Brown & Brown

QUARTER 1 | 2022

Market Trends

Commercial Insurance & Risk Management

Our Goal

Brown & Brown's Market Trends allows you to connect quickly to succinct key topics and notable updates in the insurance marketplace. Dive deeper on any topic with our Brown & Brown team to better understand how these trends may impact your business. We welcome the conversation.

Discover

2 | Property

3 | Casualty

5 | Executive Liability

7 | Cyber Risk

8 | International

Property

Q1 | 2022

Companies with the most favorable renewals include softer occupancies that have a better-than-frame building construction and low CAT (earthquake, flood, wind, hail) exposures. There is an increased supply of capacity for this type of profile as insurance companies compete to grow. Incumbent markets are willing to hold rates flat or seek only inflationary increases. If they do not, incumbent markets risk losing business to new markets that are not constrained by the pressure to achieve year-over-year rate increases.

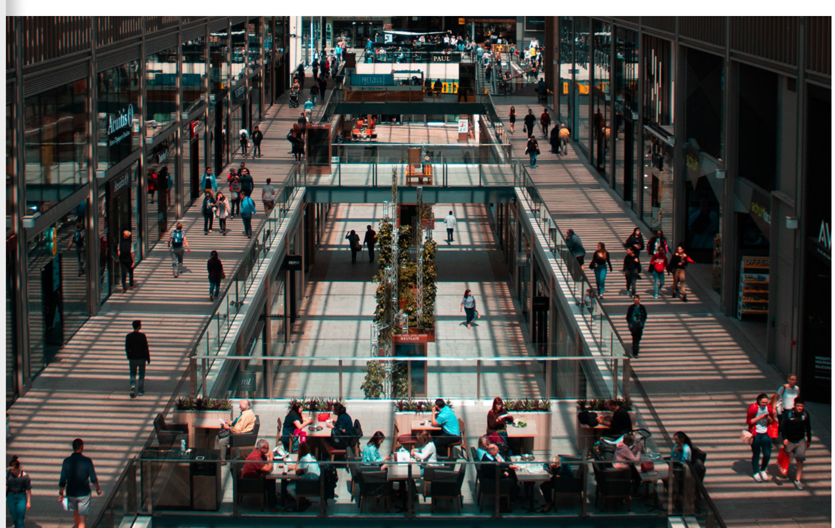
Companies with difficult occupancies, poor construction quality or high CAT exposures continue to see the demand for property insurance outpace capacity supply. This leaves insurers with pricing power and buyers retaining more risk and paying rates 10 percent or higher at renewal.

Regardless of the profile, the underwriting scrutiny and diligence that insurers showed in 2021 is expected to remain in 2022 as property insurers struggle with profitability despite significantly improved rates. Confirming companies' insure to value will be in focus as claims continue to settle higher than the estimated replacement cost values provided during the underwriting process. The increase to insured values has not kept up with the inflationary pressures of labor, commodities, freight, etc. Insurers are adding in layers of protection by adding Occurrence Limits or Margin Clause endorsements. For many, these changes eliminate the safeguards built into traditional blanket limits. It is critical for insureds to have a thorough understanding of the actual terms and conditions of their policy and to be proactive in the marketing process.

Take Note

Rate increases continued in the fourth quarter of 2021, but, for many insureds, they rose at a welcomed slower pace.

The commercial insurance market is not immune from supply and demand economics. For insurance buyers, the experience varies depending on their risk profile.



Casualty

Q1 | 2022

Most insureds will continue to see rate increases in the first quarter of 2022, particularly in auto, general liability and umbrella coverages. Insurers are displaying caution on these risks due to increased claim costs driven by past nuclear verdicts and the anticipation that social inflation will continue in 2022. Courts are still processing pandemic postponements, contributing to a general feeling of uncertainty for 2022 claims settlements. Increased competition is playing a role in possible leveling off for higher excess liability layers and workers' compensation rates.

Insurers have significant new business goals for 2022. The increased capacity may create a more competitive rate environment for most non-high hazard risks. While the environment should be more competitive than in 2021, it is unrealistic to expect meaningful decreases. Middle-market and larger accounts with more benign exposures to risk and favorable loss history may see increased competition from the standard insurers, which may drive a decrease in rates.

Auto Liability

Auto liability for larger fleets remains a challenging line of coverage for insurers. While auto claims declined during the pandemic, auto accident payments and settlements increased by approximately 15 percent, according to The Council of Insurance Agents & Brokers (CIAB).

For insureds with large fleets, excess insurers may require a $2 million combined single limit of liability on the auto policy. This change is expected to drive up overall auto liability premium pricing. Hired and non-owned liability exposures remain heavily scrutinized. Overall, insurers likely will seek rate increases of five to 12 percent, with higher increases for long haul, large fleet or insureds with unfavorable loss histories.

