

Insurance Marketplace Realities

2021



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Toward a new equilibrium

Most agree that 2020 will be remembered as an *annus horribilis*, to borrow a phrase from Queen Elizabeth. The coronavirus continues to hurt our populations and our economies. It's also exacerbated the hard insurance market, now 21 months old, which has proven to be one of historic proportions. In our last two issues we began with the same question: How long will it last? The first time, we were referring to the hard market. The second time, the pandemic. To answer both questions, we still cannot offer a precise end date, but we can say that both will end, and both will leave indelible changes.

Over the past several decades, hard market cycles have occurred but have been somewhat limited. They were market responses to insured catastrophes, years of declining prices, and low interest rates that depressed insurer investment income. Those hard markets were typically confined to an insurance line or two and had limited geographic impact. We have to look back to the defining hard market crisis of the mid-1980s to see market conditions of the proportions we are currently experiencing — one of double- and triple-digit rate increases in most lines of business and dramatically reduced capacity in key lines.

Systemic changes in risk

This is no trivial comparison. The hard market of the mid 1980s, and the systemic changes in corporate risks — primarily asbestos and pollution liability — that caused it, gave rise to many structural changes in our industry: the rise of Bermuda

as an insurance center, the dramatic growth of captives, fundamental changes to Lloyd's of London, and, one could argue, the launching of alternative risk financing that has produced such products as catastrophe bonds, insurance-linked securities and parametric trigger programs.

The current hard market may have been triggered by loss events — namely the natural catastrophes of 2017 and 2018, by years of declining prices, and by historically low interest rates. But what has made this hard market feel like the hard market of the mid-1980s has been the significant withdrawal of capacity in response to changes in risk exposures. The demonstrable increase in the frequency and severity of natural catastrophes across the world appears to be systemic — perhaps driven by climate change. The persistent increase in man-made property damage losses — fire, boiler and machinery, etc. — is also problematic and probably caused by short-sighted business practices, but those can be addressed. The increase in severity for liability losses of all types — auto, general liability, product liability, D&O, employment practices, etc. — is crudely attributed to “social inflation.” Whether one likes the term or not, the increase in losses are real, and they are systemic.

Some have pointed to the robust capitalization of the P&C industry and asked, “Why do insurers need increased rates if their capital is sound?” The answer is that the absolute, inflation-adjusted size of insured losses — property, business interruption, umbrella and D&O particularly — have increased faster than the capital base of the industry. In other words, insurers need more capital to absorb this increase in volatility. Remember, this volatility exists independent of the insurance industry. If insurers cannot absorb the volatility, it will fall back on businesses and other organizations.

Mark Twain reportedly said that history might not repeat itself, but it sure does rhyme. The hard market of the 1980s ended due to the imposition of asbestos and pollution exclusions and a subsequent influx of new capital. Within three years of the start of that hard market, rates dropped off precipitously. It seems unlikely that the P&C industry will impose climate change or social inflation exclusions to address the current systemic changes. However, insurers will adapt, new capital will flow into our business (as it already has), capacity will return and prices will moderate. We just shouldn't expect capacity and pricing to return to 2017 levels — at least not quickly.

How will we adapt? Analytics.

So how will we adapt this time? In a word, analytics. Analytics and data-driven tools are increasingly changing the way both buyers and sellers approach the negotiating table when it comes to risk transfer. Insurers are using analytics to identify macro trends in losses and the drivers of those losses, and to predict the potential impact of emerging risks. The unprecedented underwriting discipline characterizing the current hard market is bolstered by such quantitative analysis.

Over the past decade we've seen a competition between underwriting and data science. Guess what? They both won. Underwriting judgment has been and will remain fundamental to our industry; it is the essence of risk taking, but judgment alone hasn't always proven dependable. Judgment built on a foundation of analytics is much more sustainable. This sustainability will enable the P&C industry to find a new equilibrium between premium and losses, to attract new capital and to remain relevant. Our advice to insurers during this difficult transition to a new equilibrium is to demonstrate to clients that relationships still matter. If we don't want insurance to be considered a commodity, we shouldn't treat our clients like commodities.

Risk managers, insurance buyers, and their brokers are responding in kind with analytics. In the pages that follow you will see some stark predictions about rates in 2021. However, our experience in this hard market is that there is a wide range of results; renewal results are not huddled around the mean. This means underwriters are underwriting, and there is the opportunity to differentiate your risk. While underwriters look at mega trends, good risk managers and brokers use granular analytics to demonstrate where a prospective insured differs positively from those trends. Where an insured differs negatively, a good risk manager, with a consultative broker, can devise a risk management plan to remediate the deficiencies and articulate that plan to insurers.

Strategic risk managers who embrace analytics in 2021 should start with a fresh look at their organization's tolerance for risk. Every organization has been changed by the pandemic. Some positively, many negatively. Exposures have changed, financial wherewithal has changed and, no doubt, risk tolerance has changed. The strategic risk manager, armed with a fresh understanding of the organization's risk tolerance, can use analytics to sort through retentions, limits and alternative risk financing structures and determine the value trade-offs of each. The strategic risk managers in 2021 will be their organizations' "first underwriter," determining which risks to retain and which to transfer. He or she will also be a trader of risk, making smart, real-time buying decisions based on risk tolerance and point-in-time market conditions. Finally, just as strategic underwriting is a combination of analytics and judgment, the strategic risk managers will not only use analytics, they will also tend to their strategic insurer relationships, since these have proven, in most cases, to be assets in this hard market.

The impact of COVID-19 on the P&C industry is proving to be a slow-moving crisis. Last spring, we offered an estimated range of \$32 billion to \$80 billion for insured losses

arising from the pandemic. At this point, it looks like the upper end of that range may be where we land. There is cautious optimism that the final tally will not be much higher, but there remains uncertainty about the coverage litigation that is still in early stages. That coverage litigation, which involves hundreds of lawsuits across the U.S., centers on business interruption policy language, as we expected. Judgments against insurers that survive appeal could change COVID-19 from a significant, but manageable catastrophe into a solvency threat. All eyes will be on the courts during 2021.

Let's get tactical

We think the current hard market conditions will continue throughout 2021. You'll see in the pages that follow that the most challenged lines are property, umbrella, D&O and fiduciary with cyber not far behind. (NB: mid-market companies, particularly those that purchase in the "package" market are experiencing more moderate rate increases than large organizations.) A year ago, we forecasted that the property market would become more predictable by this time, but rates would continue to climb. This has proven true, although some industry sectors, such as manufacturing and food processing, continue to experience unpredictability.

Barring another major insured catastrophe, we expect that property rate increases by mid-2021 will begin to moderate since underwriters will have had two cycles of rate increases by that point. A year ago, we also predicted that umbrella and D&O would be challenged and unpredictable until mid-2021. While both lines became more challenging than we expected, we do maintain that by mid-2021, the markets for these risks should be more predictable, although rates are likely to continue climbing. We also expect that the capacity from new ventures now coming online will have some moderating impact on these lines by mid-2021, especially D&O. In the pages that follow, we offer line-by-line forecasts of what risk managers can expect in 2021.

Toward greater relevance

One more thought about analytics. Analytics can also play a role in making our industry more relevant to world business than it has been for decades. The pandemic and the terrorist attacks of 9/11 are just two grim reminders that black swans show up. As mentioned above, external volatility is growing globally. As we are seeing with climate risk, our industry has the chance to play a meaningful, even a leading role in measuring, quantifying and addressing emerging risks. We can advise business leaders about the sources of volatility and our advice will be backed up by credible analytics. Similarly, underwriters can use analytics and judgement to make the case to capital providers, both traditional and alternative, that they can and should meet the demand for risk transfer and advance the industry's traditional role of enabling global commerce.

As we look to the future, we are confident that analytics, judgment and relationships will bring this difficult market to a new equilibrium that provides customers with protection from emerging risks and growing volatility, and keeps the underwriting community relevant to world business. We may not see a precipitous return to soft pricing, but we will see moderation and perhaps some welcome sustainability — and increased relevance.

For a closer look at the current state of analytics, as well as risk transfer alternatives increasingly underpinned by analytics, see the articles below: [The State of Analytic Decision Making](#) and [Alternative Risk Transfer Solutions \(ART\) and Captive Insurance](#).



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Looking forward, looking back

For the second issue running we reach an unfortunate landmark for buyers. For the first time, in every line except one, most buyers can expect rate increases. In most cases, the rate increases predicted for 2021 surpass those of last spring. In the few cases where rate reductions were considered possible last spring, this time the best outcome buyers can hope for is flat renewals — with the one negligible exception being kidnap and ransom, where our prediction is -5% to +5%. While our line-by-line reports offer strategies for getting the best possible results in the current marketplace, the assembled predictions tell a difficult, if unsurprising story for buyers in this hard market. In a few lines (workers compensation, life sciences (new this issue), terrorism, product recall and alternative risk transfer (reporting rate predictions for the first time), flat renewals are possible, though increases will greet many buyers. In a handful (aerospace, environmental, marine, trade credit, personal lines) rate predictions were no worse than in the spring. In every other line (except kidnap and ransom, which has seen exposures abate due to the travel restrictions imposed by the pandemic), higher increases are expected in 2021.

Here are highlights from our 2021 predictions:

- Property rate increases are still worsening; for non-challenged occupancies, the predictions for 2021 are +15% to +25%, up from 10% to +20% in the spring.
- General liability predictions jumped to +7.5% to +15% from +2.5% to +7.5%, more than doubling.
- Umbrella/excess predictions are even more eye-popping than in spring: the lowest expected increases are now 30% (for low/moderate hazard umbrella); and the highest remain at a staggering 150% (for high hazard excess).
- Workers compensation, a long-time place of possible respite from rate hikes, is still better, but no decreases are expected.
- Forecasted auto rate increases rose to a range of +8% to +15% from +6% to +12%.
- All categories of D&O are forecast to go up double digits, some by as much as 70%.
- Cyber insurance rate hikes are anticipated at +10% to +30%, up from +10% to +15% earlier this year.

Commercial lines insurance pricing survey (CLIPS)

Our rate predictions in the following pages of Insurance Marketplace Realities are relevant to the commercial insurance marketplace in which we trade (i.e., the mid-market, national and global segments). When we assemble our forecasts for the coming year, we're also looking back at recent price movement reported by insurers, grounding us in firm data. CLIPS, Willis Towers Watson's retrospective look at commercial P&C prices, is based on both new and renewal business figures, across all segments (including small commercial and so-called "main street" business), obtained directly from carriers underwriting P&C business. (It is our experience that insurance rate fluctuations are considerably more pronounced for larger buyers than smaller buyers.) CLIPS participants represent a cross section of U.S. P&C insurers that includes many of the top 10 commercial lines companies and the top 25 insurance groups in the U.S.

The most recent CLIPS survey showed that 24 2020 aggregate U.S. commercial insurance prices increased almost 10%, the highest Q2 increase reported since 2003. For more, review the recent CLIPS report.

IMR issue	Decreases	Increases	Mix/flat
2021	0	29	1
2020 spring update	0	23	5
2020	2	20	5
2019 spring update	2	14	9
2019	2	14	9
2018 spring update	2	10	10
2018	7	7	9
2017 spring update	10	6	7
2017	10	6	7
2016 spring update	9	8	5

*The 2021 figures include life sciences and alternative risk transfer predictions for the first time.

The 2020 spring update figures reflect the addition of managed care errors & omissions as a separate line of business. The 2020 figures reflect the addition of personal lines and financial institutions as separate entries. The 2019 figures reflect the addition of marine, cargo and senior living/long-term care as separate lines of business. The 2018 spring update figures reflect the absence of marine in that issue; the 2017 figures reflect the addition of international coverage as a separate line, and the 2018 figures reflect the addition of product recall and the subtraction of employee benefits, which are no longer covered in this report. Casualty lines are discussed in one combined report but are included in this table as separate items (GL, umbrella/excess, auto and workers compensation).

For more insight on how you can prepare for a challenging marketplace, contact your local Willis Towers Watson representative.

Like the times we find ourselves in, these predictions again are pushing the envelope of our previous experience. One thing is certain: the insurance marketplace will continue to be challenging in 2021.

As mentioned above, in five lines, predictions allow for the possibility of flat renewals, though many if not most buyers in those lines can expect some kind of increase. Hence the stark numbers below.

The state of analytic decision making

The hard insurance market and the economic uncertainty caused by COVID-19 are putting every financial decision under the microscope, driving many insurance buyers to feel they must choose between reducing expenses and satisfying risk protection expectations. The use of data and analytics to help organizations best respond to these challenges is accelerating. Organizations increasingly demand to know the value insurance brings and want evidence that their insurance spend creates value for their organization. They are finding that risk analytics provide the insights they need to measure that value and set insurance priorities.

We can break down this current trend into three interconnected threads:

1) Understand your tolerance for risk

Many insurance buyers have historically assumed that they need the level of coverage they've always had. In the current environment, leadership is pushing back and asking if they can get by with less. The most effective response we've seen from many risk managers is to first clearly define their organizational tolerance for financial downside. This is best done by establishing a risk tolerance framework, which enables finance and risk management to work together to determine the organization's ability to withstand losses and their preferences for how much risk they can take on. This dialogue and framework form the foundation of a risk financing strategy.

2) Leverage analytics to measure loss potential

A second approach increasingly applied by risk managers is the use of advanced analytics and external sources of loss data to forecast the full range of loss potential. We have long seen risk managers use forecasting approaches as one element in coverage decisions, but we now see them demanding more insight, and they are turning to advanced analytics to evaluate risk transfer in terms of volatility reduction and value. Organizations that have already defined tolerance for risk are at an even greater advantage here, as they are well-positioned to decide if they truly need the coverage, even at a higher price, or if they can retain more risk.

3) Design your optimal protection program

With losses and tolerance understood, risk managers are ready to walk into insurance negotiations knowing how much coverage they need, how much they want and at what price to walk away. As a result, we are not surprised to see more organizations reject insurance coverage when the price has risen too high and instead pursue alternatives, such as parametric solutions and captive programs.

At the cutting edge of risk analytics, risk managers are looking at their risks in portfolios rather than individually, as siloed risks. In doing so organizations can harness the inherent diversity of their risk portfolios, allowing them to understand circumstances in which they can buy less insurance without increasing the overall risk to their organization. In addition, taking a portfolio

view has allowed organizations to find arbitrage opportunities, successfully reducing risk for the same budget by buying protection in high-value coverage areas and shedding insurance purchases in more expensive and potentially lower value areas.

These threads underpin our recommendations to risk managers to weather both the hard market and economic turmoil:

1) Define your tolerance for risk, thereby aligning risk management decisions with corporate financial goals.

2) Leverage data and advanced analytics to measure loss potential and to evaluate risk transfer in terms of volatility reduction and value.

3) Design your optimal protection program, one that gives you control of the insurance negotiation. Consider a portfolio approach.

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Alternative risk transfer (ART)

Key takeaway

ART products are not immune to the same economic pressures faced by their traditional counterparts, and these pressures drive ART underwriters to act conservatively. When it comes to ART deals, this conservatism is manifested as a preference for simplicity over the cutting edge. That said, ART deals, whether simple, novel or innovative, that are supported by robust analytics and negotiated over realistic timeframes, fare better.

Rate prediction

Structured programs: Flat

Parametric programs: Flat to +15%

Portfolio programs: +10% to +20%

Future pandemic protection

- For large corporates, the marketplace is offering protection for lost revenue or gross profit, or an increase in expenses from a non-COVID-19 pandemic event. This program responds on a dual trigger basis requiring:
 - A World Health Organization notice (PHEIC or Pandemic) and
 - Either a breach of a pre-agreed level of cases or deaths in a particular geography(ies), or a civil authority action by a federal or state government in a particular geography(ies).
- As an extension, this program can manage the cash-flow impact of a second wave of COVID-19 through a multiyear structured (pre/post loss funding) component (not risk transfer).
- Capacity and pricing have remained steady.

Structured solutions

- The focus of activity continues to be in the property and casualty lines of business and where the traditional market is charging rates-on-line (premium/limit) of 40% or more for a layer of insurance.
- Structured solutions create a bridge between increased retentions and higher traditional market attachment points on hard-to-insure risk classes.
- Typically three to five years in duration, these programs include significant pre-loss financing that aligns the insured's risk tolerance with that of the insurers.

- Sophisticated insureds increasingly apply this approach across multiple lines of business, using the market to help manage the cash flow impact of large losses while embracing their risk tolerance and securing risk transfer capacity for remote loss scenarios.
- Insurers are becoming less flexible on funding requirements with greater scrutiny on credit analysis.

Parametric solutions

Natural catastrophe risks

- Parametric hurricane and earthquake programs became very popular in 2020 due to the challenging property market compounded by COVID-19, which amplified the cost of natural catastrophe claims.
- These solutions complement property placements by in-filling deductibles, topping up sublimits or covering uninsured risks (such as non-damage business interruption risk). Their simple structure, use of independent data and quick settlement appeal to those insureds exasperated by long, drawn-out claim adjustment processes on prior catastrophe events.
- Markets are working to increase their available capacity for 2021.
- For hurricane risks in the Atlantic basin, insureds are highly encouraged to renew/implement their programs early in 2021 to access optimal pricing and capacity. In 2020 we saw rates increase and capacity exhaust as we approached wind season.

Weather risks

- Parametric weather index products that address extremes of precipitation, temperature, humidity, snowfall, etc. are increasingly being adopted by insureds to hedge against non-damage business interruption events, especially with growing concern over climate change.
- Activity is highest in the agriculture, construction, transportation, leisure and hospitality sectors, and buyers range from public entities to corporations of all sizes.
- In the renewable energy sector, these products support the revenue generation of wind and solar assets over 10 - to 15-year periods.
- Insurers are keen to expand this sector to help diversify a) their natural catastrophe aggregation, and b) their warm northern hemisphere winter concentrations driven by their energy clients.

Emerging indexes

- Advancements in technology continue to expand the number of risks that can be addressed on a parametric basis. Emerging products cover hail, flood/surge, river height, lightning and wildfire risks.
- Multiperil policies can be written using generic industry indexes (REVPar, Footfall) that are correlated to multiple risks.
- Insureds' own production data is now being used to settle the business interruption component of a property claim on a parametric basis, greatly simplifying claim settlement, enabling claims to close in days versus months.

Analytics

- Parametric contracts are data driven, with claims being settled entirely on the value of the agreed data set. As such, they rely completely on a thorough analytical understanding of a risk and its correlation to a selected index.
- Basis risk continues to be the key challenge and needs to be clearly understood by potential buyers.

Portfolio solutions

- Capacity for multiyear portfolio solutions (or integrated risk programs) is diminishing in the current market as ART units are forced to adopt the same underwriting restrictions imposed on their traditional monoline colleagues.
- These markets have increasingly focused on multiline stop-loss protection for a captive or for a portfolio of deductibles/ self-insured retentions as insureds are forced to retain more risk to limit premium increases.
- That said, those clients who previously established multiyear integrated programs are benefiting significantly by being insulated from market volatility and rate increases, at least until such programs renew.
- Where there is stress, there is opportunity, and we do see signs of new market capacity being drawn into this sector (as well as into structured solutions).

