2025 Commercial Property & Casualty

# MARKET OUTLOOK

## Mid-Year Addendum

Forecast Insights From USI National Practice Leaders

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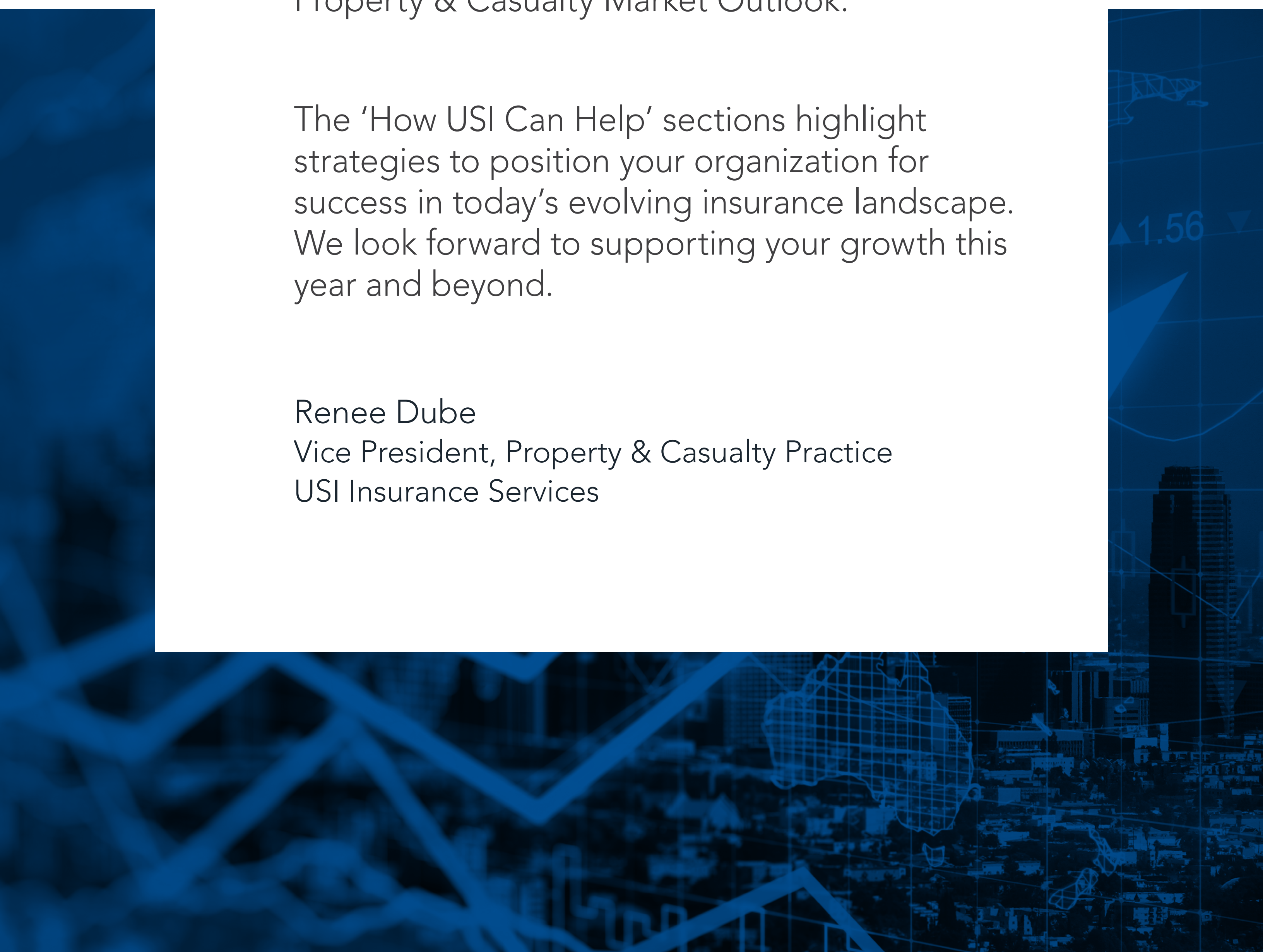
> This mid-year addendum summarizes current market conditions, our forecast for the second half of 2025, and key developments since the release of our January 2025 Commercial Property & Casualty Market Outlook.
>
> The 'How USI Can Help' sections highlight strategies to position your organization for success in today's evolving insurance landscape. We look forward to supporting your growth this year and beyond.

Renee Dube
Vice President, Property & Casualty Practice
USI Insurance Services



# Market Update & Rate Forecast

To view historical rate index charts (trajectory of rates 2018-present), click on a product line below:

| PRODUCT LINE | FIRST HALF 2025 | SECOND HALF 2025 (PROJECTION) |
|---|---|---|
| **PROPERTY** | | |
| Non-CAT Property w/ Minimal Loss History and Favorable Risk Profile | -5% to +5% | -10% to Flat |
| CAT Property w/ Minimal Loss History and Favorable Risk Profile | -20% to Flat | -20% to Flat |
| CAT or Non-CAT Property w/ Unfavorable Loss History or Risk Profile | -10% to +10% | -10% to +10% |
| **CASUALTY** | | |
| Primary General/Product Liability | Flat to +10% | Flat to +10% |
| Primary Auto Liability w/ Fleet Less Than 200 & Good Loss History | Flat to +5%[1,2] | Flat to +5%[1,2] |
| Primary Auto Liability w/ Fleet Less Than 200 & Poor Loss History | +15% to +30%[1] | +15% to +30%[1] |
| Primary Auto Liability w/ Fleets in Excess of 200 | +5% to +10%[1,2] | +5% to +10%[1] |
| Excess Auto Buffers | +40% | +40% |
| Workers' Compensation Guaranteed Cost | -5% to +3%[3] | -5% to +7%[3] |
| Workers' Compensation Loss Sensitive | -5% to Flat[3] | -5% to Flat[3] |
| Umbrella & Excess Liability (Middle Market) | Flat to +10%[4] | Flat to +10%[4] |
| Umbrella & Excess Liability (Risk Management) | Flat to +15% [4] | Flat to +20%[4] |
| **INTERNATIONAL** | | |
| International Liability | -5% to Flat | -3% to Flat |
| International Property, CAT Exposure | +5% to +12% | +15% to +20% |
| International Property, Non-CAT Exposure | Flat to +5% | Flat to +5% |

