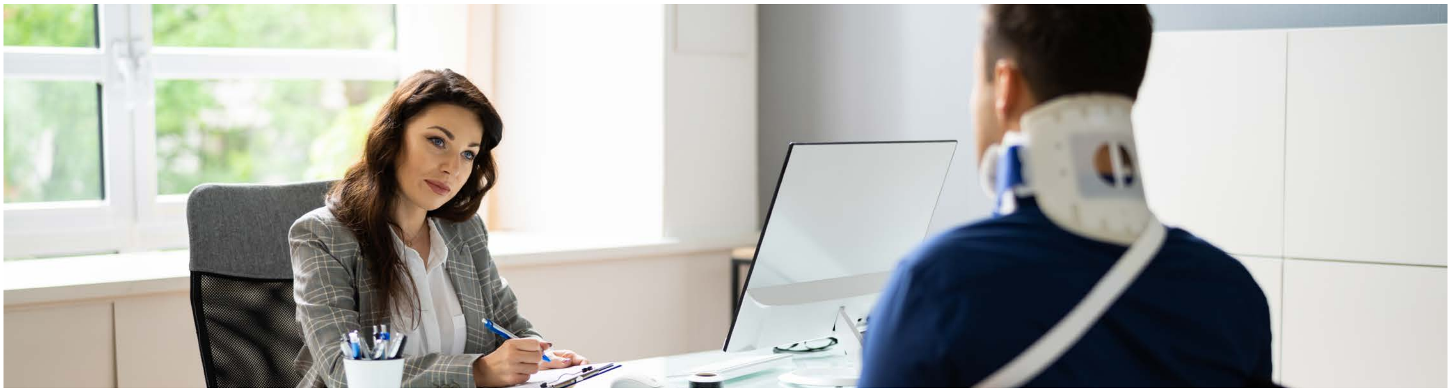
On a positive note, an increasing number of carriers are willing to negotiate on price rather than walk away from what they believe are unprofitable accounts. These carriers have also been increasing their capacity per individual insured. In prior years, average capacity was reduced to $10 million or $15 million at most, but now some carriers are beginning to deploy $25 million or more in capacity for select accounts. These higher limits typically come with decreases in cost on a price-per-million basis.

Middle-market accounts that purchase $50 million or less in limits have experienced a fair percentage of flat renewals for more desirable classes of business in certain industries or with historically low losses. For larger accounts that purchased $50 million or more, filling out towers with required capacity and reasonable pricing has been easier than in prior years. This is mostly a result of new market competition, but pricing remains elevated in the higher ends of the excess towers.

Workers' Compensation

Although we are beginning to see challenges in the form of rising medical costs and other concerns mentioned below, workers' compensation continued to perform well for most insureds in most states for the third and fourth quarters of 2022. Rates for both guaranteed cost and loss sensitive deductible programs have remained relatively stable overall, with rates in most states declining.

To date, the impact of presumptive liability for COVID-19 claims in many states has not been nearly as major of a concern as was expected in 2020, and reserve redundancies continue to climb and now exceed $15 billion as of year-end 2021. As a result, the combined ratio for workers' compensation should come in at or slightly below



90% for 2022, but emerging concerns like rising medical costs and other issues discussed in the next section will likely call rate adequacy into question, and we may begin to see more rate stabilization and possibly rate increases in certain states.

Automobile Liability

- **Capacity.** As a result of new capacity and the re-entry of dormant insurers, auto liability rates have stabilized for top-performing risks. In some circumstances, those "premier risk" policyholders have been able to achieve YOY decreases as a result of insurers competing for preferred business. Capacity continues to be cautiously deployed and underwriters are heavily scrutinizing submissions. Those operations with adverse risk profiles continue to face challenges with securing affordable coverage.
- **Large claims.** Nuclear verdicts, especially those in the heavy vehicle sector, continue to present challenges for auto liability insurers.
- **Insurance industry stability.** While premium increases have generally leveled out, loss costs have increased significantly – namely, higher expense related to repairing/replacing damaged vehicles, medical inflation, and continued legal environment challenges.
- **Risk retention.** Much like umbrella and excess casualty, many policyholders are increasing deductibles or self-insured retentions to further drive down costs.

Anticipated Market Trends for 2023

General/Products Liability and Umbrella/Excess Liability

The market is now approaching its fifth year of consistent double-digit rate increases for GL/products and umbrella/excess liability. While this has created a moderately profitable environment for most casualty insurers, underwriting discipline persists to the point where what was expected to be more aggressive competition for a broader array of accounts has not materialized as quickly as expected. Both social and economic inflationary factors have caused insurers to remain more conservative in their pricing models and prolong an environment of rate increases — albeit slowing for more insureds than not.

General/Products Liability

For 2023, we expect general and products liability rate increases to be less severe than other casualty lines. Some of this is attributed to insureds assuming more risk through higher deductibles or SIRs, but a good portion is due to rate adequacy being achieved for many insurers, with exceptions for certain classes of business in perceived hazardous industries or risks with a prior loss history. We anticipate a slightly more competitive rate environment in 2023 with increases between 5% and 10%, and an expanding number of insureds experiencing flat to 5% increases as the year progresses.

Umbrella/Excess Liability

Umbrella/excess liability will be characterized by sufficient market capacity for both middle-market and larger organizations with risk managers. Competition for new business will increase during the year, but not at the pace required to result in flat-to-low-single-digit rate increases for a greater number of insureds. This will be especially true for capacity in the lead umbrella and first excess layers. We will continue to see an increasing number of 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.

Overall, we are seeing an increasing number of carriers 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.

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 between 5% and 10%. Insureds that purchase greater than $50 million in limits will face higher average rate increases ranging from 10% to 15%. 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.

The need for 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.

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 are experiencing flat renewals or rate reductions until early-to-mid-2024. Relative to the market of two to three years ago, the current market and the market of 2023 is far better, after years of dramatic high-double-digit costly rate increases.

Workers' Compensation

Although there is a significant amount of reserve redundancies in workers' compensation and competition for premium dollars, the challenges of 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 2023.

For guaranteed cost buyers, we anticipate an overall competitive premium environment, but with less aggressive rate reductions than prior years of 5% in well-performing states. In more challenging states, we expect to see 5% to 10% increases depending on the state and classification of business. As a consequence, the need to perform a cost-benefit analysis of loss sensitive program structures, in which the insured assumes a portion of the risk themselves, should be evaluated thoroughly.

For insured on loss sensitive programs, we expect flat to 5% renewals for the majority of those with good loss history. For insureds who have experienced greater loss severity historically, rate increases of 5% to 10% can be expected; however, we will see many of these insureds move to higher deductible/retention levels to offset rate increases at existing deductible/retention levels.

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 its own and instead looking to package them together.

Automobile Liability

As a result of increased loss costs, performance in the commercial auto segment may be unstable in 2023 and beyond. As the rate chart shows, for fleets less than 200 we expect primary auto liability premiums in the first half of 2023 to increase 10% to 15% YOY with a poor loss history and remain flat or increase 5% with a good loss history. For fleets in excess of 200, we expect rates to remain flat or increase between 0-5%.

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.

Environmental, Social and Governance (ESG) Concerns

For all casualty lines of business, many carriers are increasingly adopting underwriting standards that address ESG concerns. Insurance companies are becoming increasingly aware of the importance of addressing ESG issues in their underwriting standards. More insurers will cease underwriting for certain industries or individual insureds exhibiting poor product safety and quality that negatively impacts customer health or climate change, causes environmental degradation, or has other risks that carry a negative social perception. Insurers will seek to develop products that have a more positive impact on ESG issues and encourage better risk management.

How USI Can Help

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.

