COMMERCIAL LINES INSURANCE MARKET UPDATE – THIRD QUARTER 2021

Executive Summary

There have been positive developments in several sectors of the commercial lines insurance market in Q3 2021. In most segments, premiums continue to increase, albeit at a slower pace than the last few quarters. In our Q2 update, we noted that new market entrants were providing much-needed competition, and this is a trend that continued in Q3.

New insurers typically focus on excess layers of large insurance programs, so they do not drive down premiums immediately. Instead, they provide much-needed relief in terms of capacity. Over the last few years as market conditions tightened, some insurance buyers found it difficult to buy the level of insurance they wanted, particularly if the risk was challenging. The capacity (capital) either was not available and/or the pricing was too high for many buyers. New market entrants have lessened this pain. Most insurance buyers can now purchase the level of insurance they desire in most lines of coverage at somewhat reasonable premiums. Cyber is an exception to this but we'll discuss that in more detail below.

Premium increases are slowing down in the D&O market except for IPOs and SPACs. A notable development in this segment is the decrease in securities class action filings. Through Q3 2021 there has been a 19% drop in securities class action filings compared to the first nine months of 2020. Securities class actions drive claim severity for public companies—even if a company gets a case dismissed, it still incurs defense costs which can be costly. A drop in securities class action filings should mean lower future losses for insurers which should translate to lower premiums for buyers.

Q3 is always the point in the year where the property market holds its collective breath because it is hurricane season in the Atlantic. 2021 has been active—tropical storm Wanda formed in the first week of November, bringing the named storm count to 21. The good news for insurers is that many of the storms did not make landfall. Hurricane Ida was the worst storm of the season, with estimated losses in the $30 billion to $40 billion range. Despite an active storm season, premiums continue to stabilize in the property market, likely due to the large increases over the last few years.

Premium increases have also slowed in most casualty segments. The umbrella/excess market remains challenging due to concerns around the frequency of large jury verdicts. Workers' compensation remains the bright spot with rates nearly flat.

Cyber dominated most conversations in Q3 and will likely continue to do so well into 2022. Premiums are rapidly rising, and insurers are restricting coverage. Our cyber pricing index shows how this market started in 2021 relatively stable and then pricing took a dramatic turn starting in the late spring through the summer. Ransomware losses are the primary culprit. In addition to increased pricing, insurers are addressing this with increased underwriting scrutiny around security controls. Companies with poor security will likely find it nearly impossible to get cyber insurance with ransomware coverage included.

Let's look more closely at each segment.

D&O: Market Update

OUR POV

Public D&O rates have continued to rise so far in 2021, but there are signs that the market is in transition and that some relief may be on the way.

MARKET TRENDS

- Market-leading carriers continue to seek premium increases, but there has been a deceleration in the rate of increase; upward adjustments generally still larger on excess layers.
- Economic uncertainty created by COVID-19 resulting in more D&O litigation due to factors like misleading statements about the outbreak, deceptive claims regarding potential vaccines and treatments, and privacy concerns.
- March 2020 *Sciabacucchi* ruling on federal choice of forum in Delaware Supreme Court led to several state court Section 11 suit dismissals, and IPO pricing is starting to stabilize. Underwriter concerns have shifted to surge in SPAC IPOs and de-SPAC transactions. Pricing for those deals continues to increase, with fewer underwriters willing to quote.

CONTEXT FOR CURRENT TRENDS

- Securities class action frequency and severity remain high. Likelihood of a public company being sued reached record high of 5% in 2019 when 268 lawsuits were filed.
- Total number of suits dropped to 210 in 2020 and through Q3 2021 there have been 134 cases filed, a 19% drop in filings compared to number filed through Q3 2020. Filings slowed in September with only 8 cases filed; if a low rate of filings continues, there could be around 200 flings or less in 2021.
- Litigation is being driven by new and increased exposures including cyber (data breach), #MeToo, privacy oversight (GDPR), climate change, and COVID-19.
- Derivative actions are on the rise with notable settlements (American Realty, McKesson, PG&E, Wells Fargo, Tesla...) tapping “A Side-only” insurance.