| PRODUCT LINE | FIRST HALF 2025 | SECOND HALF 2025 (PROJECTION) |
|---|---|---|
| **ENVIRONMENTAL** | | |
| Environmental Combined General Liability/ Pollution | -5% to +5% | -5% to Flat |
| Excess Combined General Liability/Pollution | +5% to +15%[5] | +10% to +25% |
| Environmental Contractors' Pollution | -10% to Flat | -10% to +5% |
| Environmental Pollution Legal Liability | -10% to +5% | -10% to +5% |
| **Aviation** | | |
| Aviation | -5% to Flat[4] | -10% to Flat[4] |
| **EXECUTIVE & PROFESSIONAL RISK** | | |
| Public Company Directors & Officers (D&O) Liability — Overall | -5% to Flat | Flat |
| Private Company and Not-for-Profit (NFP) D&O Liability — Overall | -7.5% to Flat | -2.5% to +2.5% |
| Employment Practices Liability (EPL) | -5% to +10% | Flat to +10% |
| Fiduciary Liability | -5% to +5% | Flat to +7.5% |
| Crime | -5% to +5% | Flat to +10% |
| Kidnap & Ransom | Flat | Flat |
| Professional Liability/Errors & Omissions (E&O) | -5% to +10% | Flat to +10% |
| Transactional Risks (Representations & Warranties Insurance (RWI)) | +5% to +10% | Flat to +10% |
| Cyber (Network Security & Privacy) | -5% to +5% | -5% to Flat[6] |
| Technology E&O | -5% to +5% | -5% to Flat[6] |

[1] Geographical radius of operations will impact pricing.
[2] Including need for primary limits up to $2M.
[3] Dependent on state.
[4] In some cases, depending on class of business, historical losses and limits purchased. Factors in contraction in limits.
[5] If heavy truck exposure, increase can be higher than 15%, especially in certain geographies.
[6] Subject to adherence of core cybersecurity controls.

View all Historical Rate Index charts here

# Property

## Developments Since January 2025 Market Outlook

After an estimated $140B in global insured natural catastrophe losses in 2024, the third highest on record, the first quarter of 2025 exceeded $50B, marking one of the highest losses ever for any first quarter. Shortly after the release of our 2025 Commercial Property & Casualty Market Outlook in January, the Palisades and Eaton wildfires in Los Angeles burned more than 16,000 structures over 57,000 acres. The damages are estimated at $53.8B, with insured losses expected to surpass $30B.[1,2]

In March, severe convective storms across the southern and eastern U.S., along with a tornado outbreak in the central and southeastern regions, contributed significantly to the estimated Q1 insured losses. A 7.7 magnitude earthquake in Myanmar caused an estimated $600M to $900M in losses for Thai property and casualty insurers; most of these losses will be absorbed by global and regional reinsurers.[3]

Combined, these events equated to the second highest insured natural catastrophe losses on record for Q1, well above the historical average for the period. Following five straight years of $100B+ global insured catastrophe losses, 2025 is now well-positioned to continue this trend. With the 10-year average of global insured natural catastrophe losses now exceeding $100B, the property insurance market appears to be facing a new normal.

Despite this and an active hurricane season expected, the insurance and reinsurance markets are well capitalized, and ample capacity remains. Reinsurance treaty renewals in January were favorable, while the April renewals started to see wider swings on rate changes due to portfolio loss activity. Property renewals in the first half of 2025 saw increased competition, deployment of additional capacity on programs, widespread rate decreases, and improvements to terms and conditions.

Single carrier programs started to see rate decreases, while shared and layered programs saw fierce competition, especially for high-quality risk profiles, resulting in rate decreases of 5% to 30%. London and Bermuda contributed heavily to the competitive environment, in some cases replacing incumbent single carrier programs, resulting in a 30% premium savings over an incumbent renewal offering.

Some risks remain challenging to place due to limited insurer appetite, and may not experience the decreases or improved terms seen in the broader market:

- Wildfire-exposed accounts
- Older wood-frame habitational risks
- Wind-exposed locations with older roof coverings
- Food manufacturing
- Subsidized housing

Nevertheless, opportunities exist for insureds that implement appropriate risk mitigation, maintain retentions and anticipate risk improvements, making them more acceptable to the market.

**Insured catastrophe losses have exceeded $50B globally so far in 2025.**

# Trends to Watch: Second Half of 2025

## Competitive Market Conditions Continue

In the second half of the year, opportunities will remain for insureds to expand coverage, purchase higher limits, reduce deductibles, improve terms, and reduce premium. Capital continues to flow into the insurance and reinsurance markets, providing the environment for additional softening.

Strategies that impacted premium savings the most, such as canceling or rewriting an existing program, will start to have diminishing returns once the higher-priced capacity from 2024 is replaced. Therefore, insureds with effective dates of October through December may not see the savings found in the first half of 2025 with these strategies.

Tariffs will likely create new and increased exposures for insureds, impacting some industries and supply chains more than others. Insureds seeking to cut costs will have opportunities to adjust exposures and limits — or replace an existing program, whether mid-term or at renewal. Should insureds decide to move forward with a cancel/rewrite of an existing program, careful consideration should be given to cancellation provisions on the existing policies prior to binding the replacement program.

Carriers can impose provisions and penalties when a property insurance policy is canceled early. Minimum earned premium provisions, which can range between 25% and 100% of the total bound premium, can reduce the anticipated premium savings or make the strategy cost-prohibitive. Insurers may also impose short-rate penalties to unearned premiums when the policy is canceled before expiration. These penalties can be imposed in addition to minimum earned premiums, which may affect the insured's decision to replace an existing program. For properties in hurricane-exposed areas, minimum-earned premiums of 85% may apply for any policy in force during hurricane season, regardless of whether in force for one month or 11 months.

Before exploring alternative programs mid-term, insureds should carefully review their policies and endorsements for these provisions and penalties. It could reveal that a strategy will be ineffective or even increase costs.

