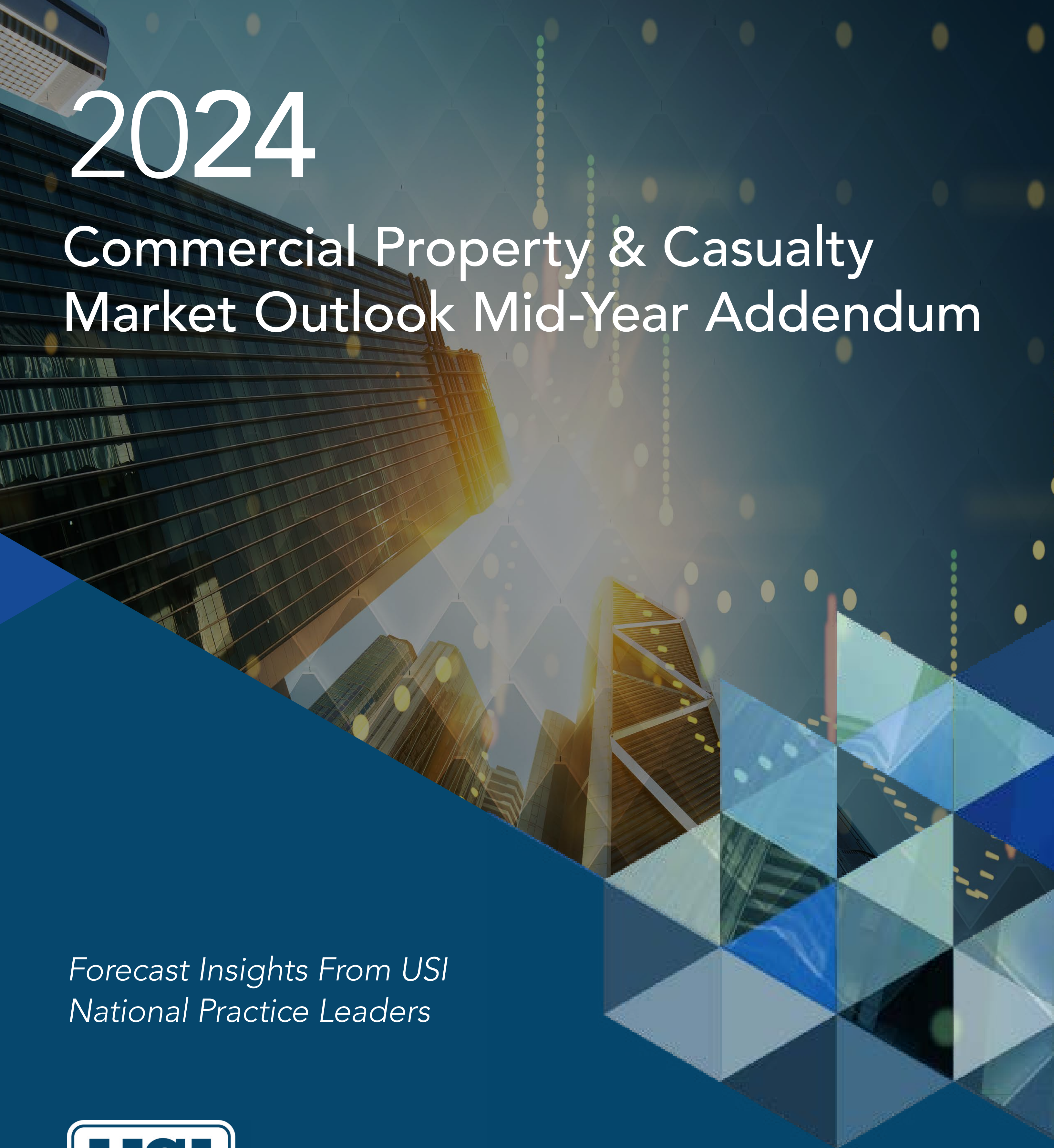

2024

Commercial Property & Casualty Market Outlook Mid-Year Addendum

Forecast Insights From USI National Practice Leaders

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The insights in this report can empower you to make informed decisions that align with your risk management objectives and budgetary constraints.

EXECUTIVE SUMMARY

This mid-year addendum to our 2024 Commercial Property & Casualty Market Outlook provides updates on insurance market changes over the past several months, and forecasts the trends you need to know for the remainder of 2024.

- **Property:** Large rate increases from 2023 have mostly subsided for the broader market. Rates are flat to up 10% for both natural catastrophe (CAT) and non-CAT property with minimal loss history and good risk quality.
- **Casualty:** For workers' compensation, the rate and pricing environment in most U.S. states remains competitive. General/products liability is challenging, but with flat renewals in some industry segments.
- **International:** New capacity for reinsurers and increased competition from insurance companies have decreased rates compared to our previous projections.
- **Environmental:** "Forever chemicals" continue to be the top issue, as they increase both product liability and pollution claims.
- **Aviation:** This market continues to boast a competitive rate environment, with war liability a possible exception.
- **Executive & Professional Risk:** Premiums continue to decrease, albeit at a slower pace, in most major lines of coverage, notably directors and officers (D&O) liability and cyber insurance.

Policy Renewals

You may be reviewing your insurance policies for renewal right now. It's crucial to understand the current state of the insurance market so you can negotiate better terms, coverage and pricing with insurers. The insights in this report can empower you to make informed decisions that align with your risk management objectives and budgetary constraints.

Trends to Watch

The "Trends to Watch" sections in this report focus on emerging and evolving risks that may require you to reassess your insurance coverage. By keeping abreast of market developments, you can identify these risks early and ensure they have appropriate insurance to mitigate them effectively. To maximize your organization's potential:

1. **Leverage risk control strategies to present accounts favorably to insurance carriers**
2. **Utilize every available tool to align asset values with industry standards**
3. **Seize opportunities to positively influence insurance costs, coverage and overall risk quality**

The "How USI Can Help" sections contain actions you can take to position yourself advantageously for upcoming opportunities in the insurance market.

MARKET UPDATE & RATE FORECAST

PRODUCT LINE	FIRST HALF 2024	SECOND HALF 2024 (FORECAST)
PROPERTY		
Non-CAT Property w/ Minimal Loss History and Good Risk Quality	Flat to up 10%	Flat to up 10%
CAT Property w/ Minimal Loss History and Good Risk Quality	Flat to up 10%	Flat to up 10%
CAT or Non-CAT Property w/ Poor Loss History or Poor Risk Quality	Up 15% to 30%	Up 10% to 20%
CASUALTY		
Primary General/Product Liability	Up 5% to 10%	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 20% to 30%^
Primary Auto Liability w/ Fleets in Excess of 200	Flat to up 5%*^	Flat to up 5%*^
Excess Auto Buffers	Up 40%	Up 40%
Workers' Compensation Guaranteed Cost	Down 10% to up 5%	Down 10% to up 3%
Workers' Compensation Loss Sensitive	Down 5% to flat	Down 7.5% to flat
Umbrella & Excess Liability (Middle Market)	Flat to up 15%**	Flat to up 12.5%**
Umbrella & Excess Liability (Risk Management)	Up 5% to 20%**	Up 5% to 20%**
INTERNATIONAL		
International Liability	Flat to up 5%	Flat to down 5%
International Property, CAT Exposure	Up 20% to 30%	Up 5% to 12%
International Property, Non-CAT Exposure	Up 2% to 5%	Flat to up 5%

PRODUCT LINE	FIRST HALF 2024	SECOND HALF 2024 (FORECAST)
ENVIRONMENTAL		
Environmental Combined General Liability/ Pollution	Down 5% to up 5%	Flat to 8%
Excess Combined General Liability/Pollution	Up 5% to 15%***	Up 5% to 15%***
Environmental Contractors' Pollution	Down 10% to flat	Down 10% to flat
Environmental Pollution Legal Liability	Down 10% to up 5%	Down 10% to up 5%
Aviation		
Aviation	Down 5% to up 15%**	Down 7.5% to up to 5%
EXECUTIVE & PROFESSIONAL RISK SOLUTIONS (EPS)		
Public Company Directors & Officers Liability — Overall	Down 5% to 15%	Down 10% to flat
Private Company and Not-for-Profit (NFP) Directors & Officers Liability — Overall	Down 5% to flat	Down 10% to flat
Employment Practices Liability (EPL)	Down 5% to up 5%	Down 5% to up 5%
Fiduciary Liability	Flat to up 10%	Flat to up 10%
Crime	Down 5% to up 5%	Down 5% to up 5%
Kidnap & Ransom	Flat to up 5%	Flat to up 5%
Professional Liability/Errors & Omissions (E&O)	Flat to up 10%	Flat to up 10%
Transactional Risks (Representations & Warranties Insurance (RWI))	Down 5% to up 5%	Flat to up 5%
Cyber (Network Security & Privacy)	Down 10% to flat	Down 10% to flat
Technology Errors & Omissions	Down 10% to flat	Down 10% to flat

^ Geographical radius of operations will impact pricing.
* Including need for primary limits up to $2M.
** In some cases, depending on class of business, historical losses and limits purchased. Factors in contraction in limits.
*** If heavy truck exposure, increase can be higher than 15%, especially in certain geographies.