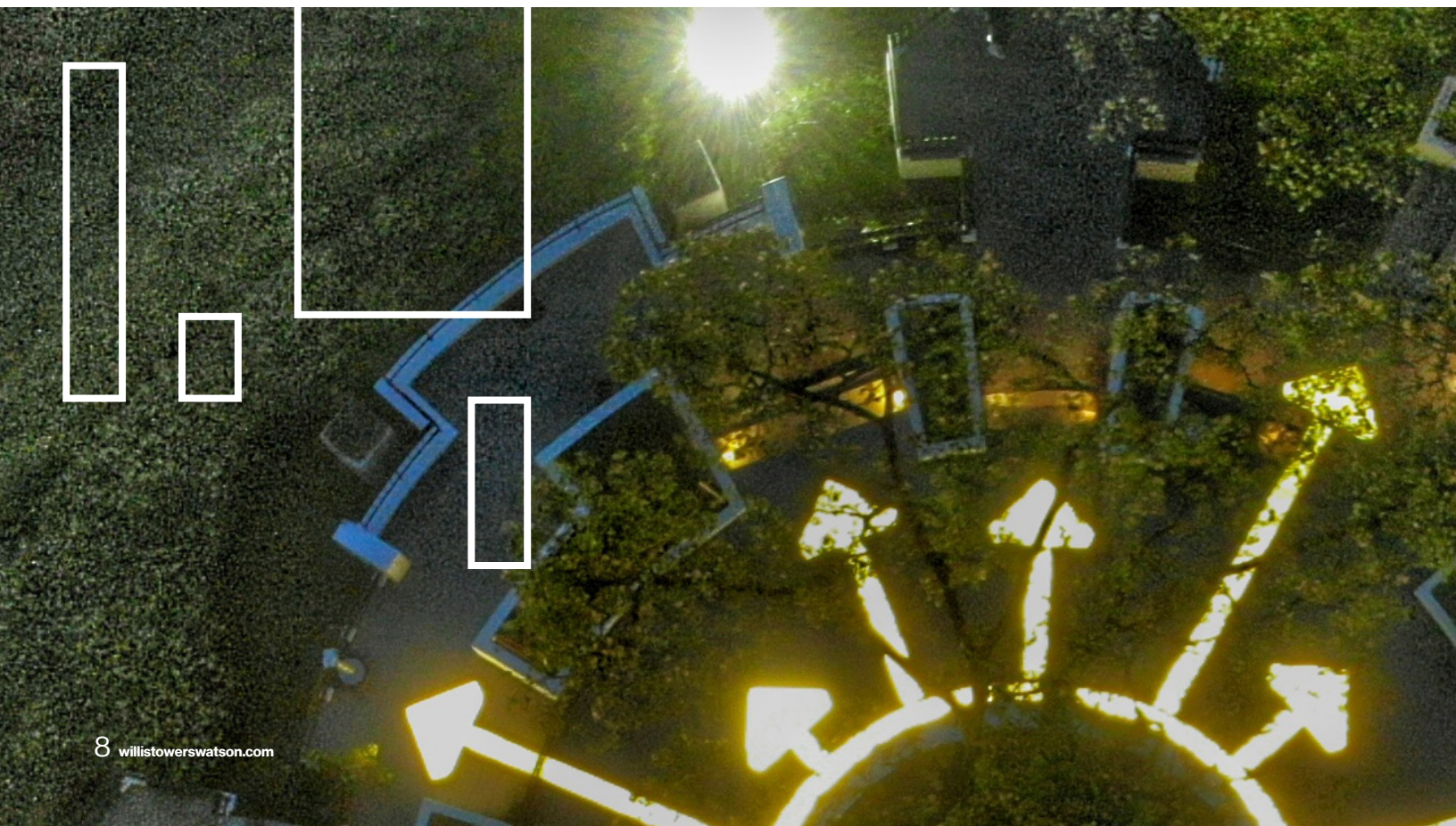
Catastrophe bonds

- While traction among corporate clients remains low, capacity in the catastrophe bond market remains available, with deals renewing at or near expiring capacity. Spreads have remained elevated: up 10 – 15% from pre-COVID-19 levels.
- Trapped collateral created by natural catastrophe losses continues to create uncertainty for investors. This could create frustration and lead to more redemptions as well as contraction in the retro market. A contracting retro market could render some ILS funds unable to renew their lines in full at the January 1 renewals.

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Captive insurance

Key takeaway

As economic activity stabilizes and the hard market continues, we expect the rush to form and re-engineer captives will continue at a level approaching the frenzy of the mid-1980s.

We see growing interest in deploying a captive given the hard market, but the pandemic has delayed execution.

- Given the economic downturn, owners are looking to balance capital and cash with risk financing needs to optimize their positions.
- Many captives are re-rating policies to reflect changes in exposure due to the pandemic.

While interest has increased in 2020, the total number of captives fell in 2019.

- In 2019, U.S. domiciles saw 278 new licenses and 343 surrenders, overall a net decrease of 65, according to *Captive Review World Domicile Update 2020*.
- This trend was driven by the cull of tax avoidance vehicles following the IRS crack down on the abuse of captive rule 831b. Domiciles overweight with 831b captives (Delaware, Kentucky, Utah) are seeing some of the biggest net declines in captive licenses despite healthy numbers of new licenses issued.
- Some states, including Vermont, have shown net growth, indicating that demand for new licenses in the small to mid-sized market will continue in established domiciles under the current market conditions. We expect this trend to continue into 2021.

- Caribbean domiciles saw captive numbers overall fall by 119 despite a small net growth (four) in Bermuda. These trends are driven by U.S. and European parent companies reviewing offshore arrangements and the closure of 831b captives offshore following IRS investigations. A compounding driver has been the rate of merger and acquisition activity in the health care industry, leading to captive consolidations and closures. European requirements for captives have further impacted Bermuda, the Cayman Islands and their European captive sponsors.

Trends

- In 2021, we expect greater focus on the use of analytics to support decision making, optimize cost of risk transfer, and find better leverage in negotiations with the markets. We see this at the captive feasibility stage, at the active planning stage, as well as the strategy review phase for existing captives.
- Property renewals have been particularly challenging, inspiring increased interest in property captives.
- IRS review of micro-captives resulted in significant surrender of 831b captive licences — this could continue in the year ahead.

- We see continued interest in using captive management services to support fledgling MGUs and MGAs. Captive owners are looking to expand underwriting of third-party business in their pursuit of the dual objectives of acting as profit centers and risk retention tools.
- We anticipate ongoing interest in exploring how captives can be used to secure gaps in coverage, particularly for those risks seeing the highest rate increases (e.g., D&O, trade credit, cyber, pandemic and business interruption).
- Interest is rising in disposing of legacy liabilities to free up capital to write more business into existing captives.

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Property

Key takeaway

The current property environment is full of challenges, and we anticipate continued hardening into 2021. Until underwriting profitability returns, expect little relief in rate, with continued pull-back in sublimits and tightening of policy wordings. But be wary of the tyranny of averages — undue (or uncritical) attention to rate hikes can obscure the wide variation we are seeing in this marketplace.

Rate prediction

Non-challenged occupancies: +15% to +25%

Challenged occupancies: +30% or more

Catastrophe losses and continued attritional losses amid uncertainty surrounding COVID-19 are just a few factors contributing to the sustained rate pressure buyers are experiencing. The level and magnitude of these increases vary greatly by the class of business, account loss history and perceived rate adequacy of the account.

- This continues to be a results-driven market turn and not one driven by capital depletion. Despite dramatic increases in rate levels, most property underwriters continue to experience dismal financial results due to continued frequency and severity of losses.
- The elevated frequency of events continues to put pressure on the marketplace; 2020 third quarter natural catastrophe losses for U.S. property/casualty insurance were the largest since the third quarter of 2017 when we experienced hurricanes Harvey, Irma and Maria.
- The Atlantic hurricane season has moved to the Greek alphabet for only the second time in history. As of late October, we have seen a record 26 named storms, with 10 making U.S. landfall.
- In addition to an active hurricane season, natural catastrophe losses have come from wildfires, flooding and severe convective storms, including a rare derecho in the Midwest.

The hard market has forced some clients to take larger retentions, self-insure a portion of their risk as well as reduce overall limits in order to manage costs. In these conditions, clients should review their risk tolerance and make more informed decisions to mitigate the impact of the property marketplace.

- Buyers are looking at risk transfer options, both traditional and non-traditional.
- Analytics provide important guidance as buyers align offerings in the marketplace and their rapidly shifting needs. The shift toward not only *collecting* data, but *structuring* the data to help deliver meaningful insights has moved to the forefront for insureds as well as insurers.
- Technological/analytic advances are helping determine where buyers will spend critical capex dollars as well as where insurers will commit capacity — and how overall risk quality is presented and assessed.
- Capacity and wording restrictions remain a key focus. Most carriers are demanding company forms versus broker and/or manuscript forms.
- Shared and layered placements have seen an increase in the number of markets needed to fill the program, making renewal negotiations more complex and take much longer to finalize.

- Insurers are attempting to apply hourly occurrence definitions to wildfires, strikes, riots and civil commotion.
- Due to COVID-19, infectious disease coverage has been extremely limited or outright excluded.
- Insurers are also pushing “occurrence limit of liability” or “scheduled limit of liability” clauses, as questions over valuations loom. If such clauses prevail, they can introduce significant uncertainty over insurance recoveries at the time of loss.
- Engineering is being heavily scrutinized, meaning buyers need to address any outstanding recommendations prior to renewal or be prepared to discuss specific plans to address those recommendations.
- We are seeing continued reduction in capacity for tougher industry classes as underwriters realign their books to meet corporate goals.
- Complexity of global programs has increased, with fronting carriers being inflexible about making any changes to reinsurance contract wording.
- Final decisions on pricing and capacity are being driven by home office. While relationships still matter, the quality of your data will impact how favorably you are considered versus your peers.

Risk managers need to set and maintain expectations with senior management. Buyers are challenged not only to fill out distressed programs which in turn garners more rate, but also to find creative solutions for managing the cost of overall risk.

- This is not a “one size fits all” market; carriers are carefully evaluating risks.
- Challenged occupancies and loss-impacted accounts have seen rate increases significantly outside the standard variance from the mean.
- Submission activity has substantially increased, especially for London and Bermuda markets.
- Demand surge has put pressure on quote dates and underwriter attention bandwidth.

- Ample renewal timelines are essential.
- The need to differentiate risk has **never been greater**.
- Insurers are underwriting on an account-by-account basis — offering opportunities for buyers:
 - Robust data is critical.
 - Underwriter meetings are encouraged.
 - Careful review of limits is crucial, including overall loss limit and critical cat limits.
 - Loss mitigation must be a focus, highlighting completed recommendations and disaster recovery/business interruption plans.
- Buyers need to consider options to mitigate rate: restructuring and re-layering, retention options, carrier selection and alternative risk transfer.

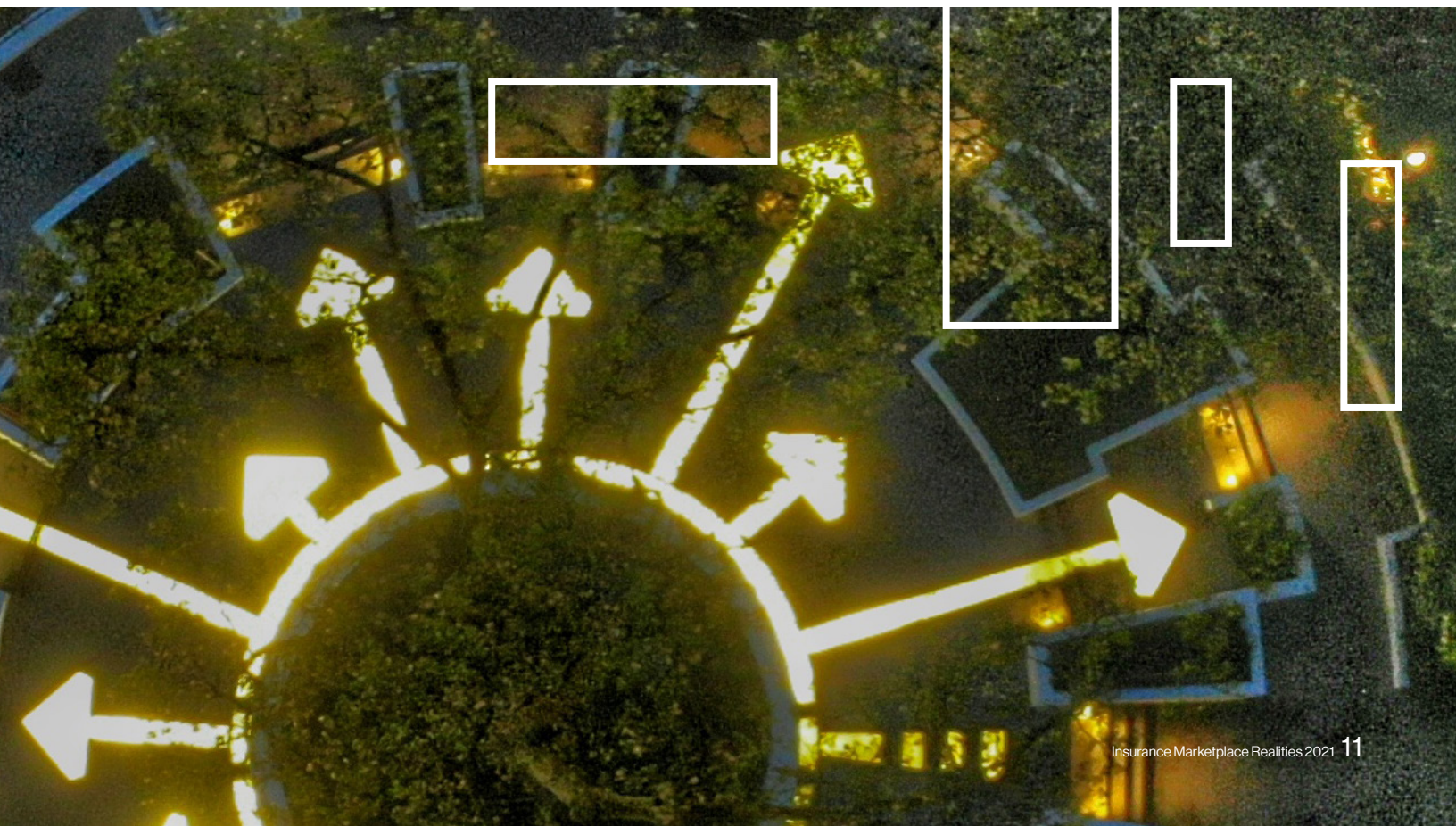
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Casualty

Key takeaway

As a result of various factors continuing to negatively impact loss trends and underwriting profitability, the commercial liability marketplace remains hard, especially for umbrella/excess liability.

Rate prediction

General liability: +7.5% to +15%

Automobile liability: +8% to +15%

Workers compensation: Flat to +4%

Umbrella liability:

High hazard: +50% or more

Low/moderate hazard: +30% or more

Excess liability:

High hazard: +150% or more

Low/moderate hazard: +75% or more

The casualty marketplace presents a range of challenges, and utilization of analytics remains an important tool for navigating these challenges.

- Renewals are taking much longer to complete, with participation from many more carriers needed to replicate expiring umbrella/excess liability limits.
- In some cases, we have seen buyers choose to reduce the total excess limits capacity they purchased.
- Securing coverage for wildfire, concussion/traumatic brain injury (TBI) litigation, sexual assault and molestation (SAM) and most recently communicable disease is proving more and more difficult.
- Differentiating risk profiles, exposures and loss experience is more important than ever, and analytic tools continue to be crucial in this effort.
- Utilization of analytics enables buyers to identify trends in their loss experience and exposures, create sound go-to-market strategies and quantify alternative and optimal program structures.

The umbrella/excess liability marketplace continues to experience extensive disruption. Deteriorating loss trends continue to negatively impact underwriting profitability driving underwriters to require continued, significant rate increases, to narrow underwriting appetites, to reevaluate coverage grants, and to require changes to program structures, i.e., reducing available capacity and requiring higher attachment points.

- The North American liability marketplace continues to be impacted by significant catastrophic liability losses stemming from many sources, including auto accidents, SAM, TBI, wildfire, active shooter events and opioid claims. The result is unsustainable combined ratios industry-wide — a primary driver of hardening rates.
- Loss severity is increasing along with the percentage of claims that are litigated. The median value of the top 50 U.S. verdicts in 2019 is estimated to be \$88 million, which would mark a 62% increase from 2018's median value of \$54.33 million. We have seen the median value of the top 50 U.S. verdicts increase by 318% since 2014. The recent numbers have become the benchmark for future claims and are the result of aggressive litigation, litigation financing, the impact of changing attitudes of juries and social inflation. (Data from Chubb and Lewis Brisbois, a legal defense firm)

- Nuclear verdicts (greater than \$100 million) and large settlements, even in jurisdictions perceived as conservative, are another major driver of the current market.
- Carriers are reducing renewal capacity on lead umbrella and excess layers but have not been providing corresponding premium relief.
- Total available/advertised global capacity has been reduced from \$2.2 billion in 2018 to \$1.4 billion in 2020. However, *typically deployed global capacity* is approximately \$690 million as a result of carriers reducing the amount of available capacity for certain types of risks/hazard classes because of the volatile nature of the U.S. litigation environment.
 - The reduction in global capacity is a result of carrier consolidation through mergers and acquisitions in recent years (accounting for roughly \$235 million of the decline), market exits and withdrawal of capacity by some carriers (\$500 million) and underwriting restrictions (\$700 million). (Data source: Willis Towers Watson)
- Insureds with large commercial fleets are experiencing continued pressure on automobile liability attachment points and are seeing exorbitant increases in lead umbrella pricing. These increases are also putting tremendous upward pressure on excess layer pricing.

- Rate increases on lead umbrellas have been larger when incumbent carriers non-renew (as opposed to reducing deployed capacity) forcing the insured into the market.
- Because of the reduction in overall market capacity, towers with \$100 million or more in total capacity have been seeing larger average excess rate increases than with towers of less than \$100 million.
- Casualty insurers who offer both primary programs and umbrella/excess are increasingly leveraging their lead umbrella capacity to secure positions on the insureds' primary programs. Some carriers that have not historically offered umbrella/excess capacity are now doing so to protect their primary position from competition.
- Underwriting and pricing guidelines remain fluid, with carriers continuously reacting to market conditions and, at times, changing their positions over the course of discussions with insureds.
- Carriers continue to cap per-project/per-location aggregates and are thoroughly scrutinizing or excluding construction/contingent coverages.
- Communicable disease exclusions have been added to most renewal programs in exposed industries (e.g., hospitality, retail and health care) since the COVID-19 outbreak.
- Accounts expiring with lower excess pricing (i.e., price per million) have experienced greater percentage rate increases, as carriers have become more focused on adequate rates for capacity regardless of attachment points.

Auto liability continues to be unprofitable for insurers as claim payments remain on the rise. Insureds continue to experience rate increases and program restrictions.

- AM Best reports that 2019 was the auto segment's worst accident year in 10 years as losses approached \$4 billion.
 - Commercial automobile insurance has not generated a combined ratio under 100 since 2010.
 - The 2019 combined ratio stood at 109 despite double-digit, year-over-year increases in earned premiums as the growth in incurred losses and loss adjustment expenses (LAE) has outpaced earned premium growth.
- Willis Towers Watson data illustrates 17 consecutive quarters (dating back Q3 2016) of rate increases.
- The median cost of a single fatality in 2019 was \$5.1 million, up 14% from 2018 and up 182% over the past 10 years.
- As a result of increasing claim costs, umbrella carriers continue to demand higher attachment points, resulting in stretching of primary limits or introduction of excess buffers.
- Increased frequency and severity of losses are the result of a multitude of factors, including distracted driving, rising medical expenses, commercial trucking driver shortages, changes in the legal climate, and decaying public infrastructure.
- While accident frequency may decline as a result of reduced traffic due to COVID-19 shelter-in-place requirements, severity could rise because of vehicles colliding at higher speeds. Also, more businesses are providing delivery services as in-store foot traffic has declined.
- Rate pressure is causing some insureds to consider higher deductibles and/or corridor deductibles to mitigate rate increases.

