WOODRUFF SAWYER

COMMERCIAL LINES INSURANCE MARKET UPDATE – SECOND QUARTER 2022

Executive Summary

The outlook for commercial insurance buyers continues to improve as we enter the second half of 2022. After several years of increasing rates across almost every segment of the commercial space, most insurers are reporting strong earnings and healthy balance sheets. This is leading to some more competitive pricing in the market, especially for high quality risks.

Looking more closely at each segment of the commercial market, buyers can expect the most relief in the D&O segment. This environment changed quickly through the second quarter, and most publicly traded companies can expect decreasing premiums at renewal. Corporate earnings remain strong, which gives underwriters more confidence in offering competitive quotes. Also, the volatile financial markets have significantly slowed IPO activity in 2022. Insurers that grew new business in the 2021 IPO boom are now looking for other places to grow, and publicly traded D&O buyers are experiencing the benefit of this increased competition.

In the property and casualty segments of the market, the decelerating rate increases we reported in Q1 have continued. In fact, many buyers can expect flat rates with their property and casualty renewals. Insurers are maintaining discipline with exposure growth. As we emerge from the pandemic lockdowns, companies are growing again and the associated exposure growth will lead to buyers paying more premium dollars even though their rates may be flat. Property valuations continue to be an area of focus for insurers, especially with increasing inflation. Expect insurers to ask questions about your property values and, in some cases, push for valuation increases if they believe a property is undervalued.

Finally, there are no improvements to report in the cyber segment. We've been commenting on premium increases and coverage restrictions for the past 12 months and the trend continues—we expect these conditions to persist through 2022. If your company has strong controls in place, you will have a better result than companies with weak controls. Regardless, all buyers should be prepared for an extensive underwriting process that will include a long questionnaire and follow-up questions.

D&O: Market Update

OUR POV

Public D&O rates continued to rise in 2021, but in 2022 the market has transitioned, and some clients are achieving decreases in rates and/or retentions.

MARKET TRENDS

- Most market-leading carriers are willing to offer flat renewal premiums, but increasing competition from new market entrants often results in a reduction in total premium, especially in high excess layers. Recent IPOs and DLs may see more significant decreases due to higher starting premiums compared to those of mature public companies.
- The economic uncertainty created by COVID-19 is still resulting in D&O litigation due to factors like misleading statements about the outbreak, deceptive claims regarding potential vaccines and treatments, and privacy concerns.
- The March 2020 *Sciabacucchi* ruling on federal choice of forum in the Delaware Supreme Court has led to numerous state court Section 11 suit dismissals, and eventually more stable IPO pricing. Public markets cooled significantly in 1H 2022—the number of SPAC IPO and de-SPAC listings dropped to the lowest levels since 2016.

CONTEXT FOR CURRENT TRENDS

- Securities class action severity remains high. There were 101 settlements totaling $3.2B in 2021, the largest total annual settlement amount in the last decade. Settlements reached through 1H 2022 have exceeded the 10-year average, and median and 75th percentile amounts are tracking closely with 2021 numbers. With approximately 475 open cases yet to be resolved, 2022 has the potential to be another notable year in total settlement dollars.
- The likelihood of a public company being sued reached a record high of 5% in 2019 when 268 lawsuits were filed but declined in both 2020 and 2021. The total number of suits dropped to 210 in 2020 and 182 in 2021, a 13% year-over-year drop. With 85 cases filed in 1H 2022, this year is shaping up to be a repeat of 2021 with potentially another welcome decrease in annual filings of securities class action suits
- 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 (e.g., Renren, Boeing, First Energy, American Realty, and Wells Fargo) tapping "A Side-only" insurance.

3.3%
Likelihood of Being Sued (decline for 2nd year in a row after 2019 all-time high)

476
Number of Open SCA Cases Pending

$11M
2021 Median Cash Settlement (10-year average $8.5M)

$32M
2021 Average Settlement (10-year average $29.6M)

Property: Market Update

OUR POV

Accurate valuation is the hottest topic in the property insurance market. Clients need to be adequately insured, and carriers desire adequate premium for risks. Entering wildfire and hurricane season only heightens the impact of inflation and potential recovery time should a loss occur.