View our Historical Rate Index charts

Developments Since January 2024 Market Outlook

After the most challenging property insurance market in decades, 2024 is proving to be a more stable and capitalized market. Although some pockets of disruption still exist and challenging risk profiles remain difficult to place, the widespread double- or triple-digit rate increases seen in 2023 have largely subsided for the broader market. Most renewals have seen single-digit increases, with some shared or layered placements seeing rate decreases due to the replacement of more expensive capacity from 2023.

Rates are flat to up 10% for CAT and non-CAT property with minimal loss history and good risk quality.

While insurers are still focusing on data, valuations and risk quality, the capacity challenges seen in 2023 have vastly improved, with more programs seeing competition on single insurer and shared/layered business, resulting in favorable renewal outcomes for insureds.

Single-insurer placements were within the forecast in our January Market Outlook, with most ending at single-digit rate increases if renewed with similar program structures. For those risks where the incumbent non-renewed or reduced capacity significantly, placements often required capacity from the excess and surplus market to maintain expiring limits, which resulted in rate increases at the higher end of the projected range or above.

We saw more favorable renewal outcomes than forecasted on CAT-exposed property, with high-quality risks seeing rate changes anywhere from 5% decreases to up to 10% increases. For risks with challenging profiles, such as wildfire areas, unfavorable loss history, unaddressed critical risk control recommendations, high vacancy or locations with poor risk quality, the rates were still elevated, as more of these transitioned to the excess and surplus market, still seeing rate increases between 10% and 20% or higher.

National Fire Protection Association (NFPA) Changes

A recent prevalent issue involves underwriting scrutiny regarding fire sprinkler systems and NFPA 13 changes, including:

- Moving away from the use of density/area curves in favor of a single-point density design option for new systems.
- Cracking down on exposed unexpanded/expanded group A plastics and intermediate bulk containers (IBCs) typically used to store materials.
- Ceiling height/rack storage — storage occupancies require specialized fire protection. Drop ceilings and in-rack sprinklers are becoming a necessity.
- Flexibility with innovative system design — NFPA 13 provides guidance on how to incorporate new designs to expand coverage of sprinkler systems.

For sprinkler systems not in current NFPA 13 standards, the result can include loss of sprinkler credit, increase in premiums, and loss of valuable market capacity. Insureds should take NFPA guidelines seriously and comply with them. NFPA codes affect every industry, with special emphasis on manufacturing. The codes are updated every three to five years, and the issues above will continue to be addressed.

For more information on the NFPA changes, please see our Executive Insight: Does Your Sprinkler System Comply With NFPA's Regulations?

Trends to Watch: Second Half of 2024

Reinsurance Market Stabilization

Reinsurance treaty renewals have returned to a more orderly process, with more capacity available or being deployed due to the favorable rate environment, lower losses realized from increased retentions on 2023 treaties, and healthy returns on capital. After a very disruptive and dysfunctional treaty renewal season in 2023, the reinsurance market is expected to return to total reinsurance capital of $561B, which is less than 2% off the prior high of $570B back in 2021.[1] This translates to a more stable operating environment for the property insurance market, with adequate capacity available and less disruption in the renewal process for insureds.

As reinsurers look to maximize returns while the rates are elevated, we will continue to see more capacity deployed by incumbent insurers, prospective insurers, managing general agents, programs or facilities. The additional capacity creates opportunities for insureds to evaluate current or future needs, taking a targeted approach to obtain what may have been lost in previous years due to budget constraints or availability. Whether it be policy limits or specific CAT limits like flood, named storm or earthquake, insureds should complete an updated analysis of current limits versus exposures, coupled with catastrophe modeling, well in advance of the renewal. The analysis will provide valuable insights to determine where finite premium dollars should be spent to reduce exposure to uncovered loss.

Expanded Capacity on Shared/Layered Programs

As insurers and reinsurers try to capitalize on the elevated rate environment and expand positions on better quality risks, additional capacity is being authorized on renewals. Insurance carriers are awarding capacity to high-quality risks with minimal loss activity on shared/layered programs, resulting in more capacity than needed and presenting the insured with an opportunity to lower costs.

Competitive capacity from London and Bermuda has replaced large portions of domestic insurer capacity, in some cases accounting for 50% or more of programs. Insureds can lower costs by replacing or signing back capacity that is now uncompetitive compared to a year ago or simply bound last year to complete their program, since no alternative capacity was available.

More capacity entering the market will create the environment for insureds to improve their existing programs and reduce costs. We recommend a comprehensive review, focusing on the data provided to the market, analytics like catastrophe modeling, program structure, participants by layer, access points of participants, and current attachment points to evaluate the optimal structure going forward. Moving participants to a different attachment point, stretching layers or changing program structures have been very effective to balance maintaining relationships and reducing cost. Completing this process annually will help identify opportunities for the upcoming renewal, set targeted goals for program improvement, and create a roadmap for the program going forward.

Wildfire Woes Intensify

Regardless of where they occur, wildfires continue to be a concern for insureds, insurers and insurance regulators alike. Insurers are fleeing states or non-renewing policies to reduce exposure and prevent large balance sheet losses while insureds are left with few alternatives. Those with no other options are placed into state-run programs, such as the California FAIR Plan, which is now seeing more than 1,000 new applicants per day, with concerns over solvency should a large-scale wildfire occur.

For instance, the California FAIR Plan noted a 122% increase in new policies issued for commercial buildings since 2019, and now has more than $300B in exposure under the program, despite cash reserves being much lower.[2] In Hawaii, there are similar capacity and pricing issues following the Maui wildfire in 2023, and insurers are reducing their footprints or pulling out of the market completely. Insureds with exposures in these areas should expect to be disproportionately impacted compared to the broader market.

Despite the negative short-term outlook, there are some new products and services on the market to assist with these coverage deficiencies or loss mitigation. For instance, new difference-in-condition (DIC) wrap policies have been released on the excess and surplus market with the sole purpose of plugging coverage gaps in the California FAIR Plan. This can be an effective way to reduce exposure by adding coverage back that is lacking under the FAIR Plan.

Third-party vendors are partnering with insurers to provide wildfire defense services before and during a wildfire and after it has been controlled. Services include loss mitigation, education, live wildfire monitoring and private fire response, with teams spanning multiple states. Wildfire parametric products are available to help alleviate the increased deductibles being applied to wildfire-exposed risks, providing much-needed financial relief in a short period of time following a loss. Pairing these products together can be a very effective short-term strategy to reduce uncovered losses until the market is stabilized and capacity returns.

Updated Catastrophe Models May Impact Insurer Appetite or Pricing

Following new version releases for both Moody's RMS version 23 and Verisk's Touchstone platform, the insurance industry is awaiting the potential impact in both pricing and capacity on risks affected by the updates. Both platforms included updates to the hurricane models for the U.S., with Verisk scheduled to release an additional update to the Wildfire model in June of 2024.

The areas expected to be most impacted by the new hurricane models include the Gulf Coast and the Southeast, with average modeled losses expected to increase anywhere from 5% to 10%, and as high as 20% to 30% for certain portfolios.[3] Insurers, reinsurers and state regulators are testing their current versions against the updated hurricane models to determine portfolio impact, potential pricing adjustments, additional surplus required and capacity needs.