- On a positive note, estimates show that 2019 U.S. traffic fatalities decreased 1.2% to 36,120 compared to 2018 even though vehicle miles traveled (VMT) increased by 0.9%. (Data from the National Highway Traffic Safety Administration (NHTSA)'s Fatality Analysis Reporting System)
- In another positive trend, the NHTSA estimates 1.10 fatalities per 100 million VMT in 2019, down from 1.13 fatalities per 100 million VMT in 2018. If these estimates are reflected in the final data, the fatality rate per 100 million VMT would be the second lowest since NHTSA started recording fatal crash data.
- Drivers who text while operating a vehicle are 23 times more likely to suffer a car accident. NHTSA data states more than 1,000 people are injured daily in accidents in which at least one driver was distracted.
- Sleep apnea/deprivation continues to be a key factor in accidents, with over 43% of the workforce indicating they are sleep deprived. This is a major issue for risk managers as employers have been found legally liable for damages by not properly managing fatigue and sleep issues.
- "Repurposing" has become a buzz word associated with the COVID-19 outbreak, as businesses attempt to modify job duties to meet changing demand (e.g., restaurant employees now delivering take-out orders in their own cars). Such repurposing can change the non-owned and hired exposure of both the restaurant owners and insurance carriers. Companies should also look at the employees' personal auto policies to ensure coverage under that policy would not be void.

Workers compensation rate decreases are flattening and we are beginning to see slight increases in response to high severity/excess losses.

- 2019's combined ratio for private carriers was 85, up from 83 in 2018, marking the sixth consecutive year of underwriting profit and the third consecutive year of results under 90 (data from the National's Council on Compensation Insurance (NCCI) State of the Line Report and other NCCI publications). However, we believe this stretch of profitability could be under threat due to COVID-19 claims. Presumptive legislation regarding COVID-19 cases could play a large role.
- The 2019 net written premium for private carriers was \$42 billion. Once state fund premium is added in, the net written premium total is \$47 billion, a slight decrease from 2018.
- The NCCI estimates that average indemnity claim severity for accident year 2019 will be 4% higher than accident year 2018. This trend is in line with the projected countrywide average wage increase for 2019.
- NCCI estimates that lost-time claim frequency for accident year 2019 will be 4% lower than accident year 2018, which is in line with the long-term average frequency change of -3.8%.
- Over the last five years, auto accidents accounted for 28% of workers compensation claims above \$500K.
- California Assembly Bill 5, effective January 1, 2020, set a new standard for gig economy workers, and many independent contractors could be reclassified as employees covered by workers compensation. These additional expenses will put pressure on gig economy business models and their insurance programs.
- New medical technology along with increased use of existing technology may inflate loss costs by 40% to 50% and are a key driver in mega claims.
- While opioid use is declining, it accounts for approximately 25% of workers compensation prescription dollars.
- Workers compensation continues to be the casualty line of business with the most COVID-19 claim activity. The circumstances around coverage are complex, vary by state, and are impacted by new presumptive legislation.
- In-force policies may include payroll estimates based on pre-COVID-19 assumptions. A downward exposure restatement may put upward pressure on rate. However, insurers have been willing, on a case-by-case basis, to negotiate minimum premium requirements on existing policies and rate changes on renewal programs.
- Excess workers compensation policies address "communicable disease" variously, with some policies including aggregation clauses. Each policy must be reviewed to confirm how nuances could affect coverage. Regardless of coverage available within current policies, at renewal, carriers are becoming more restrictive.
- COVID-19 will potentially further reduce premium volume in 2020 due to higher unemployment levels and fewer available work hours for those who remain employed.
 - COVID-19 immediately caused job declines in leisure, hospitality and travel-related industries. Manufacturing and distributors of durable goods also experienced a reduction in jobs due to a decrease in customer demand.
 - While strong job growth occurred in health care, grocery stores and home delivery businesses, these new jobs may be temporary.
 - The ability to effectively telecommute has helped to maintain employment stability in the professional services sector.
- Higher unemployment levels may put downward pressure on claim frequency, as employees may be reluctant to file workers compensation claims.
- The broadening of workers compensation coverage has the potential to increase claim frequency.
- As a result of COVID-19, deferral of elective treatments and medical care for other non-acute conditions may extend claim duration and put upward pressure on costs.
- The pandemic has reduced return-to-work opportunities and light-duty programs, which could increase claim duration.
- While less driving and more telecommuting may reduce the number of motor vehicle accidents, more ergonomic injuries may be expected as a larger percentage of the workforce is working remotely in areas not primarily designed for work.
- COVID-19 creates greater uncertainty in defining "the course and scope of employment" with many workers now telecommuting. Employers may have to add neighboring states to their policy, modify class codes, and establish guidelines and protocols for working from home.
- The probability that a workplace outbreak of a communicable disease, such as COVID-19, will be covered by workers compensation depends on several factors:
 - Presumptive legislation creating a pathway for designated claims
 - An elevated risk of contracting the disease in certain types of employment (risk inherent in the occupation)
 - How easy it is to identify the time of and source of transmission
 - How easy it is to attribute symptoms to a given communicable disease ("prevailing factor")
 - The broadness of state statutes and case precedent

- Telehealth, which has seen a large increase in utilization during the COVID-19 pandemic, continues to play a key role in the workers compensation industry by providing more efficient access to high-quality medical care, mitigating medical expenses and lost time from work, and resulting in reduced claim severity.
- The deterioration of the global economy has affected nearly all companies. Credit officers are likely to take a more conservative approach in establishing collateral requirements.

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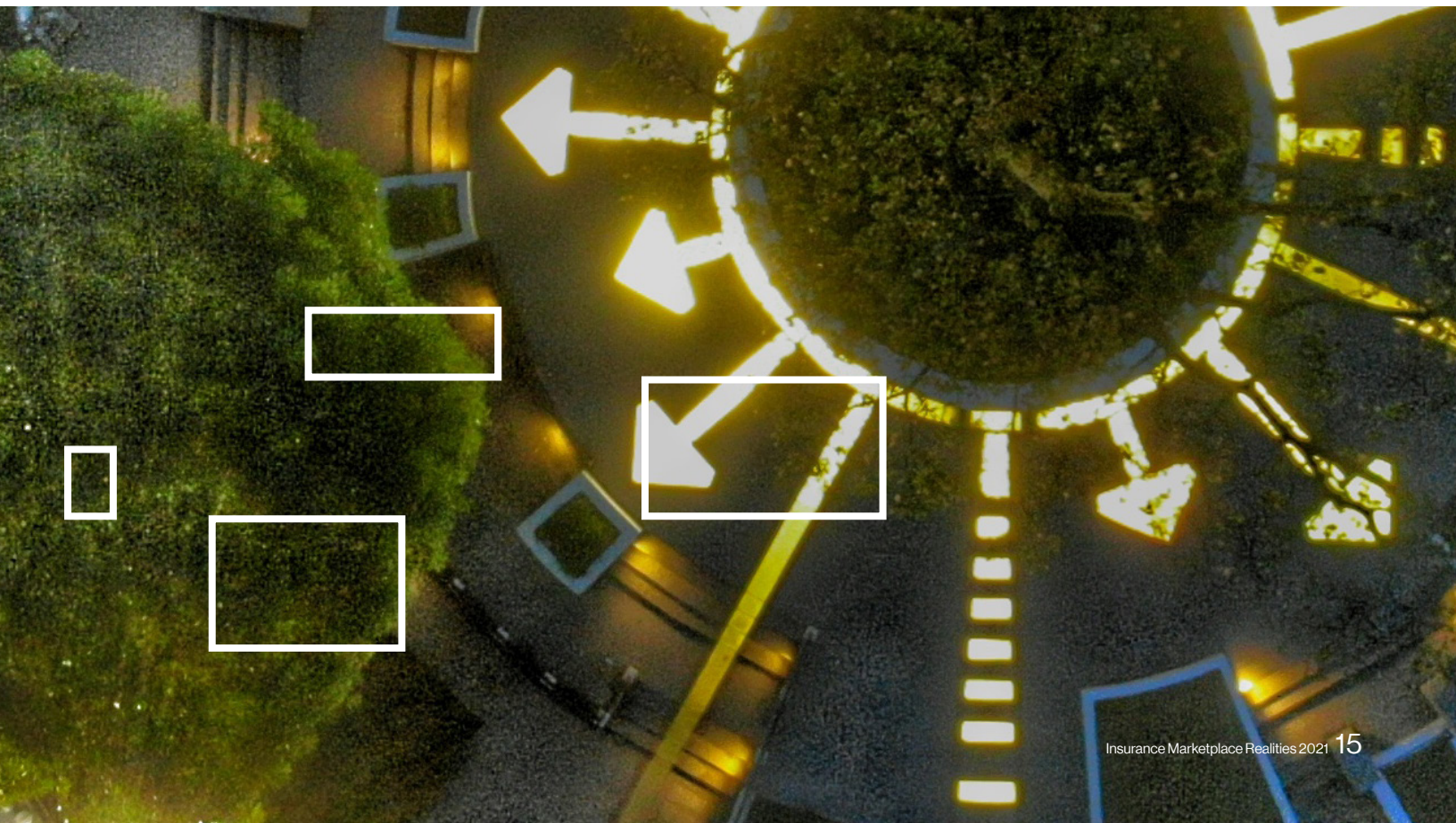
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International casualty

Key takeaway

The market for international casualty has begun to see significant impact from recent social and economic trends, with individual results varying widely.

Rate prediction

+10 %

Data and analytics are emerging as essential tools for guiding the design and delivery of coverage.

- Recently developed broking tools and analytics offer insurance buyers visibility into market trends that help guide market access points, program structure and data-driven, defensible strategies for approaching the marketplace.
- Analytics offer a nation-wide view of the market by aggregating broking data.
- Key data analyzed for international casualty includes:
 - Claims and loss rates
 - Coverage arranged (public/products liability, PD, EIL, PFL, auto, etc.)
 - Program structure including limits and the number of local policies
 - Insured industry and size
 - Comparative/similar insureds
 - Program administration/service needs

While there's been little direct impact on international casualty from COVID-19 claims, the instability of the broader insurance marketplace can be felt at international casualty renewals.

- **The market for international casualty continues to evolve in light of all the recent economic and social unrest.**

- **Individual results vary widely, with some insureds still benefiting from rate improvement while most others renewing with single and double-digit rate increases. Our best estimate for most buyers as we look ahead to 2021, however, is a 10% increase.**
- Coverage improvement and reductions in rate remain available, with certain caveats around claims statistics, exposure information and marketing strategies, among other items.
- **Insureds who have experienced significant claims and those with higher-risk exposures are the most vulnerable in this evolving marketplace. We recommend that insureds initiate renewal discussions early and explore all possible options.**
- **Buyers who will achieve more positive results in the market are those who:**
 - Deliver clear and consistent underwriting data and related documentation
 - Leverage their purchasing with strategic carrier relationships
 - Demonstrate that they have communicated detailed risk management protocols to their various stakeholders
 - Consider marketing opportunities carefully to maximize those opportunities
 - Partner with their broker, carriers and internal teams to take a disciplined approach to the renewal timelines, allowing for a thorough review of localized coverages and claims handling plans

- With many businesses reporting a decrease in revenues, that reduction in exposure may not equate to a 1:1 reduction in premium. Global programs administration costs are somewhat inelastic and are a significant portion of the total program costs, so insureds may feel an actual rate increase as their exposures drop.
- As organizations look to measure the quality of their global programs, we recommend taking a holistic approach and placing value on issues beyond price, such as the delivery of information and service. The most effective carrier partners are those who deliver accurate and timely policy documents, quality post-binding services around the world, and offer an insured the ability to influence localized policy coverage terms.

Capacity remains available, despite outside pressures.

- The full impact of the global economic downturn caused by the COVID-19 pandemic is uncertain; however, over the last few months there has been a palpable shift.
 - Reduced interest rates will impact carrier investments and overall profitability.
 - Other P&C lines continue to require rate increases, which has begun to influence underwriters of international programs to follow suit and raise rates.

- In previous quarters, upward pressure on rate had been mitigated by plentiful capacity. However, we anticipate current market participants will look to stabilize their capacity rather than continuing to expand.
- Underwriting appetite is under review by insurer leadership, and so line underwriters are not permitted to be as flexible as they have been in the past.
- Underwriters are seeking clear and consistent exposure information from insureds, limiting or even removing the ability to obtain coverage for “if-any” exposures, as well as excess DIC coverage, without clear details about the primary coverage in local geographies.
- On a positive note, carriers that write global lines of coverage are often able to partner with insureds on other lines, offering the opportunity to reduce overall cost through economies of scale.
- Multiyear agreements are available in some instances and can offer coverage and rate certainty and decreased administrative burden.
- For certain insureds with large and complex international risks, European-based markets can offer an alternative access point with potential benefits:
 - Customarily higher primary limits and expanded coverage territory
 - Higher or full limits on certain unique coverages, such as pure financial loss and extended products liability
 - Key coverage extensions included in the master policy, enabling a broader coverage territory
- Recent global carrier mergers have yet to reduce the abundant supply of capacity. In many cases, the M&A activity, as well as the development of strategic partnerships in the marketplace, have enhanced market offerings by bolstering underwriting depth, expanding capabilities (in various lines of business, claims, loss control and technology) and broadening international office footprints.

We are seeing market maturity for international casualty.

- Newer carrier entrants are working to attract insureds with fresh talent, forms and tools, while the more mature markets continue to invest in capabilities and information.
- Certain newer capacity is available from carriers who have historically only written U.S. domestic lines and have expanded their offering to include international P&C. Additional offerings emanate from European carriers with experience writing international casualty who are expanding their offerings to include U.S.-domiciled insureds.

Achieving optimal overall price includes a discussion of umbrella attachment points.

- Buyers need to review how international casualty should attach to the excess and umbrella (i.e., retained limit versus underlying limits) as well as the attachment point itself, as these factors can make a difference in overall cost.
- With many international casualty programs charging lower rates than the primary umbrella, pushing up attachment points may offer value opportunities (i.e., higher local limits and pricing relief in the umbrella/excess layers).

Combining P&C into packages may have strategic advantages, but buyers need to be aware of the impact the hardening property market may have on the combined program.

- Buyers who combine casualty with property into a package are likely to feel the impact of the hard property market, even if the exposures are relatively small.
- Catastrophe limits continue to be under pressure, requiring more underwriting scrutiny and cost.

- Impacts range from limited (if any) coverage for catastrophic events to larger minimum deductibles.
- Buyers can take steps to minimize these negative pressures:
 - Deliver clear and consistent underwriting data, values and business interruption data, including construction, occupancy, protection, exposure (COPE) information
 - Leverage their position with strategic carrier relationships
 - Demonstrate that they have strong loss controls in place and the resolve to improve their risk profile

COVID-19 impact on underwriting international casualty continues to evolve.

- Insureds should be prepared to provide additional information, more than in previous years, with a focus on how their organization is protecting staff and customers from the disease.
- Within an international casualty program, coverage often includes foreign voluntary workers compensation (FVWC), which so far is the most significant target for coverage discussion around COVID-19. This coverage commonly extends to endemic disease with state-of-hire WC benefits for employees who are working outside of their home countries. However, for coverage to apply, their travel needs to be in the course of business.
- Coverage may also be triggered in a business travel accident policy for someone who contracts the virus while in the course of business — although several carriers are pursuing coverage clarification.

Brexit's approach will require attention.

- With Brexit scheduled to take effect later this year, carriers and brokers have been preparing by repositioning certain underwriting and/or service functions (e.g., freedom of service (FOS) infrastructure) to alternative European locations (e.g., Luxembourg, Ireland, Spain and Belgium), requiring a fair amount of movement and retraining of staff. Carriers are looking to offer flexibility where they can. However, insureds and brokers are encouraged to seek details where there are unknowns in advance of renewals.
- As a general note, we strongly encourage insureds to partner with their broker and carrier to weigh the pros and cons of an FOS structure for a casualty program. The benefits that are generally available on a property program are often less clear on a casualty program. Programs that replace local policies throughout Europe with an FOS policy may reduce costs but may also lose country-specific broad terms that are only available in each country.
- Additionally, insureds who may have received an FOS policy from a carrier's U.K. office, also representing local coverage for the U.K., should consider the need and benefits of requesting a separate local policy in the U.K. at renewal.
- When a renewal involves a potential change regarding where an FOS policy will be issued, we suggest carefully considering the implications of the governing laws of that policy. For example, the U.K. relies on common law whereas other European countries rely on civil law, and there will be differences in how claims are managed.

Changes in market regulation and issues of compliance are crucial.

- State-driven regulation and rising protectionism continue to impact the marketplace. Federal agencies in some regions are requiring participation of in-country insurance capacity in global programs, which impacts pricing, exportability, control and renewal timing. Buyers should be aware that any restrictions on the exportability of risk and premium will limit the corresponding amount of underwriting and claim settlement authority that can be centralized.
- Enforcement remains prevalent around premium payment warranties (e.g., cash before cover) in some countries, which should encourage buyers and their brokers to be ready to bind 30+ days in advance of renewal.
- Insurance and tax audits, as well as requirements for insureds to provide know-your-client (KYC) documentation, are evidence that local regulators are actively seeking to ensure that programs are locally compliant. While this has become more common in certain regions, including North America, Central America, and Europe, requests have also emerged in the Middle East.

Global programs of all sizes are becoming more sophisticated.

- Buyers with smaller international risks may have opportunities to impact their total costs and ensure compliance by taking a centralized approach to certain functions, starting with a focus on the safety of their traveling employees through a global approach to FVWC, kidnap, travel assistance and health coverages.
- For companies with existing global programs, opportunities are available to streamline operations by leveraging relationships with a select number of global carriers, minimizing coverage gaps and ensuring economies of scale.

- For the buyers of large, complex global programs, clarity of coverage will be increasingly important, not just at the master policy level, but also at the locally admitted level. Also, contracts with third parties may include specific insurance requirements (e.g., unique local coverages and/or higher limits) that need to be contemplated in the program design.
- One of the ways higher admitted limits can be obtained is by asking the international casualty carrier to raise its master policy limit, enabling flexibility around what limits can be localized. An additional benefit of raising the primary limit, as mentioned above, is driving pricing relief in the excess layers, an important feature when excess limits are more expensive. Alternatively, an umbrella carrier that has a global network can issue its own local umbrella policy as and where needed. Teams should consider both options and compare associated costs.

Program administration remains an important focus.

- In a marketplace that does not generally see the same type of claims frequency or severity as the U.S. domestic lines, multinational programs often require more administration costs, from carriers, brokers and insureds. As a result, all parties should look for ways to drive value through efficiencies.
- Key to achieving a program that delivers value is a disciplined approach to timelines, with teams beginning the renewal process early and documenting clear objectives up front.
- International casualty programs require significant administration and collaboration, so rather than differentiate purely through price, carriers and brokers are creating and/or enhancing operational tools, leveraging technology and offering underwriting flexibility and/or enhanced transparency around country-specific coverages.

- Premium allocations require a defensible and consistent methodology, so insureds and brokers should initiate discussions early in the renewal timeline, with consideration of issues such as taxes and premium/risk exportability and to ensure timely execution.
- Several carriers supplement the delivery of international programs with online platforms, some of which are made available to insureds and brokers. The ability to reduce friction and improve clarity continues to be a differentiator, so carriers continue to invest in tools that offer transparency into network instructions, posting of policy documents and other improvements in efficiency.
- Shared online access to claims data remains a topic of conversation about future enhancements for several carriers.

Alternative risk programs are likely to be more attractive as rates increase.

- The market for fully fronted programs remains fairly limited; however, they can be popular for insureds who wish to control cost allocations and centralize coverage documentation. If rates on global programs increase in the risk transfer market, we expect insureds will consider utilizing captives to transfer risk and/or facilitate admitted coverage.
- Carriers that write programs with significant retentions are often well-established and have the underwriting expertise, global network, technology and cash flow capabilities to handle these programs effectively.

- Programs with a reinsured retention often generate additional administration costs and can require collateral. The calculation of administrative costs and collateral are dependent on a number of factors, including the number of local policies, volume of claims, limits issued, etc. Upward pressure on those costs can be mitigated in certain cases by leveraging the relationship with the same carrier across other products.

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Product recall

Key takeaway

Pressure on manufacturers to focus on safety has never been greater, with retailers taking the onus onto themselves to ban unsafe products from their shelves and relying less on regulators.