Preparing early, communicating often and implementing a well-thought-out plan of action that includes innovative and practical alternatives is key in today's market. USI recommends to:

- 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.
  - 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.
- Develop a quality underwriting submission and differentiate the quality of the risk profile, so it will stand out.
  - 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 now more important than ever. Insureds should clearly describe the qualities of their risk in their carrier submissions. Risk quality comes in several forms, including loss control/safety, contractual risk management, risk mitigation, capital expenditures, and willingness to engage risk control and overall risk management philosophy.
- Use data analytics to evaluate risk financing alternatives.
- Analyze the cost-benefit of program structural changes:
  - Perform a cost-benefit of assuming higher retention levels for buyers of guaranteed cost or low deductible insurance programs.
  - Include defense costs in the limit of liability where feasible.
  - Aggregate all coverage lines, including those that are traditionally not aggregated, such as automobile liability.
  - Amend umbrella/excess aggregate drop-down provisions.
  - Have the insured or their 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.
  - Changing the policy trigger from "Occurrence" to "Claims Made" or "Occurrence Reported."

How USI Can Help

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.
- Ensure accurate payroll by classification codes.
- Ensure experience modification factors are calculated properly.
- Manage claims.

- 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.
- Be well-versed in the pros and cons of a loss sensitive deductible program structure.
- 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.
- Clients should re-evaluate the effectiveness of pre-loss safety and post-loss claims handling mitigation efforts, and dialogue with their broker and insurer partners to ensure they are achieving optimal results from both initiatives.
- Work with your broker to leverage proper loss and financial analytics to determine your capacity to assume risk at various retention levels.
- Revaluate applicable collateral alternatives, premium levels at various retentions and loss allocation methodologies.
- Assess the current and future utilization of independent contractors to determine impact on workers' compensation costs and losses.

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 a cashflow, retention level, cost, and collateral perspectives.
- Evaluate existing or assist in the development of driver qualification criteria
- Identify negative trends in regulatory violations or claims, and develop corrective action plan to reduce likelihood of occurrence
- Prepare early for renewal, developing a plan of action, and dialoguing 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.
- Determine 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.

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

INTERNATIONAL

Product Line	Year-End 2022	Forecast 2023 (First Half)
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

Highlights/Changes Since Second Quarter 2022

Since the publication of USI's 2022 Commercial P&C Market Outlook Mid-Year Addendum, the insurance market has seen increased rates and coverage restrictions.

Primary Foreign Casualty

Throughout 2022, we saw rates steadily increase — from +5% for liability and +15% for auto liability, to +10% for liability and +20% for auto liability as of fourth quarter 2022.

Carriers are still looking for new business, but they are not necessarily willing to compete on rate alone. Cost of treaty reinsurance, attritional losses and high-hazard risks continue to push premium increases.

Primary Foreign Property

Prior to Hurricane Ian, the property markets were already beginning to see rate increases of 10% to 15%. Increases were driven by treaty renewals and the impact of windstorm losses, wildfires in California and Australia, and severe flooding in parts of Australia, Europe and the U.S.

Because of the cost of reinsurance treaties, there is now additional pressure on underwriters to make sure their underwriting decisions and risk selections are profitable. As a result, it's critically important that insureds provide thorough exposure and loss prevention information in their submissions.

Anticipated Market Trends for 2023

Primary Foreign Casualty

After two years of rate increases, markets are willing to maintain rate on accounts with good loss history. Those with frequent or severe loss history should continue to expect rate increases consistent with the rest of the marketplace.

Primary Foreign Property

With catastrophic event (CAT) losses increasing around the world, 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 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, COVID-19 safety protocols and construction, occupancy, protection and exposure (COPE) data on international locations.
- 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.
- Engaging continually 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.
- Continually tracking international total cost of risk (TCOR), which allows clients to manage their TCOR on a global and local basis.

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

ENVIRONMENTAL

Product Line	Year-End 2022	Forecast 2023 (First Half)
Environmental Combined General Liability/Pollution	5% to 15%	5% to 15%
Excess Combined General Liability/Pollution	7.5% to 15%	7.5% to 15%
Environmental Contractors' Pollution	10% reduction to inflationary increase	10% reduction to inflationary increase
Environmental Pollution Legal Liability	Flat to 5% increase	Flat to 5% increase

View our Historical Rate Index charts

Highlights/Changes Since Second Quarter 2022

The environmental insurance market is in line with the projections noted in USI's 2022 Commercial P&C Market Outlook Mid-Year Addendum.

Anticipated Market Trends for 2023

We are anticipating challenging economic times in 2023 due to high inflation and high interest rates, after two years of extraordinary growth for environmental business, particularly from merger and acquisition activity and real estate transactions. There continues to be an upward trend in claim volume and severity, with social inflation adding to increasing claim costs. We anticipate rates will remain fairly stable or fall slightly if we enter into a recession. Slower growth will generate competition for the best risks.

Insurers will be more focused on environmental, social and governance (ESG) risks and companies that have strategies in place to move towards net-zero carbon emissions. To date, insurers have been punitive toward the fossil fuel sector by exiting this business. The question is whether companies will be more innovative and offer solutions for climate risk mitigation, and if insurers will reward companies that excel in this area.

PFAS Coverage

Coverage for per-and polyfluoroalkyl substances (PFAS) will only get more difficult in 2023 even for the best risks. Already a few insurers who have been thoughtful about this coverage are retrenching or imposing a moratorium on offering any PFAS coverage in challenging jurisdictions such as New Jersey. The continuing litigation against the manufacturers, their supply chain and those who used the products will elevate this risk. Additionally, if the Environmental Protection Agency (EPA) classifies PFAS as a "hazardous substance" and creates Comprehensive Environmental Response, Compensation, and Liability Act liability for this substance, it will result in far-reaching liability for many companies.

Claims related to PFAS 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.

We project the upward trend of environmental claim severity and frequency will continue into 2023 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 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."[1] 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.[2]

— 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.

Insurers will need to pivot in 2023 to develop climate risk mitigation tools and solutions for growth opportunities..

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.

Overall Marketplace Trends

- 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.
- Top emerging or environmental litigation is around PFAS, Benzene, Roundup, 1-4 Dioxane and Ethylene Oxide.

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

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

AVIATION

Product Line	Year-End 2022	Forecast 2023 (First Half)
Aviation	Up 10% to 20%	Up 10% to 20%

View our Historical Rate Index charts

Highlights/Changes Since Second Quarter 2022

The aviation insurance market in the U.S. was relatively stable in 2022 after a prolonged hard market that began in 2018. This has brought a level of predictability to many aviation insurance buyers that have experienced significant rate increases and additional underwriting scrutiny since the hard market began.

During 2022, most buyers experienced moderate rate increases partially offset by a new carrier that entered the aviation insurance marketplace. The new carrier has brought some much-needed capacity to the sector and is helping to create a more competitive environment among underwriting companies.

Anticipated Market Trends for 2023

In the first half of 2023, the moderating rate curve is expected to continue for many segments of the aviation industry. Even though the rate environment appears to be stabilizing, underwriting standards remain high across the industry, and underwriters are consistently seeking rate increases on most renewal accounts.