4%
Likelihood of Being Sued (2019 was an all-time high)

577
Number of Open SCA Cases Pending (up 50% over last 5 years)

$9.5M
2020 Median Cash Settlement (10-year average $8.1M)

$28.6M
2020 Average Settlement (10-year average $28.5M)

Property: Market Update

OUR POV

Program rates and policy terms and conditions continue to stabilize, while carriers continue to address the increased frequency and severity of natural catastrophes and secondary perils.

MARKET TRENDS

- Rate continues to stabilize for insureds that are committed to risk improvement, with a loss history to validate.
- Policy terms and conditions remain consistent.
- Valuation continues to pose issues.
- Carriers are increasing capacity and generating competition for favorable risk profiles.
- Despite loss costs exceeding 2020, property carriers may achieve profitability in 2021; contingent upon no major industry losses in Q4.

CONTEXT FOR CURRENT TRENDS

- We continue to see new business and growth goals from traditional insurance carriers, new entrants looking to establish themselves, and MGAs that have entered the property market, leading to competition and more favorable outcomes.
- Demonstrating risk improvement and an understanding of business continuity provides carriers the confidence necessary to offer more favorable rates, additional capacity, and more comprehensive coverage.
- According to NOAA, there have been 18 $1 billion weather events in the US (YTD 2021). 2021 has experienced the 4th highest insured losses in the 21st century. While carriers anticipate profitability in 2021, additional work will be done to address the frequency and severity of natural catastrophes and secondary perils.

2%–7%
Non-CAT accounts with favorable loss history

8%–12%
CAT accounts with favorable loss history

15%+
Non-CAT accounts with unfavorable loss history

25%+
CAT accounts with unfavorable loss history

Cargo and Stock Throughput: Market Update

OUR POV

Continued rate stability combined with pre-existing coverage remediation creates a positive outlook for the rest of 2021. New entrants continue to encourage conservative competition and markets look to capitalize on growth opportunities.

MARKET TRENDS

- In most occupancies, carriers believe there is a balance between rate and risk, the result being single-digit increases.
- New entrants continue to foster competition, largely through MGAs/MGUs, startups, and Lloyd's syndicates returning to the class.
- Markets previously opting to abstain from writing certain interests continue to broaden their horizons as top-down underwriting mandates loosen.
- Market vigilance over supply chain concerns continues, leading to potential excess and ocean cargo pricing increases.

CONTEXT FOR CURRENT TRENDS

- Underwriting talent movement has largely ceased, leaving new appetite keen to forge longstanding relationships with clients.
- New capacity and growth targets still hold true, with markets maintaining underwriting discipline, insofar as coverage, but far more malleable on price for clients that demonstrate continued risk improvement and favorable loss history.
- The influx of new capacity is generally holding as follow capacity with traditional leaders dictates terms. Expect this to change early Q1 2022.
- London insurers are actively considering new line-slip and binder opportunities, which had retrenched significantly over the past 2 years.
- The seemingly inevitable stress on global supply chains has led to make-shift storage, excess stock demand, poorly stacked vessels, increased frequency of fire losses, port delays, and accumulation issues at ports; all major concerns due to struggling supply chain support.
- As rate stabilizes, the focus shifted to supply chain and the ramifications for cargo underwriters. As of now, the effects are noted infrequently but cannot be ignored.

5%–10%

Accounts with favorable loss history and a focus on Risk Management

10%–20%

Accounts with unfavorable loss history or those that do not meet rate adequacy for underwriters

Casualty: Market Update

OUR POV

Rate pressure persists due to insurer concerns around rising claim severity. GL & AL stabilized, with rate increases consistent with prior quarters. The umbrella/excess market remains difficult especially for lead umbrellas, for which capacity remains strained.

MARKET TRENDS

- Primary casualty insurers continue to maintain rigorous risk selection discipline and seek rate increases on GL and Auto in order to keep up with loss trends.
- Umbrella attachment point requirements have increased and capacity deployments have decreased, with quota share structures a common strategy to build more significant capacity layers in a program.
- Workers' compensation is the most competitive and best-performing line of coverage with rates nearly flat.
- Organizations with robust employee health and safety plans and demonstrated controls can expect favorable renewal results.