**Rates and terms have softened overall, with ample capacity available.**

## Increased Exposures From Tariffs

The property insurance market would feel both the short- and long-term impacts of tariffs. Raw material costs and availability would impact replacement cost valuations for buildings and equipment, reversing the downward trend seen since 2022 following inflationary pressures during the COVID-19 pandemic. Higher replacement costs would increase policy limits and natural catastrophe limits, reduce market capacity, and raise premiums based on higher valuations. Raw material availability can affect loss estimates, particularly for business interruptions caused by delays in replacing items after a loss.

Tariffs could also disrupt supply chains while organizations evaluate alternatives to current suppliers, customers and raw materials sources. Throughout this process, insureds should analyze risks such as:

- Increased exposure to single-source suppliers for raw materials
- Increased transit exposure from the movement of inventory or equipment to alternative locations
- Adequacy of natural catastrophe limits or policy limits because of the movement of goods, materials and equipment
- Political risk of doing business in different countries
- Business interruption exposure created by changes in operating or make-up capacity

While the extent of the tariffs' impact remains uncertain, the challenges and new exposures they will introduce for capacity, pricing, valuations, and coverage are expected to become apparent in the latter half of 2025. Insureds will need to monitor and review their policies closely to ensure their coverage aligns with anticipated changes and new exposures.

## Surging Replacement Costs: Regional Variations and Future Projections

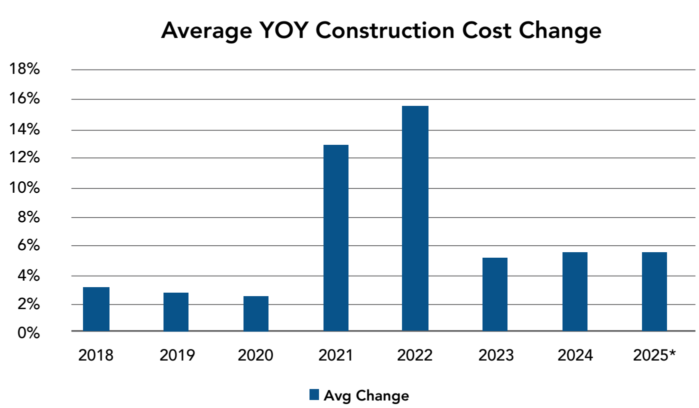
Replacement cost valuations from January 2024 to January 2025 increased 5.5% YOY, attributed to sustained high labor and raw material costs. Although the U.S. average was 5.5%, several states including Maine, Tennessee, Florida, Kansas, Minnesota, Montana, Idaho, Nevada and Washington saw annual increases between 7.4% and 10.1%.[4]

Material costs were up 2.6% for the same period, while labor costs were up 5.3%. Lumber costs remained relatively flat at 0.3%, while concrete material was up 8.1% and paint material was up 2.9% annually. Concrete masons saw the largest increase in labor costs, up 26.3% annually, while most other categories were 5.7% or less.

After the Palisades and Eaton fires in Los Angeles, demand surged for replacement cost indices, affecting rebuilding costs. During the first quarter of 2025, Pacific Palisades experienced replacement cost increases of 4.2%, while the rest of California averaged 1.7% for the same period.[5]

If these factors remain constant, it would equate to a 16.8% increase in the impacted areas from 2025 to 2026, before factoring in tariff impacts to material costs or availability. This is more than three times the current national average of 5.5%, and would surpass the highest point since the pandemic.

Should the tariffs be implemented and maintained, replacement costs in the affected areas could increase more than 20% YOY, which could significantly impact premiums, adequacy of values, limits required, natural catastrophe limits needed, and available capacity in the market. Therefore, it is recommended that insureds review and refresh their values more frequently than annually to capture the fast-moving changes expected to the replacement cost indices.




## Expansion or Creation of State FAIR Plans to Fill Coverage Voids

Following the exodus of insurers willing to insure property in high-risk areas (such as those prone to wildfire or wind), state regulators have been searching for solutions to meet insurance demands for homeowners and commercial property buildings. Fair Access to Insurance Requirements (FAIR) plans or citizen plans, which are state-regulated and issued by admitted carriers, provide coverage when it is unavailable on the open market. As of today, 35 U.S. states and the District of Columbia offer FAIR plans covering nearly three million properties and over $1 trillion in exposure.[6] Some states have created their own FAIR plans (Colorado in January 2025), while others, like Utah, are considering creating them to meet growing needs sustainably.

In several states, these plans have become prominent due to unmet needs in the private insurance market. For instance, Florida's Citizens Plan covers more than one million households, making it the largest insurer in the state. At the time of the Los Angeles wildfires in January, the California FAIR Plan covered more than $6B in exposure in the impacted areas.[7] Since then, it has significantly increased coverage, now insuring more than 350,000 properties. In March 2025, limits were raised to address the needs of various groups priced out by private insurers. Coverage offers up to $20M per building and a maximum of $100M per location, highlighting gaps left by private insurers exiting some markets.[8]

As these programs expand to fill the void created by the exit of the private insurance market, they become increasingly reliant on policyholder assessments, or mechanisms such as catastrophe bonds, to build surplus needed to pay claims. If the existing surplus and reinsurance fall short, policyholders must fund the deficit through assessments, which can be substantial and add financial strain. Insurers may re-enter previous markets or address the gap with short-term assessments or alternative financing, indicating increasing needs across various regions. Insureds should pay attention to any regulatory developments in their states related to these FAIR plans, as they may offer some short-term solutions where coverage is either too expensive or unavailable.

# How USI Can Help

The property market is competitive and opportunities remain for insureds to lower their total cost of risk, expand coverage and improve terms and conditions. With an increased focus on using data and analytics to design an efficient, cost-effective program, **USI helps organizations with their property insurance and risk management in several ways:**

- **Optimize program design.** Leveraging various underwriting tools and data, we identify and quantify exposures to loss, enabling you to purchase the right amount of coverage while meeting your budget and third-party requirements.
- **Enhance risk management.** By aggressively marketing renewals to all viable markets for your risk profile, we help ensure the best possible terms and rates.
- **Improve coverage.** We identify where you can improve coverage, limits, deductibles, clauses, or exclusions to ensure you have the best possible protection.
- **Compare programs for informed decisions.** We provide side-by-side comparisons of different insurance program limits, deductibles, terms, and premiums, which allows you to make well-informed decisions about your property insurance and risk management.