While the domestic U.S. aviation insurance market has been stabilizing and capacity is returning, there are some significant challenges developing in the greater global aviation insurance and reinsurance market, driven by a combination of factors:

- The Russian confiscation of more than 500 airliners owned or leased outside of Russia has led to billions of dollars of claims being submitted from aircraft-leasing companies to aviation insurers. The potential claims exposure is estimated to be in the range of $9 billion to $15 billion. It is unclear at this stage whether aviation insurers will have to pay all these claims or how long it may take for some to be paid. If these claims are ultimately paid by the aviation insurance industry, it would be the highest loss event in the history of aviation insurance, eclipsing the losses paid following the 9/11 tragedy. Potentially, these claims could have a staggering impact on the aviation insurance and reinsurance market around the world. U.S. aviation insurance buyers should be aware of the negative impact these claims may bring during 2023.
- Aviation claims for physical-damage (i.e., damage to hulls) costs are soaring due to inflation, lack of spare parts availability, labor shortages and significantly increased repair times. The costs and time needed to repair even minor attritional physical-damage claims have increased dramatically since 2020. This will add to an increasing rate environment, as underwriters seek to adjust the pricing needed to pay for physical damage claims in the current economic climate.
- The war in Ukraine and instability in Europe has had a significant impact on war underwriting facilities and war coverage providers. USI is seeing this segment of the aviation insurance market changing faster than any other segment. Significant rate increases are expected for aviation buyers that carry higher limits for war liability. Excess war coverage purchased by airports and international aircraft operators is under the most pressure; rates will likely increase by 25% or more in 2023.
- In recent years, aviation liability claims costs have continued to soar as plaintiffs seek policy-limit settlements and juries award outrageously high judgements to parties who have been injured in aviation accidents. This was evidenced by a 2022 jury award of $352 million dollars for an aviation ground handler who was injured while marshaling a United Airlines aircraft in Texas.

Here is a closer look at how some segments of aviation may be impacted by market conditions in the first half of 2023:

General Aviation

- Pilot age is being closely scrutinized, and older pilots may have trouble finding coverage. Additional strategy is needed for pilots over 65 years old on many general aviation placements.

- Average premium increases are expected to be between 10% to 20%.
- Aviation insurance carriers are seeking to reduce their participation on fleets or accounts with higher exposure. Most U.S. carriers are adopting a quota-share approach to many renewals.
- Aircraft operators that operate internationally should expect additional scrutiny in the countries in which they are operating.
- Aircraft operators that purchase higher war limits will see significant rate increases of 25% or more.

Manufacturers' Product Liability

- There is abundant capacity for noncritical aviation products liability manufacturers.
- Manufacturers with higher criticality products or poor loss history will continue to be under pressure to find competitive pricing and adequate capacity.
- Average premium increases are expected to be between 10% to 20%.

Airport and Municipality Coverage

- Expect potential rate increases of 10% or more, with some supplementary coverages being reduced.
- Airports that carry high limits of war liability should expect to see a rate increase of 20% or more for the war lines

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 processes 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 10%	Primary: Flat to down 5%
Public Company Directors & Officers – Excess Side ABC and Side A DIC (Difference in Conditions)	Excess: Down 5% to down 20%	Excess: Flat to down 15%
Public Company Directors & Officers – Total	Total: Flat to down 20%	Total: Flat to down 10%
Private Company and Not-For-Profit (NFP) Directors & Officers	Down 10% to up 10%	Down 7.5% to up 7.5%
Employment Practices Liability (EPL)	Flat to up 10%	Down 5% to up 15%
Fiduciary	Flat to up 50%	Flat to up 50%
Crime	Down 5% to up 10%	Down 5% to up 10%
Professional Liability/ Errors & Omissions	Up 5% to up 30%	Up 5% to up 30%
Network Security & Privacy (Cyber)	20%+ for optimal risks; 100%+ for less optimal/ challenged risks	20%+ for optimal risks; 100%+ for less optimal/ challenged risks
Technology Errors & Omissions	35%+ for optimal risks; 100%+ for less optimal/ challenged risks	35%+ for optimal risks; 100%+ for less optimal/ challenged risks
Representations & Warranties	Down 10-20%	Down 10% or up 5%
Kidnap & Ransom	Down 5% to up 5%	Down 5% to up 5%

View our Historical Rate Index charts

Highlights/Changes Since Second Quarter 2022

Public Company Directors & Officers (D&O)

These conditions created a very competitive marketplace:

- A continued stabilization (even a slight annual decrease) in federal securities class actions.
- New capacity targeting excess layers of coverage.
- Insures became more aggressive in the face of premium budget shortfalls (compared to record 2021 premium levels).

Decreases are being seen on primary layers, excess and Side A difference-in-conditions layers. Even the renewals of initial public offerings (IPOs) policies, including special-purpose acquisition company (SPAC) IPOs, have seen significant premium and retention decreases. However, other retention levels (Sides B and C) have generally stayed the same. Exceptions exist for financially distressed and/or claims-impacted companies, as they will not have as many insurers interested in underwriting their risk.

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

The private company/NFP D&O marketplace continued to moderate, with many renewals falling within a range of slight decreases to slight increases. Small to middle-market private companies were targeted by more insurers in the second half of 2022 — both legacy insurers and newer entrants.

Companies with challenging risk profiles, however, continued to experience material premium and retention increases. The largest privately held companies saw more focused underwriting on board involvement in risk management, and more questions about ESG commitment and progress. Challenging risk profiles included:

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

Claims reported or recent losses.

Anticipated Market Trends for 2023

Public Company Directors & Officers (D&O)

A softening market should continue, but much of that depends on the extent of the economic slowdown and the pace of inflation. Any pronounced stock market correction and/or any increase in the frequency or severity of bankruptcies could firm the marketplace. Another issue that could impact the public D&O marketplace is the increasing activity of the U.S. Securities and Exchange Commission regarding disclosures of cyber breach resilience and environmental, social and governance (ESG) efforts (including climate change). Questions from underwriters regarding a company's commitment to sustainability and social issues like diversity, equity and inclusion continue to be standard.

Overall, we anticipate flat to slight premium decreases for D&O liability placements for most insureds with no significant claims. Retention levels and other coverage terms should also remain stable, and the opportunity to expand and improve policy language should present itself. At least one leading D&O insurer has introduced a new policy form that incorporates many expansions of coverage secured over the past 10 years. Industries and organizations with the most concerning risk profiles — cryptocurrency, biotechnology, life sciences, general healthcare and technology, cannabis, and those that have had significant D&O claims activity in the past five years — will have a more limited group of interested insurers. This will lead to relatively less favorable results. All companies should continue to market their D&O programs, especially the excess layers, to obtain optimal premium results.

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

Competition should make renewals less painful for insureds compared to 2022. Flat pricing to slight decreases are likely for self-insured retentions (SIRs), but potential macroeconomic impacts, such as an extended economic slowdown, may cause the market to rapidly shift. Inquiries about ESG commitments and cybersecurity engagement, regulatory exposure and supply chain risks will also be a part of the underwriting process for more organizations. Finally, companies with significant claims and/or meaningful M&A activity may still face baseline premium and retention increases.

How USI Can Help

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

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

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 underwriting risk strengths and weaknesses.
- Set realistic expectations based on individual company risk profiles — and help to communicate them.
- Assist in identifying and preparing directors and officers for underwriting questions on issues such as ESG amendments and implementation, cyber resiliency, and financial flexibility in times of distress.
- Perform a benchmarking analysis to seek an optimal D&O program structure.
- Evaluate captive solutions or large SIR options, where appropriate.
- Market all layers and access multiple insurer channels.
- Negotiate with primary insurer options, including multiple limit, coverage and retention options.
- Analyze the historic claims-paying performance of current and prospective D&O insurers, especially primary insurers.

Highlights/Changes Since Second Half 2022

Employment Practices Liability (EPL)

Buyers with good claims histories and no major changes in exposure (e.g., an acquisition, an increase in California employees or a large layoff) saw moderate premium increases. Insurers were competitive if the insured's business conditions were improving, an effective post-pandemic return-to-work transition plan existed, and employment policies were keeping up with newer areas of exposure (e.g., gender identity discrimination, medical marijuana use, and claims regarding social media use). Pressure and incentives to increase EPL retentions were commonplace, especially for California, an expanding roster of other "challenging" states, and for high-compensation exposures.

Employment-related social issues like discrimination, harassment, gig-worker classification and gender-pay disparities continued to worry insurers. States like California, Illinois, New York, New Jersey, and Florida remained more problematic for insurers because of their employee-friendly regulatory and legislative activity. Insurers continued to push hard to add biometric-related privacy exclusions, which is a rapidly expanding exposure.

