Insurance Marketplace Update: Q4 2021

Property & Casualty and Commercial Insurance

Moreton & Company is seeing some encouraging signs in the Property & Casualty insurance market as we review the first three quarters of 2021 and look forward to 2022. While premiums overall are still rising, we see them rising at a slower pace than in previous quarters. The exception to this rate stabilization is cyber liability insurance, where we continue to see diminished capacity and rate growth in Q4 2021 and into 2022, even for those companies that have strong security controls. The goal of this update is to provide you with high-level information on trends and rates per line of coverage.

Executive Risk

While increases remain consistent across the management liability lines, rates are starting to slow down with some stability in premium and, in some instances, lower increases compared to 2020. However, these premiums can vary greatly depending on the size and class of business of a particular risk. As mentioned in our Q3 newsletter, some new capacity (mostly high excess) is a sign of relief for insurance buyers. This new capacity remains mostly dedicated to public company D&O risks compared to a private company or non-profit D&O insurance. Underwriters continue to ask for clarifying information around the insured's COVID response, supply chain, labor shortages, and even cyber controls. On the Fiduciary liability line of coverage, underwriters are increasingly concerned about improper/inappropriate fees being charged to retirement plans and the resultant class action litigation they are seeing.

Cyber Liability

High-profile ransomware attacks continue to be well publicized and related losses are having a significant impact on carrier profitability on this line of coverage. Cyber insurance carriers are making dramatic changes to cyber insurance renewals, including reducing capacity and increasing both premium and retention amounts. Carriers also have a limited appetite or restrictions on competing for new business. Underwriters are asking many more questions on controls than in past years. Without certain controls in place, some underwriters are issuing non-renewals or a significant reduction in limits quoted. Of greatest importance to underwriters is multi-factor authentication (MFA), also called two-step authentication. Insureds that purchased cyber insurance previously and established a relationship with an insurance carrier are in a much better position to be offered renewal terms than an organization looking for new cyber insurance in 2021. Renewal pricing remains extremely volatile and very challenging to predict. As a result, buyers need to be prepared for cyber insurance rates to increase anywhere from +30% to +300%. Municipalities have generally seen the most challenging renewals when compared to other industry sectors. Insureds need to start their renewal process early so they can evaluate all avenues for placement of this coverage.

Workers Compensation

For most industries, rates continue to decrease for Workers Compensation insurance. The National Council on Compensation Insurance (NCCI), which sets worker's compensation rates, has decreased rates again in 2021/2022 for most class codes. A company's experience modification factor, which is calculated based on claims experience, may impact overall premium increases or decreases even with the NCCI rate reduction. Moreton & Company's loss control team can work with your company on loss control and risk management solutions to help decrease your experience modification factor and bring your overall premium down further.

General Liability/Auto Liability

General Liability rates have started to flatten out at just under 5% across all industry classes. We continue to see insurance carriers adding exclusions for communicable diseases where exclusions may not have existed prior to the pandemic. Underwriters are increasingly concerned about a boom in litigation financing and resultant "nuclear verdicts" where juries' attitudes are evolving around corporate responsibility. As a result, underwriters are very careful in their management of limits and the classes of business that they will accept. Although General Liability rates are flattening, Auto Liability rates continue to increase due to expensive auto parts (e.g., sensors, chips, etc.), increased litigation costs, and auto settlements/judgments increasing. Moreton & Company has seen auto fleet renewals in the range of +8% to +35%.

Property

As usual, weather events tend to drive the property premium increases and decreases we see in the marketplace. 2020 was a difficult year with many weather events hitting US soil ($190B insured losses, 5th largest on record). 2021 has been a better year in that regard and we are seeing smaller premium increases as the year progresses.

Catastrophe ("CAT") exposed insureds – those that have coastal wind exposure, and/or buy earthquake or flood coverage - will continue to see pressure on rates into 2022 due to the reduced capacity in the marketplace caused by CAT losses from 2017 - 2020. We are optimistic that as CAT losses stabilize, we will see new capacity emerge from Bermuda and other CAT markets that will help flatten the premium increases next year.

Excess Liability/Umbrella

In 2020 we experienced carrier non-renewals on the excess liability/umbrella line of coverage due to adverse loss experience and "nuclear verdicts" our insurance carrier partners experienced. 2021 has not been as volatile as 2020 in this regard; however, high single-digit and low double-digit increases are not uncommon. We typically have to engage with more than one insurance carrier to fill the capacity on an excess liability program where limits needed are more than $2M. In addition, more carriers are wanting to attach $2,000,000 to the auto limit. There is new capacity entering the excess liability insurance market, bringing much needed competition.

Sexual Abuse and Molestations coverage continues to be challenging. There are only a handful of carriers offering this coverage, typically on a claims-made basis, and many times the coverage is sub-limited to $100,000 or $250,000 total. In the past, coverage was typically addressed on a silent basis following the occurrence coverage trigger of the policy. The change from the silent approach to an affirmative claims-made approach also changes the coverage trigger to per-victim from perpetrator in most instances, which further narrows the scope of coverage and availability of limits, especially in recent cases where there are multiple victims of the same perpetrator.

The chart below shows our brokerage firm's experience with rate increases by line of coverage. Please note that an individual company's rate increases will be based on their loss history, industry, and risk characteristics.

Rate Increase By Line of Coverage

Year	Umbrella /Excess	Directors & Officers	Property	General Liability	Auto	Inland Marine	Workers Compensation	Surety Rates	EPLI	Cyber
2020	+20%	+25%	+18%	+6%	+12%	+5%	+5%	+1%	+9%	+8%
2021	+25%	+20%	+12%	+10%	+18%	+2%	0%	+2%	+15%	+35%
2022 (est.)	+15% to +20%	+10% to +15%	+5% to +12%	+5% to +10%	+10% to +15%	Flat	-5%	Flat	+10% to +15%	+30% to +50%

Please visit www.moreton.com/news-events/ for more information and to view other newsletters. This newsletter was written by the Moreton & Company's in-house Property & Casualty department.