As the industry starts to implement these models across their portfolios, insureds with exposures in these areas should expect some pricing fluctuations, especially in heavily concentrated in coastal areas from Texas through North Carolina. Insureds should take inventory of their data well in advance of the renewal and ensure all pertinent building details are captured to minimize the impact. Provide updates on roof replacements, roof anchorage, type of roof covering, new impact windows or shutters, roof geometry and any flood protection or mitigation efforts. Although time-consuming to gather and document, they can impact your modeling results, and potentially your premium, by up to 20% or more.

Captive Interest Continues

After several years of rate increases, insureds are still keen on retaining more risk to reduce costs. Discussions on captives or other vehicles to help them achieve this goal remain a consistent theme in renewal strategy meetings. In fact, total captives worldwide increased to 6,181 in 2023 from 5,879 in 2020, driven mostly by property insurance market conditions.[4]

Despite the interest in retaining more risk, not all insureds are able due to third-party requirements such as lender agreements, lease requirements, cost of collateral or the cost of fronting arrangements. Newly formed captives will be more susceptible to scrutiny and higher collateral requirements. Those with established captives and adequate surplus to take retentions excess of $5M will see the greatest impact.

Once the initial hurdles are cleared, captives can become a very valuable long-term vehicle to reduce premiums and market volatility. Captives can be used to fund large retentions, retain portions of programs or provide coverage for otherwise excluded perils, all of which can help reduce costs and volatility. Other benefits such as accrued interest, direct access to reinsurance, or access to government backstops like the Terrorism Risk Insurance Act (TRIA) pool can also be realized.

How USI Can Help

While insurers continue to shift their appetite and capacity offerings, expect the unexpected in today's market. It is critical to approach your renewal from a fresh perspective, equipped with robust data, extensive analytics, proven strategies, and risk differentiation. USI is continuously investing in tools, technology, and talent to provide unprecedented insight into your portfolio to help design, then deliver, a cost-efficient property insurance program.

With multiple tools to estimate building replacement cost valuations, the capability to run advanced catastrophe modeling scenarios, and software platforms that can pull over 1,100 underwriting data points on single buildings, USI is well-equipped to place you in the best position for your upcoming renewal. When combined with the deep local market knowledge of our property analytics and placement colleagues in offices across the country, clients can access the blueprint for success in a property market filled with disruption. As you move forward in 2024, we look forward to showing you how the USI ONE Advantage® can benefit you on your upcoming renewal.

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

Return to the insurance rate forecasts

[1] Reinsurance News
[2] CFPNet
[3] Insurance Insider
[4] Business Insurance

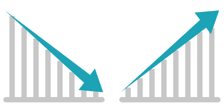
Whether for reducing premium, reducing volatility, or taking more control over your placement, captives should be considered a long-term solution and viewed as a fundamental change in how your organization transfers risk.

Developments Since January 2024 Outlook

Workers' Compensation (WC)

The rate and pricing environment in most states remains competitive, leading to some pros and cons.

- **Pros:** The combined ratio for 2023 is expected to come in below 100% again for the 10th consecutive year (anything below 100% indicates profitability for insurance companies). WC remains profitable for most insurers that write on both a guaranteed-cost and loss-sensitive basis. The average rate in most states has decreased year over year, and the supply of capacity remains high with many markets, including new market entrants. This has resulted in rate and corresponding premium reductions in most cases, despite increasing payrolls (premiums are usually calculated based on the total payroll of a business). Claims frequency has dropped because of the shift to a work-from-home environment since the COVID-19 pandemic, and there are ample redundancies in loss reserves.



WC rate and pricing environment in most states remains competitive.

- **Cons:** There is growing concern about multiple years of steady rate reductions despite rising medical inflation and the aging workforce's high frequency/severity of loss. Carriers will find it more challenging to maintain profitability while continuing to reduce or even maintain rates. We may see a leveling out of rates in the short term and increases over time.

General/Products Liability

- **Pros:** The general liability (GL)/products primary market is still challenging, but we're beginning to see more flat renewals in some industry segments that have achieved rate adequacy. In particular, we're seeing increased competition for new accounts, especially in the manufacturing and retail sectors.

- **Cons:** Real estate and habitational risks continue to be challenging to place, and insurers willing to cover the risks are typically increasing rates from high single digits to low double digits. The focus on assault and battery exposures contributes to these sectors' challenges. An increasing number of markets are seeking to hold insureds accountable for their risk management programs and loss experience by moving away from guaranteed cost and requiring loss-sensitive program structures.

Umbrella/Excess

- **Pros:** Generally, markets are still willing to negotiate on price, coverage, terms and conditions. Earlier this year, we reported that rates for middle market buyers were flat to up 15%. Now rates are declining slightly for insureds on the higher end of that spectrum.

The GL/products market is still challenging, but we're seeing more flat renewals in some industry segments.

- **Cons:** Overall capacity is sufficient, but a growing number of national markets are not increasing capacity for insureds to the extent we expected, and some are reducing capacity while maintaining or slightly increasing rates. Regional markets are also being more selective about the insureds they're willing to cover and overall limits deployed. If auto premium is greater than 50% of total underlying, it's even more challenging to place the umbrella/excess at competitive premiums with sufficient capacity. Social inflationary issues and inadequate loss reserves that need to be increased drive many of these challenges

Automobile Liability

The combined ratio for commercial automobile liability worsened in 2023, increasing to 113% — this is the highest since 2019, according to a May 2024 S&P Global report. Insurance buyers should expect continued pressure around premiums, underwriting standards, and reduced coverage options.

Trends to Watch: Second Half of 2024

Workers' Compensation

- **Mental injury claims:** Broadening the criteria for compensable mental injury claims may lead to an increase in their frequency, severity and adjustments in WC insurance premiums overall. For example, lawmakers have repeatedly sought to expand or introduce presumption laws that would make post-traumatic stress disorder (PTSD) a compensable illness. More than a dozen new and revived bills have been filed for consideration in 2024.

- **Catastrophic injuries:** The significant medical cost expenditures associated with these injuries can result in higher claim costs and premiums. Insurers are closely monitoring this area and could adapt their underwriting if catastrophic injuries increase.

General/Products Liability

- **Per- and polyfluoroalkyl substances (PFAS):** Increasing litigation is prompting insurers to reassess their approach to underwriting, coverage, risk management and claims handling. Most insurers are mandating exclusions on all renewal accounts regardless of industry or exposure to loss, but especially manufacturing, hospitality, retail and owners of real estate.

- **Assault and battery claims:** Insurers may introduce specific exclusions or limitations in general and products liability policies to address liabilities.

- **Packaging WC and GL:** To increase profitability, the insurance market increasingly requires that GL clients also purchase WC insurance as a package. This can offer several advantages for insureds, including convenience, cost savings, integrated coverage solutions, access to risk management services and more. However, buyers should carefully evaluate the terms and conditions of insurance packages to ensure they adequately address their unique risk exposures.

- **Social inflation:** Pricing pressures from social inflationary causes will continue to impact claim reserves for prior-year accidents. As a result, insurers may adjust their underwriting and pricing strategies to maintain profitability and stability.

Umbrella/Excess Liability

- **PFAS:** Like the general/products liability market, umbrella excess liability insurers are reassessing their approach to underwriting, coverage, risk management and claims handling in regard to PFAS.

- **Assault and battery claims:** Insurers may introduce specific exclusions or limitations to address liabilities.

Automobile Liability

The negative **impacts** of social inflation – leading to class-action settlements, increases in jury verdicts, and higher litigation costs – **are** manifesting itself in this line more so than in any other liability line. The loss trends do not appear to be abating. Insureds will be forced to assume more risk in their primary program through higher deductibles as well as making significant investments in loss control and telematics.