To learn how USI can help your organization navigate the transitioning property insurance market and make sure you receive the best possible coverage and rates while effectively managing risks, contact your USI representative or email us at pcinquiries@usi.com.

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[1] Southern California Leadership Council
[2] Insurance Business
[3] Business Insurance
[4] Verisk Data, Q1 2025 Reconstruction Cost Analysis
[5] Verisk Data, Verisk Insurance Conference
[6,7] Oregon Capitol Chronicle
[8] Insurance Business

# Casualty

## Developments Since January 2025 Market Outlook

The workers' compensation insurance market remained mostly profitable in the first half of 2025. However, insurance carriers have experienced a reduction in net profit margins due to several contributing factors, including a decline in reserve redundancy. Despite achieving nine consecutive years of underwriting profits, with an impressive average combined ratio of 91% from 2015 to 2023 (which decreased to 88% in 2023), the extended period of reserve redundancy and low claims frequency is beginning to diminish.[1]

Commercial automobile, general/products, and umbrella/excess liability lines capacity remains adequate, and rate increases are generally stabilizing for most insureds, as we reported in January's 2025 Commercial Property & Casualty Market Outlook.

## Trends to Watch: Second Half of 2025

### Workers' Compensation

- **Profitability:** Workers' compensation remains profitable for most insurers, both on guaranteed-cost and loss-sensitive bases. The average rate in most states has decreased YOY, and capacity remains high for many markets, including with new entrants. This has resulted in both rate and premium reductions, despite higher payrolls.
- **Reserve redundancy:** Insurers are carrying adequate reserve redundancy, although the pace of reserve releases is slowing. This trend may lead to rates leveling off or moderate rate increases in more states in 2025.
- **Claim costs:** For premiums to remain flat or decline in the coming year, continued rate reductions must be matched or exceeded by declining claim costs. However, this trend is slowing down or reversing in many states.
- **Medical severity costs:** While the frequency of medical injuries remains low, higher medical severity costs and rising indemnity payments for wage replacement are contributing to a gradual rise in claim costs in many states. The Workers Compensation Research Institute reports the rising costs are due to various factors, including increased medical expenses, longer disability durations, and higher benefit delivery costs. This trend has been observed across multiple states and has significant implications for employers, insurers and policymakers.
- **High-risk industries:** Industries like sawmills, recycling organizations, and heavy construction contractors face greater pressure and coverage restrictions for workers' compensation insurance due to their high-risk nature, rising injury rates, regulatory scrutiny, higher medical costs, and inadequate safety protocols. This leads to increased claim costs and stricter coverage terms.
- **Legislative trends:** A legislative trend to expand workers' compensation presumptions for mental conditions is waning, which may impact coverage and claim costs in the future. The Workers' Compensation Insurance Rating Bureau of California announced an 11.2% average rate increase, citing increased medical loss development, increased frequency of cumulative trauma claims, higher average medical costs, and higher allocated loss adjustment expenses. The California Department of Insurance may veto this and suggest lower rates, but it is a trend that could potentially impact all states.

### Commercial Automobile

- **Stable market:** For smaller fleets (<200 vehicles) with good loss histories, the market remains stable, with rates flat or increasing slightly.
- **Driver shortage:** The driver shortage has eased, thanks to technological advancements. This issue, once the No. 1 concern for companies, has dropped to No. 9, according to the American Transportation Research Institute.
- **Tort reform:** Tort reform has been difficult to pass in most states, although Georgia and Texas have passed or are considering legislation that could

[1] Fitch Ratings

positively impact litigation costs. This could also lower insurance premiums and increase coverage availability, especially for high-risk sectors like trucking in these states.

- **Large fleets:** Insurers are cautious about providing coverage for companies with recent large losses or those with large fleets of 500 or more, such as long-haul truckers.
- **Insurance costs:** Insurance cost and availability is now the No. 4 issue according to the latest American Transportation Research Institute survey, whereas it didn't appear in the top 10 issues in the previous year.
- **Social inflation:** Rising jury verdicts and settlements continue to drive adverse reserve development, creating negative loss ratios and a less predictable underwriting environment. This trend may increase rates again in the coming quarters, particularly for high-risk insureds.

## General/Products Liability

- **Rates:** Although rate increases still prevail for the majority, more insureds are obtaining less severe rate increases and flat renewals in industry segments that have achieved rate adequacy. Sufficient capacity exists, and moderate competition for new business has returned to general liability/products for a growing number of sectors, including retail and certain segments of manufacturing.
- **Multiple lines:** To increase profitability, the insurance market increasingly requires that general liability insurance be combined with workers' compensation insurance and often other lines as well, including automobile liability, umbrella, and property. 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.
- **Litigation financing:** Social inflationary pressures are not abating, nor is the practice of litigation financing to generate a revenue stream.
- **Challenging risks:** 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. More 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 programs.
- **Foodborne illness:** For food manufacturers, high-profile foodborne illness outbreaks can lead to substantial changes in the product liability insurance landscape. Insurers may respond to these events by adjusting rates, tightening underwriting standards, and, in some cases, reducing capacity.

## Umbrella/Excess

- **Rate expectations:** Rates for middle-market buyers are expected to be flat to up 10%, while risk management buyers can anticipate increases of up to 20%, depending on prior loss history and class of business.
- **Multiple-line benefits:** Combining umbrella liability with other lines, such as primary casualty and property, can often result in lower premium costs.
- **Selective capacity deployment:** For certain industry classes, including transportation and habitational, national markets are often deploying capacity selectively, or reducing capacity.
- **Auto premium challenge:** If auto premium exceeds 50% of total underlying coverage, placing umbrella/excess at competitive premiums with sufficient capacity becomes more challenging due to social inflationary issues and inadequate loss reserves.
- **Social inflation:** Navigating the complexities of social inflation will continue to be a challenge for umbrella/excess liability lines as social dynamics evolve.
- **Reserve strengthening:** Insurers are increasing their reserves to cover potential future claims, reflecting a less predictable underwriting environment and potentially leading to higher premiums and stricter coverage.