Anticipated Market Trends for 2023

Moderate premium increases are expected to continue, and a continued focus on retention increases is likely. Insurers will continue to try to increase retentions for claims by higher compensation earners, class action or mass action claims, and/or claims brought in certain states (e.g., California). The continuation of additional underwriting and exclusions involving biometric information are also likely. Additional areas of concern include:

- Continued discrimination claims based on disability, age, race, gender, gender identity, sexual orientation and other protected classes.
- Potential litigation arising from:
  - The Dobbs v. Jackson Women's Health Organization decision (overturn of Roe v. Wade).
  - Newly passed or recently implemented pay transparency laws in large states.
  - Employee social media use and/or medical marijuana use.
- Wage and hour claims as companies adjust their workforce classifications.
- Reductions in force and other macroeconomic impacts leading to mass/class claims.
- Third-party claims brought by non-employees for harassment or discrimination.

How USI Can Help

- 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.

- Host underwriting calls with EPL underwriters and clients' human resources and legal departments.
- Negotiate coverage grants and navigating 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.

Highlights/Changes Since Second Half 2022

Fiduciary Liability

The impact of excessive-fee litigation continued to affect many insureds. Even insureds with smaller defined contribution plans faced detailed underwriting questions about retirement plan management protocols, and continued to see increases in premiums and higher retentions for excessive-fee claims (if not already addressed in 2020-2021). Leading insurers have continued to push for retentions as high as $15 million for plans with pension assets above $1 billion.

Crime/Fidelity Bonds

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

Professional Liability/Errors & Omissions (E&O)

The professional liability/E&O market remained firm, with some risk categories outpacing others. Many buyers experienced modest premium and/or retention increases, but industries with more challenging risk profiles (architects and engineers with "design build" exposure, certification services, etc.) saw significant premium increases and higher retentions.

Underwriter focus issues include poor financial performance, possible shortages of trained staff, any meaningful professional services expansions or changes, and adverse claims activity. Some E&O insurers, still examining limits offered at renewal, are reluctant to offer more than $10 million for any one insured. Five-million-dollar limit tranches may only be available for higher-risk E&O classes of business.

For financial institutions, the market remained generally competitive, and rate increases were often in the low single digits for good risk profiles. For bankers, non-bank lenders, broker-dealers and private equity firms (general partnership liability), the E&O marketplace was more challenging. For firms with heavy hybrid employee use, overall underwriting focus has been on how professional services firms are addressing deadlines, complaints and quality of services performed. Fintech companies faced a more invasive underwriting process, particularly regarding profitability and cyber controls. Insurance brokerage remains difficult.

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

Anticipated Market Trends for 2023

Fiduciary Liability

Expect excessive fee litigation exposure to continue to be the main underwriting issue. Other emerging risks include:

- Significant drops in the valuations of defined contribution plans based on declining equity pricing (as of October 2022).
- Inflationary impacts on health and benefits plans heading into 2023

While pricing should stabilize for those that have higher excessive fee retentions, any standard fiduciary liability retentions that remain very low (up to $250,000) will likely be pressured upward by insurers.

Underwriting questions will continue to extend to cyber protections, as plan fiduciaries have a responsibility to ensure the proper mitigation of cybersecurity risk. Employee stock ownership plans will continue to have a more limited selection of insurers, due to increased risk and claims costs, tempering competition and keeping rates higher.

Crime/Fidelity Bonds

We anticipate modest decreases to modest increases in the marketplace overall, with best-in-class risk profiles (no losses and strong internal controls) seeing the decreases. Getting full limits (or excess limits over sublimits) for social engineering exposures will likely remain challenging. USI will continue to strategize with clients, regarding excess sublimits for social engineering and incorporating clients' cyber programs where possible.

Coverages for exposures like extortion, computer and funds transfer fraud, and destruction of data will continue to be scrutinized, and maximum limits/capacity available per insurer will typically be capped at $10 million. Cryptocurrency, casinos and cannabis companies are currently considered some of the most difficult risks.

Professional Liability/Errors & Omissions (E&O)

- **Non-financial/non-technology:** Law firms, mortgage processors, accountants, consultants (particularly management or financial), architects and engineers, project-specific construction, and those performing any valuation-based service will still need to differentiate their risk profiles to obtain optimal terms. We expect minimum increases in premiums of 5% to 30%, along with increased retentions. Media E&O (stand-alone) is also a challenging class overall, with higher-than-average retentions and premium increases.

- **Financial Institutions:** Broker-dealers, deposit-taking institutions, non-bank lenders, and family office/trustee financial institutions will continue to be scrutinized as more challenging classes. There remains a limited primary market for these classes. Insurance companies and agents/brokers, especially middle market and larger, will likely face limited carrier interest.

How USI Can Help

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.

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 insureds' clients in managed service agreements and contracts

Highlights/Changes Since Second Half 2022

Transaction Liability: Representations & Warranties Insurance

The transaction liability markets have become notably more competitive in the third and fourth quarters of 2022. Rate per million dollars of coverage has decreased to early/mid 2021 levels of 3.25% to 3.75% from highs of 4 to 5% in late 2021 and early Q1 2022. The slide in rates began in Q1 2022 and has continued throughout the remainder of the year. Coverage terms have improved with fewer proposed exclusions and purchase agreement modifications. The current conditions can be attributed to a variety of factors:

- Drop in M&A activity (especially for larger $500 million and greater transactions)
- Dramatic increase in interest rates making leveraged transactions less practical and cost efficient
- Increased geopolitical risks largely due to the Russia/Ukraine conflict, widespread inflation, lingering supply chain issues and looming recessionary fears
- Significant hiring increase among RWI insurers to address the inability of insurers to keep pace with the unprecedented high levels of M&A transactions for 2021

Anticipated Market Trends for 2023

Inflationary pressures, an elevated interest rate environment and a possible recession will continue to challenge buyers in effectively valuing acquisition targets. Though claim frequency (roughly one in every five transactions) remains consistent, insurers are nevertheless seeing an increase in the number of claims, given the high number of policies written 12-18 months ago as well as the continued increase in the percentage of M&A transactions where reps and warranties coverage is purchased.

There is significant pressure on financial sponsors, fund managers and strategic firms to deploy committed capital. If the economic conditions hold and a recession does not actually occur, we expect that M&A activity will pick up in 2023. The M&A world is adept at evaluating economic conditions and adjusting their acquisition models accordingly. In the near term, we also expect pricing to remain steady (up or down 5%) relative to current levels with continued buyer-friendly terms and an efficient underwriting process.

How USI Can Help

- Engaging early in the M&A process to help identify the risk profile for contemplated transactions
- Detailing current market conditions and expected areas of concern insurers are likely to raise for planned M&A transactions
- Providing clarity and setting expectations around the procurement process and timeline, as the process is unlike most other insurance coverages
- Providing a dedicated team of transaction liability specialists with 24/7 service for your M&A activity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Highlights/Changes Since Second Half 2022

Cyber: Network Security and Privacy

We saw distinct trends in cyber insurance emerge in the second half of 2022:

- Rates began to stabilize in correlation with greater clarity on mission-critical cyber risk controls. More industry-focused underwriting guided both the information sought by insurers and the security controls required. New capacity outlets (particularly from global markets), including InsurTech facilities that expanded their offerings beyond the U.S., helped drive the stabilization.
- Underwriters' concerns about the repercussions of widespread attacks and the inconsistent identification, prioritization, and mitigation of common vulnerabilities and exposures (CVE)* remained, while the increased tensions in Ukraine, Russia, Belarus, China and Taiwan have pushed insurers to focus more on their policy language, particularly the war and terrorism exclusion. Lloyds of London led the effort to standardize the scope and intent of these exclusions.

Other notable changes:

- A maximum $5 million limit offering became the "new normal" limit (versus $10 million) for insurers
- Insurers pushed for higher retentions and waiting periods
- Excess premiums, particularly through the first $50 million, showed minimal discounts to underlying pricing

*CVE is a publicly available list of information security vulnerabilities

Anticipated Market Trends for 2023

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.