CONTEXT FOR CURRENT TRENDS

- A top concern of liability insurers remains the increasing frequency of nuclear verdicts. The primary driver of large casualty losses are changing attitudes of juries toward corporate responsibility and litigation financing (in which private investors fund personal accident litigation against corporations).
- Lead umbrella capacity remains an issue with demand outpacing supply. For higher excess layers (above $25 million), new insurers responded to prior years' price increases by adding new capacity. Increased insurer competition is finally proving rate relief for non-umbrella excess.
- Underwriters continue to pursue 5%–10% increases in primary General Liability and Auto Liability. AL claim payments remain on the rise due to the increasing cost of medical treatment and vehicle repairs.

By-Line 2nd Quarter 2021 Rate Changes Ranged From under 1% to +17%

	Auto	WC	GL	Umbrella
Q2 2021	6.80%	0.30%	6.00%	17.40%
Q1 2021	9.00%	1.00%	6.20%	19.70%
Q4 2020	9.10%	0.40%	7.30%	21%
Q3 2020	11.00%	1.50%	6.70%	22.90%
Q2 2020	9.60%	0.70%	6.80%	20%
Q1 2020	9.60%	-1.20%	5.70%	17.30%

Source: CIAB Q2 2021 Rate Survey

Cyber: Market Update

OUR POV

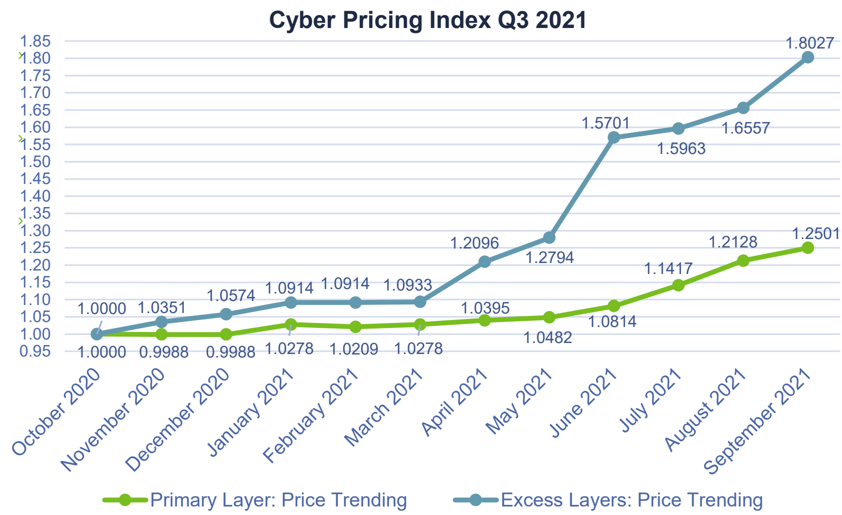
Rates are rapidly rising and we're continuing to see restriction of terms. Ransomware losses and aggregation events are driving carrier actions.

MARKET TRENDS

- Rates are increasing 65%+ across the board—more for companies with revenues in excess of $100 million—and for those in these industries: manufacturing, healthcare, FinTech, and technology.
- Excess rate increases are accelerating faster than primary rate increases.
- Ransomware losses are piling up for carriers, driving more underwriting scrutiny through supplemental applications and calls.
- Capacity is being carefully managed by carriers. Most carriers are reducing limits at renewal, and it is challenging and/or costly replacing that capacity.
- Non-breach privacy coverage, such as BIPA, is being restricted. Deductibles and waiting periods are increasing.

CONTEXT FOR CURRENT TRENDS

- According to Coveware, in Q3 83% of ransomware events included a double extortion threat—a specific type of threat where data is stolen from the organization before ransomware is deployed. Attackers then demand extortion to both de-crypt the network and prevent data from being disclosed.
- Federal BIPA cases increased more than two times from 2019 to 2020, according to Bloomberg Law. This is leading to carriers reducing coverage available for non-breach privacy claims.
- Woodruff Sawyer pricing index for Q3 is shown below, representing the change in median primary and excess pricing by month for a trailing 12-month window.



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