Brown & Brown

RISK SOLUTIONS

Financial Institutions

Market Report June 2024

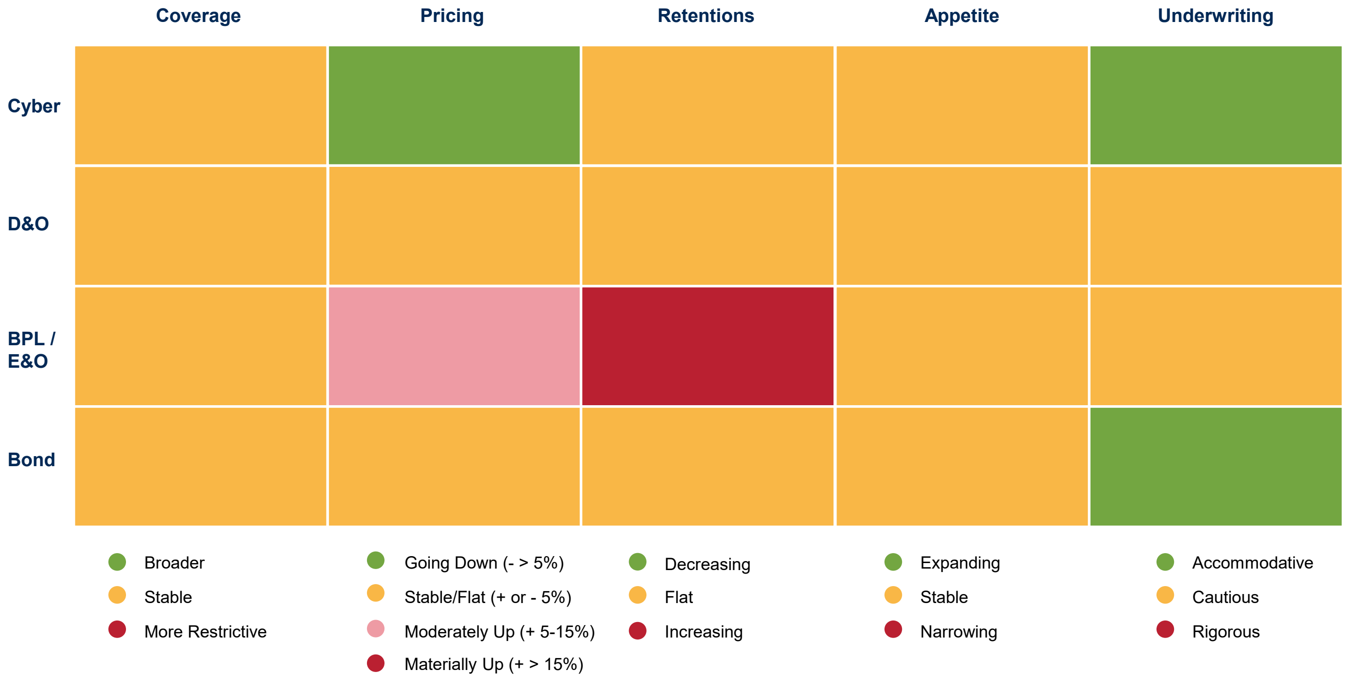
Introduction

Brown & Brown is excited to introduce our first Financial Institutions (FI) Insurance Market Report. While the industry produces significant material by product line and geography, there are very few reports specific to the FI industry segment.

The risk profiles of financial institutions are rapidly evolving for many reasons, including the implementation of a wide range of financial technology initiatives resulting in regulators being highly focused on the sector's operational resilience. Therefore, at this time, we see value in developing a recurring market report to capture the trends that our financial institution customers will have to navigate in the insurance markets.

Our initial survey focuses on three subsegments (banks, asset managers and insurance companies) and four product lines (cyber, D&O/management liability, professional liability and bond/crime insurance). We surveyed the financial lines and cyber authorities at twelve prominent insurers from the U.S. and London markets with questions ranging from market conditions to underwriting appetite. With a 100% response rate, we are pleased to present the results and our insights. We anticipate that the scope of our report will iterate and broaden over time.