MARKET TRENDS

- Focus and scrutiny of credible and reliable valuations persists and is a key factor in the renewal process.
- Carriers are offering favorable rates—sometimes flat or reductions—to insureds that accurately report values.
- Capacity remains restricted for challenging occupancies.
- Sources are predicting an above-average named storm season of 20 events, compared to an average of 14.
- Secondary perils continue to be a challenge as losses continue and carriers look to address this via increased premiums or adjustments to deductibles and limits.

CONTEXT FOR CURRENT TRENDS

- Adequate valuation ensures appropriate policy limits/sub-limits and provides carriers with confidence in an insured's SOV, thus removing the need for margin clauses or occurrence limit of liability endorsements.
- Carriers can alleviate rate increases when insureds can provide improved risk mitigation strategies, detailed business continuity plans, and support for reported values.
- It has been a slow start to the US hurricane season, although it's still early. Multiple sources forecast an active Atlantic named storm season, with five major hurricanes. This compares to a 30-year average of three. The Atlantic hurricane season will have a major impact on the remainder of 2022.
- Historically, most wildfires occurred between June and September. In recent years, wildfires are occurring well outside of those months due to dry conditions in the Western US. These events have a significant impact on pricing and capacity. Fire mitigation is pivotal.

0%–5%
Non-CAT accounts with favorable loss history

2.5%–7.5%
CAT accounts with favorable loss history

15%+
Non-CAT accounts with unfavorable loss history

30%+
CAT accounts with unfavorable loss history

Cargo and Stock Throughput: Market Update

OUR POV

Global supply chain instability is leading markets to review participation structure on accounts and exposure within Russia, Belarus, and Ukraine. New entrants continue to appear in the market, leading to competitive tensions on rating and additional support capacity.

MARKET TRENDS

- London continues to see new market entrants, increasing available capacity for general risks.
- Continued market movement of insurers and brokers are leading to changing dynamics and appetites within the market.
- The war in Ukraine has seen marine markets give a blanket exclusion for exposure in Russia, Ukraine, and Belarus.
- There are now requirements for detailed COPE or surveys on locations valued at over $1 million as markets look to protect themselves against large stock losses.
- Global supply chain strains have led insureds to consolidate more stock in single locations—markets are charging additional rate for increased first loss exposure.

CONTEXT FOR CURRENT TRENDS

- Global supply chain challenges have led to significant values accumulating in ports and insureds consolidating goods on single vessels. With global commodity prices, the value of goods onboard vessels has risen markedly.
- Cargo & Stock Throughput policies require physical loss or damage. Many of the supply chain delay costs faced by insureds are not covered unless they result from a physical loss or damage event.
- The market continues to evolve, with companies looking at solutions to cover supply chain delay. New "Insurtech" solutions are looking to fill the gap, offering parametric supply chain delay products.
- Insureds are consolidating goods into fewer locations, which creates a need for higher limits and larger excess towers. The additional exposure within primary layers is leading to higher rates.
- Fear of large fire losses has led to increased emphasis on fire protections and surveys. Carriers are looking to work with insureds in improving their risk.
- Despite lines size cutbacks over the last few years, the London market continues to write large primary stretches, inclusive of CAT-exposed risks.

0%–5%

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

Stabilization of the casualty market is underway. WC remains profitable for insurers while GL and Auto rate increases are slowing with increased competition. Lead Umbrellas are challenging due to ongoing increased large claim activity, while high excess is competitive.

MARKET TRENDS

- Primary casualty insurers continue to seek rate increases on GL/Auto overall for the 19th consecutive quarter to keep up with loss trends.
- Workers' compensation is the most competitive and profitable line of coverage, but with medical inflation driving increases in the average cost of indemnity claims, the market's combined ratio is trending up.
- With aggressive corrections to rates, limit deployment, and attachment points over the last two years, the high excess market has stabilized while lead Umbrella insurers continue to achieve rate increases due to sustained large claim activity and limited competition.