Commercial General Liability

Increasing litigation rates, jury awards and settlements continue to escalate rates for general liability, especially for high-hazard industries. Challenging risks will experience reduced capacity in the marketplace. Many excess liability insurers require a $2 million limit per occurrence with a $4 million aggregate limit, but fewer insurers are willing to deploy high limits. Those who will deploy higher limits may apply the same per million layer pricing on the first and second million, effectively driving up the cost for higher-risk industries.

Less challenging risks and middle-market companies face strong capacity for general liability. Insurers looking to meet new business goals will offer more competitive pricing and innovative coverage terms.

Insureds with a low to medium hazard risk may see a range of 10 percent decrease to a 10 percent increase in rates. High-hazard risk likely will face increases between five to 15 percent.

Workers' Compensation

Workers' compensation rates are looking favorable for most insureds. For non-health care companies, COVID-19's impact proved less concerning than expected, making workers' compensation results favorable for many insurers. This has fueled a strong demand for insurers to aggressively write workers' compensation coverage for well-managed risk.

Stand-alone workers' compensation coverage is readily available in the middle-market to upper-middle space. Insureds with strong risk control procedures, including health and safety initiatives throughout their organization, may experience reduced premiums and claims expenses. For larger risks, insurers likely will seek an overall flat premium.

Umbrella and Excess Liability

The excess casualty marketplace continues to be in a state of flux. While pricing has stabilized slightly from late 2020 and 2021, insurers continue to choose where they deploy capacity. Many are willing to wait and avoid high-hazard risks.

Litigation financing continues to increase. It is estimated that private funding of claimant litigation exceeded $11 billion in 2020. Absent any meaningful tort reform or laws specific to private party claimant funding, this trend is expected to continue.

One area of improvement is additional capacity entering the casualty marketplace. This should provide insureds with more availability to build an excess tower. Insurers remain conservative on their willingness to underwrite and provide limits in the first $25 million layer. However, the new capacity may impart competition at the higher limits, which should stabilize price increases at those higher levels. Low to medium-hazard risks may experience slight decreases in the price per million, excess of $25 million.

Rate increases in the umbrella and excess liability lines are anticipated to be flat to 20 percent. Insureds with high-hazard or poor litigation history will experience a continued challenge in securing limits and pricing.

Executive Liability

Q1 | 2022

Stabilization of Rates

As COVID-19 passed its two-year anniversary, insurers are beginning to loosen their grip on rates in the directors and officers (D&O) marketplace. When the pandemic began, insurers priced for the worst-case scenario. However, insurers did not experience the anticipated bleak outcomes, and rates are now being adjusted accordingly.

Insurers are also re-evaluating D&O and many are increasing their appetite for capacity. Several insurers that exited the D&O space are now re-entering and aggressively pricing new business opportunities. The internal disruptions that COVID-19 brought to insurers, through re-organizations or new strategies, are now placating and resulting in more eagerness to write new business.

Many companies are seeing the positive outcomes of these changes. Last year, publicly traded companies commonly faced 30 to 50 percent increases. Now, these same companies are only experiencing single-digit increases. Privately held companies are seeing similar trends.

Anticipation Around Return-to-Work

There continues to be significant attention surrounding the OSHA Emergency Temporary Standard (ETS) and COVID-19 vaccine mandates as employers begin requiring employees to return to the office. There will likely be increased employment-related issues that can negatively affect the Employment Practices Liability marketplace.

Common examples of claims that can arise from vaccine requirements and return-to-work include disability discrimination (and failure to accommodate), religious discrimination and retaliation claims.

Several insurers that exited the D&O space are now re-entering and aggressively pricing new business opportunities.

New Targets for Excessive Fees Litigation

Historically, excessive fee litigation was targeted at select large organizations. Almost 100 cases were brought forward in 2020 alone. That is a nearly five-fold increase compared to the number of filings in 2019. And there are few signs that the number of cases is slowing. Excessive fees, sponsored securities and mass/class action retentions are becoming increasingly common.

In response, insurers are looking to reduce capacity on fiduciary renewals and asking plan sponsors for a detailed process, including documentation of why decisions were made or why providers were selected.

Emerging Opportunities and Pressures

Emerging markets, such as cannabis, online gambling, NFTs and crypto, currently face limited capacity from insurers. However, as these markets continue to grow, they can shape the future of the D&O market and how claims are handled in the future. It is too soon to see how these markets will impact D&O long-term.

What is known is that cybersecurity concerns are seeping into D&O. Underwriters are increasingly asking for details on what controls are in place to protect a company against social engineering. Before, companies had access to low limits of coverage. Now, insurers want to see controls in place before offering coverage for limits of $100k or $200k.