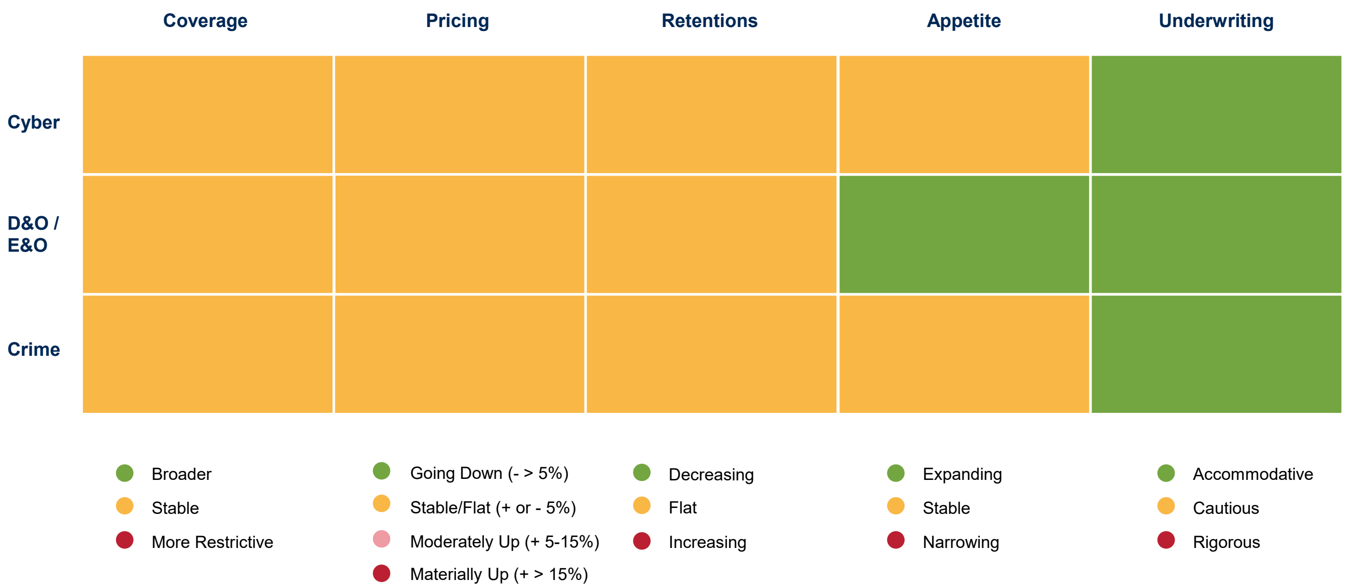
Banks



Despite the closure and acquisition of the $6 billion asset Republic First Bank by Fulton Bank on April 26 and continued underwriting focus on the impact of higher interest rates on securities portfolios, commercial real estate concentrations and profitability challenges, the financial lines and cyber insurance markets for banks remain relatively competitive. Coverage terms and conditions remain stable across all four product lines. Pricing for cyber continues to decrease while pricing for directors' & officers' liability (D&O) and bond coverages are stable. Insurers, however, are showing some heightened discipline regarding bankers' professional liability where pricing and retentions are trending upward. Survey commentary also reflects some deterioration in appetite for large community and mid-sized banks. Notably, only four insurers within the twelve markets surveyed have the ability and/or appetite to write all four products on a primary basis.

With expectations that community and mid-sized banks will continue to be challenged by commercial real estate loan performance, it is critical that these institutions stress test their financial lines policies as it pertains to regulatory investigation coverage, insolvency/change of control scenarios, order of payment provisions and insured vs. insured exclusionary language. These banks must also prepare for continued underwriting scrutiny at financial lines and cyber renewals as it pertains to loan portfolio performance and concentrations, diversification of funding sources, profitability/NIM challenges and digital strategy.