That said, we do still anticipate overall growth in available and deployed capacity, and more normalized rates changes for optimal (less hazardous and loss-free) risks — barring any materials loss events, major changes in cyber reinsurance rates, material changes in global conflicts, systemic events, or major regulatory challenges. Regarding reinsurance, insurers have ceded more to reinsurers in the last few years as cyber losses have mounted. That trend is poised to continue, so reinsurance costs will be a contributing factor to premiums charged to insureds. This reinsurance trend will likely apply to companies that have not adopted baseline controls and/or have experienced adverse losses, restrictive language, condensed capacity and higher rates.

Overall, underwriters will continue to focus on control areas they deem linked to the increased likelihood of a ransomware incident or serious cyberattack event, namely:

- Employee training and awareness of suspicious phishing communications (email, text message, social media, and voicemail), including "spear phishing" related to the conflict in Ukraine
- Multifactor authentication
- Privileged access management — cybersecurity strategies and technologies for exerting control over the elevated access and permissions for users, accounts, processes and systems
- Endpoint detection and response and/or extended detection and response
- Managed detection and response
- 24/7 network monitoring and security operations center
- Air gapped, encrypted, secure network backups
- Network segmentation, particularly for "end of life" systems, and cadence for patching vulnerabilities
- Incident response plans
- Vendor and supply chain risk management (third-party risk management)

Underwriters will also pay attention to:

- The number of services accounts and methods to deprivilege them
- Third-party risk management controls
- Number of personally identifiable records, including biometrics, and related privacy controls
- CVE threat hunting

Policy Language (including War & Terrorism) and ESG Impact

Policy language always affects how claims are covered. Several important definitions and exclusions to be cognizant of include:

- Any cyber-related war definitions and exclusions, including:
  - — Causation wording for war exclusions
  - — Potential cyber terrorism carve-backs (typically limited to cyberattacks conducted by individuals or groups with ideological goals, not conducted on behalf of a nation state)
  - — Cyber terrorism extensions or exclusions
- The scope of sanction and Office of Foreign Assets Control exclusions
- The scope of computer network/operations

A leading global cyber insurer has now launched an environmental, social and governance-based syndicate, which may also increase cyber capacity.

How USI Can Help

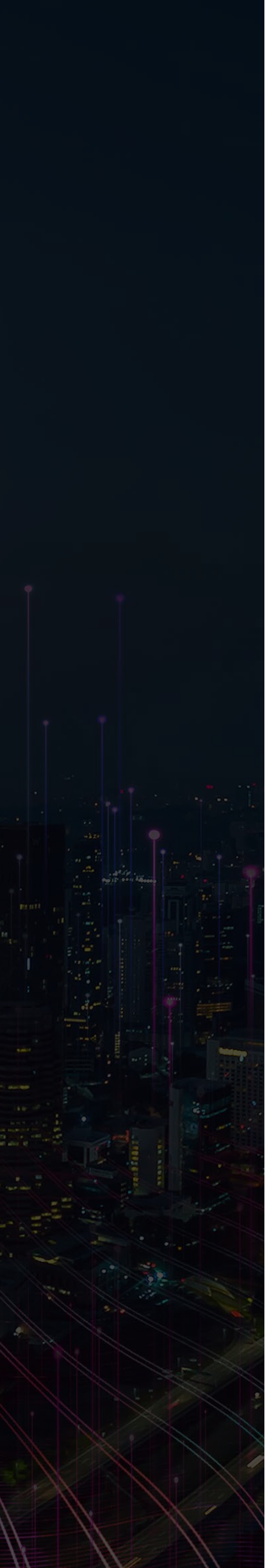
We will continue to closely monitor the conflict in Ukraine for elevated sanctions, any increase in global cyberattacks and counterattacks, and any sudden and significant disruptions to the global supply chain. We will also continue to monitor any other major developments that impact the cyber risk environment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

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 evaluating 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

Highlights/Changes Since Second Half 2022

In the second half of 2022, manufacturers continued to increase production, output and revenue, but did so more slowly than what we've seen over the past couple of years. Sentiment remains optimistic regarding demand. Material costs, shipping costs, supply chain, labor shortage, technology risks and product recalls continue to dominate as top concerns for manufacturing. We expect these trends will carry on throughout 2023.

Over the past several years, manufacturers have experienced higher insurance premium rate increases. This appears to be moderating slightly for well-performing accounts with demonstrable and effective risk profile management. For businesses that cannot distinguish themselves as being different and better to insurers, rate increases will continue but should be moderate compared to years past. Businesses with poor risk profiles and losses will experience higher rate increases.

Underwriting scrutiny remains strong, as underwriters are seeing the results of their strong underwriting disciplines. Combined ratios have been improving, resulting in the risk selection process, modifications in terms and conditions, and rate increases.

Anticipated Market Trends for 2023

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

General Liability/Automobile/Workers' Compensation/ Excess

Policy language always affects how claims are covered. Several important definitions and exclusions to be cognizant of include:

- **General liability** remains favorable from a rate perspective. Manufacturers are identifying and contracting with new suppliers to support their sales and respond to customer demands. Without proper due diligence, this can result in unintended consequences such as quality of production, product failure and/or product recalls. Manufacturers should remain diligent in the management of both existing and new supplier contracts to avoid financial loss and reputational damage related to supplier performance.

- **Automobile** rates for manufacturers or distributors that maintain fleets continue as previously reported in USI's 2022 Commercial P&C Market Outlook Mid-Year Addendum.
- **Workers' compensation** remains very competitive.
- **Umbrella/excess** remains largely unchanged from our Mid-Year Addendum. Rates are moderate, and we have seen more competition in these lines, with more entrants interested in buffer layers or excess layers, which improves overall pricing.

Cyber

Manufacturers remain an attractive target for cyber-related risks (predominantly ransomware), as they continue to lead innovation with smart industry initiatives (Industry 4.0) to maintain supply chain visibility and improve productivity and operational efficiency. Cyber insurers heavily scrutinize manufacturers and, as a result, cyber hygiene is critically important to securing preferred terms and pricing.

Cargo/Stock Throughput

Although the cargo and stock throughput (STP) market has stabilized following the dramatic market conditions of the past few years, it has remained challenging for certain classes of business, including food and agriculture businesses that are subject to spoilage and contamination. Manufacturers will continue to notice upward rate trends as well as terms and conditions modifications as STP markets continue to improve overall performance. We expect these conditions to continue throughout 2023.

In 2022, U.S. freight costs increased 28% year over year, according to the Cass Freight Index. The leading contributors to this increase are fuel (35.4% higher than in 2020), repair and maintenance (18.2% higher than in 2020), and driver wages (10.8% higher than in 2020), according to the American Transportation Research Institute's 2022 update. As a result of these increases, costs for transporting goods have increased, necessitating manufacturers and distributors to look closely at their transportation expenses. Stock throughput has gained additional interest to help improve cost structures in these areas.

Trade Credit Risk

Losses were lower than anticipated during the pandemic and post-pandemic recovery. Rate increases and terms and conditions have remained more moderate than expected. Challenges, including inflationary pressure, supply chain disruptions, material scarcity and labor shortage, remain high drivers for demand of credit risk insurance. As rates stay moderate for now, the market sentiment is that claims will increase. This could result in market challenges in terms of pricing and insurability of receivables.

Product Recall

Product recall remains a high-growth area for many insurers. Rates, terms and conditions have remained more moderate than expected due to lower-than-expected losses.