How USI Can Help

General/Products and Umbrella Liability

Organizations and their brokers must remain vigilant and take proactive steps to secure the most favorable outcomes while identifying solutions related to market dynamics and program structures. These solutions can help mitigate or offset challenges like rate increases, reduced capacity, and more restrictive coverage terms and conditions. In the present market environment, USI advises the following:

1. **Ensure that policy limits, terms and conditions are sufficient** — especially in the face of adverse loss trends — by engaging with USI to perform a benchmarking analysis, review coverage, and analyze litigation trends in the insured's industry.

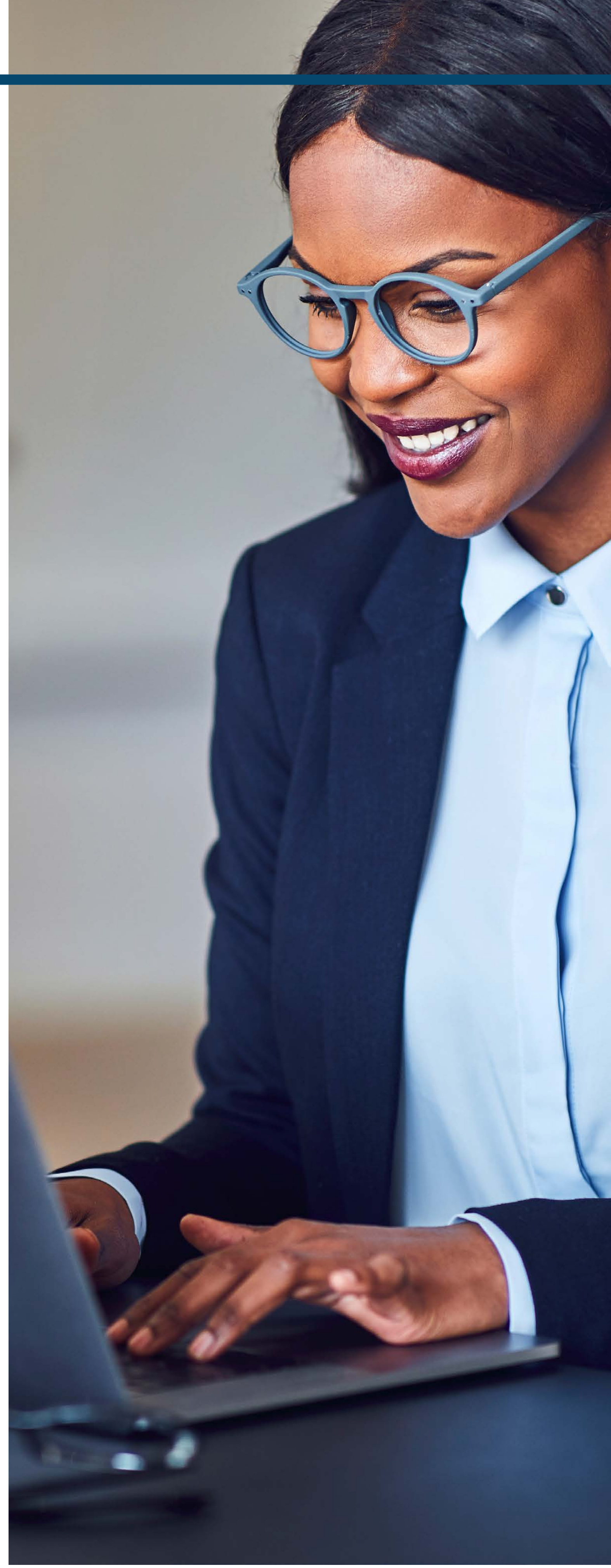
2. **Begin early preparations for policy renewals,** formulate a comprehensive plan of action, and engage in discussions with both existing and potential markets at least 150 days prior to renewal. These discussions should encompass considerations like capacity reductions, pricing on a per-million basis, and the inclusion of additional exclusionary clauses, such as those pertaining to infectious diseases.

3. **Create a high-quality underwriting submission** by focusing on the specific risks that underwriters find most concerning. Highlight the qualities of your risk profile, emphasizing aspects like investments in loss control and safety, contractual risk management, risk mitigation efforts, capital expenditures, and the willingness to engage in risk control and overall risk management philosophy.

4. **Initiate early dialogues with existing and potential markets** to build strong relationships. Determine the minimum underlying limits that umbrella markets are willing to attach over as early as possible. Consider the possibility of self-insuring above contractually required limits. Benchmark the overall umbrella/excess limits purchased against peer groups to validate the total limits acquired.

5. **Leverage data analytics** to evaluate risk financing alternatives.

6. **Analyze the cost benefit of structural changes** within insurance programs, such as assuming higher retention levels for purchasers of guaranteed cost or low-deductible insurance programs; exploring the insured's involvement with their captive in a quota-share participation of the umbrella/excess program tower; examining structured approaches, such as swing plans in which the ultimate cost is dependent upon losses; and analyzing multiyear, single-limit policies.



Workers' Compensation

Insureds and their brokers should take a proactive approach in identifying distinguishing factors to secure the most advantageous renewal terms including program structure, pricing, and coverage. Here are key strategies to achieve this:

1. Verify that **payroll information is correctly categorized** by classification codes to avoid errors in premium calculations.
2. **Ensure experience modification factors are accurately calculated** to reflect the insured's loss history.
3. Proactively **manage claims** to control premium costs and foster continuous improvement in safety and loss prevention.
4. **Inform underwriters** about any changes related to wellness promotion and measures taken to protect workers from occupational injuries. Additionally, communicate changes in claims handling initiatives that can reduce claim duration.
5. Be prepared to **selectively market** the account, tailoring the submission to highlight strengths and risk management efforts.
6. Have a comprehensive understanding of the **advantages and disadvantages of loss-sensitive deductible program** structures.
7. **Present objective evidence** to the insurer to minimize rate increases and secure more favorable renewal terms.
8. Re-evaluate the **effectiveness of pre-loss safety measures and post-loss claims handling** mitigation efforts. Engage in dialogue with brokers and insurers to optimize results from these initiatives.
9. Collaborate with your broker to **harness proper loss and financial analytics** to determine risk capacity at various retention levels.
10. **Reassess applicable collateral alternatives**, premium levels at various retentions, and loss allocation methodologies to optimize cost-effective risk management.
11. Evaluate utilization of **independent contractors** and assess their impact on workers' compensation costs and losses.

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

Return to the insurance rate forecasts

INTERNATIONAL

Developments Since January 2024 Outlook

The projections published in our January Market Outlook have decreased in both property and casualty rates mainly due to new capacity from reinsurers and increased competition from insurance companies.

Other significant industry/market changes are focused on and pertain to restrictions of coverage for countries and regions involved in hostile actions or war, as well as disruptions in supply chains and rising geopolitical tensions in certain other regions.

Regulators in some Middle Eastern countries are implementing stricter compliance requirements and limitations on non-admitted (non-local) coverage. As a result, there's a growing demand for insurance policies placed and serviced by local brokers and insurance companies. This shift excludes the option of utilizing global insurance programs, emphasizing the need for partners that are officially recognized by these regulators.

New capacity and increased competition have decreased rates compared to our previous projections.

Trends to Watch: Second Half of 2024

The market will continue to impose coverage restrictions on all lines of business, with the focus on foreign voluntary workers' compensation, property, and cargo for countries and regions involved in hostile actions or war.

Examples of coverage restrictions include declining new risks in the Democratic Republic of the Congo, Israel, Lebanon, Russia, Ukraine, Belarus and Venezuela (including cargo exposure to and from these areas), as well as non-renewing of smaller accounts with exposure in Israel. Medium to large accounts in Israel will continue to be reviewed on a case-by-case basis, with requests for additional submission data and adjustments in coverage offerings (such as higher premiums or deductibles). In addition, war coverage is being excluded on most renewals going forward.

In terms of primary foreign property, the market is not accepting new risks in countries and regions involved in hostile actions or war, even if war and terrorism are excluded from the coverage.