# How USI Can Help

## General/Products and Umbrella Liability

Organizations and brokers should stay alert and take proactive measures to secure favorable outcomes. Solutions can address issues like rate hikes, reduced capacity, and tighter coverage terms. In the current market, USI advises to:

1. **Ensure policy limits, terms and conditions are sufficient** — especially in the face of adverse loss trends — by having USI perform a benchmarking analysis, review coverage, and analyze litigation trends in your industry.
2. **Start renewal preparations early.** Create a comprehensive plan and begin discussions with markets at least 150 days before renewal. Discuss capacity reductions, per-million pricing, and new exclusions like infectious diseases.
3. **Focus on key risks that concern underwriters.** Highlight your risk profile's strengths, such as loss control investments, safety measures, contractual risk management, and capital expenditures.
4. **Start early discussions with markets to build relationships.** Identify minimum limits for umbrella coverage early on, and consider self-insuring above required limits. Compare umbrella/excess limits with peers to ensure adequate coverage.
5. **Leverage data analytics** to evaluate risk financing alternatives.
6. **Evaluate the costs and benefits** of higher retention levels, quota-share participation in umbrella/excess programs, swing plans with loss-dependent costs, and multiyear single-limit policies within insurance programs.

## Workers' Compensation

Insureds and brokers should proactively identify factors that will secure the best renewal terms related to program structure, pricing, and coverage. Key strategies include:

1. Verify payroll information is correctly categorized by **classification codes** to avoid errors in premium calculations.
2. Ensure **experience modification** factors are accurately calculated to reflect 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**. 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. Assess **pre-loss** safety measures and **post-loss** claims handling. Collaborate with brokers and insurers to optimize results.
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.

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# International

## Developments Since January 2025 Market Outlook

Our 2025 Commercial Property & Casualty Market Outlook reported that global property insurance rates were flat, declining, or moderating in every region except for natural-catastrophe-exposed territories. This trend has continued, and the rates of natural-catastrophe-exposed organizations will continue to be impacted by past and future loss events.

- **Casualty rates** have remained stable and mainly flat going into the second quarter of 2025 after achieving small rate increases in the first quarter.
- **The shift from direct to indirect taxation** continues across the globe, and many countries (especially in Europe) are introducing new tax percentages or increasing insurance premium tax rates.
- **Local insurance regulations are tightening.** Nations are increasingly adopting protectionist policies, leveraging the insurance sector to enforce corporate registration, anti-money-laundering, and client identification requirements. This additional documentation can delay coverage binding and policy issuance for clients.

## Trends to Watch: Second Half of 2025

As we progress through 2025, organizations purchasing international property and casualty (P&C) insurance should be aware of several key trends and developments that could impact their coverage and risk management strategies.

- **Geopolitical conflicts impacting coverage:** Geopolitical instability continues to be a significant factor influencing the international P&C insurance market.
- **Advanced risk mitigation:** Insurers are increasingly using data analytics and AI to better assess and manage geopolitical risks, enhancing their ability to predict and respond to emerging threats.
- **Climate-related adjustments:** The rise in climate-related events is prompting insurers to revise their coverage and pricing models to account for more frequent and severe natural disasters.

### Broader Market Trends

Beyond specific geopolitical hotspots, several broader trends are shaping the international P&C insurance market:

1. **Increased focus on risk mitigation.** Insurers are investing in advanced risk assessment tools and technologies to better understand and manage geopolitical risks. This includes leveraging data analytics and AI to predict and respond to emerging threats.
2. **Regulatory changes.** The fragmented legal and regulatory landscape across different countries is forcing insurers to adapt their strategies. Compliance with varying regulations can be challenging, but is essential to maintain coverage and manage risks effectively.
3. **Supply chain vulnerabilities.** Heightened geopolitical tensions and protectionist trade policies are destabilizing global supply chains. This increases the risk of acute supply chain failures, prompting insurers to reassess coverage for businesses with international operations.
4. **Climate-related risks.** The rise in climate-related events continues to impact the P&C insurance market. Insurers are adjusting their coverage and pricing models to account for more frequent and severe natural disasters.

### Implications for Insureds

Organizations purchasing international P&C insurance must stay informed about these trends and proactively manage their risk profiles. Navigate the evolving landscape by engaging with insurance carriers to understand potential coverage restrictions and alternative risk mitigation strategies.

By staying ahead of these developments, organizations can better protect their assets and ensure continuity in their operations despite the challenges posed by geopolitical conflicts and other emerging risks.

# How USI Can Help

USI has a dedicated international practice that coordinates our clients' multinational insurance placements and proactively collaborates on risk solutions to provide maximum protection.

We have 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 an action plan, 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 or risk.

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

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# Environmental

## Developments Since January 2025 Market Outlook

Since January's 2025 Commercial Property & Casualty Market Outlook, the environmental insurance market has experienced several notable changes:

1. **Increased competitiveness.** The contractor pollution liability (CPL) market has become highly competitive, with many carriers entering the space. This influx has led to a soft market, characterized by lower premiums and more coverage options.
2. **Integrated casualty products.** There has been a significant expansion in integrated casualty products, which combine CPL or pollution legal liability (PLL) with general liability policies. For contractors, environmental carriers have broadened their appetite for business, no longer requiring that a significant portion of a company's revenue come from environmental operations. In addition, coverage for product-pollution is readily available through these products and carriers. Product liability claims arising from toxic components are on the rise and can be highly litigious (e.g., plastic, vinyl, PFAS, pesticides, heavy metals, and many more). This sector has seen competitive pricing, especially for small to midsize businesses.
3. **Reduction in excess capacity.** The excess market has seen a reduction in available excess limit capacity per insurer. Carriers previously offered up to $25M, and now generally provide only $5M to $10M. There is plenty of capacity, but may now require multiple layers.
4. **Increased PFAS exclusions.** Insurers are increasingly mandating coverage exclusions for per- and polyfluoroalkyl substances (PFAS) claims. This trend is particularly pronounced in general liability and product liability policies.

Overall, the market has evolved with increased competition and changes in coverage options and capacity.