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. This establishes the "ask" of the market, allowing for early indications from incumbents and understanding of their options around limits, retentions, coverage and price.
- Work with their broker to evaluate all COPE (construction, occupancy, protection, exposure) data to mitigate property insurance market headwinds.
- Work with their broker to evaluate all property, business interruption, equipment, stock and inventory values.
- Work with us to evaluate all contracts with customers and vendors/suppliers to ensure contract compliance, aggregate insurance limit, and seek maximum potential contractual risk management remedies from downstream suppliers and vendors.
- Work with us to evaluate all 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

Real estate renewals remain in line with the projections noted in this report for each line of coverage, with the following additions:

Highlights/Changes Since Second Half 2022

In the second half of 2022, inflation and interest rate hikes impacted the real estate industry. Insurance carriers continue to push on insured values based on the lingering effects of supply chain disruptions and increased cost of building supplies. Development projects have been impacted by timing lags from the inability to receive building materials on a timely basis. In addition, the number of projects in the pipeline has slowed based on interest rates. Hurricane Ian will lead to reinsurance pricing and capacity issues for a property market that was already teetering on the challenges of establishing adequate pricing for the exposures written.

Anticipated Market Trends for 2023

Cyber: This prolonged macro trend remains top of mind as hackers continue to infiltrate systems and cause financial damage to their victims. Real estate companies have traditionally not purchased cyber coverage, but the take-up rate for coverage has increased significantly over the past few years.

Climate Related Risk: Ian was categorized as the fourth strongest storm to ever hit Florida, and caused considerable damage. Since 2017, the U.S. has been impacted by 17 hurricanes/tropical storms, 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.

Environmental, Social and Governance (ESG): The above-mentioned trends, 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. 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 hurricane, earthquake, severe thunderstorm, flood and wildfire 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.
- Communicating effective maintenance strategies and 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.

CONSTRUCTION

Highlights/Changes Since Second Half 2022

Inflation and rising interest rates are two of the biggest challenges facing contractors, outside of the seemingly never-ending skilled labor shortage. According to Richard Branch, chief economist at Dodge, "The construction sector has already started to feel the impact of rising interest rates. The Federal Reserve's ongoing battle with inflation has raised concerns that a recession is imminent in the new year. Regardless of the label, the economy is slated to significantly slow, unemployment will edge higher, and for parts of the construction sector, it will feel like a recession."

As an example, after 20 months of positive growth, the Architecture Billings Index, a forward-looking indicator for construction activity, took a dive in October, and the Associated Builders and Contractors' (ABC) backlog indicator, which tracks work that construction firms have booked but haven't yet begun, fell below its pre-pandemic reading from February 2020. However, there is still optimism despite this, even with the challenges in the industry.

Areas we continue to monitor are potential U.S. rail strike; relations between China and Taiwan; further escalation of the Ukraine conflict; and continued cuts of oil production from OPEC.

Environmental, social and governance is becoming a more prevalent area of risk management for contractors in both private and public work sectors. Two examples are as follows:

- The Federal Acquisition Regulatory Council (FAR Council) issued a proposed rule requiring certain contractors to make representations regarding greenhouse gas emissions and climate-related financial risk, leveraging existing third-party standards and systems.
- The U.S. Equal Employment Opportunity Commission (EEOC) is trying to rectify the history of discrimination that has prevented women and people of color from thriving in careers in construction by putting more scrutiny on contractors regarding their EEOC efforts.

Anticipated Market Trends for 2023

The following coverage updates go beyond those listed in USI's 2022 Commercial P&C Market Outlook Mid-Year Addendum and may not include all lines of business.

General Liability

There is a general continued stabilization of rates going into 2023 for most industry sectors outside the five boroughs of New York City. The call for data-driven submissions and the quality of the insured's operations cannot be emphasized enough. Rate increases are expected to range in the flat to low-single digits, which is an improvement over the previous two years. New York City (five boroughs) construction remains firm, with losses as a result of Labor Law 240/241 pressuring rates.

Workers' Compensation

The skilled labor shortage in all industry segments remains the single most challenging issue for contractors, according to the Associated General Contractors of America, Inc. (AGC) and FMI Consulting in their annually published "Risk Management Survey." Exacerbating the issue, injury rates for employees within the first year of work account for 48% of the injuries and 52% of the costs, according to Travelers Injury Impact report which tracked 1.5 million workers' compensation claims submitted from 2015 through 2019.

As the industry tries to navigate this challenge while hiring an unprecedented number of new workers, additional emphasis on safety and risk mitigation strategies will be key. Medical costs due to continued inflationary pressures continue to rise, and loss trends mean employers, now more than ever, need to create, implement, and execute effective and innovative safety/risk control programs to keep workers' compensation and experience modification rates from getting out of control. Deterioration in workers' compensation portfolios are starting to make carriers nervous, giving rise to potential rate increases in the future.

Umbrella/Excess

Price increases continue to stabilize for the general construction market depending on scope of work and geographic location. InsureTech options are becoming more attractive to clients because of better pricing for adoption technology tools to manage risk. 2023 will continue to see more supported umbrellas as a solution versus unsupported. Buffer layers and higher underlying limits are still creative options to keep costs under control.

Cyber

Cyber threats continue to increase against contractors of all shapes and sizes. As with the last outlook, an emphasis on cyber hygiene, which includes a detailed outline of a company's workplace cyber policies, incident response planning, employee training, and security software capabilities, is paramount for risk mitigation as well as access to appropriate cyber coverage.

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.

Builder's Risk/Course of Construction

Risk mitigation protocols like water sensors, site security, fire mitigation and other technologies are now a part of a standard operating procedure for a builder's risk submission regardless of construction type or geographic location. Capacity continues to be strained for coastal or wildfire exposed projects and rates continue to increase for wood frame projects. Cross laminate timber/mass timber projects continue to rise due to supply chain woes and material cost increases, and carriers are starting to embrace and adopt these technologies with offerings for this type of work. Project delays persist and reinsurance costs are expected to continue to increase due to the number or large insured natural disasters.

Architects and Engineers Professional Liability (A&E PL)

The overall marketplace for A&E still has plenty of offerings from both domestic and international insurers. However, worsening claims experience is causing insurers to look for some level of rate increase especially in noted states like California, Florida, New Jersey and Texas. There is a limited appetite for residential frame for-sale projects.

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

This line of business continues to be a way for owners and general contractors to effectively manage risk outside of procuring a project specific professional liability policy. Carriers in this space continue to emphasize the quality of the prequalification of consultants to ensure effective risk transfer and risk mitigation of potential professional liability claims arising out of construction projects.

Surety

As with the last outlook, the surety industry was profitable this year and backlogs as healthy as pre-pandemic lengths, but loss activity is starting to increase. The hidden underlying financial issues of contractors who took PPP loans are now exposing themselves. Projects are continually being delayed coupled with cost escalations and supply chain issues are leading to profit fade. We are expecting the surety market to tighten with underwriting attention focused on profitability, cash flow and debt service.

How USI Can Help

When considering renewals for 2023, 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 story telling 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 early and often. Companies should speak, virtual or in-person, proactively with insurance and surety underwriters and USI's construction team. This will allow for proactive planning around risk issues, 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.
- Adoption and implementation 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

PUBLIC ENTITY & HIGHER EDUCATION

Highlights/Changes Since Second Half 2022

Market conditions for public entity (PE) and higher education (HE) have been stabilizing somewhat throughout 2022, but remain challenging due to some ongoing conditions.