Asset Management



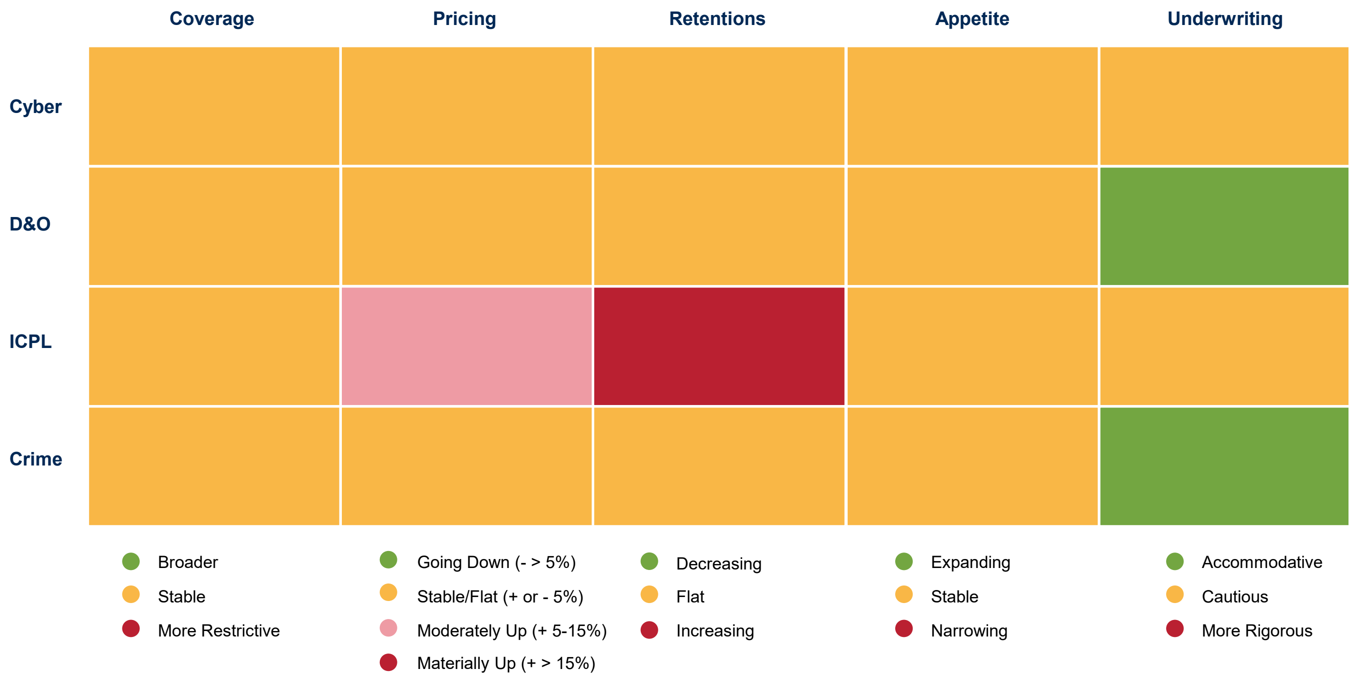
Overall, the asset management space continues to be a growth target for insurance companies and remains a profitable business segment. Insurer competition in writing asset managers has kept premiums, retentions, terms and conditions competitive for most customers. Premiums for directors and officers (D&O), errors and omissions (E&O), cyber and bond/crime remain stable/flat. Retentions across most of these products are generally flat, except for E&O for investment advisers.

E&O for investment advisers continues to be a primary source of claims activity, especially involving cost of corrections coverage. Customers who experience increases in the E&O for investment advisers are primarily driven by change exposure and/or claims activity. As a result, insurers continue to push for increased retentions for this specific coverage extension. It is crucial to have a properly negotiated policy inclusive of cost of corrections and pre-claim inquiry coverage.

Encouragingly, some insurers are expanding their appetite in the investment adviser subsegment. Emerging asset class risks previously scrutinized and/or prohibited, such as cryptocurrency, cannabis and artificial intelligence, are now being accommodated. We continue to experience favorable market expansion into emerging risks and coverage extensions.