The Ongoing SPAC

New Special Purpose Acquisition Companies (SPACs) have more than doubled from 2020 to 2021, with 248 new SPACs going public in 2020 and 594 in 2021, as of mid-December. SPACs raised approximately $158 billion in 2021. Insurers are attempting to restructure their pricing and retention models while managing the influx in activity. To combat the rise in SPAC and M&A-related claims, insurers are increasing their level of due diligence related to SPAC underwriting and pricing as well as D&O coverage for the surviving entity.

Cyber Risk

Q1 | 2022

Despite four consecutive quarters of hardening, continued elevated losses and recent events such as “log4j” or “log4shell” suggest that the cyber and technology professional market will most likely continue to harden for the foreseeable future.

Average rate increases have grown from under 30 points in the first quarter of 2021 to over 100 points in the fourth quarter of 2021. Buyers whose policies renewed in the first or second quarters of 2021 are likely to experience significant changes in pricing as underwriters look to standardize rates across their portfolios.

Large buyers, those with annual revenue above $500 million to $1 billion or who buy towers of coverage, will experience even higher increases. This is due both to decreasing underwriter appetite for larger entities as well as increases in excess rates. The combination of increased primary pricing and increased excess rates can often push large buyers into the range of 200 to 400 percent premium increases. Fortune 500 or multi-billion dollar businesses will likely experience continued restraints in capacity and upward pressure on rates, depending upon adjustments made over 2021.

Underwriting standards also continue to increase, and many insurers continue to decline upwards of 90 percent of submissions. Applicants that lack broad use of multifactor authentication (MFA), endpoint detection and response (EDR) tools, patching cadences of seven to 14 days and strong backup procedures will struggle to find coverage or to specifically transfer ransomware-related risk. Additionally, the presence of end-of-life or end-of-support software or broadly-granted local administrative rights causes friction in transferring risk.

Insurers are becoming more willing to restrict coverage. Most insurers now sub-limit ransomware-related losses for applicants with moderate controls, while a small number are attempting to sub-limit ransomware losses for all applicants. Other insurers are or will be excluding or otherwise restricting coverage for claims related to unpatched vulnerabilities, end-of-life software, government-mandated shutdowns, widespread events such as Microsoft Exchange or Kaseya and attacks by state actors.

“Buyers whose policies renewed in the first or second quarters of 2021 are likely to experience significant changes in pricing as underwriters look to standardize rates across their portfolios.

International

Q1 | 2022

The international casualty marketplace remains relatively flat, and the expectation is that this trend will continue throughout 2022. Global litigation continues to be slower than the U.S., so rates remain stable in a competitive marketplace. The international casualty market remains a very profitable underwriting class for insurers, and they continue to protect their most profitable accounts with rate reductions and coverage enhancements.

Company size and marketing efforts continue to impact renewal rates. Recent renewals on middle-market, multinational casualty programs experienced flat rates with some pressure to increase rates depending on the insurer. Larger multinational casualty programs are highly dependent on loss history. Marketing larger multinational casualty programs may result in flat or decreased rates, but more favorable rates are often contingent on loss history. Many insurers are opening their capacity for international casualty programs to tougher products and risks than in the past.

For companies that faced revenue reductions in 2020 and 2021, insurers have not reduced premiums in equal proportions to their customer's revenue reductions. Most insurers have evaluated risks and know the floor of their premium regardless of exposures. However, there has been flexibility as revenue returns to previous levels, maintaining a flat premium structure.

Some insurers continue to incorporate communicable disease exclusions into their policy forms. However, several insurers are taking a measured approach when adding the communicable disease exclusion. Companies with minimal exposures and/or strong corporate protocols for managing the communicable disease risk have generally avoided the exclusion. These exclusions should be removed whenever possible.

Many insurers are opening their capacity for international casualty programs to tougher products and risks than in the past.

Omicron and Delta Variants and Business Travel

As 2022 begins, there is an expectation that high vaccination rates in most industrialized countries will allow business travel to resume, even if at a slower pace. But the recent emergence of the Omicron variant has again seen countries increase restrictions for entry, particularly from regions where there is a high rate of infection from both Delta and Omicron variants.

Many countries now require travelers to prove they have medical insurance and quarantine expense coverage that will pay for treatment of sickness and illness, including costs associated with the COVID-19 virus and variants. The only product available for this protection is a quality Business Travel Accident (BTA) policy, with coverage for out-of-country medical costs. A BTA policy provides layered protection for the employee and extends the duty of care for employees engaging in travel. Underwriters in this line of coverage have not added COVID-19 or other virus type exclusions to their policies as they understand that would make the product ineffective.

Brown & Brown and COVID-19

The Brown & Brown team is closely monitoring the outbreak. If you have any questions, please reach out directly to your service team. We're here to help.

Brown & Brown

Find Your Solution at BBrown.com