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INSIGHTS

TECHNOLOGY INDUSTRY INSURANCE RATES TRENDS REPORT | MARCH 30, 2020

Rate Reductions Continue, But Are Shrinking

Woodruff Sawyer has been specializing in technology insurance since the early days of Silicon Valley. With decades of experience placing commercial insurance for companies in this space, we are attuned to their ongoing and evolving risks.

Our *Technology Industry Insurance Rates Trends Report* takes a closer look at four years' worth of data (2015 to 2019) on insurance rates for property, general liability, and workers' compensation coverage. In this report, we'll identify the emerging trends in insurance for the tech sector.

What we've found is that the tide is turning after many years of large annual rate reductions. Today, while tech companies are still achieving decreases in their commercial insurance rates, the percentage of those decreases are getting smaller.

Let's take a look at these trends next.

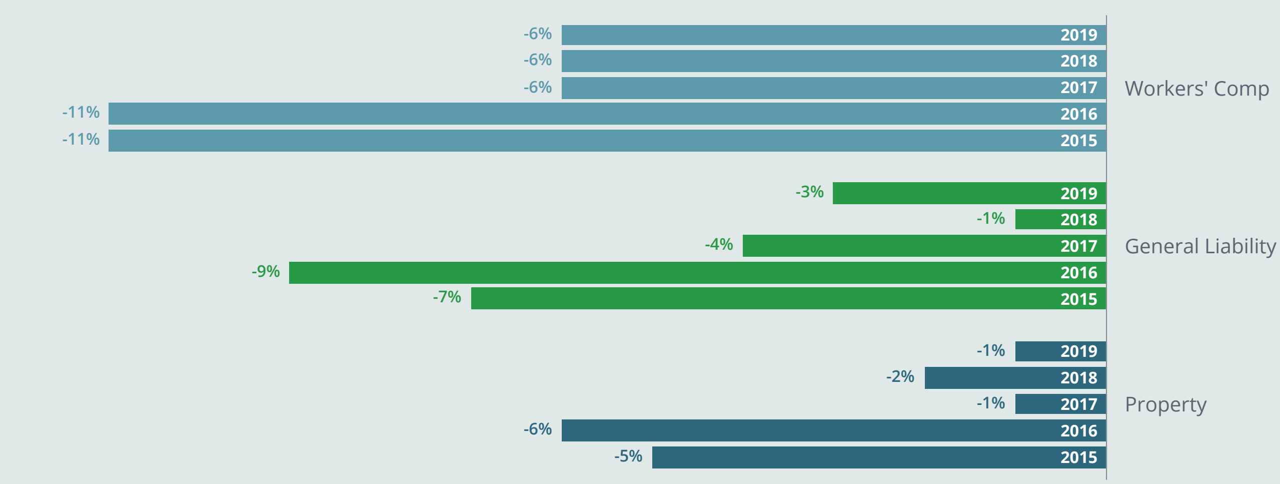
Overall Tech Industry Rate Trends, 2015 to 2019

In terms of insurance rate data, 2015 to 2016 was a very favorable buyer's market, with significant rate reductions across all lines of insurance for tech companies.

Starting in 2017, however, we noticed the pace of those rate reductions started to slow. Tech companies are still getting decreases in their rates, but the decreases haven't been as big as they were in 2015 and 2016.

By the close of 2019, we saw median rate reductions at -1% for property (changed from -2% the prior year) and -3% for general liability (up from -1% the prior year), while there was no change in workers' comp, holding steady at -6%.

Median Rate Reductions for Tech Companies Started to Slow in 2017



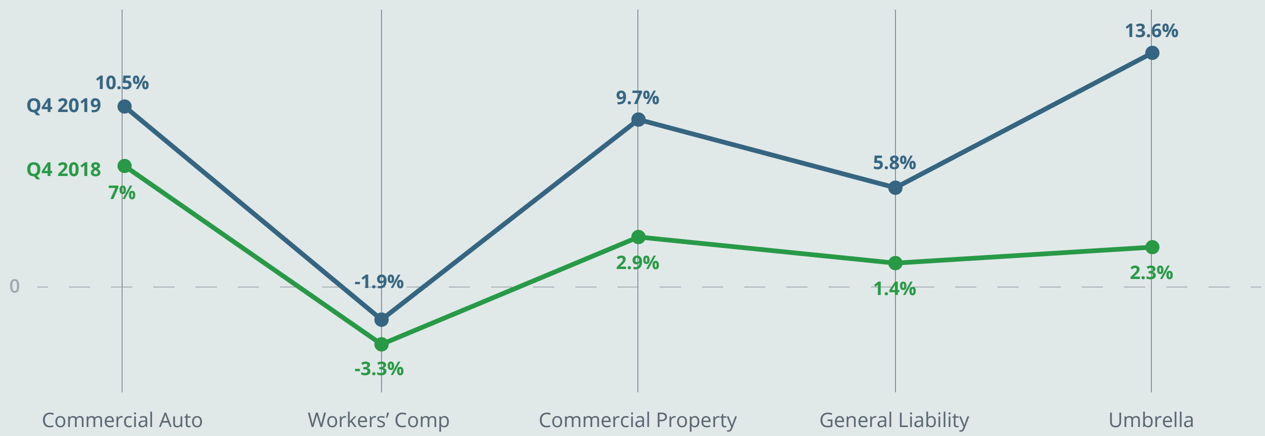
Date Range Source: 1/1/15 to 12/31/19

In Comparison to Rates for All Industries

All industries had rate increases of some kind in 2019:

Rates Across All Industries Increased in the Past Year

Comparison of Rates between Q4 2018 and Q4 2019 for Commercial Coverage Lines



One might ask: How is it that tech businesses continue to get rate decreases when most other industries are experiencing increases?

The primary reason for this is the tech industry is still very profitable for insurers. Most tech companies have very little in the way of losses, so insurers can continue to offer these companies reduced rates.

Next, we'll examine in closer detail the individual insurance lines, starting with property insurance.

Property Insurance: A Dramatic Shift in Rates

The property market overall experienced a dramatic shift in 2019, with most insureds facing double-digit rate increases. The hard market was a result of a perfect storm: unsustainable insurer practices for years, including deep rate discounts and the natural catastrophe losses of 2017/2018. (Read more on this in our Looking Ahead 2020 guide for property and casualty.)

The property market for tech insureds, however, has been slower to react than the overall market. (Reasons for this are discussed in the next section, "Tale of Two Marketplaces.") Our data from the most recent quarters suggest this started to change in late 2019.

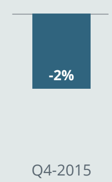
The fourth quarter of 2019 marks the first time since 2015 that we have seen the median insurance rate change be an increase in rates, not a reduction. This means over half of all renewals got a rate increase in that quarter.

Property Insurance: A Tale of Two Marketplaces

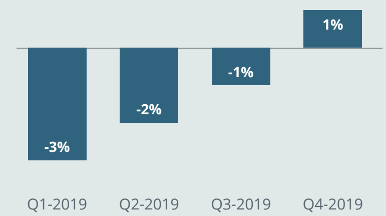
Most mid-market companies have their property and liability programs written together as a "package." By doing so, the insurers are able to price the companies' risks across a portfolio of coverages (essentially spreading the risk) and rates are typically less.

However, tech companies that have more than $200 million in total insured values (TIVs) are much more likely to have a standalone property program, which usually yields better coverage, but they are also getting higher rate increases than those insureds who are written as part of a package.

In 2015, the median property rate change was -2%.



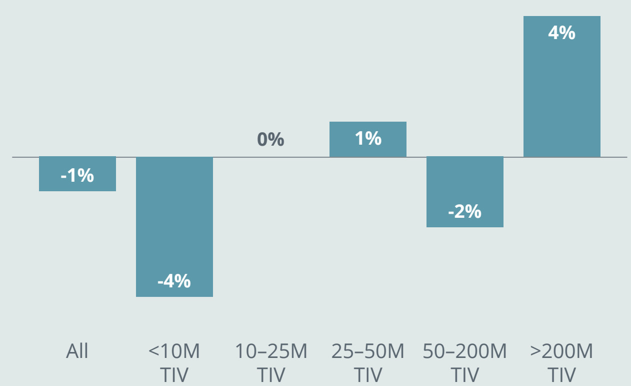
By year-end 2019, the median rate actually went up by 1% (no longer a rate reduction as in years past)



Date Range Source: 1/1/15 to 12/31/19

This is the first time since 2015 that we're seeing an increase in rates for insureds of all sizes.

Tech companies with >$200M in total insured values (TIVs) typically have standalone property programs and that marketplace has been giving higher rate increases.



2019 Property Median Rate Change per 100 Total Insurable Values

Date Range Source: 1/1/15 to 12/31/19

General Liability: Rates in Steady Decline

In a bit of good news: Unlike what's being seen with property, rates for general liability (GL) programs are continuing to decline quarter by quarter. By the end of 2019, we saw an average 10% decrease in GL insurance rates.

Workers' Compensation: Excellent Loss Trends a Factor in Decreasing Rates

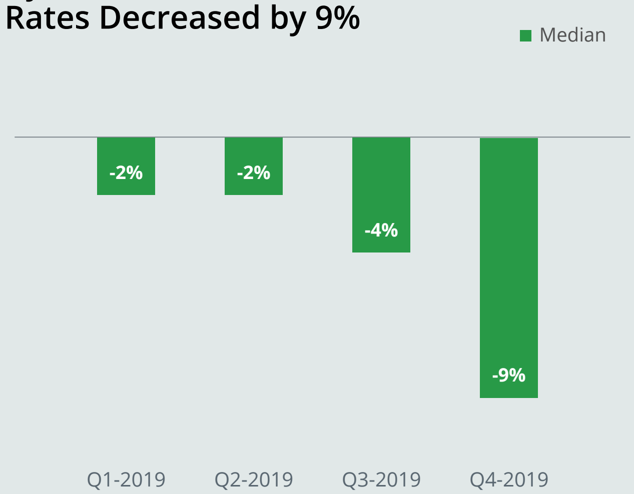
Unlike property and general liability, the trend in workers' compensation rates in the tech industry more closely matches the national trend for all industries, which is to say they have been on a steady decline.