Contributing factors include:

- For PE, a continued shrinking marketplace, caused by the exit of several key markets, has led to a loss of capacity. Large losses are the primary driving force.
- Sexual abuse and molestation (SAM) coverage remains a crucial topic within the public sector, education, religious, and nonprofit 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 U.S. states and the District of Columbia.
- In HE, the general liability, excess and educators' legal liability (ELL) marketplaces remain challenging. Marketplace and capacity are limited for insureds purchasing higher limits. Many markets put up limited capacity requiring more layers to build capacity and generating more frictional cost. Some of the key drivers are:
  - — Social inflation — Increased litigation and headlines driving up claim costs
  - — Reviver statutes — Extending the tail and altering the tort landscape
  - — Nuclear verdicts — Jury awards are drastically increasing, partly from third-party litigation funding (investing in plaintiff lawsuits and trials)
- Law enforcement issues have become a primary force behind the market shift over the last few years. Law enforcement liability claims are increasing in frequency and severity for various reasons and are impacting insurers' ability to provide necessary capacity at an affordable price. Entities that operate large jails are experiencing reduced insurance capacity and increased pricing due to adverse jury verdicts. Bifurcating the law enforcement operations is a strategy that will provide stability for the master liability placement.
- Active assailant and stand-alone terrorism coverage are more common purchases given recent events in the U.S. and the unstable political environment around the world.
- PE and HE continue to be highly targeted for cybercrime, making the marketplace extremely challenging in these sectors. There are a limited number of markets, and they are offering reduced capacity. There is a heavy focus on IT underwriting that requires insureds to start the process early and budget for IT upgrades to get best pricing, terms, and conditions. Multifactor authentication and endpoint encryption have become basic costs for entry.

Anticipated Market Trends for 2023

- Consumer price index (CPI) inflation and social inflation will continue to challenge the insurance market for PE and HE insureds. Liability underwriters will continue to be challenged by increased claims costs and nuclear verdicts. Advisen indicates the average cost of a fatality claim was $5.1 million in 2019. This has doubled since 2015 when the average cost was $2.5 million. The average cost of a claim is almost three times what it was 10 years ago.
- The property market for insurance to replacement cost will remain tricky due to supply chain and lumber costs. The price of lumber was up during most of 2022 but seems to have come back to pre-pandemic prices. Hurricane Ian will hit reinsurers with an estimated $63 billion payout by insurers, and this does not include claims filed under the National Flood Insurance Program backed by the U.S. government. These losses are paid in cash, which will put pressure on the property underwriters to get rate as the reinsurers pass these costs along to the standard markets.
- Workers' compensation premiums have stabilized, and most insurers are willing to be aggressive on both new and renewal business. Clients with good losses should see reductions in their premiums.
- The labor shortage has affected school districts' ability to maintain qualified drivers for school buses. This is forcing

the schools to get creative. Using outside vendors, parents and services like Uber and Lyft create new contractual liability exposures for the schools.

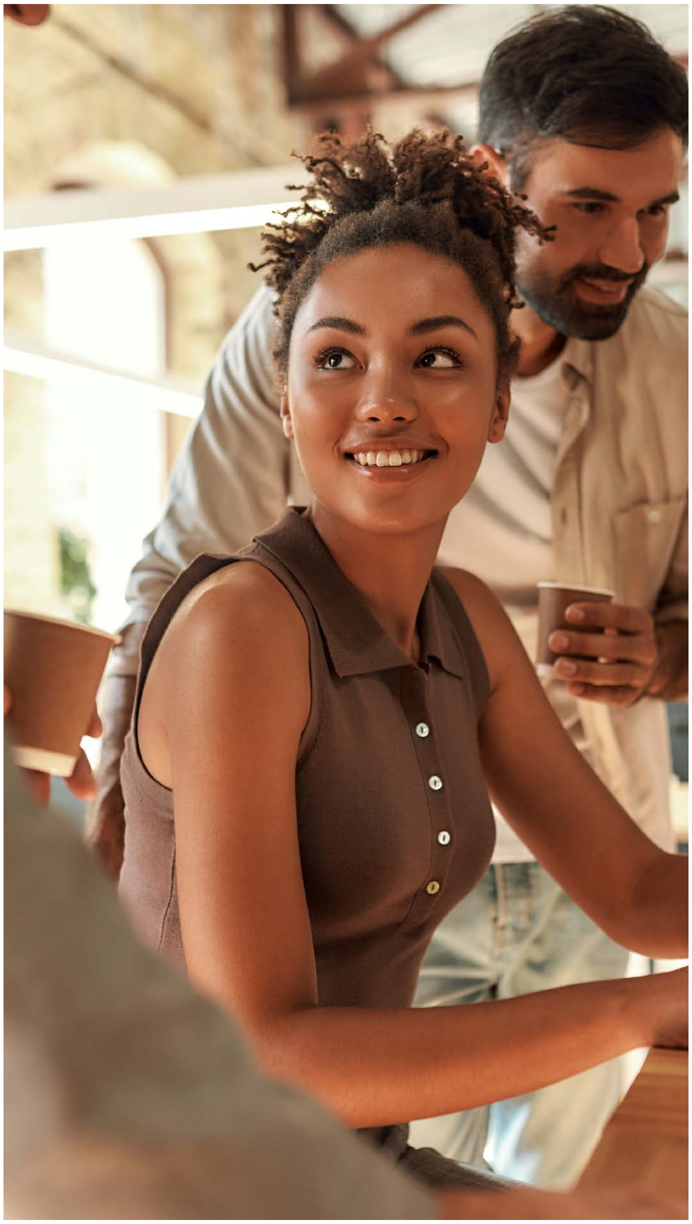
- Underwriters of HE are seeing an increase in claims recently. This uptick is attributable to campuses not being fully open in the 2021-2022 academic year. There was an overall reduction of campus activities and events, which kept claims cost low. Most campus activity is back to normal, resulting in increased claims activity.
- In addition to the unique risks faced by HE, the longevity of certain claims, such as traumatic brain injury and revivor statutes for sexual abuse claims, have increased the potential liability for colleges and universities. Communicable disease exclusions are the norm. There are a number of open tuition reimbursement class action lawsuits that emanated from COVID-19. Markets are closely tracking this litigation.

How USI Can Help

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

- Working with you 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; 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

From January through September 2022, the U.S. was hit by 15 separate weather/climate-related events that each exceeded a billion dollars in insurance losses, Hurricane Ian being most recent. The impact of unprecedented weather on top of inflation, supply chain disruption and increased claim costs further exacerbate insurers' poor financial outcomes.

Highlights/Changes Since Second Half 2022

Property

Throughout 2022 to now, market considerations are:

- Rising building costs as result of inflation and disrupted supply chains.
- Higher number of claims due to extreme weather conditions.

As a result, we have seen:

- Higher premiums and more stringent underwriting (insurers require more information and become less flexible).
- Reduced coverage (higher excesses and lower policy limits).
- Reduction in capacity (insurers having losses withdrawing from the market). One of the major carriers in commercial agriculture recently announced that they will not be renewing all their commercial agriculture business.

General Liability

An increase in the size of liability claims was the dominant issue for agriculture companies. As with property insurance, this resulted in higher premiums, strict underwriting, and reduced coverage and capacity.

Anticipated Market Trends for 2023

Property

- There will be competition for accounts that have good loss history, proven management and strong balance sheets.
- Property insurance has been and continues to be one of the most challenging lines. There is absolute insistence on accurate statements of value, business income worksheets and responses to risk improvement recommendations. Average rate increases are predicted to be 10% to 20%.

General Liability

General liability rate increases have been trending down, and average rate increases are projected at 0% to 5%.