Rate prediction

Flat to +7%

We have seen little impact from the COVID-19 pandemic on the product recall marketplace, as we see no evidence that the virus is a food-borne or product-borne pathogen.

- Studies by the Chinese government pointing to COVID-19 surviving on certain products have not been supported by U.S. officials.
- While the impact on the recall market has been minimal, the effect on client operations has been substantial — temperature checks, new plexiglass partitions and utilization of crisis consultants have altered the normal ways of doing business.
- There has been a squeezing of supply chains, which could create uncertainty as new suppliers are brought into the mix.

What to expect for 2021

Consumable products

- More preventative controls are coming from the FDA focused on contract tracing of produce.
- Allergen handling will be further regulated.
- Technology will play an increased role in food safety with the FDA's "New Era of Smarter Food Safety Blueprint" being released in early 2021.

Automotive

- NHTSA will continue to take aggressive positions concerning recalls with OEMs.
- OEMs are working more closely with app-based ride share companies — one

in six Uber/Lyft cars in Seattle have open recalls, according to a study by Consumer Reports.

- Core components (e.g., airbags and seatbelts) are returning to the forefront of regulatory concern.

Life science

- Drug fraud due to shortages of raw materials will continue to be a major concern.
- Health issues surrounding the chemical NDMA could lead to more testing of other ingredients that may have carcinogenic impurities.
- The recall process for medical devices is expected to become quicker and stricter — the FDA is looking to hold manufacturers and hospital groups more accountable.
- New regulations around cybersecurity are in the works.

Consumer goods

- The SHARE Information Act, if passed, would increase financial penalties against companies for violating safe product laws and for failure to share safety reports.
- More investigative journalism around the responses to recalls could lead to stricter and more public regulations. There have been several recent stories on the inaction of companies during a safety incident.
- Retailers will make their banning of product categories more public — Walmart and Amazon, for example, no longer sell incline baby sleepers, which were never formally recalled, but seen as a major safety concern.

The recall insurance marketplace remains flexible in its underwriting approach during this chaotic time.

- While early 2020 (i.e., pre-COVID-19) was shaping up to be a hardening market, in the early days of the COVID-19 crisis many carriers communicated a willingness to give favorable consideration to clean risks, as well as simplifying the data collection process.
- Food accounts continue to be fought over by the market.
- Having ample time to market renewal submissions is more crucial in this climate.
- While one major reinsurer has become very cautious about participating in the casualty market, they have doubled down on their commitment to the recall market.
- There have been no major changes to capacity — in fact two new markets have recently entered the space.

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Cyber risk

Key takeaway

Given the dramatic increase in ransomware incidents during the pandemic, in both frequency and severity across all industries, organizations should be proactive in assessing their cyber resilience and be able to demonstrate this resilience to underwriters.

Rate prediction

+10% to +30%

COVID-19 continues to impact the cyber market.

- The work-from-home era that has emerged globally since March continues to lead to an increase in phishing and hacking activity.
- Claims and losses related to the coronavirus pandemic are expected to continue, as organizations may be more vulnerable than usual due to employees working remotely on potentially less secure networks with less secure hardware.
- According to Willis Re's recent survey of cyber insurance buyers, underwriters, risk managers, claims professionals, actuaries and brokers, 86% think the frequency of cyberattacks will increase as a result of COVID-19, and over half (54%) think the severity of those attacks will also increase.
- Despite the potential rise in risk for many buyers of cyber coverage, the marketplace has yet to react strongly by either adding exclusions for COVID-19-related cyber events or declining coverage for cyber claims or losses.

Primary and excess cyber renewals are now averaging premium increases well into the double digits.

- Heavily exposed industries are likely to see increases on the higher side of our predicted 10% to 30% range: health care, higher education, public entities, manufacturing, financial institutions, construction and large media and technology companies.
- The use of analytics to assess potential cyber exposures and determine optimal insurance limits for insureds has become vital as we navigate an ever-hardening marketplace.
- Cybercriminals are targeting businesses of all kinds with ransomware attacks. As these attacks become more sophisticated, threatening a firm's entire electronic infrastructure, ransom demands have increased — often reaching eight figures.
- As incidents and losses mount, carriers have been reevaluating their positions in large towers and looking more closely at rates in perceived burn layers.
- Carrier strategy regarding excess layers revolves around obtaining adequate premium for perceived risk. There is less competition to get on excess towers, especially if pricing is considered too thin.
- While some cyber towers may still maintain a rate per million under \$10K, the excess markets are looking to increase their rate per million to \$8K to \$13K, but that could fluctuate up or down based on attachment point and risk.

Cyber capacity is starting to tighten, as losses continue to rise.

- The average cost of a data breach in 2020 is \$3.8 million, according to a new report from IBM and the Ponemon Institute.
- Costs remain highest in the U.S., where the average cost of a data breach was \$8.19 million, up 5.3% since 2019, driven by a complex regulatory landscape that can vary from state to state, especially for breach notification. Health care was again the most expensive industry.
- The human element continues to be the leading cause of cyber loss, contributing to 64% of the claims included in our 2020 Reported Claims Index.
- Given some recent high-profile breaches, clients need to be aware of potential issues related to M&A activity. Companies should engage their IT staff early in the acquisition process to evaluate risks. The potential for reputational and financial harm from an incident could undermine the true value of a deal.
- Certain carriers are adjusting their ransomware coverage appetites and considering sub-limits and co-insurance alternatives and starting to require ransomware supplemental applications.

Coverage continues to evolve and expand to address regulatory risk, reputational damage, forensic accounting and gap exposures.

- Since the E.U. General Data Protection Regulation (GDPR) went into effect in May of 2018 and the subsequent trove of data privacy legislation introduced across the U.S., most notably the California Consumer Privacy Act, we have seen cyber markets affirmatively address coverage for claims stemming from these regulations. Markets are also offering expanded wrongful collection and compliance coverage largely in response to the new regulatory landscape.
- Other expansions include coverage for forensic accounting costs, reputational damage and invoice manipulation in certain industries.
- Business interruption/system failure continues to be an area of concern for underwriters. Heavily exposed industry classes, such as aviation, manufacturing and transportation, have seen increased underwriting scrutiny. While coverage remains available, certain industries face significant premium increases.
- Cyber underwriters are working more closely than ever with their counterparts in other lines to address silent cyber coverage. Carriers are withdrawing or limiting cyber coverage in non-cyber insurance lines due to concern over aggregation.

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Directors and officers liability

Key takeaway

Rate, terms and capacity will continue to see upward pressure well into 2021, but we are seeing signs of activity that could lead to stabilization.

Rate prediction

Stable Risk Profiles

(modest COVID-19 exposure):

Public company — primary: +20% to +50%

Public company — excess layers: +20% to +70%

Private and not-for-profit: +10% to +50%

Side-A /DIC: +15% to +40%

Challenged Risk Profiles

(high COVID-19 exposure):

Challenged industries/companies, e.g.,

oil: Case-by-case basis; large potential increases; may not be enough willing capacity

Our unprecedented, pandemic-impacted economic environment hangs over a profitability-challenged Directors and officers (D&O) market, fueling underwriter concerns about liquidity, uncertainty and systemic risks, and keeping capacity on the sidelines.

■ **Liquidity/restructuring/bankruptcy:**

Underwriters continue to focus on (1) liquidity, (2) industry and (3) responses/resilience to COVID-19.

■ **What drives underwriting concerns today?**

Financial pressure, whether or not heightened by the pandemic, economic shifts, such as lower demand and falling oil prices, and recalibrated pandemic lifestyles and ways of working — these factors mean that old business models may not fit any more.

- **Systemic exposure concerns:** Concern over systemic exposures from pandemic-related risk have further narrowed willing capacity.

D&O portfolio adjustments will continue into 2021. This could transition from capacity and excess pricing recalibration to attachment and coverage restrictions.

- **Hard market:** The U.S. D&O market is hard, but the London D&O market is notably harder.

■ **Some risks are particularly challenged:**

- Non-U.S. parent, U.S. D&O exposure (due to complexities of compliance across jurisdictions, internal controls and varying carrier appetites for U.S. and non-U.S. D&O risks)

- Large private and private equity portfolio risks

- Certain industries: Oil and gas, health care, cryptocurrency, cannabis, retail, travel and hospitality, and higher education

- Liquidity challenged and pre-restructuring/bankruptcy risks

- In a normal market, post-restructuring risks may be seen by some carriers as relatively clean risks, but in this environment, they are more often viewed as challenging risks, and willing capacity may be hard to find.

■ **Capacity pullbacks are likely to wane:**

Outside of challenged companies/segments, we may see capacity reductions wane in 2021 as carriers approach targeted limits profiles.

- **Competition:** While it is far too early to suggest a change in tide, we have seen a few instances of competition on excess layers, and we are seeing new capacity coming into the market — for now, not much more than a few drops in the bucket, but this could be a harbinger of more to come later in 2021 or into 2022.

D&O insurance has never been more valuable. Growth in D&O perils and losses, while fueled in part by the pandemic environment, are also being driven by long-term shifts in risk drivers, including cultural shifts and social inflation.

■ **Securities class actions (SCAs):**

Frequency trends, looking to end 2020 down slightly year on year, remain at historically high levels. The severity of losses could worsen if we see precipitous stock drops from this year's highs. We have seen a few SCA filings related to the pandemic, but no wave of new claims yet. Nevertheless, as we get deeper into the pandemic, we expect frequency to rise.

■ **Restructuring/bankruptcy/insolvency:**

The good news is that many recent restructurings have been consensual or largely consensual. From a D&O perspective, a consensual restructuring may present materially less risk, and some carriers can and do take the differences into account. Nevertheless, bankruptcy claims can be the most severe. Companies facing restructuring or bankruptcy should make sure to seek expert D&O insurance advice in advance of any filing, if possible.

- **Derivative claims/Side-A:** Mega derivative settlements and unfavorable legal developments have elevated concern over derivative claims. These trends (and our hard market) are hitting Side-A/DIC (non-indemnified loss) portfolios harder than expected. Side-A pricing floors have pressed higher, and for 2021, we may see Side-A pricing significantly recalibrated.

- **Private company D&O:** Broad entity coverage is under pressure, as underwriters push back on hard-to-underwrite risks related to cyber, privacy, antitrust, consumer protection, regulations, employment practices and bankruptcy.
- **IPOs:** Notwithstanding a few favorable legal decisions, expect high retentions, hard-market pricing and conservative terms to continue for the foreseeable future.

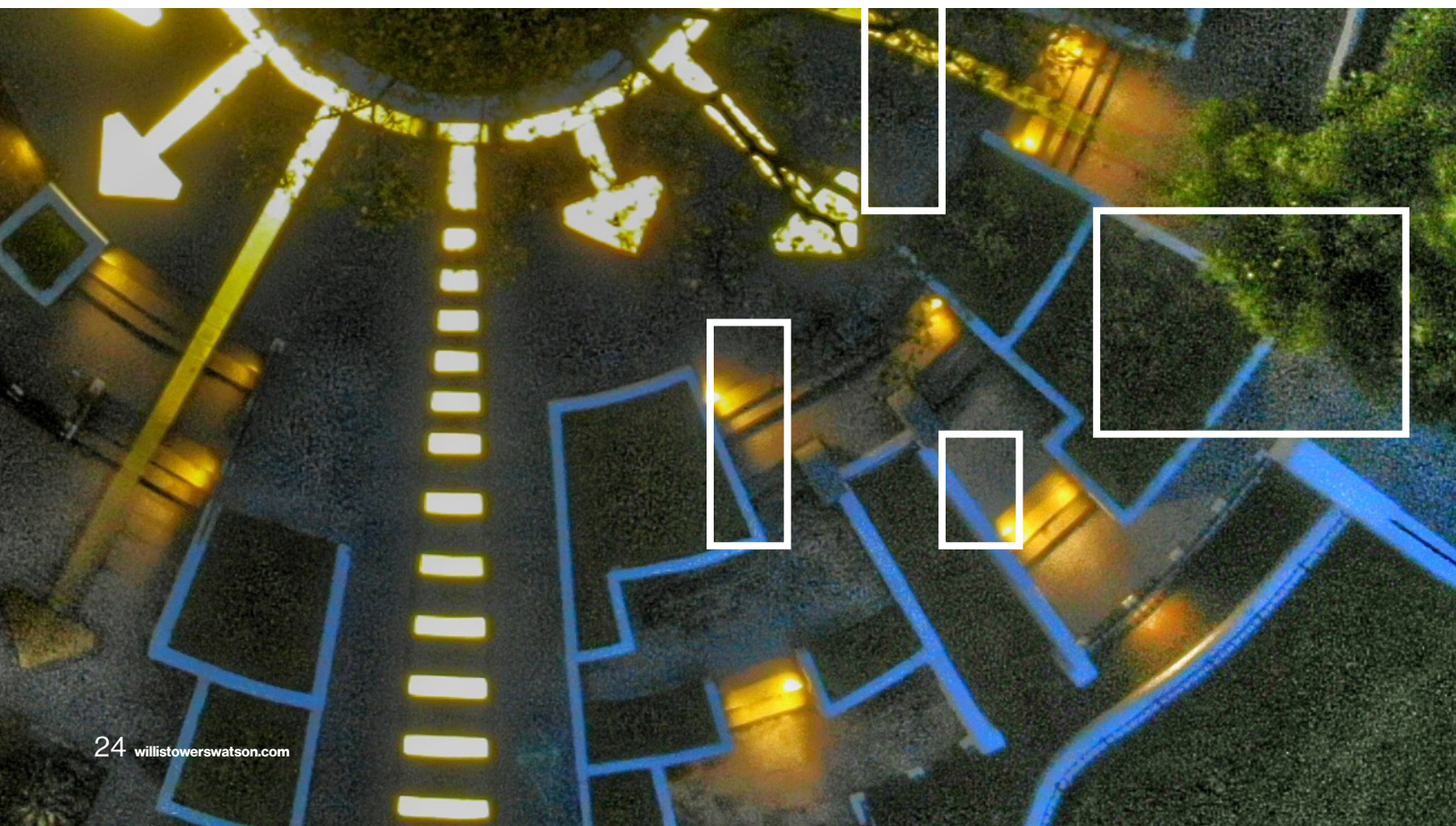
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Employment practices liability

Key takeaway

As the world continues to grapple with the COVID-19 pandemic and the social unrest, the Employment practices liability market has shifted to a hard market where underwriters are focused on the workforce impact of COVID-19, the financial health and stability of employers, and inclusion, diversity and equity initiatives.

Rate prediction

Primary (domestic markets): +10% to +30%

Bermuda markets: +15% to +25% with minimum retentions of \$1M

COVID-19 impact has shifted a firming Employment practices liability (EPL) market to a hard EPL market.

- We are seeing continued pressure on primary retentions, especially in California. Expect separate retentions for California claims and for “highly compensated” employees.
- As in other lines, excess EPL markets are following primary increases in addition to looking to correct increased limit factors (ILFs).
- While some insurers in the London market have exited the EPL space, capacity remains stable in the U.S. and Bermuda — but expect some cutting back of limits domestically.
- Underwriters are asking a significant number of questions related to COVID-19 furloughs, reductions in force, pay, reopening plans, etc. as well as conducting closer review of financials for private companies.
- Coverage remains intact with limited COVID-19 exclusions added on a case-by-case basis.
- While the COVID-19 pandemic is leading to employment claims involving issues such as discrimination, invasion of privacy and retaliation, not all clients and industries are experiencing such claim spikes. Use of analytical tools can help you identify the frequency and severity of claims within your industry.

Socially driven movements such as #MeToo, pay equity and Black Lives Matter are impacting employment practices liability litigation.

- #MeToo claims are not coming in as frequently as they were during the earlier days of the movement.
- There has been a shift to employee activism, in which employees are pushing their employers to take a stance on social issues.
- Most recently, we have seen a further push for employers to focus on inclusion, diversity and equity in the wake of the Black Lives Matter movement, calling for zero tolerance of racial discrimination and racial inequities in the workplace.
- These movements collectively and individually will continue to drive the rise in EPL claims. Expect to face more questions from underwriters about your organization's inclusion, diversity and equity initiatives.

Increased privacy protections and increased potential for employee privacy violations are drivers of market conditions.

- The Illinois Biometric Information Privacy Act (BIPA) has been the subject of many class action claims against organizations with employees in the state of Illinois. Based on our experience with these claims, losses from BIPA class action claims are in the millions.

- Many EPL policies now have an exclusion for BIPA claims, with some expanding the exclusion even further to encompass all confidential information.
- As businesses and offices reopen, many employers are collecting more information about employees (as part of symptom checking, contact tracing, temperature checking, COVID-19 testing, etc.) which may lead to more employee privacy claims and ADA claims.

State legislation is providing more protection for employees.

- As society focuses more on inclusion, diversity and equity, states are implementing laws that provide broader protections to employees.
- For example, some states have passed hairstyle discrimination laws, some have loosened the standard for sexual harassment claims, and some have extended the statute of limitations for harassment and discrimination claims.
- These changes are driving some of the market hardening and putting pressure on retentions and limits.

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Errors and omissions

Key takeaway

Professional and technology service organizations should be prepared to discuss with brokers and underwriters how they have been impacted by COVID-19, particularly when it comes to business continuity, as this could have a direct impact on the professional and technology services provided to clients.

Rate prediction

Large law firms: +10% to +20%

Technology: +10% to +15%

Errors and omissions (E&O), or professional liability, is arguably the most complex area of specialized insurance, with several distinct marketplaces:

- Stand-alone E&O for certain professions (lawyers, consultants, accountants)
- Technology E&O, sometimes stand-alone, but often coupled with cyber insurance
- Miscellaneous professional liability (MPL), including those industries without a specific, dedicated policy form

Lawyers: The market for large law firms continues to harden in response to mounting losses.

- Although capacity is still available, insurers and reinsurers have reacted to correct past rating deficiencies by increasing premiums and raising retentions to seek long-term profitability.

Technology: Evolving product and service delivery technologies are pushing the edges of technology E&O into other coverages, including commercial general liability (CGL), cyber and other types of professional liability.

- Internet of Things (IoT) devices, in particular, are interacting with people, property and equipment in new ways.

- New property damage and bodily injury liabilities have arisen from the use of monitoring services that run on IoT technology and connected networks. These new liabilities have led to further focus on contract requirements and interactions between insurance policies.

Other traditional miscellaneous E&O, or MPL: The marketplace is contracting.

- Two large carriers are retrenching their books.

The overlap of cyber and E&O coverage is a major area of focus.

- When buying cyber, buyers often ask about splitting E&O and cyber. We typically recommend combining all coverage in one policy to minimize coverage gaps, since E&O claims alleging a failure to properly render professional services increasingly overlap with traditional cyber coverages.
- Further, in the conflict between E&O and cyber, cyber is “winning,” in that more buyers are including E&O as part of their cyber programs. The result is that traditional E&O market capacity continues to erode as E&O carriers increasingly offer tech E&O blended with cyber.

Insureds should be proactive in reviewing their E&O exposures and existing coverage as they determine the best strategy to address growing cyber exposures.

- When insurance is required in a customer contract, the type of insurance (E&O and/or cyber) should be specified.
- Contractual requirements continue to drive requests for E&O coverage.
- Companies should review the limitation of liability and indemnification clauses in their customer contracts, as underwriters are more closely scrutinizing these provisions, especially as they relate to cyber risk.
- Companies should review customer-use policies and guarantees regarding any estimated or guaranteed service availability.
- Technology companies should be cognizant of potential claims that could result from the COVID-19 pandemic if there are failures to deliver products or services within contracted timeframes due to supply chain issues. They should understand how such claims would or would not be covered under their E&O policies.

E&O underwriting is becoming more sophisticated and complex.