## Trends to Watch: Second Half of 2025

The environmental insurance market is projected to grow by about 10% in 2025, according to several reports, due to increased demand and expanded coverage. Awareness of environmental risks, increased litigation, and stricter regulations drive this growth. While insurers are offering comprehensive environmental policies to meet new regulatory standards and public expectations, concerns about certain contaminants, such as PFAS, and increased litigation exposure, have resulted in additional underwriting scrutiny.

### Heightened Environmental Regulations

New and expansive environmental regulations have highlighted the need for site-specific PLL insurance. This type of insurance protects businesses from pollution-related liabilities at specific sites, especially in sectors like M&A, brownfield redevelopment, and urban construction, where unknown contaminants pose significant risks.

### Unknown Contamination

Insurers report that claims for unknown contamination have risen sharply in recent years as more companies undertake redevelopment projects on previously industrialized land. The unexpected discovery of these pollutants can lead to significant claim payouts, particularly in urban areas with a history of heavy industry. In addition, changes in the environmental regulations have resulted in regulators revisiting sites that were previously deemed "remediated."

### Corporate Responsibility

Corporate responsibility has shifted from a peripheral concern to a central business imperative. The need to protect against potential environmental hazards, including pollution events and natural disasters, is pushing businesses to secure environmental insurance as part of their risk management portfolios.

## Mold

Insurance claims for mold continue to be a major concern, particularly in older buildings or those with water damage. These claims are common in real estate, hospitality, and healthcare sectors due to costly remediation and potential health liabilities. Weather-related events have increased the frequency and severity of mold claims. Insurers often face high cleanup expenses and liability claims. Increased claim experience has resulted in coverage restrictions and higher deductibles and premiums for at-risk sectors.

## Social Inflation

Rising insurance claim costs from increased litigation, higher jury awards, and broader legal definitions of liability challenge the environmental insurance sector. Social inflation stems from changing public attitudes, a litigation-friendly environment, and greater corporate scrutiny, especially in environmental issues. Environmental insurers will likely adjust CPL and PLL policy pricing to reflect the increased litigation risks and claim costs due to social inflation.

## PFAS and Emerging Contaminants

Coverage for PFAS will be challenging except for de minimis exposures. Other emerging contaminants or environmental risks, such as 1-4 dioxane, ethylene oxide (EtO), nanomaterials and microplastics will also add to the challenges.

## Contractor Pollution Liability (CPL)

The CPL market is experiencing more competition due to a steady influx of carriers entering the space. The underwriting for CPL is generally less complex than site pollution policies, making it a profitable and straightforward choice for both new and established insurers, particularly P&C carriers looking to expand their environmental offerings.

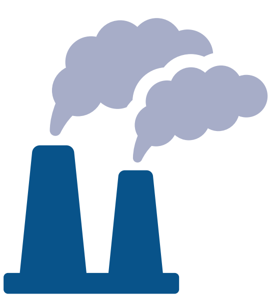
## Integrated Casualty Products

Integrated casualty products, which combine CPL or PLL with general liability policies, are seeing significant trends influencing their market. The surge in competition has led to highly competitive pricing, especially for the small to midsize businesses.

## Environmental Rollbacks

Environmental rollbacks, which involve the weakening or reversal of regulations designed to protect the environment, create uncertainty by potentially increasing pollution levels and causing regulatory instability. This uncertainty can lead to more polluted sites in the future as industries face fewer restrictions on emissions and waste disposal. Consequently, states will need to step in to maintain environmental protections, but their ability to do so will vary significantly.

Factors such as state autonomy, economic resources, political will, and local priorities will influence how effectively each state can address environmental challenges. This variability means that some states may enforce stringent regulations and invest heavily in environmental protection, while others may struggle to keep up, resulting in uneven environmental safeguards across the country.



**Policies that combine pollution liability with general liability continue to gain traction, offering comprehensive coverage for small and midsize businesses.**

# How USI Can Help

USI can help clients:

- Estimate value of limits and review insurance coverage, including historical and current general, pollution, and D&O liability.
- Assess risk, including both direct and downstream liabilities, and identify key contracts (those that 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 PFAS exposure from products, construction or premises?
- Identify potential defenses if tagged with liability — is there a legal expert providing advice on regulations and compliance?
- Analyze jurisdictions of greater risk (e.g, toxic tort liability).
- Examine current and future mitigation strategies and controls.
- Assess due diligence protocols for acquisitions of companies or properties now that PFOA and PFOS are on the hazardous substances list under CERCLA.
- Explore creative coverage solutions for PFAS through environmental insurance or an alternative risk solution such as a captive.
- Create an environmental profile to identify operations-related exposures, which helps quantify and qualify the impact on the organization to determine risk management and insurance solutions.
- Deliver 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.
- Create 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.
- Develop effective environmental risk insurance strategies for acquisitions and divestitures.

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

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# Aviation

## Developments Since January 2025 Market Outlook

Since January's [2025 Commercial Property & Casualty Market Outlook], the aviation insurance market has seen the return of softer market conditions. An influx of new underwriting capacity has led to a competitive marketplace for most aviation insurance buyers. Aviation accounts with favorable loss history are seeing multiple competitive quotes from aviation underwriters, and they are largely benefiting from this competitive market.

The competitive marketplace is also benefiting buyers with improved supplementary coverages and more flexible approaches to pilot conditions, allowing buyers to have negotiating power. This is great news for aviation insurance buyers in the short term, and every buyer should be considering the available options in the marketplace this year.

The aviation market's strong capacity is expected to continue throughout 2025, but USI is monitoring some areas of concern closely. The first half of the year saw an above-average accident rate with some very large losses impacting insurers in Q1 and Q2. These accidents come at a time when claims costs continue to rise due to ongoing disruptions in supply chains, labor shortages and the uncertainty around the impacts of looming tariffs. Social inflation also continues to negatively impact the size of settlements and awards in major aviation cases.

## Trends to Watch: Second Half of 2025

For the remainder of 2025, the aviation insurance market is expected to experience several key trends and face notable challenges. Here's a summary of what to anticipate:

- **Increased capacity.** The market is seeing an influx of new insurers, which is promoting competition and helping to stabilize rates. This increased capacity is beneficial for policyholders as it creates a more favorable insurance buying environment.
- **Technological integration.** The use of AI and data-driven underwriting is becoming more prevalent. Tools like telematics and flight data recording systems are providing underwriters with better insights to predict risks and improve safety. We expect to see new market entrants heavily leveraging this technology to differentiate their offerings.
- **Emergence of advanced air mobility (AAM).** The introduction of electric vertical takeoff and landing (eVTOL) aircraft is creating new insurance needs. Specialized coverage options are emerging to cater to this advanced technology.