However, the rates for technology companies outpace the national rates primarily because of the excellent loss trends for the tech industry.

Major factors contributing to excellent loss trends include:

1. Less hazardous work: The nature of the work in most tech companies is less hazardous than most industries. A large portion of the tech workforce is in programming/software development, which is amongst the very least hazardous of all classifications.
2. Younger workforce: The tech workforce is extremely young relative to other industries. These workers tend to have fewer workplace injuries simply because of their age (or time in the workforce), and those injuries that do occur are far less serious than their older counterparts.

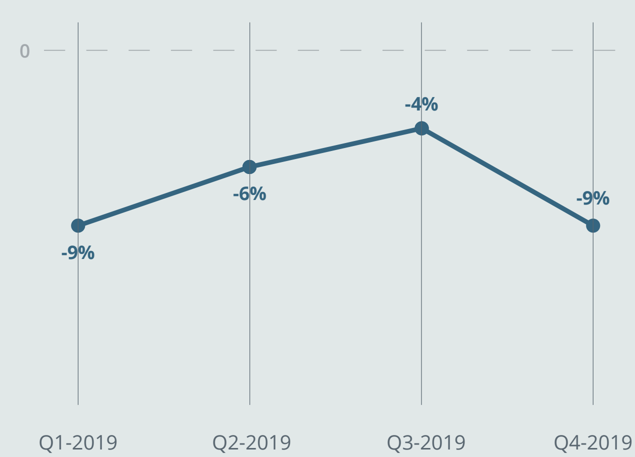
By End of 2019, Median GL Rates Decreased by 9%



Date Range Source: 1/1/15 to 12/31/19

In 2019, national workers' compensation rates decreased anywhere from 3.3% to 1.9%, according to the CIAB. Rate decreases for tech companies were even larger.

Workers' Comp Median Rate Changes for Tech Industry in 2019



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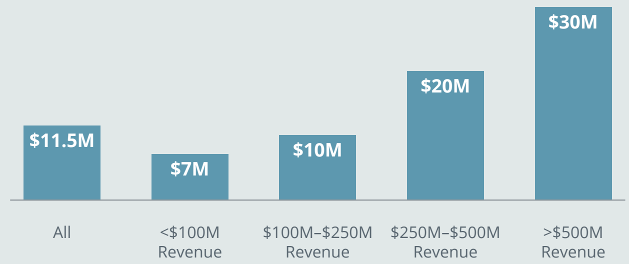
Benchmarking Insurance Limits

To benchmark, we analyzed insurance limits by company revenue. We have not seen a significant change in tech company buying behavior in terms of excess liability limits purchased in 2019 as compared to 2018. For example, in 2018 the median limit purchased for companies of all sizes was $13 million versus $11.5 million in 2019 (shown in chart at right).

Median Total Liability Limits in 2019 by Company Revenue



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A Note About Carrier Behavior in the Umbrella Market

In the second half of 2019, we started to see carriers cutting back on capacity for a given risk. In the past, we could achieve single carrier limits of up to $50 million. Starting in the 2nd half of 2019, we started to see $25 million as the maximum limit being offered by insurers. The net effect is it takes more carriers to fill out a program and often that is leading to higher pricing. You can find more in-depth information on this in the Umbrella/Excess Liability article in our Property & Casualty Looking Ahead Guide for 2020. Most tech insureds are not impacted as adversely as other industries because they usually do not have large auto fleets or a tough products liability exposure—the two areas that are driving rate increases for many insureds.

The Outlook for Insurance Rates in Tech

There's no reason that tech companies should expect anything other than a decline in rates for both general liability and workers' compensation insurance for the foreseeable future.

But the trends in property insurance rates are concerning. We predict every tech company—no matter what their risk profile—can expect continuing rate increases whether their property insurance is part of a packaged program or a standalone one.

About the Data

Our data reflects information on approximately 170 tech company renewals for which Woodruff Sawyer is the broker. The vast majority in the survey are "mid-market" or commercial, and their P&C programs are written on a package basis.

Auto Liability coverage rates are not tracked, as most tech companies do not have any owned vehicles. Thus, there is no readily available exposure base to track rates. Anecdotally, we know that auto rates are tracking upwards of 10% on our renewals and have been since 2017.

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With nearly 30 years of experience in the Bay Area, Mike has deep expertise providing commercial insurance brokerage and risk management consulting services. He specializes in serving companies of all size in the Technology industry.