- Excess carriers are looking more closely at rates and making sure that they are getting adequate premium for the risk.
- Insurers have tightened pricing and retention guidelines for companies offering just-in-time services or guaranteed uptime or output time in their service contracts.
- Carriers are focusing more on middle market business and being more cautious when it comes to writing technology E&O for companies with over \$1 billion in annual revenues.
- Certain carriers are limiting or restricting certain classes of business in response to recent large claims.
- Carriers are reviewing and examining their exposure to intellectual property risk and are reviewing insureds' intellectual property clearance procedures to understand the risk of third-party intellectual property claims.
- Although carriers continue to accept manuscript policies to directly address professional services risk, they are beginning to increase premiums for these policies.

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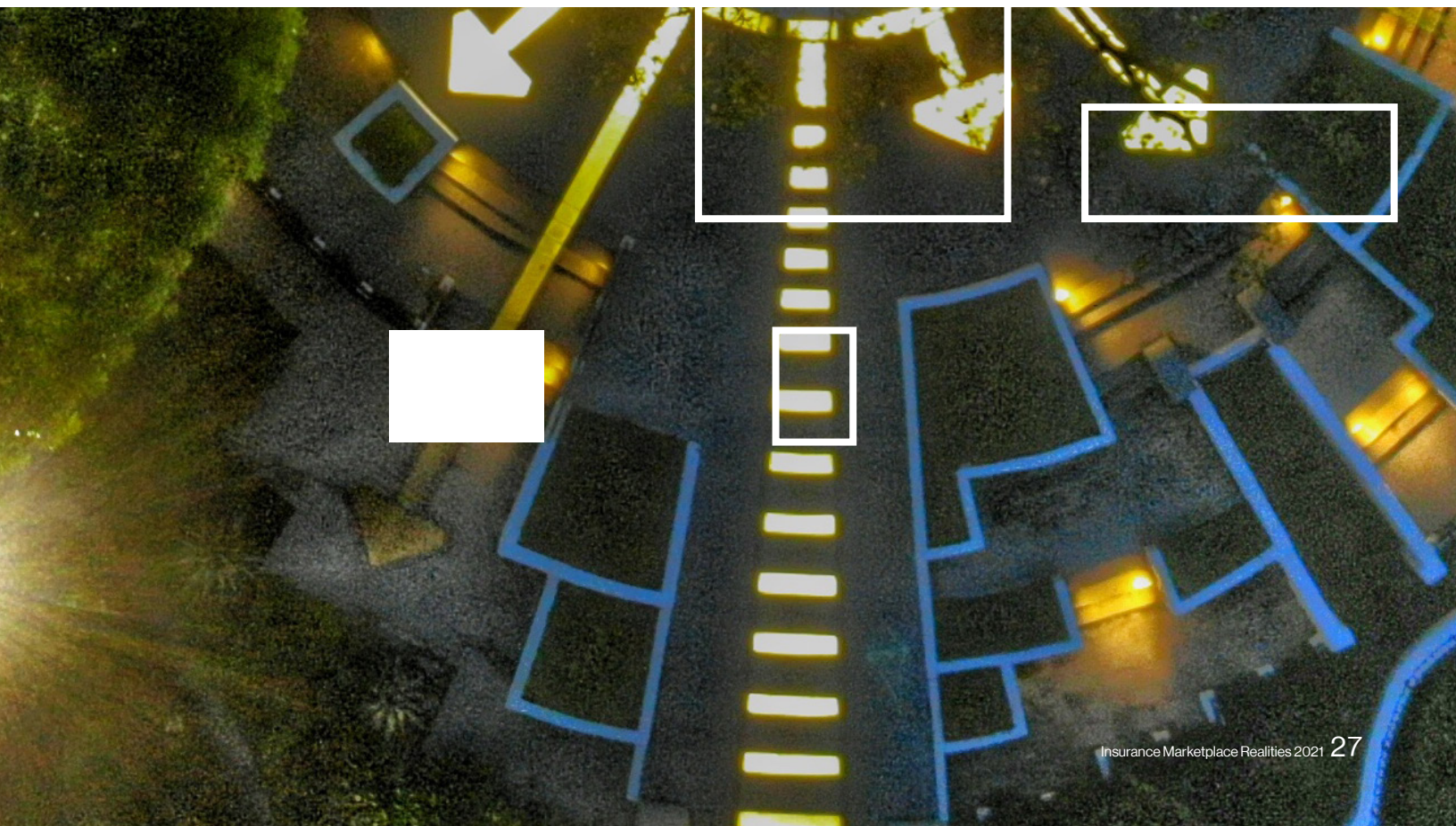
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Fidelity/crime

Key takeaway

Although social engineering has been around for several years, only recently has it won the attention we believe it deserves. Losses are more frequent and, in some instances, severe, attracting media and risk manager attention.

Rate prediction

+5% to +15% (higher for the most challenged classes)

Companies of all sizes and industries are increasingly impacted by 401(k) fraud losses, which represent a new twist on social engineering schemes. Fraud involving 401(k) accounts is rising but standard crime policies may not cover the losses. Pension fraud policies protect employers and their plan participants against these crimes.

- While most people think of their 401(k) plans as safely tucked away for retirement, these accounts may be particularly vulnerable to fraud, and employers may face coverage gaps as a result of high policy deductibles, standard policy exclusions and insuring agreements that are not triggered based on the fact patterns of some loss scenarios.
- Pension fraud policies, relatively new products in the marketplace, can offer several advantages:
 - **Coverage:** Loss of funds sustained by a plan participant as a direct result of the fraudulent impersonation of the plan participant is covered. Coverage applies to fraudulent instructions received by the plan administrator or the insured.
 - **Limit:** Policies afford an each-and-every-loss limit with no aggregate. Available limits range from \$100,000 to \$500,000 per plan participant.
 - **Deductible:** Policies typically do not have a deductible.

Crime underwriters are taking advantage of general hard market conditions to raise rates, citing sustained frequency of social engineering losses and concerns about the increased risk associated with continued necessity for employees to work remotely.

- Insurers are looking to “rightsize” premiums, both on a primary and excess basis, as many risks have been priced at minimum rates for several years. Insurers are also focused on ensuring deductibles are adequate.
- The most challenged sectors — gaming, casinos, crypto-related firms, the cannabis industry, ATM and credit card risks — are seeing increases beyond the range outlined above.
- London continues to correct pricing and deductibles while reducing capacity.
- Insurers are closely monitoring aggregate exposure to social engineering fraud and, in some cases, reducing limits and/or increasing deductibles. Insurers continue to carefully underwrite this exposure and will only consider offering broader coverage and/or higher sublimits (for additional premium) where the controls and procedures presented are best in class.

- As a result of several court decisions finding coverage for social engineering schemes under alternative insuring agreements, namely computer fraud and funds transfer fraud coverage, exclusionary language is being added to clarify that social engineering losses will only be covered under an explicit social engineering coverage grant, which is typically offered on a sublimited basis.
- Increases in computer hacking and social engineering fraud exposure resulting from remote working continues to present a security threat to businesses.
- Insurers continue to evaluate cyber aggregation. Select insurers have enterprise-wide initiatives to delete, exclude or amend cyber-related coverages (e.g., extortion and destruction of data) in their crime policies, as they are also typically covered under cyber and/or K&R policies.

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Fiduciary

Key takeaway

Expect change, perhaps disruptive change, through 2021, as our hard market has caught up with fiduciary liability, and regulatory uncertainty will continue for some time.

Rate prediction

Overall: +5% to +70% or more

Commercial (medium to large plans — assets exceeding \$50M): +15% to +70% or more

Financial institutions: +15% to +50%

Other commercial: +5% to +15%

Concerning trends of lawyer-driven litigation and regulatory uncertainty show no signs of subsiding.

- **The claims keep coming:** In both July and August, a new class action complaint was filed almost every other day.
- **This cottage industry for plaintiffs' firms has expanded:** Fee case success has attracted new firms and the bases of claims to now also include: actuarial equivalence tables and COBRA notice deficiencies.
- **Controversy over fiduciary duties continues:** Controversy over new and proposed rules continues to elevate compliance risk and increase compliance costs. Balkanization of regulation potentially increases compliance and claim complexity risk.

Carriers have rather suddenly and materially stepped up their responses to these concerning trends.

- **Potentially abruptly harder:** The market recently turned sharply — which is why we have considerably broadened the range of our commercial rate increase prediction.
- **Class/mass/fee cases:** Expect new retentions, sublimits or exclusions for class, mass and/or fee cases. Size will vary with plan size, plan governance and claims history, but retentions of six to seven figures for class, mass and/or fee claims may become more common.

- **Capacity/limits management:** Carriers are pulling back on deployed capacity. Expect layer sizes to shrink as they have in D&O. Expect layers larger than \$10 million to be trimmed back to \$10 million or \$5 million.
- **Rate:** Expect far more pressure on rate through 2021.
- **Blended coverage — small and medium-sized private and not-for-profit (NFP) enterprises:** Smaller private/NFP companies may continue to buy fiduciary liability coverage as part of a package policy.
- **Primary market concentration — large and complex:** A few carriers continue to lead most large programs. This concentration heightens difficulties with the hardening market.

Most accounts are now seen by carriers as challenged.

- **Challenged classes:** Until recently, challenged classes included financial institutions with proprietary funds in their plans — especially if they had not been the subject of a prohibited transaction claim or if they were facing significant ESOP exposures — and higher education and health care organizations. Nearly every class is at risk of being treated as challenged, though smaller plans may

avoid heightened underwriting scrutiny.

The pandemic may heighten risks.

- **Part of the problem but not the primary problem:** The fiduciary liability insurance market is likely to see considerable hardening and change quickly even if the pandemic environment remains relatively stable. Nevertheless, while not likely the primary cause of fiduciary pricing pressure, the pandemic environment is not helping.
- **Unprecedented and uncertain environment:** The good news: to some extent pandemic-related risk drivers may have waned somewhat as companies and plans are now largely better informed and better prepared for what may come next. However, if the pandemic environment worsens, it could make our hardening market considerably worse.
- **Specific pandemic risk concerns**
 - The COVID-19 environment could accentuate risks from company stock in plans due to volatility in the market and precipitous drops in value. While the stock market is at helpful levels, its state is fragile. If government lifelines are cut too early, we could see a correction or worse.
 - Cutbacks in benefits (i.e., 401(k) matches) and/or workforces may yield claims — potentially class action claims.

Buyers should keep on an eye on key loss drivers.

- **Fees/suitability:** Fee cases continue to drive loss development. These cases allege that fees paid to financial institutions have eroded employee retirement plan assets and less expensive, non-proprietary investment options should have been offered. These suits are no longer limited to large plans. A wave of 403(b) fee cases has impacted universities and the health care industry. Plaintiffs are now pushing for jury trials, which could put upward pressure on awards and settlements.
- **Mortality tables:** We are seeing ERISA claims alleging that plans calculate non-single life annuity benefits using unreasonable mortality table assumptions, with the effect of lowering benefits below what ERISA requires.
- **Regulation and enforcement uncertainty:** With a new administration in Washington in 2021, we can expect more change and uncertainty. For example, expect the Fiduciary Rule controversy to heat back up as leadership at the U.S. Department of Labor will change, and with it, views on investor protections. Until the dust settles, the heightened risk from uncertainty will continue to be a challenge.
- **Financial institutions:** Insureds with proprietary funds in their plans will face the most challenging renewals.
 - *Already been sued?* Although it may seem counterintuitive, a financial institution that has already been sued may be seen as a better risk to a new insurer. Nevertheless, incumbent insurers adjusting a claim will want a premium increase.
 - *No such claim yet?* Claims-free may NOT be seen as a good thing! Insurers believe that for financial institutions with proprietary funds in their plans, it is only a matter of time before a proprietary fund-related claim will be made. Accordingly, renewal terms from the incumbent will likely look to push rate and restrict terms. Also, there could be very limited interest from other insurers.
 - At least one leading insurer has been looking to broadly exclude this risk without giving back any premium credit.
- **Law:** U.S. Supreme Court rulings have heightened fiduciary risk. For example, in *Intel v. Sulyma*, the U.S. Supreme Court held that a three-year statute of limitations failed to begin to run, since “actual knowledge” was required and the plaintiff “did not remember reviewing” any of the numerous disclosures of the investment allocation that afforded the basis of the claim.

- **Are limits adequate?** In our current COVID-19 environment and with fee litigation driving up claim frequency and loss severity, buyers should reassess the adequacy of their limits. The fiduciary market is heading into a period of firming along with other financial lines markets. The window of opportunity to add capacity may close.
- **Governance:** Developments in plan governance have heightened fiduciary exposure to potential sanctions, correction expenses and litigation. IRS determination letters, once extensively relied upon by plan sponsors to ensure that a plan document complied with the tax qualification requirements, are no longer issued in most circumstances. Today’s employers must navigate regulatory change and ambiguity without IRS validation.

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Financial Institutions — FINEX

Key takeaway

The financial lines market for financial institutions (FIs) has hardened, and we expect rate increases for H1 2021 to be in line with those we are seeing in Q3–Q4 2020. We anticipate that rate increases will slowly taper in H2 2021 given the compounding effect on premiums increases.

Rate prediction

D&O — Publicly traded financial institutions: +15% to 30%

Side-A/DIC: +10 to +30%

D&O — Private financial institutions: +10% to +15%

D&O/E&O — Asset managers (excluding private equity/general partnership liability)

Large: +10% to +15%

Middle market: +5% to +10%

Bankers professional liability (BPL)

Large: +12.5% to +30%

Middle market: +10% to +25%

Insurance company professional liability (ICPL) Life:

Life: +5% to +20%

P&C: +10% to +30%

Note: For employment practices liability (EPL), fiduciary liability and fidelity (crime), please see dedicated sections elsewhere in this report.

Overall, double-digit increases have become the norm across E&O and D&O.

- FI insurers have demonstrated strong pricing discipline in primary and excess layers, with significant attention on right-sizing excess increased limit factors (ILFs). We anticipate another quarter of ILF corrections.
- Most programs can find adequate capacity, though some insurers have been reducing limits and ventilating capacity in certain areas and are more closely managing overall aggregation.
- Replacement capacity is often not available at a competitive premium, but marketing programs is still recommended to achieve the best possible results. Overall, insurers are not actively focused on new business growth, making it more challenging to find replacement capacity.
- Bermuda markets continue to offer solutions at certain premiums, retentions and attachments, while U.K. markets have become more conservative in deploying capacity for U.S. risks.
- COVID-19 has accelerated the hard market, with the greatest impact on E&O and EPL.

- We have started to see some tightening in coverage, as well as clarification of coverage relating to silent cyber, but this trend is limited to select insurers for now.
- We are slowly seeing signs of new capacity coming into the market now that rates and retentions have seen material corrections and risks are seen as more profitable and sustainable.

The FI D&O marketplace continues to see lower percentage increases compared to the commercial D&O marketplace, but nonetheless, rate trends have been on the rise. (As we've noted in prior editions, lower rate increases are due to FI D&O rates not coming down as much in the soft market as commercial D&O rates.)

- For public D&O, we have seen steady double-digit increases, with an average of 18%. Private D&O rate trends continue to be more favorable, with an average rate increase of 12%.
- Side A pricing has softened over the years and, in response to derivative claims and increased litigation costs, insurers are now seeking to strengthen Side A pricing. Average increases are 19%.

- Excess insurers are focused on right-sizing ILFs, often resulting in higher rate increases on excess layers than primary. Particular attention has been paid to lower ILFs (less than 70%) and inverted ILFs (decreasing with attachment).
- There has been more pressure on D&O retentions, with insurers insisting that retentions have not kept pace with risk growth. As a result, we often see no meaningful premium credit for retention increases.

The professional liability (E&O) marketplace varies by subsector.

- Asset managers:** Asset managers continue to be viewed favorably. The market remains stable as an abundance of capacity keeps rates competitive. Minimum retentions have moved toward \$250K. Middle market asset management is a targeted growth area for underwriters. Larger advisors and funds are experiencing more upward rate pressure.

- **Insurance companies:** The market for insurance companies has hardened materially since the outset of COVID-19. Very few carriers will consider writing primary, and the lack of competition has led to increased pressure on retentions, premiums and coverage. Several primary insurers are reducing capacity from \$10 million to \$5 million. P&C insurers face uncertainty regarding the outcome of pending cases alleging mishandling of business interruption claims arising from COVID-19. Carriers are looking to add exclusions to P&C insurer renewals for the handling of COVID-19 related claims under future policy periods. Life insurers have been subject to greater scrutiny toward their investment portfolios, while issues like “cost of insurance” remain a significant concern. Sales and marketing coverage for life insurers is increasingly difficult to obtain, with many markets affording only sublimits, higher split retentions or excluding altogether.
- **Banks:** BPL primary capacity continues to be limited, with some insurers becoming more conservative in appetite and putting more pressure on retentions and pricing. BPL insurers often require supporting lines. COVID-19 has sharpened underwriting focus on the Paycheck Protection Program, provisioning and credit risk, loan forbearances, credit reporting and liquidity risk. Additional scrutiny is also expected as the LIBOR sunset draws closer.

Several emerging coverage trends bear watching.

- **Silent cyber risk:** More insurers are adding cyber and privacy exclusions on non-cyber insurance lines (e.g., E&O, fidelity, EPL) to clarify coverage. As insurers continue to assess their silent cyber exposures, we recommend reviewing the new exclusions alongside cyber policies to ensure that coverage is being addressed appropriately.
- **Extended reporting periods (ERP):** Some insurers are considering removal of ERP options and increased rate factors. There are strategies that can be deployed to mitigate this trend.
- **Excess shareholder derivative demand investigation (SDDI) coverage:** Some insurers are looking to reduce or remove excess drop-down sublimits due to increased losses. We have successfully maintained meaningful excess SDDI sublimits by securing drop-down sublimits higher up through the tower.
- **Cost of corrections coverage:** Some insurers have tried to limit coverage to only liquid asset classes. This can be mitigated with early negotiations on wording, and if needed, increased retentions.

Smart buyers are using analytics to help navigate the hard market.

- As rate and retention pressures continue and FIs are faced with strict expense management initiatives, buyers are employing various analytical tools to help evaluate program structures with various limits and retentions, blending of coverages and risk scenarios.
- Analytics help quantify risks and optimize premium spend.
- New analytical tools for financial lines coverages offer more tailored claim scenarios, further supporting strategic decisions.

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Aerospace

Key takeaway

After years of soft-market rates depleting premiums to an unsustainable level combined with an unprecedented decline in air travel, insurers continue to seek financial recovery and long-term profitability.

Rate prediction

Airlines: +25% to +40%

Aircraft lessors/banks: +5% to +15%

Product manufacturers and service providers: +20% to +35%

Airports: +20% to +25%

General aviation: Minimum +25%

Space: Rates have stabilized at higher levels (percentage range not applicable)

The growing use of analytics represents a rare bright spot in this sector.

- In a market with unpredictable catastrophic loss frequency, an analytical approach can create a more reliable foundation on which to build renewal expectations and construct an appropriate strategy.
- With more and more underwriters leaning on their actuaries to set minimum premiums, analytical models that present meaningful counter arguments help set the stage for more balanced and informed renewal discussions, and can provide underwriters with internal justifications for writing the business.

Airlines: 2020 was another loss-making year for insurers, due largely to premium reductions implemented as COVID-19 relief.

- Global airline premiums have been insufficient to cover losses over the last five years, and 2020 will be no exception.
- Insurers made strong gains in hitting their premium volume goals in 2019 only to return most of that profit in 2020.
- Insurers will seek to protect their premium base despite heavily reduced exposure, leading to potential rate inflation.
- Anticipate minimum premiums and deposit premiums being implemented going forward.
- Profitability remains a key metric for insurers; however, premium income levels are of the utmost importance.

- Each insured can expect to be underwritten based on claims and profitability ratios as insurers aim to better correlate rates to results, which we expect will ultimately lead to more insurer consolidation.

Aircraft lessors/banks: Steady rate increases remain a trend as hard market conditions continue to impact this sector.