How USI Can Help

Our global risk assessment provides our multinational clients with a comprehensive analysis of their international exposures and ideal program structure. USI has found that by moving to a centralized program, clients can achieve overall premium savings, maintain concurrency and consistency of coverage, and eliminate coverage redundancies and potential gaps. We do this by:

- Preparing early for renewal, developing a plan of action, and dialoguing with both incumbent and new markets at least 150 days in advance.
- Reviewing alternative program structures to ensure optimal limits, cash flow, retention level, cost, and collateral perspectives.
- Reviewing and confirming that all necessary admitted (local) insurance is purchased in alignment with local regulations, while also partnering with umbrella coverages to eliminate duplication of coverage.
- Continually engaging with our network of international broker partners to understand changes in local coverages, requirements and laws related to insurance that could impact ongoing operations. In addition, we suggest quarterly check-ins to get ahead of any new expansions into a new country/risk.

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

Return to the insurance rate forecasts

Developments Since January 2024 Outlook

On April 19, 2024, the Environmental Protection Agency (EPA) issued the final rule for an enforceable drinking water standard nationwide on polyfluoroalkyl substances (PFAS), also known as "forever chemicals." The new limits mark the first time in 26 years that the EPA has set legal limits for a contaminant in drinking water, which are four parts per trillion for perfluorooctanoic acid (PFOA) and perfluorooctane sulfonic acid (PFOS).

The final rule also adds both PFOA and PFOS to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) as hazardous substances, which creates liability beyond just the drinking water standard. We expect both product liability and pollution claims to increase as the result of this new regulation.

PFAS are impacting both product liability and pollution claims.

Trends to Watch: Second Half of 2024

We anticipate that finding PFAS coverage in the marketplace will be more difficult for product exposure, including supply chain/distribution risks and site-specific risks. The International Organization for Standardization (ISO) issued a PFAS exclusion in 2023 that is being applied to most commercial general liability (CGL) and umbrella policies. The environmental marketplace has been thoughtful about providing PFAS coverage but may further tighten its availability, especially for product pollution liability by:

How USI Can Help

USI can help clients navigate PFAS liability:

- Estimating value of limits and reviewing insurance coverage, including historical and current general liability, pollution liability, and directors and officers (D&O) liability.
- Assessing risk, including both direct and downstream liabilities, and identifying key contracts (those who have indemnity or should be indemnified).
  - — Do any existing or former products contain PFAS? If so, what are the sales figures, and when and where were they sold?
  - — Is your exposure to PFAS from products or construction or premises?
- Identifying potential defenses if tagged with liability — is there a legal expert providing advice on regulations and compliance?
- Analyzing jurisdictions that may create greater risk, such as toxic tort liability.
- Examining current and future mitigation strategies and controls.
- Assessing due diligence protocols for acquisitions of companies or properties now that PFOA and PFOS are on the hazardous substances list under CERCLA.
- Exploring creative coverage solutions for PFAS either through environmental insurance or an alternative risk solution such as a captive.

USI can take several actions to help clients navigate PFAS liability:

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

Return to the insurance rate forecasts

Developments Since January 2024 Outlook

The first half of 2024 has been consistent with the forecast in our January Market Outlook. The market has returned to a competitive rate environment. Underwriters are seeking to grow their portfolios and are eager to quote new opportunities in most classes of aviation.

The aviation insurance market continues to boast a competitive rate environment, with war liability a possible exception.

Trends to Watch: Second Half of 2024

We expect the second half of 2024 to see continued competition among aviation underwriters. Insureds with loss-free accounts in certain classes should see multiple options at renewal and the potential for premium savings. The war liability market will continue to face challenges and rate increases for operators who carry liability limits above $50M. The reasons for these increases include the losses sustained in the global war market and reinsurers limiting their exposure to war perils.

The potential for additional war restrictions and increased pricing will likely continue throughout 2024. As the wars in Ukraine and the Middle East continue, this is an area we are monitoring closely.

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.

Our 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 to help guide the process. The team suggests ways to improve submission integrity and timelines, and advocates on your behalf.
- Providing detailed information that allows us to better understand your company's risk management situation and needs.
- Completing applications and questionnaires completely.
- Highlighting your company's focus on safety and pilot training protocols, especially training that goes above and beyond Federal Aviation Administration (FAA) requirements.
- Being open to underwriter and loss control visits.

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

Return to the insurance rate forecasts

Developments Since January 2024 Outlook

Many of the projections published in our January Market Outlook remained on track for the first half of 2024, with only the following significant industry or market changes:

Directors & Officers (D&O) Liability

Premiums almost universally came down for all types of organizations (public, private and nonprofit).

Fiduciary Liability

A headline class action litigation against a leading pharmaceutical company jolted the marketplace in February. The company's employee health plans were accused of failing to negotiate lower prescription drug prices, purportedly costing the plan participants millions of dollars. Fiduciary liability underwriters are concerned that the plaintiff's bar may pursue similar claims against other companies, analogous to how many organizations were sued over alleged excessive fees that eroded retirement plan assets.

Professional Liability/Errors and Omissions (E&O)

Premiums trended much closer to flat (0% or a nominal increase) than what was anticipated at the beginning of the year.

Premiums continue to decrease in the D&O insurance market.

Transactional Risks — Representations and Warranties Insurance (RWI)

Rates/pricing ran at the low end of the range we predicted in January. We saw more transaction activity and larger transactions compared to 2023 levels, as firms integrated the current interest rate environment into their merger and acquisition (M&A) strategies.

Cyber (Network Security and Privacy) and Technology E&O

The market softened more than anticipated, with only organizations with adverse claims/loss histories, significant changes to their risk profile or inadequate cyber controls seeing increases.

Trends to Watch: Second Half of 2024

D&O

A leveling of premium decreases could develop in the second half of 2024, particularly if leading insurers become more disciplined. There have been some notable bankruptcies filed in recent months, which could foretell an increase in D&O claims in the second half of the year. Any meaningful deterioration of an insured's financial condition could negatively impact their next renewal.

Employment Practices Liability (EPL)

Genetics and biometric privacy issues of employees (and potential employees) could straddle the line between EPL and cyber liability. Also, allegations of discrimination due to political or ideological affiliation could arise, particularly in an intense presidential election year.

Increasing potential liability for fiduciaries due to new regulations and the uncertainty of high-profile cases are prompting insureds to examine their coverage and practices.

Fiduciary Liability

All fiduciary liability underwriters will be monitoring the evolution of claims made against employee health plans and fiduciaries regarding overpriced prescription drugs. In late April 2024, the U.S. Department of Labor (DOL) disclosed its final, updated fiduciary rule, set to take effect in September 2024. The most recent proposed rule changes focus on an expanded definition of "fiduciary," broadening who is deemed to be a fiduciary under the Employment Retirement Income Security Act (ERISA). Companies should increase scrutiny when choosing retirement plan advisers, reassess the fees associated with the plans and, if needed, change their plans' fee structures to better comply with the updated fiduciary rule. The new regulations can also impact the investment options offered by defined contribution/401(k) plans because the fiduciary rule sets standards for the conduct of financial professionals who provide investment advice. Increasing fiduciary liability even further, a Massachusetts court recently denied a defendant's motion for summary judgment, calling the process "a waste of time" in a high-profile excessive fee case. This may prejudice plan sponsors in the future, essentially declaring them guilty until proven innocent. Such a precedent may also put pressure on defendants (fiduciaries) and their insurers to settle these cases. In response to this increasing liability, fiduciaries should review their insurance options and consider enhancing employee education and communication, as well-informed participants are less likely to file lawsuits alleging fiduciary breaches.

Professional Liability/E&O

The impact of artificial intelligence (AI) on virtually all professions and businesses is still unknown. While proper adoption and use of AI could reduce risks for certain companies, overreliance could result in erroneous counsel given to clients and other alleged wrongful acts like copyright infringement or invasion of privacy.

Transactional Risks

Some RWI companies are closely evaluating their rate structure and publicly questioning whether current pricing in the face of consistent claim frequency and rising claim severity is sustainable for the RWI product line. Assuming transaction activity (i.e., the number and size of deals) continues to pick up, we expect rates/pricing to remain relatively flat for Q3 and to rise in Q4.

Cyber and Technology E&O

Despite the continued frequency and severity of cyber loss incidents, the capacity (i.e., insurers offering limits of cyber coverage) that is available in the marketplace continues to sustain competitive rates. The rampant increase in privacy and security regulations on a global, national and local basis — and the widespread increase in privacy exposures and the evolving considerations of AI — would seem to make a continuing soft market untenable, but as of today, it remains.