### Key Challenges

- **Impact of major losses.** The market is still grappling with the financial impact of major losses, including high-profile incidents and unresolved claims related to the Russia-Ukraine conflict. These events are causing insurers to reassess their risk models and pricing strategies. Excess war coverage that is purchased by airports and international aircraft operators continues to be under pressure; this part of their programs will likely increase by 5% or more.
- **Rising claims costs.** Claims costs and liability awards continue to rise due to factors like hard landings, bird strikes, and runway incursions. The increasing costs of repairs and legal settlements are also contributing to higher claims payouts. Potential tariffs could also impact costs.
- **Supply chain disruptions.** Delays in parts availability and repairs are extending aircraft downtime, increasing operational costs and reliance on loaner aircraft.

By understanding these trends and challenges, aviation insurance buyers can better navigate the market and secure optimal coverage for their needs.

# 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.

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.
- Submitting fully completed applications and questionaires.
- 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.

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# Executive & Professional Risks

## Developments Since January 2025 Market Outlook

Capacity remains available despite some carriers exiting the marketplace and strategic underwriting changes.

- **Directors & officers liability (D&O):** Premiums for publicly traded companies are typically flat, with few decreases. Private and not-for-profit organizations may still see slight premium reductions. Insurers are offering coverage enhancements — such as regulatory investigation costs and carvebacks to certain exclusions — to keep premiums from decreasing.
- **Employment practices liability (EPL):** Some leading markets reported a rise in EPL claim frequency, prompting premium increases. Additionally, higher retentions for certain claim types (those in California and those made by highly compensated employees) are being used as an underwriting tool to maintain profitability.
- **Fiduciary liability:** This market remains stable overall. However, a recent Supreme Court decision has prompted underwriters and defendants to prepare for potential increases in claims that allege prohibited transactions. We foresee that handling fiduciary-breach litigation will continue to be complex and costly.[1]
- **Crime (fidelity):** Premiums remained stable. Underwriters are concerned about social engineering exposures, and sublimits for this type of loss remain the standard, but full limits are available from some carriers.
- **Kidnap & ransom (K&R):** No material changes.
- **Professional liability/errors & omissions (E&O):** No material changes.
- **Transactional risks (representations & warranties insurance (RWI)):** Rates remain competitive but are stabilizing or firming (after nearly all-time lows) due to persistent claim frequency and severity.
- **Cyber/technology E&O:** Underwriters are closely scrutinizing healthcare, public entity and educational organizations for cyber insurance and managed service providers for technology E&O. Despite ongoing claims and losses, cyber insurance competition remains robust. Business email compromise, network intrusions and ransomware incidents continue to affect organizations of all sizes and industries. Third-party actions continue to spike and are becoming increasingly expensive to manage. Capacity is still readily available, with insurers requiring, at minimum, adherence to critical security controls. The U.S. National Security Agency (NSA) Top 10 Cybersecurity Mitigation Strategies may provide a useful starting point.

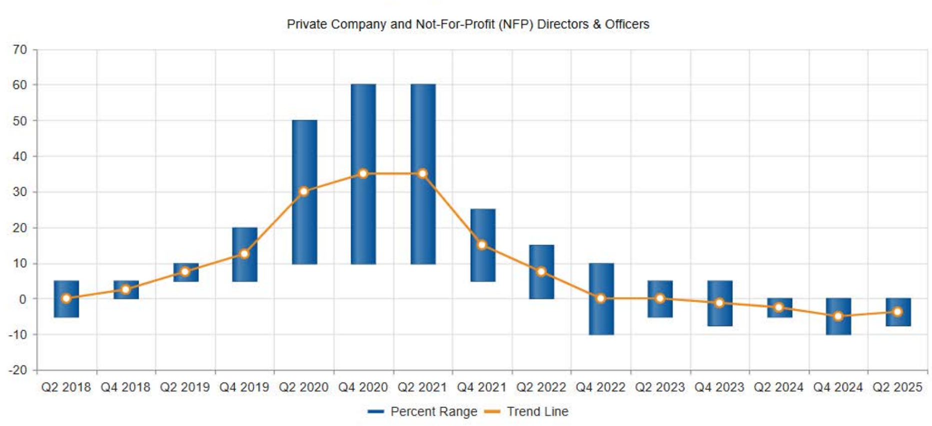
## Trends to Watch: Second Half of 2025

- **D&O:** Tariffs may impact companies' financial performance, forecasting abilities, and market stability. Federal securities class action (SCA) litigation is still rising due to lingering COVID-19-based claims, AI-related claims, cyber exposures, and bankruptcy threats. Reduced federal regulatory pressures or resolving tariff-driven trade conflicts may help offset management liability risks. Companies that shift incorporation from Delaware to states considered more business-friendly (e.g., Texas or Nevada) may see more favorable D&O liability terms and conditions.
    - — Financial services: While the volatile trading environment may give firms a short-term revenue boost, it also makes financial institutions' performance unpredictable, which could upset shareholders.

— False Claims Act: Tariff-related noncompliance exposes companies and individual D&Os to potential liability for submitting false claims to the government for payment. Reverse false claims (allegations of the avoidance of obligations to pay the government) by whistleblowers or competitors are also a concern to D&O underwriters.