- While rates are increasing, capacity remains sufficient, especially for those profitable insureds with a growing fleet.
- Anticipate current market conditions to remain through 2021 and likely beyond, with rate increases in this segment continuing to be impacted by a trickle-down effect from the more unprofitable segments.
- Upper management oversight continues to push for the reduction or elimination of soft market enhancements, e.g., credit opportunities, non-aviation coverage endorsements and/or expense limits.

Aircraft products manufacturers and service providers: Although this segment remains relatively stable for non-critical manufacturers and for those buyers with loss-free programs, rate increases are still expected.

- Large loss reserves and recent aircraft groundings continue to impact this sector's overall profitability, causing insurers to look for financial recovery through premium growth and possible coverage restrictions.

- While insurers maintain that accounts are being underwritten on a case-by-case basis, most buyers will still receive premium increases as the entire aviation market continues to harden — despite COVID-19 impacting insured revenues and operations.
- Following insurers are looking to close the rate differential from the lead insurer, with pricing above lead terms now common and expected.

Airports and municipalities: While passenger movement remains significantly lower than in years past, this sector is still reeling from a handful of shock-losses, as well as overall market unprofitability.

- Multiyear terms are no longer available.
- Losses large and small continue to be scrutinized by line underwriters, with a large focus on certain coverages, limits and enhancements, e.g., excess auto liability, excess employer's liability and even incidental medical malpractice.
- Though renewals expiring on a 100% placement may continue as before, vertically structured placements are becoming more common, especially if limits exceed \$250M.
- Excess layers over working layers are becoming more popular as a way to build capacity.
- Marketing will be necessary if municipal boards want to benefit from competitive options — if any can be found.

General aviation: This segment continues to experience higher rate increases due to consistent loss activity, higher aircraft costs and high-profile losses, especially in the rotor wing sector.

- Insurers' upper management continues to enforce strict underwriting guidelines, closely reviewing and restricting sublimits, extra expense coverages and premium credit opportunities, as these have cost insurers considerably over the years.
- Rotor wing operators can anticipate reductions in viable capacity, both domestically and overseas, with limits decreasing and the cost of higher limits exponentially increasing. They may also be declined altogether.
- Insurers are looking to implement minimum premium levels.

- Pilot specifications continue to be closely scrutinized, with broad policy provisions now a thing of the past as more insurers lessen their single-pilot book of business and require all pilots to undergo simulator-based training.

Space: After a period of sharp premium rate increases in late 2019 and early 2020, this sector has stabilized at a new higher pricing level.

- The original market hardening in late 2019 was due to poor underwriting results and poor combined loss ratios dating back to 2013.
- The market's new aim is to achieve \$750M in annual premium income — up from an average of \$500M the past six years.
- The market has adopted a more conservative and strict underwriting approach.

- Insurers are focused on limit requirements as well as technology-based risk differentiators.
- Some reduced pricing is available for lower limits, as well as for straightforward risks with known industry clout.
- New insurers have come into the market to replace some departed capacity.

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Construction

Key takeaway

The economic downturn caused by COVID-19 has resulted in many contractors forecasting lower exposure bases; sales, payrolls, contract revenue, vehicle count, etc., but as exposures decline, carriers are raising rates at an increasing pace to grow or at least maintain overall premium. Effective use of analytical tools will be critical to driving sound risk management decisions.

Rate prediction

General liability: +5% to +20%

Auto liability and physical damage: +5% to +15

Workers compensation: Flat to +5%

Umbrella: (lead): +50% to +100%

Excess: +50 to 150% (or more)

Project-specific builders risk: +5% to +15%

Master builders risk/contractors block programs (renewable business): +10% to +20%

Professional liability: Flat to +10%

Contractors pollution liability: Flat to +10%

Project-specific/controlled insurance programs: +5% to +15%; +10% to +25% for excess

Subcontractor default insurance: +5% to +10%

Construction risk managers should consider several proactive steps.

- Utilize analytical tools to evaluate efficacy of current program structure.
- Prepare for continued increases in insurance pricing. Evaluate adequacy of insurance charges embedded within bids and contracts.
- Consider alternative risk transfer (ART) program structures: begin discussions regarding viability very early, as much as a year prior to renewal, as utilization of ART structures may involve a lengthy educational process for internal stakeholders, owners and insurance carrier partners.
- Continue to develop and strengthen relationships with incumbent insurance carriers. Take time to develop new relationships. Off-cycle market meetings with incumbents as well as potential alternative carriers are valuable.
- Begin the renewal process a minimum of 180 days prior to program expiration.
- Work in conjunction with your insurance broker to develop comprehensive and accurate renewal data.

- Evaluate project schedules related to project placements. If a project has been delayed for any reason and will require the extension of an insurance placement, begin this process as early as possible. Project extensions have become challenging to obtain and can be quite costly.

General liability (GL)

The market for construction general liability continues to trend upward.

However, while for several years carriers have signaled GL as the “next auto,” drastic rate increases have not always materialized.

- Certain industry groups are experiencing notable difficulties. Specifically, contractors engaged in street and road operations as well as those in construction of habitational exposures are faced with an extremely challenging market.
- Submission activity continues to rise as many contractors seek marketplace alternatives. Carriers are being highly selective on new business, and often incumbent programs remain most competitive, despite marketing efforts.

- If a marketing effort is part of the renewal strategy, ensure ample time and access to information from the onset. New carriers require extensive underwriting data and significant lead time.
- Loss control visits have gone virtual in many cases, so preparation for these discussions in advance is key — get the right people on the line or on the video with supplementary documentation to facilitate a more productive underwriting dialogue.
- Apart from looking to raise rates, markets are reconsidering terms and conditions more than ever. Securing coverage “per expiring” is no longer a given, as even in-force wordings face intense scrutiny from incumbents.
- Broad form named insured wording provisions, excess of wrap for both difference in limits and difference in conditions coverage, and unlimited per-project/per-location aggregates have been challenging to maintain.
- The impact of COVID-19 is still a question mark for construction GL. This topic remains top of mind as markets want to understand jobsite infection risk, current safety protocols and any effects on schedule and work pipeline.

Auto liability

Commercial auto remains one of the most challenging lines for insureds, with persistent rate increases and program structure changes.

- While commercial auto rates continue to rise, percentage increases are smaller. Carriers have slowly, over the past several years, rightsized their commercial auto books. That said, carriers are going to want to continue to keep rates adequate for current loss trends and loss projections.
- Auto physical damage pricing continues to rise, often more quickly than auto liability rate increases. Comprehensive and collision claims can escalate quickly due to increased technology in vehicles.
- More claims are being litigated, with verdict outcomes often in seven or eight figures. High-value verdicts mainly stem from traumatic brain injury claims (TBI), negligent entrustment/driver selection, distracted driving and the influence of social inflation in the courtroom. A rise in third-party litigation finance is further encouraging lawsuits. Nuclear verdicts for liability have become startlingly common, especially in auto liability cases. The fear of large verdicts is driving higher settlements as well.
- Auto concerns are not just relevant to practice programs. In controlled insurance programs or project-specific policies, contractors on site are generally responsible for providing comprehensive automobile liability insurance. While coverage can usually be provided by the contractor's practice policy, hired and non-owned coverage is increasingly not included, or limits are inadequate. In these scenarios, we recommend adding the coverage into a project CIP.

Workers compensation

While most construction firms have encountered a flattening of workers compensation rate reductions and premium offsets, the line continues to run well for most insureds and carriers.

- Although results are described as positive in the aggregate, there are signals that construction could encounter difficulty ahead.
 - The National Council on Compensation Insurance's (NCCI) [estimate](#) of the 2019 workers compensation combined ratio is 87, putting the result under 90 for the third year in a row.
 - Average wages and overall employment have been increasing for construction, the fastest-growing individual economic sector (NCCI State of the Line 2019). The challenge of attracting and retaining construction workers persists, and the impact of COVID-19 remains to be seen.
 - Lost-time claim frequency has been decreasing steadily for nearly 20 years, except during the Great Recession (2008-09). However, accident year 2018 showed a relatively modest 1% decrease in frequency.
 - If contractors are forced to rely on less experienced employees, who are more likely to sustain injuries, we could see deterioration in results ahead.
- Markets are still demonstrating a broad appetite for workers compensation construction opportunities, but program complexity continues to grow.
 - Carrier interest and competitiveness are markedly increased when workers compensation is included in the submission. The best renewal outcomes are obtained when a primary casualty carrier writes all three lines of primary coverage. Workers compensation remains the most attractive of the three primary casualty lines of business.

- However, exceptions remain for certain states, namely California, Florida, New Jersey and New York, where workers compensation is not viewed favorably by underwriters. In New York, underwriters are especially guarded due to labor laws.
- Those exploring alternatives should look beyond retentions and carriers. Investments in new or emerging pre-loss risk control strategies should be evaluated. Ergonomics, employee wellness, mental health initiatives — these programs can both improve workers compensation results and raise employee satisfaction and retention.
- From a post-loss perspective, there are numerous questions to consider: Should you utilize the carrier's claims handling? Should you consider a third-party administrator? Should the claims handling be structured on a per-claim fee basis, a flat fee or LCF multiplier? Claims mismanagement can be costly and will impact workers compensation loss history for years.
- Positive loss trends are mostly attributable to efforts by both insurers and insureds to manage risk, including use of managed care, enforcement of return-to-work programs, nurse triage, fee schedules and telehealth. Construction firms should be considering these options.

Umbrella/excess liability

The umbrella and excess marketplace for construction remains extremely challenging. The pace of rate increases is accelerating. Contractors are also experiencing significant restrictions in coverage. We expect these conditions to continue well into 2021.

- There has been a significant pullback in the number of insurance carriers willing to write unsupported lead umbrellas (i.e., where the same carrier does not write the primary casualty), greatly reducing marketplace options, limiting competition and exacerbating rate increases all the way up the liability tower.
- So far, higher rates have not yet attracted new entrants or returning players to the lead umbrella space.
- Contractors may be forced to market their primary casualty program to increase the number of carriers willing to offer a lead umbrella option.
- The majority (65%+) of lead umbrella placements are marketed at renewal, yet 85%+ remain with the incumbent carriers. Even with significant price increases, incumbent carriers are retaining most of their renewals. This is an indication of market-wide underwriting discipline.
- Certain classes of construction, specifically street and road and infrastructure, are experiencing particularly high rate increases.
- Umbrella carriers continue to drive up primary attachment point requirements. Almost without exception, primary general liability limits of \$2 million are now mandatory. Additionally, for contractors with large vehicle fleets (> 250 units), \$5 million may be required. Use of buffer layers to build additional auto limits is becoming more prevalent.

- Terms and conditions once easily obtained, such as excess wrap, have become increasingly challenging and/or expensive to obtain. Furthermore, anti-stacking endorsements, manifestation and communicable disease exclusions have become exceedingly difficult to remove. Primary and excess carriers are also limiting the overall capacity extended to an individual buyer by capping per-project aggregate limits.

Controlled insurance programs (CIPs)

Pushed by increased reinsurance rates and diminishing capacity, CIP pricing continues to increase. We anticipate rates will continue to escalate in the coming months.

- Carriers are cutting back significantly on their willingness to offer large limits. Only a handful of carriers offer a full \$25 million in the first \$50 million in limit. Quota share program structures are becoming prevalent.
- Reinsurance rates are escalating as the industry has paid out losses due to natural disasters, COVID-19, wildfires, hurricanes and riots.
- Residential capacity continues to tighten, especially for wood frame apartments and for-sale condos.
- Buyers are needing to involve a larger number of carriers to fill out excess towers. This exacerbates pricing increases.
- Certain geographies (New York, Florida and California) are considered tougher states for condominiums, and capacity for those geographies has been reduced. Other states may feel the trickle-down effect from carriers pulling back; meaning fewer players in the states that traditionally haven't faced these pressures.
- Terms and conditions are tightening, as carriers are no longer providing broad terms, i.e., term limits or one-time reinstatements versus annual reinstatements.

- Regarding COVID-19, most carriers now require communicable disease exclusions, which are difficult if not impossible to remove.
- Policy term extensions are becoming increasingly difficult to obtain — often resulting in significant additional cost and reductions in coverage grants.
- Liability rates for CIPs are increasing by 5% to 15% for less complicated projects, with most of the price increase being driven by the cost of umbrella and excess towers. More complicated projects with difficult exposures will experience larger rate increases in both primary coverage and excess.

Builders risk

The builders risk market continues to remain challenging, as carriers rebalance their portfolios in pursuit of underwriting profitability after years of global losses and soft market conditions.

- Competitive terms and conditions are still achievable for most new, ground-up construction projects. However, renewable programs should expect to see healthy rate increases and/or changes to terms and conditions.
- Carriers are continuing to more heavily scrutinize underwriting information, and underwriters are having to seek more senior management approvals than in the past, causing delays in quote turnaround time.
- While COVID-19 has caused a temporary slowdown on specific projects, its overall impact will not be known until the ultimate delays are determined and the courts have had time to opine on coverage disputes.
- LEG 3, damage to existing property and other miscellaneous coverage extensions are being underwritten more carefully and are hard to obtain on certain projects.
- Extensions for ongoing projects are extremely challenging, further exacerbated by COVID-19, as more and more projects are needing extensions.

- All extensions are difficult, even for buyers with no losses. Projects that have suffered prior losses, have heavy cat exposures, have had changes from original scope, seeking lengthy extensions, have quota share structures or significant facultative reinsurance support are seeing the worst of the extension terms.
- Carriers are pushing significant rate and deductible changes, removing or reducing certain coverages, and in some cases simply walking away from projects.
 - Buyers must plan ahead of any known extension need and have as much up-to-date and accurate information about the reason(s) for the extension. It's never too early to begin the dialogue with carriers.
- Several large fires in 2020 have put further pressure on an already challenged wood frame market.
- Rates continue to increase, and we expect a steady upward trajectory into 2021.
- Reductions in overall market capacity are fueling the rate hikes, as several carriers have either reduced their appetite or exited the space entirely.
- Many of the recent fires were man-made (i.e., arson), and carriers are continuing to require robust project site security, including electronic monitoring, to offer capacity.
- Adequate capacity and continued competition are keeping rate increases manageable compared to other P&C insurance lines. However, we are starting to see growing pressure on rates and retentions, especially for project-specific capacity.
 - Total U.S. capacity continues to be in excess of \$300M, with additional capacity available through London, Bermuda and other international markets.
 - While there is still significant capacity in the market, carriers are generally restricting appetite for any one risk.
 - Protective indemnity and rectification coverages are now included in standard forms offered by key carriers, but terms and limits can vary considerably, and we are seeing added underwriting scrutiny for these coverage enhancements.
 - Some underwriting authority is being removed from the field, leading to a longer underwriting process.
 - Some carriers are beginning to add COVID-19/communicable disease exclusions, more commonly for programs with combined contractors' professional and pollution liability forms. Wording varies greatly from market to market, with some limiting the exclusion specifically to COVID-19, some including broad viral exclusions and some limiting the exclusion to pollution coverage only.
- Large design/build infrastructure projects continue to produce adverse loss experience for the AE market, creating risk allocation challenges for the contractor market.
- Many contractor professional liability carriers are reserving project-specific capacity for existing client relationships.
- Buyers can expect added underwriting scrutiny of coverage enhancements, such as rectification/mitigation, and contract review related to insurance requirements, limitations of liability and contractor assumption of design responsibilities.
- Challenging market conditions continue in London, Australia and the rest of the world. Restricted capacity and price increases are expected to continue into 2021.
 - Capacity is being restricted across the board and subscription placements are increasingly necessary, even for smaller clients. Capacity reductions by individual carriers on individual programs of between 30% and 50% are not unusual.
 - We are seeing increased scrutiny by underwriters on excess/SIR levels — insurers expect clients to have more skin in the game.
 - We continue to monitor the impact on U.S. buyers as global carriers continue to recoup losses from outside the U.S.

Professional liability

The U.S. construction professional indemnity/liability market remains relatively competitive, although carriers are evaluating capacity deployment and retention levels and applying added underwriting scrutiny to certain coverage enhancements.

- The market is continuing to show signs of hardening in some select areas, creating some challenges for contractors. For 2021, we expect rates will remain flat to +5%, with increases of 10% or more for contractors with adverse loss experience.
- Project-specific placement solutions vary based on the party (contractor/engineer/owner) procuring the placement; regardless, we are seeing increased underwriting scrutiny, as well as a desire to find innovative solutions for evolving contract structures.
- Market capacity for architects and engineers (AE) project-specific solutions has contracted, with at least one major market reducing their capacity by 50%.
- Increasing project values creates a corresponding rise in professional liability risk, yet many contractors and design professionals do not carry limits that adequately address these now larger exposures.
- Traditional project-specific professional liability policies covering all design risk on a job can still be obtained, but typically buyers prefer the cost efficiency that protective products provide.

- Owners' protective project coverages, typically written by current contractor professional markets, may have a negative impact on carrier loss experience as the market matures and projects reach completion.
- Protective coverage procured in rolling programs for project owners continues to attract interest.

Contractors pollution liability

With construction activities looking to make a rebound from projects delayed and suspended by the COVID-19 pandemic, the utilization of contractors pollution liability (CPL) will likely be at an all-time high in 2021. Fortunately, the CPL market (comprised of more than 40 carriers) will be ready to meet this demand.

- Despite a crowded marketplace, rates in 2021 are expected to tick upward due to an overall increase in loss experience. We are seeing increased potential for the discovery or exacerbation of preexisting pollution conditions during redevelopment and significant claims activity in the habitational, hotel, hospitality and hospital sectors.
- For larger construction projects, clients are addressing economic risks associated with discovery of unknown preexisting conditions during construction, as well construction-related exposures, through the purchase of both site pollution and contractors pollution wrap-up products on a project-specific basis.
- Generally, we see the following exposures fueling the need for CPL coverage:
 - Pollution exposures during work and after completion
 - Indoor air quality issues, such as Legionella, mold and water-related issues
 - Application of chemicals
 - Installation of building products

- Excessive siltation
- Emergency remediation expenses
- Contractor-owned locations and beyond-the-boundaries scenarios
- Transportation and disposal of construction debris
- COVID-19 and communicable disease exclusions will begin to be more commonplace on CPL forms, although coverage for mold and Legionella remains available. Each carrier's form needs to be evaluated for potential coverage.
- Requests to extend or modify project-specific policies for resuming construction activities are being met with resistance by carriers concerned with potential exposure to COVID-19 claims.
- As buildings and jobsites begin to re-open during the COVID-19 pandemic, expect to see an increase in the number of claims involving indoor environmental quality issues, such as mold and legionella bacteria.
- Claim activity related to redevelopment of brownfield properties continues, although carriers try to limit exposure by adding exclusions associated with historic fill, dewatering and voluntary site investigations.

New York general liability

The market remains difficult for trade contractors due mainly to New York labor law. The general market hardening has added further distress. Standard markets remain selective on new opportunities, seeking best-in-class risks, although new capacity continues to enter the excess and surplus lines space for contractors.

- Due to recent carrier restrictions, general contractors are feeling pressure to create New York-only liability programs.
- Market activity and submission flow are up heavily as contractors exhaust all potential options.

- New carriers will aim to capitalize on premium increases ranging upward from 50% premium-to-limit ratios. Depending on trade classification, certain carriers are requiring 100% premium-to-limit on primary general liability.
- Rate increases can be significant for contractors forced to restructure their primary and excess programs as incumbent appetites change.
- While new capacity enters the New York marketplace for primary, excess carriers are reluctant to attach above newer players with little or no experience in New York, driving excess pricing further upward.
- Historically, London markets have provided solutions when domestic carriers pull back. Due to poor overall results, however, London has reduced its available capacity and now demands higher rates and attachment points.

New York CIPs

CIPs remain a common solution to effect coverage certainty and unified terms and conditions on larger New York projects. The minimum construction value to implement a CIP continues to rise due to high retention levels and minimum premiums on liability.