How USI Can Help

For all lines:

- Start the renewal process early (at least 120 days prior to expiration)
- Prepare a risk profile analysis and review it to determine perceived (by underwriters) strengths and weaknesses
- Set appropriate and realistic expectations based on risk profile
- Use analytical tools, including benchmarking, to determine an optimal program structure (limits, retention, amount of dedicated Side A coverage)
- Evaluate captive solutions, where appropriate
- Market all layers and access multiple insurer channels and marketplaces (geographies)
- Negotiate coverage grants and navigate coverage restrictions via USI's proprietary solutions
- Ask primary insurers for options, including multiple retention options
- Opine on the historic claims-paying performance of current and prospective insurers

D&O Liability

- Encourage reducing governance risk by:
  - Establishing and maintaining sound board and committee reporting protocols
  - Making sure that boards closely monitor mission-critical operations and risks, particularly cyber-related risks
  - Instituting tests to see how effective a board's oversight governance is performing
  - Encouraging the addition of federal forum selection clauses to organizing documents, specifying that the federal court is the exclusive jurisdiction for litigation brought under applicable securities laws

How USI Can Help

Employment Practices Liability (EPL)

Insureds and their brokers should take a proactive approach in identifying distinguishing factors to secure the most advantageous renewal terms in terms of program structure, pricing and coverage. Here are key strategies to achieve this:

- Know evolving EEOC priorities, federal legislation, notable changes in state-focused enforcement strictures and emergent claims activity.
- Understand EEOC guidance regarding industry focus areas and the use of algorithms and AI in the hiring process.
- Prepare to respond to underwriting questions about HR and workplace training, biometric information collection practices, and any year-over-year changes to employee handbooks or HR manuals.
- Host and navigate successful underwriting calls with EPL underwriters and clients' HR, risk management and legal departments.
- Approach the broader marketplace (U.S., Bermuda, other) for additional and emergent EPL considerations including punitive damages wraps and wage and hour coverage.

Fiduciary Liability

- Prepare underwriting questions about plan service provider selection and comparison processes.
- Establish prudent processes for fiduciary decisions, documentation of the processes, and compliance with ERISA, DOL and Internal Revenue Service regulations regarding participant disclosures and government reports.
- Discuss emergent items, like the addition of a forum selection clause to plan documents and impact of M&A on plans and sponsors.
- Utilize risk management support from fiduciary liability insurers and USI resources.

Crime/Fidelity Bonds

- Understand transaction verification processes and procedures to thwart BEC risks. Insureds with advanced and thoughtful risk practices can differentiate their risk profile and secure more favorable terms.
- Look into potential coverage crossover with cyber insurance, helping clients understand differences and manage coverage applicability across different policies.

How USI Can Help

Professional Liability/E&O

- Discuss any minimum limit requirements by insureds' clients in managed service agreements and contracts.
- Provide curated, advanced underwriting questions, and help craft appropriate responses specific to operations.
- 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 (vendor) risk management)
- Examine the scope of professional services, as many firms have modified and diversified their offerings. Amend coverage terms as needed.

Cyber: Network Security and Privacy

- As the conflict in Ukraine continues to evolve and sanctions potentially elevate, experts expect to see global cyberattacks and counterattacks, as well as significant and likely sudden disruptions to the global supply chain. We continue to closely monitor this situation and advise clients. We also continue to monitor other major developments that impact the cyber risk environment, such as cryptocurrency hacks.
- USI's comprehensive cyber risk control continuum includes services and solutions designed to assess a company's cyber hygiene/security stack and cyber risk exposures, and connect them with curated third-party providers that specialize in emergent cyber risks. Our Answerlytics™ and customized eRiskHub solutions can help you improve your cybersecurity and insurance marketability, pricing and terms.
- USI's Answerlytics Curated Providers (ACPs) know that the cyber threat landscape is increasing:
  - **Attack surface expansion —** Employers continue to rely heavily on cloud-based technology to allow for the greater utilization of remote environments. Cloud accounts can expose organizations to attacks when they are misconfigured or if vulnerabilities are allowed to persist.
  - **Identity system defense —** The cybersecurity firm CrowdStrike Overwatch indicates that 80% of breaches are identity-driven. These attacks often directly leverage compromised credentials to launch larger, more catastrophic attacks.
  - **Supply chain concerns —** Bad actors have continued to bombard organizations that rely on a software supply chain and vulnerabilities caused by a) third-party software products that require privileged access; and b) third-party software products' requirement of frequent communication between a vendor's network and the vendor's software product located on customer networks.
  - **Diversified attacks —** Cyber criminals utilize multiple attack surfaces including smishing, phishing and vishing to trick people. These bad actors target disgruntled employees and offer them nominal amounts for access to their credentials.

USI can connect you with the appropriate Answerlytics Curated Provider (ACP) that specializes in addressing identified cyber risk(s).

Technology E&O

- Evaluate full scope of operations, and seek to secure broad coverage with limited gaps.
- Act as nexus for an insured's finance, IT and legal/compliance group to address technology E&O risks.
- As emergent technologies are widely adopted, review the need for additional limits of liability.
- Align the coverage in your insurance program between technology E&O liability and products liability/bodily injury/property damage to achieve maximum recovery of a loss.

Transaction Liability

Engage early in the M&A process to help identify the risk profile for the contemplated transaction.

- Review current market conditions and expected areas of coverage insurers are likely to raise for planned M&A transactions.
- Provide clarity and set expectations for the procurement process and timeline (the process is unlike most other insurance coverages).
- Provide a dedicated team of transaction liability specialists with 24/7 service availability.

Return to the insurance rate forecasts

INDUSTRY UPDATES

Developments Since January 2024 Outlook

While most of the projections published in our January Market Outlook remained on track for the first half of 2024, the following significant industry or market changes warrant attention.

Stock Throughput

We continue to see further softening in the stock throughput market, resulting in improved pricing, additional capacity and improved terms/conditions. We have also noticed an increase in appetite for commodities that were previously a challenge to obtain, such as perishables. This protection can be obtained but does require underwriting and effective risk management.

Trends to Watch: Second Half of 2024

Stock Throughput (STP)/Cargo

Today's supply chain is vulnerable to any disruption that can significantly interrupt the stream of commerce for manufacturers and distributors. For now, rates continue to soften as new capacity enters the market.

There has been a great deal of supply chain discussion around recent events (e.g., Ukraine, Israel/Gaza, Key Bridge, and Taiwan earthquake). At this point, we do not see these having a significant impact on the global STP market and we expect rates to continue to be competitive.

Cyber

For the past four years, manufacturers and distributors have been one of the top industries targeted by bad actors. Industry 4.0, legacy systems, the Internet of Things (IoT) and human error have helped make manufacturers and distributors a target, especially for ransomware events driven by business email compromise. Although insurance pricing and coverage availability have improved, cyber hygiene and employee training are vital to protecting the enterprise from these exposures.

How USI Can Help

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

- 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.
- Evaluate all:
  - COPE (construction, occupancy, protection, exposure) data to mitigate property insurance market headwinds.
  - Property, business interruption, equipment, stock, and inventory values.
  - Contracts with customers and vendors/suppliers to ensure contract compliance and aggregate insurance limit, and seek maximum potential contractual risk management remedies from downstream suppliers and vendors.
  - Market and program design options to identify opportunities for cost savings and exposure reduction.
- Review and consider retention strategies for premium impact.
- Identify and differentiate each risk, 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.

Developments Since January 2024 Outlook

The projections published in our January Market Outlook remained on track for the first half of 2024.

Trends to Watch: Second Half of 2024

Difficulty in Placing Subsidized Housing Risks

Earlier this year, President Biden announced a plan to lower housing costs for working families in the U.S., offering developers and real estate owners government subsidies to renovate and operate these dwellings. However, securing insurance for subsidized housing can be challenging due to high-risk profiles, limited coverage options, and specialized insurance requirements.

For example, insurers are likely to apply endorsements to deny claims where property owners have not implemented adequate maintenance and protection in these dwellings. The high loss ratios associated with this type of housing can exacerbate the placement issues, especially where lender requirements do not allow higher retentions. Before pursuing this opportunity, real estate companies should conduct research and consult with USI's real estate team.