Conversely, insurers are closely watching the newly proposed SEC rules for private funds. Areas of focus for the SEC, and thus for insurers, include adequacy of internal controls, conflicts of interest, books and records, board oversight, misleading marketing materials, errors in Form ADV filings and the uplift of internal compliance programs. The new transparency and reporting requirements could result in increased exposure leading to claims, largely based on alleged misrepresentations or failure to disclose.

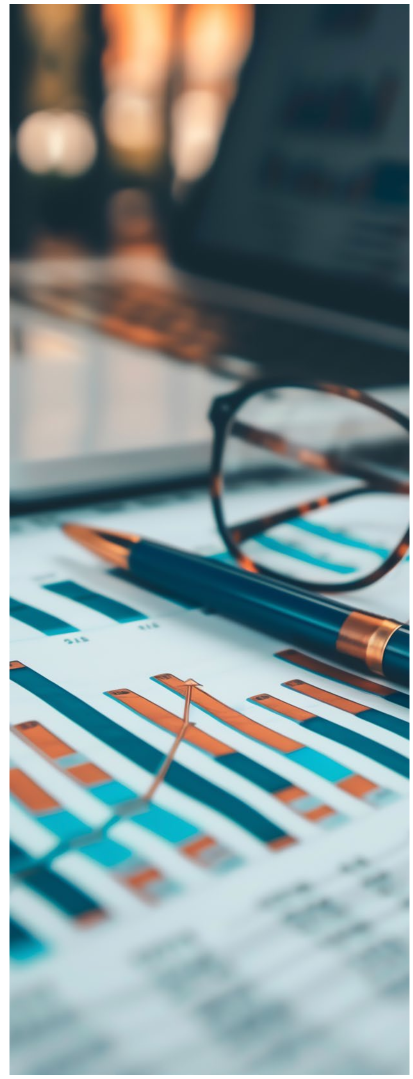
(Re)Insurance Companies



Of the twelve markets surveyed, all but two are dedicated to the (re)insurance space and view this as an area of growth opportunity for them in 2024. Insurance company professional liability (ICPL) is one of the most challenging lines of coverage that is experiencing premium and retention increases. Extracontractual obligation (XCO) extensions within casualty reinsurance treaties are becoming more restrictive. Further, there is a higher frequency of nuclear verdicts within underlying claims, particularly when the underlying action involves the loss of human life or bodily injury. Due to the concern surrounding claims activity, ICPL insurers are treading cautiously as they underwrite based on geography (e.g., states) and scrutinize product offerings. For example, Florida and Missouri remain difficult states to underwrite given the large number of bad faith claims.

ICPL notwithstanding, the market continues to be competitive across D&O, cyber and bond/crime offerings for the (re)insurance segment; thus, we continue to see healthy competition in terms of coverage, pricing and retentions.

Cyber Update Relative to All Subsegments



Supported by Brown & Brown's survey results, Financial Institutions (FI) are currently a targeted growth area for cyber and technology E&O underwriters.

FI continues to be a heavily regulated industry, and the focus has recently shifted towards improved operational resilience inclusive of a strong cybersecurity posture. As business operations become increasingly reliant on technology, regulatory pressure continues to develop around cyber risk. Pressure stems from initial cybersecurity control standards and reporting requirements enforced by the SEC, GDPR, PCI DSS, SOX, BSA, etc. As a positive result, underwriters have seen increased strength in FI cybersecurity controls across segments, making the industry more attractive to cyber insurers.

Survey results indicate that there is significant competition for FI, meaning rates and retentions remain competitive. Where cybersecurity posture is strong, leveraging current market flexibility is imperative, as there is continued claims activity that has yet to be fully realized and is expected to significantly impact the market. Areas of heightened scrutiny for FIs include contingent business interruption and privacy concerns surrounding information collection practices. Focus for these concerns centers around strong vendor management procedures and thorough compliance practices, respectively. Lastly, as FIs continue to iterate on their digital strategies and customer offerings, continued focus on the interconnected nature of "cyber" risk captured under a cyber policy versus other financial lines policies is increasingly critical.

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