- The minimum general liability retentions in New York remain in the \$2 million - \$5 million range, depending on project size and scope.
- Bifurcated workers compensation and general liability programs continue to be a viable approach to reduce collateral, but standard markets have been competitive on dual line program offerings.
- Creative solutions feature pay-as-you-go options for both collateral and premium payments.
- Lead excess pricing (up to \$10 million per occurrence) continues to be a challenge, with carriers seeking up to 100% premium-to-limit, depending on the project exposures.

- Due to restrictions in excess capacity, we are seeing reduced limits and more quota share arrangements throughout the tower.
- Project extensions have been challenging, as underwriters are looking to reprice risk.
- On mid-sized projects (\$50 million - \$300 million), combined owner-general contractor liability programs remain cost competitive for both commercial and residential projects.

Subcontractor default insurance (SDI)

Work delays and uncertainty resulting from the pandemic are likely to impact subcontractor risk and default into 2021. This trend has created increasing interest in SDI coverage, resulting in additional carrier capacity entering the market.

- SDI carriers have remained keenly aware of the risks in today's market and have responded by requesting additional information regarding COVID-19 response plans and by addressing policy terms and conditions to ensure consistency in coverage.

- The subcontractor default insurance (SDI) market now has seven carriers with active programs, with five that we consider to be actively engaged and invested in the product line. Four of those five are now capable of offering single limits of \$50 million or greater per loss.
- With the introduction of new capacity, buyers may wish to review current policy terms, conditions and pricing.

Contact

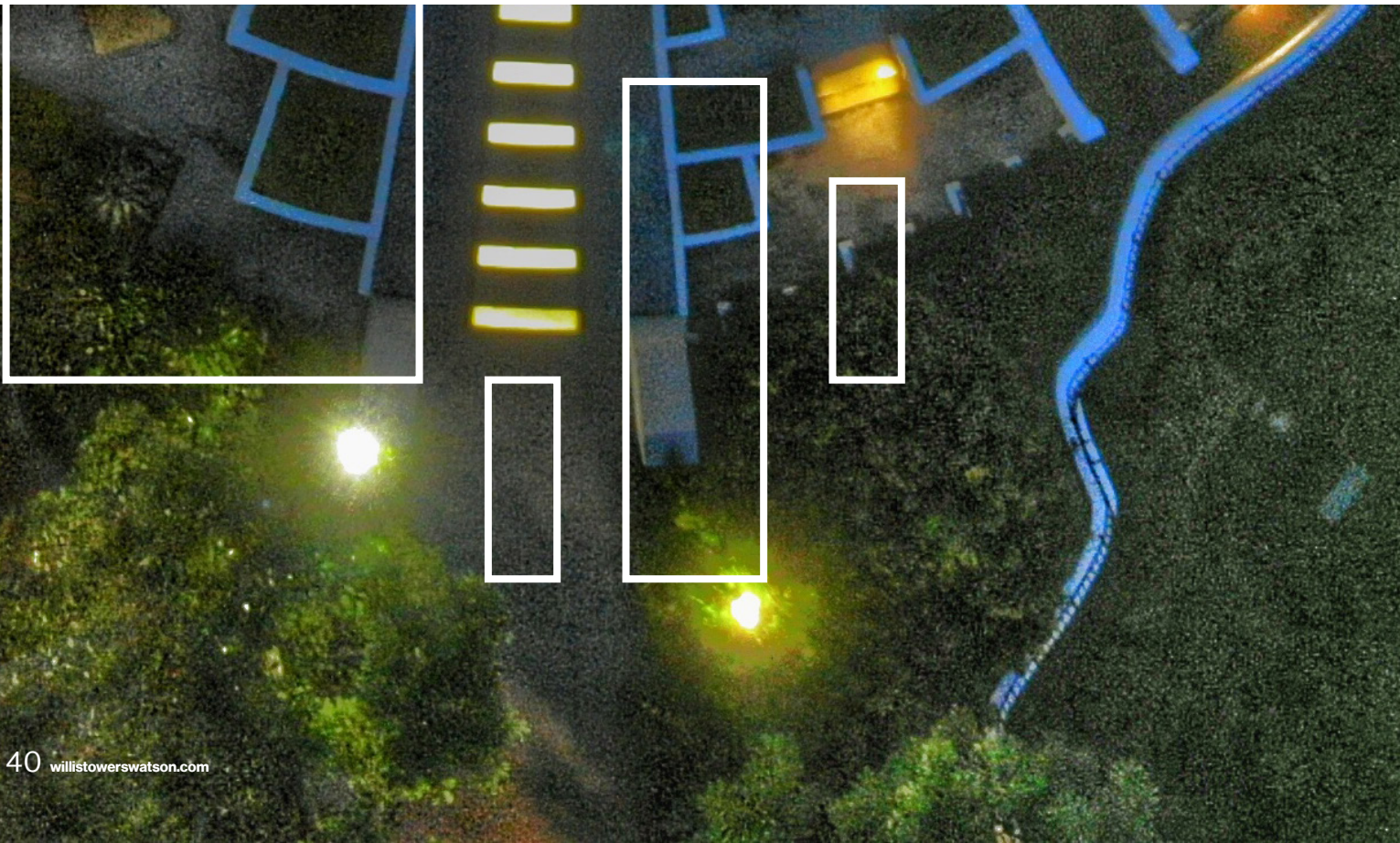
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Key takeaway

Downstream

We expect hardening to continue, though conditions may ease in 2021.

Upstream

Minimum premium thresholds are now in place for smaller programs — leading to extreme market hardening for smaller buyers.

Rate prediction

Downstream: +30%, higher for loss-impacted programs

Upstream: +5%, higher for some loss-impacted and smaller programs

Downstream

The impact of the Gulf of Mexico 2020 storm season is likely to be negligible.

- Most refineries are located to the east of the most-impacted areas.
- Storm surges have not been as severe as originally expected.
- Most downstream programs have property damage retentions of \$10M+, more for OIL members, thereby reducing the amount of insured loss.

Direct COVID-19 impact is likely to be minimal.

- COVID-19 only indirectly affects this market — no direct losses are likely to be reported.
- The only notable effect is to reduce business interruption values and refinery utilization rates, thus reducing the premium pool — despite rating increases.
- Buyers are growing accustomed to new COVID-19 Exclusion 5393, now almost universally applied.

Buyers question the sustainability of current rate increases.

- Year-on-year 30%+ rating increases will bring insurance spending under renewed scrutiny from buyer management.
- Options to increase retentions and/or buy reduced policy limits will become more attractive and feasible.
- Buyers who had bought down retentions during previous soft markets can be expected to increase retentions now, often through their increasingly robust captives.
- Reduced demand by buyers may negate recent rate increases and result in diminished rather than increased revenue streams to insurers.
- Downstream companies are increasingly employing analytical tools to determine optimal retention levels and risk transfer purchasing strategies.

Rate of pricing increases may begin to slow in 2021 as the portfolio returns to profitability.

- We expect that most downstream insurers will make an overall profit from their downstream portfolio in 2020, given losses reported to date for 2020.
- Major insurers who had scaled back their lines as the market began to harden may increase written lines on profitable business in 2021, thereby increasing realistic capacity.

Upstream

The impact of the Gulf of Mexico windstorm season and COVID-19 are likely to be insignificant.

- Some sub-sea losses may be unreported but, so far, no major losses have been recorded.
- Most susceptible aging GOM infrastructure was removed following Hurricane Ike (2008).
- Older units are now often insured for removal of wreck only.
- GOM wind insurers will try to push further rate rises following Hurricane Laura and other storms, but these insurers are a small group compared to the rest of the upstream markets.
- Many upstream companies have already elected to self-insure Gulf wind exposures following aggregation of cover post-Hurricane Ike.
- COVID-19 only indirectly affects this market — no direct losses likely to be reported.

Markets are apprehensive as 1/1 renewal season approaches.

- The insurance market fears increased reinsurance costs.
- Upstream markets are likely to pass on reinsurance cost increases to buyers.
- The upstream offering could become uneconomical if price increases stifle future demand.
- Upstream companies are increasingly employing analytical tools to determine optimal retention levels and risk transfer purchasing strategies.

Smaller programs are being significantly impacted by new minimum and deposit terms.

- Underwriters are under no pressure from management to retain small business.
- Any losses from small programs are likely to be within their reinsurance retentions.
- Underwriters are now insisting on specific minimum and deposit premiums for smaller business, regardless of previous terms.
- These developments can result in huge percentage rises (300 – 400%).
- Some buyers are electing to retain more risk.

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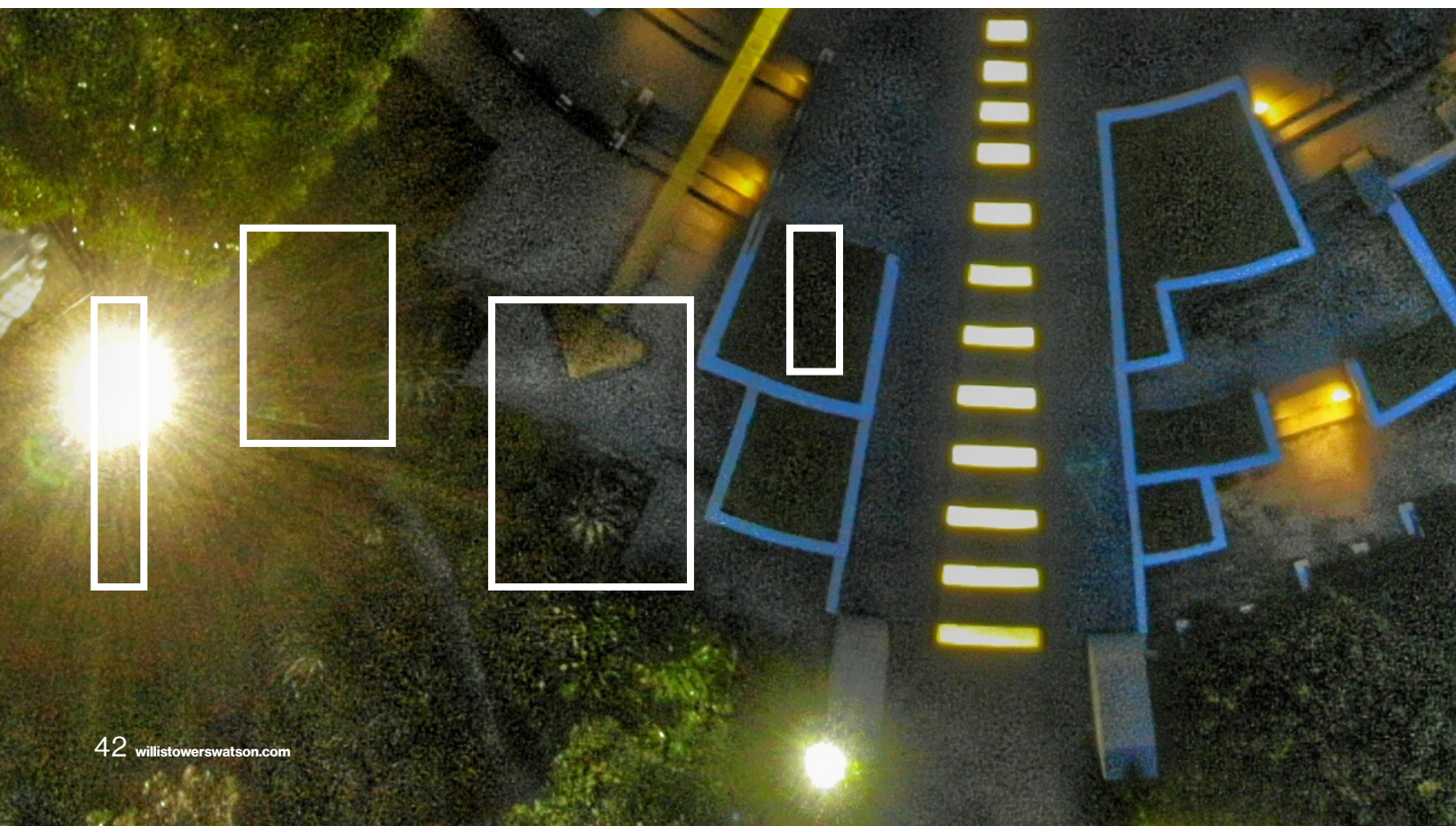
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Environmental

Key takeaway

Breakthrough innovations in environmental analytics are creating opportunities for buyers to better manage their environmental risks, enhance their insurance coverages and make risk management decisions supported by data, analytics and modeling.

Rate prediction

Contractors pollution liability: Flat to +10%

Site pollution liability (PLL/EIL): Flat to +15%

Combined environmental + casualty/professional: +5% to +15%

An increase in M&A and construction activity rebounding from COVID-19 slowdowns and delays could herald a record year for environmental placements in 2021. Fortunately, the environmental insurance market (comprised of over 40 carriers) will be ready to meet this demand.

- Incumbent markets will attempt to increase rates on their multiyear renewals, but increased appetites from their competition will keep premiums in check for clients with excellent loss histories. Elsewhere, modest increases (relative to other standard lines of coverage) will prevail for most products.
- Former excess-surplus lines carriers, previously focused on distribution through wholesalers, entered the retail environmental market in 2020 and are expanding their underwriting capabilities/capacity with expectations of gaining market share in 2021.
- Clients facing hardening conditions in the property and excess casualty markets are strategically locking in multiyear operational environmental programs (i.e., two to five years, where available) to mitigate future market uncertainty.
- Analytical tools are being employed to visually represent a buyer's exposure to emerging exposures, such as perfluoroalkyl/polyfluoroalkyl substances (PFAS) and glyphosate, as carriers and regulators continue to formulate their respective coverage and regulatory approaches to these chemicals.

- The top five global risks identified by the 2020 World Economic Forum are environment-related (extreme weather events, climate change, human-made environmental disasters, biodiversity loss, natural disasters). While the current environmental insurance marketplace may address many of the resulting remediation and tort exposures associated with these events, it will take a combined effort with colleagues in parametric insurance and alternative risk transfer to develop holistic solutions that cover the other economic exposures that are currently beyond the scope of what the marketplace offers today.

Environmental insurance carriers continue to assess their current forms and future position relative to bacteria, viruses and communicable diseases in the wake of COVID-19.

- As predicted, affirmative coverage for bacteria, viruses and disinfection costs have all but disappeared from site pollution forms in the wake of the COVID-19 pandemic.
- COVID-19 and communicable disease exclusions will be more commonplace on contractor's pollution liability forms, although coverage for mold and Legionella remains available. Each carrier's form needs to be evaluated for potential coverage.

- Requests to extend or modify project-specific policies for resuming construction activities are being met with resistance by carriers concerned with potential exposure to COVID-19 claims.

We are watching several claim trends.

- As U.S. EPA and state environmental agencies implement groundwater cleanup guidance for PFAS, and other "emerging chemicals of concern," insureds are experiencing increased claim activity associated with both site investigation and third-party litigation.
- As buildings and jobsites begin to reopen during the COVID-19 pandemic, we expect to see an increase in the number of claims involving indoor environmental quality issues — such as mold and Legionella bacteria.
- Claim activity related to redevelopment of brownfield properties continues — although carriers try to limit exposure by adding exclusions associated with historic fill, dewatering and voluntary site investigations.

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Health care professional and general liability

Key takeaway

The double impact of the hard market and the global pandemic is still reverberating in the HPL/GL marketplace. Due to the resulting underwriter response toward conservatism, every aspect of insurance is under review and subject to change: rate, capacity and coverage.

Rate prediction

Primary medical malpractice: +5% to +15%

Excess medical malpractice: +15%

By segment:

Hospital medical malpractice: +5% to +25%

Allied health medical malpractice: +5% to +15%

Physicians medical malpractice: +3% to +15% (particularly venue dependent)

Loss-affected accounts: highly variable rate increases

Hard market: the numbers

- Catastrophic industry losses, both single-plaintiff and batch, have resulted in unsustainable medical malpractice loss ratios that have been north of 100% since 2015.
- Rates have been rising in most segments of health care since at least late 2018 and will continue to rise into 2021. Rate changes depend on several intersecting variables related to the overall market, the subsegment of health care and individual account characteristics.
- Minimum premiums are starting to rise but vary greatly from insurer to insurer; those minimums generally seem to be settling somewhere between \$5K to \$7.5K per million.

Hard market: the capacity

- Several insurers withdrew from the medical malpractice market in the summer of 2020, including two major players. In one case another carrier bought renewal rights, while in the other case the rights are not for sale.
- Most insurers have reduced the capacity they are willing to deploy on any one account to no more than \$10 million. Those insurers that are willing to deploy more than \$10 million typically do so at increased rates.

- Self-insured retentions and deductibles are increasing, both on a per-claim/occurrence basis and in the aggregate (where applicable).
- There are signs that investors are identifying an opportunity due to the limited capacity; at least one startup in the medical malpractice space has been announced this year.

Hard market: the coverage

- Driven by attention-grabbing headlines about opioids, sexual abuse and COVID-19, carriers are still apprehensive about systemic risk (i.e., risks that span the industry), driving a variety of consequent limitations in coverage.
- A full spectrum of COVID-19 related limitations and exclusions have been developed by the market. These limitations are not typically imposed on facilities that offer direct patient care; exceptions to this arise for buyers involved with high-profile COVID-19 related issues or COVID-19 related batches.
- Several insurers have been reviewing their batch coverage guidelines and are expected to approach this coverage with increasing conservatism. The main area of focus remains the mechanism for batching claims (i.e., what claims are related).

Hard market: underwriting guidelines

- Underwriters in London, Bermuda and the U.S. are overwhelmed with increasing volumes of submitted business as clients seek capacity from every corner of the marketplace.
- Current hard market conditions are characterized by insurers looking to return to underwriting profitability. This deemphasis on growth (top line) has led to greater selectivity and rigorous application of underwriting guidelines.
- Underwriting guidelines are in a state of fluidity as insurers respond to the pandemic while simultaneously trying to understand and analyze its impact on their portfolios.
- Underwriter authority in the field has been reduced (or withdrawn) for certain types of coverage or classes of risk, resulting in greatly lengthened renewal timelines.

What's coming?

- Upcoming 1/1 treaty reinsurance renewals will play a pivotal role in insurers' go-forward approach to capacity, coverage and rate.
- Recent focus on social justice ideologies and long-overdue attention to health disparity may start to impact this space, as data providing evidence of disparate health outcomes becomes increasingly available.

- The ongoing digital transformation of health care continues to drive concerns about cybersecurity and privacy. One thing we can be sure of: operational, financial and clinical unknowns will arise from the ongoing explosion of digital health models.
- Insurers are struggling to quantify the short-term and long-term impacts of COVID-19 on their entire portfolio, including their medical malpractice book; immunities are fragmented state by state and untested, offering limited safe harbors from litigation.

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Special contingency risks - kidnap and ransom

Key takeaway

The special risks insurance markets continue to reduce their exposure to cyber extortion events.

Rate prediction

-5% to +5%

The pandemic has so far not had a direct impact on this insurance sector.

- Criminals will likely continue to invest in schemes such as virtual kidnapping, and the continued economic impact of COVID-19 could lead to criminals becoming more desperate, leading to sporadic cases of kidnap for ransom targeting high-profile individuals. Such desperation possibly led to the brazen daytime attempted kidnap of a Chinese billionaire from his guarded villa in China's Guangdong province in June.
- Please review the following links for further detail in our full Global Kidnap and Mass Shooter Analysis During the Pandemic:
 - [Kidnap and Ransom](#)
 - [Mass Shootings](#)

Insurers are adjusting policy language pertaining to cyber events that could be considered part of a ransom scenario.

- Most insurers have now introduced blanket exclusions for cyber extortion, applying the exclusion on virtually all new business and renewal quotes.
- Those still offering coverage for cyber extortion are being very selective. They have strong restrictions for industries deemed more susceptible to cyber extortion threats. These restrictions include:
 - Limiting policy coverage to reimbursement of ransom (per insured event and in the annual or policy aggregate) and crisis consultancy fees
 - Excluding judgement, settlement and defense costs
 - Limiting or excluding reimbursement of expenses
 - Amending the "other insurance" clauses to clarify that coverage is to apply in excess of any other valid and collectible insurance
- For those few programs that do not have a cyber extortion exclusion, sublimits will apply to cyber extortion business interruption.