Frame Apartments

Frame apartments are considered riskier than other construction types, like concrete or steel, because wood is more susceptible to damage from fire, wind and other hazards, leading insurers to perceive higher risk. Therefore, underwriters are implementing strict requirements, including but not limited to:

- Upgrades to locations more than 20 years old
- Compliance with NFPA 13 guidelines (not just NFPA 13R), which are designed to protect buildings and their occupants from the dangers of fire (read our article about recent updates to the regulations)
- Scrutiny of the real estate management company (not just the risks) to insure it is following best practices
- Six to 10 years of claims experience
- Limitations or exclusions on sexual abuse and molestation (SAM) coverage on the general liability policy

Rising Litigation Trends

Real estate companies should be aware of litigation trends stemming from contractual tenant and contractor disputes, construction and renovation project incidents, and third-party losses from poor property maintenance or security measures. Today's labor shortage exacerbates this trend — the National Apartment Association reports a 33% turnover rate for property management staff.

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 analyze your hurricane, earthquake, severe thunderstorm, flood and wildfire exposures, allowing for risk-based insurance purchasing decisions.
- Assess environmental, social and governance (ESG) risks. USI's Executive & Professional Risk Solutions (EPS) team is evaluating the impact of ESG on real estate companies and the potential insurance solutions related to ESG strategies. The EPS team can conduct a detailed review of your risk profile and corresponding exposures.
- Communicate effective maintenance strategies and how, ultimately, better loss results can have a positive financial impact. USI can help real estate clients employ effective risk control strategies related to maintenance that can create competitive advantages over their peers.

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

Developments Since January 2024 Outlook

As stated in our January Market Outlook, construction confidence remains optimistic despite continued inflationary and interest rate pressures coupled with sustained skilled labor shortages. The Associated Builders and Contractors (ABC) backlog index, which is one of the macroeconomic indices of a thriving or declining industry, rebounded in March, although it remains below this same period in previous years. ABC's Chief Economist Anirban Basu said he is surprised at the optimism in non-residential construction due to the headwinds created by high borrowing costs, emerging supply chain issues, project financing challenges and labor shortages.

Trends to Watch: Second Half of 2024

Builder's Risk

As an overall coverage line, competition is likely to pick up in the second half of 2024 barring any major events. There is an expectation for slight rate reductions for non-combustible constructions and rate stabilization for frame buildings. Coverage interpretation has taken a front seat with recent rulings regarding London Engineering Group (LEG) — particularly what's known as the "LEG-3" exclusion, which allows coverage for the defective damaged property but excludes the cost of improvements of materials, workmanship, designs, plans or specifications. We expect this ruling to continue to create confusion in the marketplace. Look for new definitions of "damage" and/or "defects" and possibly for some markets to issue new wording entirely or steer clear of LEG terms in general. Project extensions remain a challenge, particularly on large and complex risks, long term projects, or those written by carriers that have less diversification.

Developments are increasing in natural catastrophe (CAT) exposed and coastal communities, making it difficult to get appropriate levels of coverage. As lenders become more strict, they will mandate additional analytics to demonstrate adequate and/or appropriate levels of insurance to effectively manage the risk. According to builder's risk underwriters, secondary CAT perils (such as tornado, wind and hail) will continue to impact carrier results (as they did in 2023). Expect this to place much higher emphasis on estimated maximum loss (EML) scenarios and the appropriation of severe weather deductibles, sublimits and rates. In addition, alternative products like parametric insurance are gaining popularity to address disruptions in project delivery by weather events.

Securing insurance coverage for major renovations and conversions can be challenging for construction companies due to several factors. These projects often involve significant changes to the structures of the buildings, which can increase the risk of accidents, property damage and liabilities. Insurance companies may perceive these projects as riskier compared to new construction. Property carriers may not want the exposure while renovation is taking place, and builder's risk markets may not want to cover the higher values associated with the existing structure, if it's not already covered under the property policy. Construction companies are questioning the profitability of these projects and sometimes declining to finance them or limiting their budgets.

Workers' Compensation

Workers' compensation continues to be a line of coverage where customers are experiencing stability. However, with the continued labor shortage and loss costs still on the rise, vigilance in properly classifying exposures remains critical to receive accurate pricing.

Currently, the industry is approximately 500,000 workers short for projects currently under construction. According to Travelers 2023 "Employee Injury Trends in Construction" report, 47% of all construction injuries were to first-year employees, and this drove more than half (51%) of all construction workers' compensation costs. This suggests that construction companies will need a robust risk engineering plan that is implemented and executed effectively to keep workers healthy and on the job site. As a result, carriers are starting to hold their rates on workers' compensation as opposed to the negative rate environment we have seen in the last few years.

Auto Liability

As claims continue to rise in both frequency and severity, many carriers are pushing deductible increases on physical damage and adding deductibles for liability coverages to control frequency. Telematics implementation has moved from true transportation fleets to any construction contractor with a fleet of vehicles.

Umbrella/Excess

Capacity restrictions and/or reductions continue across all segments of construction. The umbrella/excess market can be more limited for contractors with large auto fleets or specialize in single-family residential, frame construction, and wildfire-exposed utility work. Trades that perform work activities like steel erection, glass and glazing, roofing, foundation work, and even mechanical contractors also may face limitations. This will be especially true for insureds that have a history of losses in their underlying casualty program.

Owner Controlled/Contractor Controlled Insurance Programs (OCIP/CCIP)

Commercial-grade projects are easier placements and trending towards a softening or leveling of the market. Broad appetite exists for this class of business and volume increased in 2024.

Rent frame projects remain challenging to place with no singular market offering large capacity. However, we still see a strong market appetite for rental/multifamily apartments, as there continues to be volume from large developers. Homebuilders or for-sale developments continue to lead the marketplace with the most restricted market access and highest cost of insurance.

Rolling or subscription programs are volatile and showing signs of hardening, especially for the wood frame developments and in more challenged construction-defect states like California, Texas, South Carolina and Florida. Putting together a structured rolling program will not only help the pricing efficiency, but also lock in rates for 18 to 20 months, providing certainty on pricing and structure for developers and contractors. Loss runs, prior experience, and geotech reports remain key underwriting components that dictate price.

Because of the litigation environment, two-line commercial insurance policies (CIPs) are still achievable and regularly transacting in New York for large deals of $600M or more, and general-liability-only CIPs are currently not readily available. Owner/general contractor project-specific placements are prevalent for all size of New York projects, which include an additional risk mitigation strategy implemented by a third party or law firm that facilitates the review and vetting of subcontractor insurance.

Surety

Most carriers are still looking for new opportunities, and the market is still somewhat stable in all sectors and jurisdictions. However, due to a small uptick in claims in the subtrades, sureties will have a watchful eye on backlogs and cash flow. For subcontractor default insurance (SDI) programs, we are seeing an increased interest from private projects. For existing users of SDI, we are also seeing an increase in loss activity.

Most large contractors are continuing to push aggregate programs as projects and backlog size increases. Good risk management and financial qualification of subtrades are becoming standard operating procedures for any contractor that subs any portion of their work. Healthcare, educational, highway and street, transportation, sewer and waste disposal, and manufacturing should continue to be strong segments in 2024.

How USI Can Help

USI's construction team recommends:

- Start negotiations early and regularly communicate with your USI team, including insurance and surety business advisors. Outline financial and operational status and goals. Renewal discussions should be on a 365-day calendar cycle.
- Anticipate questions and requests beyond historical exposure data to demonstrate financial strength, operational controls and effective contractual risk management. Have data to demonstrate the execution in each of these areas.
- Embrace technology for operational efficiencies and better risk management outcomes. Make data-driven decisions on changes that reduce claims and promote a stronger safety culture.
- Apply a disciplined approach to claims and risk management. Eliminating or reducing claim costs will increase profit margins and reduce future premium spending.
- Outline lessons learned and process improvements (even if your overall loss picture is favorable) to demonstrate to carriers your commitment to safety and risk mitigation.
- Seek alternative structures or strategies for risk financing that matches appetite and risk tolerance.