- **EPL:** Costs to defend claims will likely continue to increase. Wrongful termination or discrimination claims may increase if economic turmoil results in layoffs or reductions-in-force.
- **Fiduciary liability:** The impact of the Cornell claim will likely determine if the market remains as competitive as it has in the recent past.[1]
- **Crime (fidelity):** Social engineering and business email compromise exposures will persist. Aligning crime and cyber policies coverage will be a priority. Considerations include whether insurers will provide coverage under both policies for the same insured, which policy pays first, and how retentions or deductibles apply to larger losses.
- **Professional liability/E&O:** The impact of AI on virtually all professions and businesses is still unknown. While proper use of AI could reduce risks for certain companies, overreliance on it could result in erroneous counsel given to clients and other alleged wrongful acts like copyright infringement or invasion of privacy. E&O can also be impacted by the social inflation trend of litigation results, meaning a willingness of juries to award large verdicts to plaintiffs, particularly individual consumers, that have allegedly been harmed by the insured.
- **Transactional risks (RWI):** It's unknown how tariffs and trade may impact M&A activity and recently acquired (or about to be acquired) companies. A slowdown in M&A activity or a continued uptick in claims could temporarily impact the market.
- **Cyber/technology E&O:** We expect the second half of 2025 to see more cyber incidents, particularly business email compromise and ransomware events, especially as new ransomware groups (criminals) emerge. AI-related threats will also continue to develop and test cyber protections. As the threat environment increases, cyber insurers may push back on any premium decreases and reinvigorate their demand for enhanced security controls.

Executive Professional Services (EPS)




**Private and not-for-profit organizations may continue to see slight premium reductions. Insurers are offering coverage enhancements — such as regulatory investigation costs and carvebacks to certain exclusions — to keep premiums from decreasing.**

**Underwriters are hesitant due to economic turmoil and unstable markets caused by tariff uncertainty.**

# 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.
- Prepare organizations for tariff-related underwriting questions, focused on:
  - — Financial impact, including impact to retirement and benefit plans
  - — Operational impact, including reductions-in-force
  - — Governance-related risks, including disclosures and guidance to investors
  - — Preparation for cyberattacks from countries most impacted by tariffs
  - — Preparation for social engineering fraud attempts that use tariff-related topics as a hook
  - — Impact to M&A plans
- Detect and reject tariff-specific exclusions, if proposed.
- Monitor any capacity (limits offered) reductions by insurers.

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

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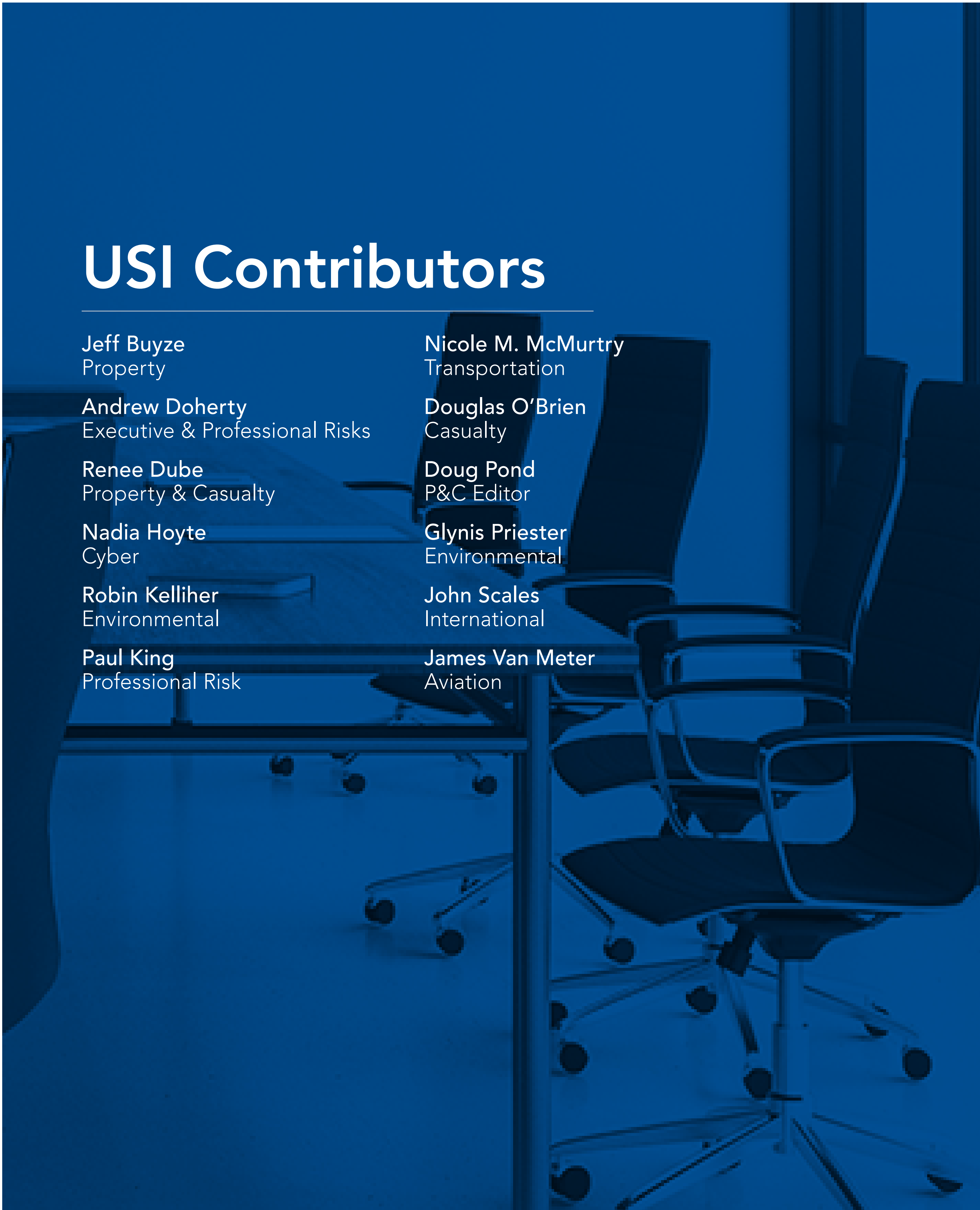
[1] Holland & Knight Alert, April 22, 2025: Cunningham v. Cornell University (Cornell). The U.S. Supreme Court on April 17, 2025, issued a decision in which the justices unanimously held that plaintiffs alleging a prohibited transaction under Section 1106(a)(1)(C) of the Employee Retirement Income Security Act of 1974 (ERISA) need only plead the basic elements of a prohibited transaction claim without having to reference the exemptions to the prohibited transaction rules in their complaint because the exemptions are properly considered to be affirmative defenses that defendants must prove.



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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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