CONTEXT FOR CURRENT TRENDS

- Nuclear verdicts continue to create headlines as potential large losses await trial in the backlogged court system. Social inflation and litigation financing have also increased pressure on settlements, with defense attorneys looking to avoid unpredictable jury verdicts.
- Organizations with large auto fleets, high-hazard products, or significant premises exposures are facing the greatest pain in their Umbrella renewals. Using self-insurance or buffer layers to increase attachments can help mitigate premium increases, but limited umbrella insurer capacity remains a challenge.
- Incumbent insurers, who generally continue to seek rate increases for General Liability, Auto Liability, and Umbrella/Excess renewals, face increased competition from new markets.
- Carriers continue to refine coverage terms and conditions. Insurers seek to apply new exclusions or sublimits on communicable disease, abuse and molestation, assault and battery, PFAS, and Russia/Ukraine/Belarus.

By-Line Q2 2022 Rate Changes Ranged from -1.2% to +11.3%

	Auto	WC	GL	Umbrella
Q2 2022	7.20%	-1.20%	4.70%	11.30%
Q1 2022	5.90%	-0.50%	3.90%	10.50%
Q4 2021	8.00%	0.30%	6.40%	15.00%
Q3 2021	7.40%	-0.30%	6.30%	16.90%
Q2 2021	6.80%	0.30%	6.00%	17.40%

Source: CIAB Q2 2022 Rate Survey

Cyber: Market Update

OUR POV

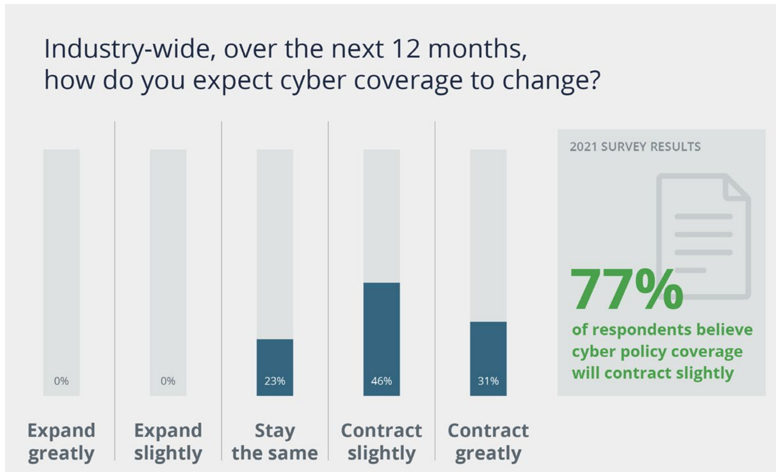
If 2021 was the year of rate increases, 2022 will be the year of coverage restrictions—and more rate increases.

MARKET TRENDS

- Coverage restrictions coming to the cyber market include:
  - Dependent business interruption and system failure—largely sublimited
  - Failure to timely patch vulnerabilities exclusion
  - Non-breach privacy (GDPR, CCPA, BIPA)
  - Media liability
- Rates are increasing across the board. Strong relationships with incumbent insurers help limit the impact.
- Excess rate increases are continuing, with some stabilization expected due to new capacity entering the marketplace.
- Underwriters are more reliant on third-party scanning tools for information gathering.

CONTEXT FOR CURRENT TRENDS

- Many clients are looking at parametric insurance for cloud outages to replace lost dependent business interruption coverage.
- Ransomware, and related preventive information security controls, continues to be a high area of focus for insurers. However, non-breach privacy issues are beginning to shift some of that focus back to the evolving regulatory landscape.
- Continual improvements to the security posture, even if it's already incredibly strong, is necessary in today's market.



Source: Woodruff Sawyer's *Cyber Looking Ahead Guide to 2022*

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