Builders Risk

Clients can work with USI's construction practice group, which specializes in helping companies implement robust risk mitigation measures (such as fire and water mitigation) and negotiate terms and premiums with insurance providers.

Having a track record of successful projects and a strong safety record can improve a construction company's ability to secure insurance coverage for renovation projects. For projects which have CAT-exposed risk, modeling is critical to ensure pricing and limit adequacy.

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

PUBLIC ENTITY & HIGHER EDUCATION

Developments Since January 2024 Outlook

Most of the projections published in our January Market Outlook remained on track for the first half of 2024, with only a few exceptions. Earlier this year, we described the high claims costs resulting in a more limited marketplace, reduced capacity, and increased retentions and premiums. Public entities and higher education (PE & HE) organizations continue to face challenges with their accumulation of values, with a broad range of properties from historical buildings to jails and inherited properties.

However, the pace of overall property insurance rate increases is beginning to slow, and capacity is starting to improve. Rates are leveling out on some layers while increasing on others. Multiple insurance markets have announced an increase in capacity for 2024, and insureds with optimal risk profiles are in the best position to take advantage.

Trends to Watch: Second Half of 2024

Adequate Valuations

To secure optimal (or sometimes any) coverage, PE & HE organizations need to focus on obtaining adequate valuations of their properties and assets. While it is difficult due to the age and use of properties, neglecting this step could result in underinsuring property or paying excessive premiums.

Sexual Abuse and Molestation (SAM) and Traumatic Brain Injury (TBI) Insurance

PE & HE organizations are particularly at risk, as they often serve children, students and other vulnerable populations. As a result, insureds might have to purchase SAM and TBI policies from a secondary market, which can be expensive and limited in capacity. It's crucial to implement effective risk management strategies and maintain a strong risk profile to obtain the necessary coverage.

How USI Can Help

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

- Preparing a comprehensive market submission that highlights a strong or improving safety culture and risk management approach.
- Developing analytics around risk financing opportunities that improve decision making and outcomes.
- Using catastrophic property modeling to identify the appropriate amount of wind, flood and earthquake coverage, and ensuring that construction, occupancy, protection and exposure (COPE) data is detailed and accurate.
- Evaluating all U.S. and London market options, focusing on risk appetite and industry.
- Performing a cyber policy review to ensure an organization's program includes current coverage updates, and using USI's eRiskHub and other risk management tools to help navigate cyber exposures and claims.
- Offering our proprietary programs to address specific needs. For example, USI's suite of threat/terror solutions offers a broad coverage option for strikes, riots and civil commotion.

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

Developments Since January 2024 Outlook

The year-end projections published in our January Market Outlook were on track for the first half of 2024, with the exception of the FDA approval rate for gene therapies, which has reached unprecedented levels of innovation. Liability risk implications from gene therapy innovations create a mixed long-term outlook. On one hand, patients suffering from illnesses, particularly rare diseases, have never had so many potential treatment options under development. However, new products and other therapies create additional liability exposures, and given long-term variables present in gene therapy outcomes, the industry is working to keep up by providing policy forms with necessary terms and conditions.

Trends to Watch: Second Half of 2024

The list of excluded products/substances grows longer. Companies should review their clinical trials and marketed product offerings for overlap with exclusions of products or substances that insurers are adding, including but certainly not limited to:

- Silicone, a broadly used manmade polymer derived from silicon
- Di(2-ethylhexyl) phthalate (DEHP)
- Acetaminophen
- Per- and polyfluoroalkyl substances (PFAS)

How USI Can Help

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

- 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's 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.

Developments Since January 2024 Outlook

Most of the projections published in our January Market Outlook remained on track for the first half of 2024, with only the following significant industry and market changes.

Professional Liability for Human and Social Services

Many of the traditional admitted and non-admitted insurance companies continue to reevaluate exposure to larger claim settlements and awards paid during late 2022, all of 2023, and in the first quarter of 2024. However, the human and social service risk transfer market is experiencing competition from new and established underwriters. These underwriters are trying to attract insureds facing rate increases imposed on them during the last several renewal cycles by offering better rates, but they are looking for organizations with the following characteristics:

1. Favorable loss history
2. Operations not in states with statues that encourage claim activity and/or indemnity demands driven by social inflation and challenging legal venues
3. Specific and measurable risk mitigation that avoids or reduces exposure to incidents and claims

Trends to Watch: Second Half of 2024

Property

Healthcare companies should watch for additional risk transfer capacity from property insurance carriers throughout the year. This can help them adapt to changing risk environments, protect against catastrophic events, support expansion initiatives, address capacity constraints, maintain financial stability, and align with strategic risk management objectives.

Refer to the Property section of this report for a full property insurance market update.

Professional Liability for Human and Social Services

Human and social services companies are facing larger indemnity demands due to heightened litigation risks, a complex regulatory environment, and tight underwriting standards resulting in increased exposure. This underscores the importance for insureds to prioritize risk management, compliance and robust insurance coverage to mitigate potential liabilities and protect their financial interests. There may be an opportunity with underwriters that are attempting to gain market share by offering insureds better terms than those of incumbent underwriters.

How USI Can Help

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

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

USI also supports clients in the renewal process with:

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

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

TRUCKING

Developments Since January 2024 Outlook

The projections published in our January Market Outlook remained on track for the first half of 2024.

Trends to Watch: Second Half of 2024

Driver Shortages

Trucking companies are currently short 64,000 drivers, according to the American Trucking Association, and this number is expected to grow. This can lead to safety concerns and other risks. Without enough drivers to cover routes, existing drivers may be required to work longer hours and more consecutive days, leading to fatigue. Fatigued drivers are more prone to accidents due to decreased alertness and slower reaction times.

Inexperienced drivers also create risks. Companies may hire less experienced drivers to fill the gaps, leading to a workforce with varying skill levels. Inexperienced drivers are more likely to make mistakes and may not be as adept at handling challenging driving conditions.

Social Inflation and Legal Liabilities

Social inflation refers to the increasing trend of rising insurance claims costs and litigation expenses driven by societal and legal factors. In trucking accident cases involving allegations of negligence or misconduct, juries may award punitive damages as a form of punishment, particularly if they perceive the trucking company's actions as reckless or deliberate. This trend can lead to higher insurance costs for all trucking companies, as litigation and larger jury awards result in higher insurance claim payouts for insurers, prompting them to raise premiums to cover these costs.

Trucking companies can take several proactive steps to combat these increasing threats, such as optimizing insurance coverage, investing in safety programs, implementing robust risk management practices, and complying with industry regulations.

Electronic Vehicles (EVs)

Trucking companies are increasingly exploring the use of EVs as part of their fleet operations to reduce emissions and lower operating costs. However, they must ensure that EVs comply with applicable regulations governing vehicle safety, emissions standards, weight limits and other requirements. By integrating EVs into their fleet operations in a compliant and sustainable manner, trucking companies can reap the benefits of electrification and reduce their environmental impact.

How USI Can Help

When considering renewals for 2024, consider these suggestions from USI's transportation team:

- Work with USI to evaluate all market and program design options to identify opportunities for cost savings, cash flow improvements, and exposure reductions.
- Begin the renewal process at least 150 days prior to expiration.
- Create a narrative around safety programs, proactive and post-loss telematics usage, and claims management strategies.
- For loss-sensitive programs, perform a collateral analysis to ensure reductions are sought where possible.
- Evaluate the financial impact of higher deductibles or self-insured retentions to reduce premiums and improve cash flow.
- Consider alternative risk transfer programs. USI can perform an analysis to identify which of these programs may be a good fit.
- Perform a regulatory analysis to understand causes of violations.
- Identify high-risk drivers with a risk assessment and develop a remediation strategy for those who will be retained.
- Adopt and implement cost-efficient technologies to help mitigate risk. USI can assist in evaluating technologies and develop strategies necessary to manage the risk associated with deployment.
- Consistently review actual exposures versus projected ones for composite rated policies to ensure minimum premium requirements are being met, and revise them if necessary and possible.

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 successfully guide your organization, enhance insurance coverage, and control costs. For additional information and resources, please visit our Executive Insights page: usi.com/executive-insights

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