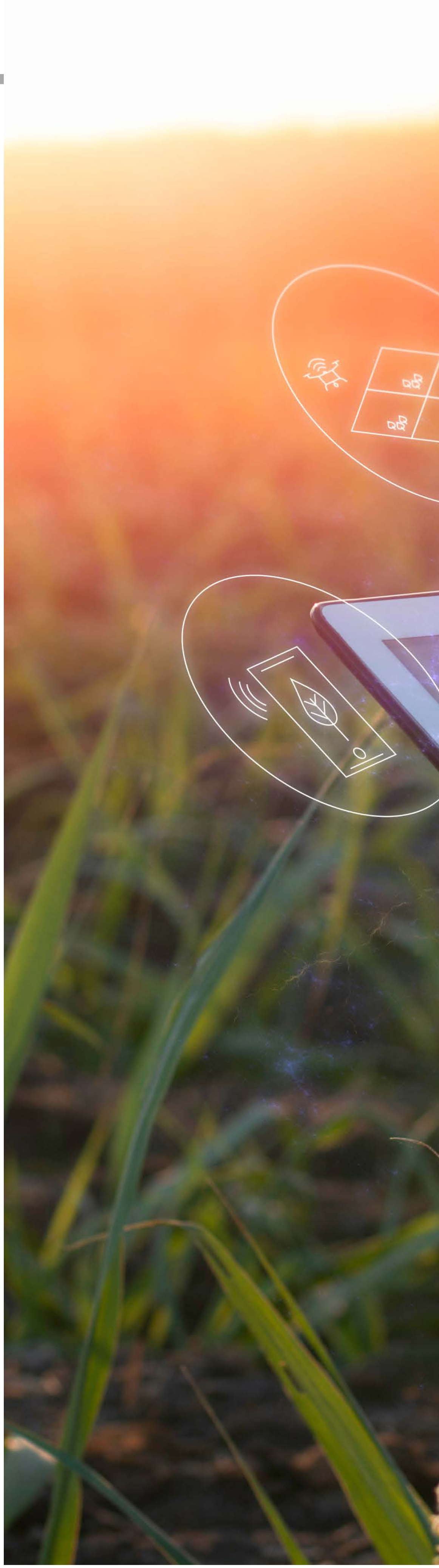
- **Product Liability and Product Recall:** Product recall/contamination insurance pricing will be stable and offer adequate capacity. There has been one new entrant into the market, and we anticipate one additional carrier this year.
- **Umbrella/Excess Liability:** Umbrella is continuing to show a better trend over the past several months and showing a smaller rate of increase. Accounts with large fleets or ingredient suppliers, and accounts delivering chemicals will see higher rate increases and shrinking capacity. The pricing for the higher layers appears to be improving more quickly than the first layer. The average rate increase in 2023 is projected at 5% to 10%.
- **Workers' Compensation:** Rates for workers' compensation insurance declined slightly in 2022 on average, and we expect to see that trend continue in 2023 with rate fluctuations of -5% to 0%.
- **Auto Liability:** Auto rates for food and agriculture accounts are trending similar to other industries. The average rate increase in 2022 was 10%, and we anticipate a similar rate increase of 5% to 10% in 2023.

How USI Can Help

It's 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 to:

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

With uncertain weather, supply chains depleted by labor shortages, and cybercrime on the rise, organizations must focus on mitigating risk. Consult with your broker to prepare for 2023. For additional information, contact your USI representative or email us at pcinquiries@usi.com.



LIFE SCIENCES

Highlights/Changes Since Second Half 2022

The fundamental performance and outlook for the life sciences industry continues to be strong. For almost two years, growth was bolstered by the development of new COVID-19 therapies, particularly new mRNA technologies. Insurers enabled this growth by providing global coverage for major clinical trials and for new pharmaceutical products.

Compared to prior years, M&A and IPO activity among life sciences firms seems to have leveled off, perhaps due to inflation and interest rates. Also, sponsors and other innovators were affected by longer time lags arising from increased regulatory submissions and new work patterns. This backlog of approvals, both in the U.S. and abroad, affected multiple subsectors: pharmaceutical, biotechnology, gene therapy, and medical devices.

Anticipated Market Trends for 2023

- **Directors & officers (D&O):** Free choice of counsel may be hampered by social inflation (the trend of rising insurance costs due to increased litigation, plaintiff-friendly judgments and higher jury awards), which is also extending to legal defense fees.
- **Product liability:** New insurance market capacity is helping to offset the threat of rate increases seen on other lines. Social inflation is also impacting the product liability insurance market, namely insureds' ability to choose counsel and the amount of legal defense fees. We are also aware of new exclusions potentially on the horizon for certain products and ingredients. Opioid exclusions, microplastics/PFAS (polyfluoroalkyl impurities) and benzodiazepines might be broadly excluded next. Litigation trends now include allegations of failure to innovate, as well as class actions involving medicine cocktails. Make sure your policies are reviewed thoroughly and exposures arising from your operations are in hand.
- **Errors & omissions (E&O):** We are seeing some new insurance market capacity in this line as well, which can help offset the threat of rate increases. Social inflation impacts this line as well. Finally, new exclusions for certain products and ingredients can impact the E&O market.
- **Cyber:** Some life sciences companies are leading with digital platform investments that enable efficient patient recruitment, command of data, and trial execution. For such firms, coverage language that addresses complex professional and cyber liability risks is critical.

Property

Regarding the supply chain, increasingly sophisticated digitalization platforms have contributed to improved delivery times and resiliency. Artificial intelligence and the Internet of Things have contributed, but new technology can introduce new risks. Insurers have introduced new cargo/stock throughput exclusions and coverage carve backs specific to cyber failures that could occur.

From the perspective of other first-party coverage, property insurers are focusing heavily on valuations of life sciences facilities and equipment. Inflationary factors are contributing to insurance-to-value concerns, especially for significant construction projects. However, new technology can introduce new risks.

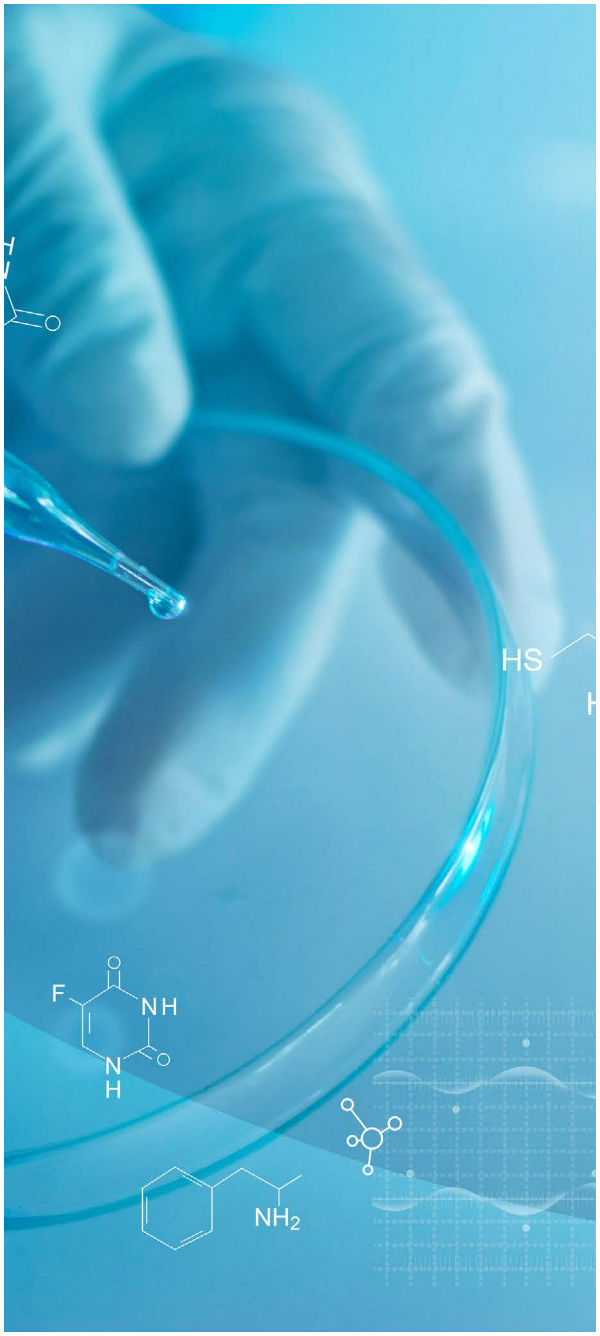
As we look to 2023 and beyond, we are confident life sciences companies will continue adapting, transforming, and inventing. Effective brokerage and risk consultation is more important than ever to support our clients' global strategies.

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