Interest in active assailant coverage is growing.

- Many kidnap and ransom (K&R) insurers, as well as insurers underwriting crisis management risks, are increasing their positions in the active assailant coverage market and have begun offering customized solutions (either via endorsement or stand-alone policies) with a focus on post-incident crisis management support, legal liability coverage, business interruption coverage (as a result of both physical and non-physical damage) and indemnification of a variety of incident-related expenses.
- These solutions go beyond traditional terrorism and/or political violence coverage and are increasingly being used to complement traditional policies.

Kidnap trends

- Rates of kidnap underwent a significant increase during the months of June, July and August as countries around the world eased their lockdown restrictions.
- The tempo of kidnapping has largely returned to near pre-pandemic levels but, as always, kidnap risks continue to fluctuate with geopolitical and security developments.
- Mexico has retained its position as the world's kidnap hotspot.
- Elsewhere in the Americas, traditional hotspots Colombia and Venezuela also saw high numbers of kidnaps, particularly in urban centers, areas historically associated with militias, and border regions.
- Nigeria meanwhile suffered the second highest total of incidents, with the Democratic Republic of the Congo (DRC), Niger, Mozambique and Mali also featuring in the top 10, underscoring the risk of kidnap on the African continent.
- Syria and Iraq have re-entered the top 10, following a spate of recent incidents.

The employment categories of victims provide an interesting insight into the development of kidnap trends as a result of the pandemic.

- We have noted a dramatic increase in cases where relatives of prominent figures are being targeted, rather than the high-profile individuals themselves, likely due to the relatives' lighter security protection. On numerous occasions the relatives are identified and targeted as a consequence of relaxed attitudes to social media privacy as well as traditional surveillance.
- Perhaps because of the global pandemic and the stresses placed on logistics and supply chains, we have seen a significant increase in incidents involving transportation and shipping, rising to 18% of incidents logged.
- Extractive industry workers, NGOs and security personnel consistently form a noteworthy percentage of victims.
- Local nationals accounted for 87% of victims in the most recent quarter surveyed. This marks a 17% increase from before the pandemic, highlighting the impact of COVID-19 restricting the movement of people around the globe.

Figure 1. Country Rank

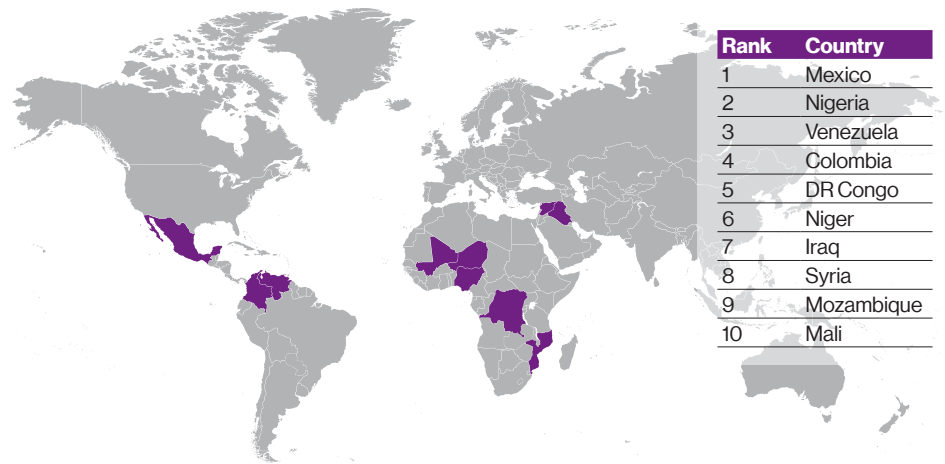
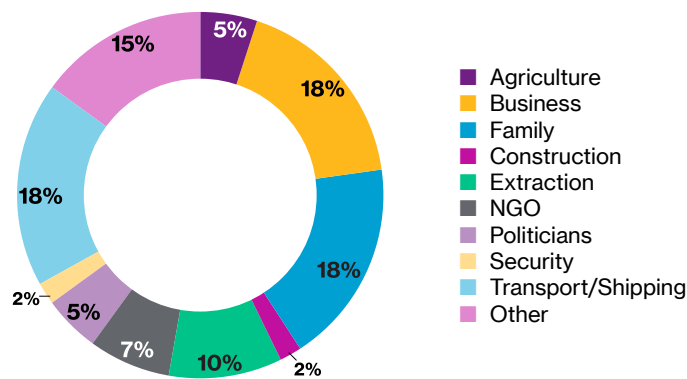


Figure 2. Victim Industry



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Life sciences

Key takeaway

The pandemic is unlikely to have a significant impact on rates or coverage terms in the immediate future, but a potential onslaught of product liability claims may be on the horizon.

Rate prediction

Flat to +10%, higher for poor risks

Life sciences companies are clearly in the COVID-19 spotlight.

- With the dramatic increase in companies manufacturing, distributing and selling COVID-19 products in response to the pandemic, underwriters in the life sciences space are inundated with submissions. Coupled with a trend toward more detailed and diligent underwriting, turnaround times are longer than ever.
- Those insureds with new COVID-19 products but who are already in the life sciences space are viewed more favorably by underwriters, given the likelihood of greater experience in dealing with the FDA.
- Insureds should understand how the PREP Act and CARES Act may provide immunity from claims related to manufacturing, testing, developing and distributing their products, which are collectively called “covered countermeasures.”
- Adherence to FDA, state and other federal guidance is critical, as is the contractual risk transfer between parties collaborating on such products.
- Insureds with any direct patient care will be carefully underwritten for potential transmission exposure and could see communicable disease exclusions.

The product and professional liability marketplace is stable for life sciences buyers, with small, single-digit increases. Flat renewals may be available for clients with favorable loss experience, no recall activity and no products in multi-district litigation or class action.

- Overall capacity remains stable for life sciences risks with a handful of new markets entering the space over the past several years. Except for certain high-hazard risks (e.g., orthopedic implants, opioids, other litigated classes), most insureds should have several carriers willing to offer terms.
- Pharmaceutical and medical device manufacturers continue to be a target for product liability lawsuits, with social inflation leading to larger settlements and jury awards. The pandemic-related suspension of the courts has caused delays in looming opioid litigation, as well as other high-profile cases.
- Product liability carriers are now adding exclusionary language for claims arising from or related to the actual or alleged presence of nitrosamines (NDMA and related carcinogenic contaminants). As nitrosamines can be found at safe levels in many food products, such as beer and bacon, the exclusion is of concern to pharmaceutical and nutraceutical manufacturers.
- Standard markets continue to decline

risks with CBD-related exposures, while non-admitted and wholesale-only carriers will typically offer terms.

- Carriers continue to release new policy forms which should be carefully reviewed for nuances in coverage.

We include a broad range of subsectors under life sciences:

- Pharmaceuticals and biotech
- Generic pharmaceuticals
- Medical device and technology
- Nutraceuticals (including CBD products and energy drinks)
- Contract research organizations
- Contract manufacturing organizations
- Laboratory developed tests
- For a more in-depth marketplace review for the life sciences sector, [read our recent publication](#).

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Managed care E&O and D&O

Key takeaway

The market is hard: Significant rate increases, insistence on increased retentions, capacity problems and coverage restrictions are the norm, and while the impact is being felt more by for-profit entities than non-profits, non-profit managed care entities of significant size face similar challenges.

Rate prediction

Overall: Hard and changing rapidly

Blue plans: +30% to +50% or more

Public managed care organizations:
+25% or more

All other managed care organizations:
+10% or more

Insurers continue to push rate and restrict coverage.

- Carriers continue to segment their business between Blue plans, non-Blue plans and public companies, creating a potential capacity issue for buyers. Some carriers will not offer coverage for Blue plans or publicly traded companies, limiting market options. This can lead to significant problems building out larger towers.
- Rates are increasing while coverage restrictions are being applied.
- Prominent markets for Blue plans and non-Blue managed care organizations are continuing to reduce capacity/limits while managing their books. These markets are also seeking increased retentions.
- The overall market continues to shrink, with another managed care carrier's recent exit.
- The shrinking market is leading to less favorable terms and conditions.
- No new domestic or offshore capacity has entered the market. Bermuda and London are high excess markets only. Domestic carriers and their offshore counterparts closely coordinate capacity.
- Buyers can help themselves obtain the best possible terms by hosting carrier renewal meetings and providing submission materials well in advance of renewal dates. These materials should include complete claim information, membership breakdown by type of member, and a complete list of managed care core and non-core services.

- Analytics are another key in responding to the hard market. Broad and reliable analytics can support optimal selection of retentions, limits, captive use, and alternative risk transfer options across the entire entity. While product line analytics can help a managed care organization employ the best program for that specific risk, entity-wide risk analytics can help build the most efficient program for the entity as a whole.

With Blue plans, the D&O market has been even more challenging than the E&O market because of the concern over systemic risk.

- Systemic risk plagues managed care organizations, and managed care E&O and D&O carriers continue to assess their entire portfolios as they manage their capacity and exposure to aggregation risk.
- Although markets have shown inconsistent responses to the Blue system Multi District Litigation (MDL), which was filed in 2012 and is still pending, several markets have taken hard lines in response to what they refer to as "systemic Blue plan" risk — that risk which impacts all Blue plans because of the way the Blue Cross Blue Shield Association (BCBSA) does business.
- Some markets are still taking a wait-and-see approach while others have drafted exclusionary language to try to prevent coverage from attaching to this exposure.

- Markets that have drafted endorsements to date are also inconsistent with each other — one has limited its exclusion to claims related to the existing lawsuit and matters related to the BCBSA license agreement, and another has a much broader exclusion, which significantly impacts coverage.

The market impact of COVID-19 is still unclear.

- The impact of the pandemic and the ensuing economic downturn on this segment is still unclear after many months of health care management during the crisis.
- However, the pandemic itself is unlikely in the near future to have a significant impact on rates or coverage terms. The pandemic-related risks associated with managed care entities of all sizes and types are financial/first-party loss related. Such risks are not generally covered under managed care E&O policies.

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Marine (hull liability and cargo)

Key takeaway

In cargo, market fluctuation around pricing is starting to subside, although conditions remain hard; market capacity continues to shrink, and quota share placements have become much more prevalent. In hull, 2020 was one of the hardest marine markets in more than 20 years, and there are absolutely no signs that market conditions for the buyer will improve in 2021.

Rate prediction

Transit only

Good loss experience: +10% to +15%

Marginal to poor loss experience: +15% to +20% and higher

Stock throughputs

Good loss experience: +15% to +25%

Marginal to poor loss experience: +25% to +40% and higher

Hull and machinery

Good loss experience: +10% to +15%

Marginal to poor loss records: +20% to +30%

Marine general liabilities

Primary: +5% to +10%

Excess: Flat to +10%

USL&H: Flat to +5%

Cargo

Starting renewals early continues to be critical, especially for stock throughput programs and higher risk industries.

- Detailed renewal data is also critical and is impacting terms, conditions and price.

In conjunction with increased rates, markets are also seeking higher retentions.

- Rate increases vary with loss experience. Retention levels are being assessed on a case-by-case basis.
- Accounts with catastrophe-exposed storage risks just in certain industries, segments are seeing higher rate increases. Retention levels on this business are usually going up as well.
- Accounts with poor loss history may see significant rate increases in addition to severe retention increases, and in certain instances they may see more restrictive coverage terms.
- When marketing profitable business, however, we are still securing competitive terms, but virtually no buyers are seeing reductions in price unless they had a multi-year deal in place, and the loss experience remains good.
- Capacity is shrinking and is being more carefully deployed.

- Excess stock capacity in the U.S. market has all but dried up.
- Quota sharing risks in many instances has become necessary, especially for catastrophe-exposed storage risks.
- Terms and conditions for industry segments, such as pharma/life science, food/beverage, automobiles and stock throughputs with retail store exposures, are being reviewed carefully. Increasingly there is a lack of market interest for large retail store risks.
- Insurers are revisiting their underwriting strategy, risk appetite and underwriting guidelines as they look to return to profitable underwriting.
- Detailed underwriting information is critical.

Broad manuscript policy terms are still achievable, but underwriting will focus on several factors:

- Catastrophic risk for goods in storage
- Broad wording for spoilage, deterioration and decay
- Broad control of damaged goods cover, including fear of loss
- Coverage for voyage frustration
- Strikes, riots and civil commotions (SR & CC), with greater focus from insurers on storage coverage

- Per location versus per occurrence limits on stock throughputs are being reviewed in conjunction with modeling
- Policy deductible clauses
- Catastrophic peril definitions
- Packing for high-tech machinery and equipment, as well as pharmaceutical and life science products
- Security on high theft-risk commodities, such as apparel and accessories, food and beverage commodities and pharmaceuticals
- Review of logistics contract wording
- Coronavirus and possible effects on policy terms

Insurance buyers should be ready for change.

- Most markets have adopted cyber exclusions on marine policies.
- The impact of COVID-19 and the economic slowdown are still TBD.
- Analytics are playing an important role in setting terms, conditions and pricing in this changing environment. Useful tools include diagnostics for catastrophic modeling, loss trend analysis, deductible studies, heat mapping and total cost of risk (TCOR) exercises.

Hull

Marine underwriters are typically working together so unless new capacity emerges globally — which seems unlikely — conditions will continue to be very challenging.

- Exclusions to cover are being routinely introduced in the global markets — not unlike the cyber exclusions of the last few years. This presents serious concerns to vessel owners not in P&I Clubs, as current commercial market liability covers will respond for legal liabilities to crews and passengers for illness and death. Extra vigilance in negotiation is required.
- All marine underwriters continue to work remotely. The loss of personal contact and time to more closely scrutinize submissions has resulted in underwriters becoming more demanding in terms of cover and pricing.
- Underwriters are reducing capacity in excess marine liability layers. There is no major claim activity to support this yet, but we suggest making general efforts to reduce risk while COVID-19 remains active.

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Personal lines

Key takeaway

Insurance carriers are taking aggressive actions in a drive toward profitability by limiting their appetite in high-density areas while implementing restrictive underwriting guidelines. With insurers trying to push rates higher, buyers need to be creative in finding cost-effective solutions.

Rate prediction

Most risks:

Homes under \$1,000,000: +5 to +7%

Homes over \$1,000,000: +7 to +9%

Cat-exposed: +20% to +50% with contract limitations

Cat-exposed with losses: +50% to +100% or non-renewal

COVID-19 has so far spared personal lines from any dramatic actions by insurance carriers.

- Many individuals are investing in their homes as work from home (WFH) becomes a more permanent situation. Clients should be vigilant in updating property values and informing their insurers of any active remodeling or construction.

Property rates continue to climb as climate change impacts frequency/severity of storms.

- In 2020, the West experienced yet another record-breaking wildfire season, while the Gulf Coast had one of the most active hurricane seasons since 2005.
- Insurers are seeking additional premium wherever possible and applying stricter underwriting, particularly to property valuations.
- In response to massive rate increases imposed by insurance carriers, many individuals are looking to self-insure.

Auto rates will continue to improve as fewer drivers are on the road.

- A drop of 40.2% in miles driven by U.S. drivers in April 2020 and 25.5% in May 2020 was recently reported by the Federal Highway Administration.
- Ongoing health concerns, WFH mandates, and the economic slowdown could result in reduced vehicle usage for quite some time, helping to improve the bottom line for many auto insurance carriers.
- Reduction in traffic will lower claim frequency.

Liability concerns mount as large verdicts are becoming commonplace.

- Nearly 10% of auto fatalities can be blamed on distracted driving. Auto safety experts point out that looking away for just five seconds to send or read a text while driving 55 mph is like driving an entire football field with your eyes closed.
- Jury awards are reaching new highs in personal injury and liability lawsuits, expressing a trend toward what some call a lottery mentality. This is directly impacting rates and coverage, leading to placement capacity issues.
- High-profile individuals and families are being scrutinized by underwriters looking to limit their exposure to anyone who gathers media attention.

Family offices evolve to protect household members and investments.

- Single family offices continue to collaborate and join others to establish efficient multi-family office structures.
- The combination of investment management, financial planning, estate and trust administration, legal work, tax/accounting and philanthropic administration has created additional coverage needs for D&O, E&O, EPL, fiduciary liability, cyber liability and crime.

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Political risk

Key takeaway

COVID-19 has created a superstorm for U.S. multinationals. Traditional political flashpoints compounded by COVID-19-induced financial distress has led to political violence, export bans, confiscations, selective discrimination and restrictions on movement of capital.

Rate prediction

Flat to +20%

COVID-19 is creating elevated political risks.

- The emerging markets debt crisis we predicted in our last report is now materializing, with four countries (Ecuador, Venezuela, Argentina and Lebanon) having defaulted on or restructured their debts so far this year, six countries on the verge of default (mostly in sub-Saharan Africa) and 25 countries at significant risk.
- Large emerging markets, particularly Turkey, have come under economic pressure, joining a list of economies vulnerable to capital flight that includes South Africa and Mexico.
- Currency inconvertibility and non-transfer continue to be popular political risk coverages, particularly in commodity-dependent countries, but also in countries that will continue to face economic consequences from a slowdown in the global economy.
- Debt-service relief and fiscal support from multilateral organizations and G20 donors will offer some breathing room, but this may not be sufficient to prevent a liquidity crisis from morphing into a debt crisis. Should such a crisis compromise access to financial markets, the current economic decline could prove much longer and deeper than expected. Read our [Summer Political Risk Index](#).

Political violence is in on the rise.

- Although the global frequency of protests has diminished somewhat due to lockdowns and the risk of infection, mass protests continue to play a major role in shaping global political risks.
- Unrest in Belarus has triggered concerns about possible Russian intervention.
- Major protest movements in Russia and Thailand and in industrialized countries, including the U.S., have arisen, in some cases despite government suppression efforts. Political protests could begin to break out in Brazil, Ethiopia, Iran and Myanmar.

U.S.-China decoupling is increasing political risk exposures for technology sector.

- Perhaps the most dramatic shift in political risks associated with the pandemic has been the deterioration of relations between China and the West. The technology sector has become a battleground of government intervention, which could adversely impact numerous multinationals should retaliatory rhetoric escalate.

Political risk analytics help companies manage their political risk exposures and structure programs in an efficient and cost-effective manner.

- Analytic tools provide decision-making support regarding deductibles, limits, perils to cover and countries to cover. They also help insurance buyers address the following risk areas:
 - COVID-19 shock: debt and currency crises in emerging markets
 - U.S.-China trade war and escalating retaliatory measures
 - Middle East: conflict between the U.S. and Iran possibly disrupting shipping in the region
 - E.U. de-integration: Eastern and Western Europe tensions and the Eurozone debt crisis potentially resuming
- Our fourth annual political risk survey, containing an update on the scenarios of top concern, will be published in Q4 2020, along with two sector-specific survey reports: "Managing the New Political Risks in the Technology Sector," and "Political Risks in Natural Resources." See our [2019 Political Risk Survey Report](#).

New marketplace entrants have generally helped flatten upward pressure on pricing, but we are noticing a shift in appetite.

- The political risk market is hardening a bit for new multi-country programs and single-country programs in countries with recent geopolitical headlines.
- Property carriers have begun to exclude perils such as strikes, riots and civil commotion as a result of some large losses in the last year, creating gaps in coverage. These risks can be addressed in the political risk insurance market.
- Capacity for China, Brazil, Argentina and Chile appears to be tightening.
- Carriers are being highly selective across the board while appetite is reassessed, meaning more scrutiny of new inquiries.
- Overall, 2020 capacity grew to over \$3.2 billion notional capacity per transaction for contract frustration (non-performance by government obligors) and \$3.3 billion for political risks.
- We advise global companies to take a proactive approach to their global portfolio and seek political risk coverage with urgency, as market capacity is shrinking in some cases and rates are trending upward.

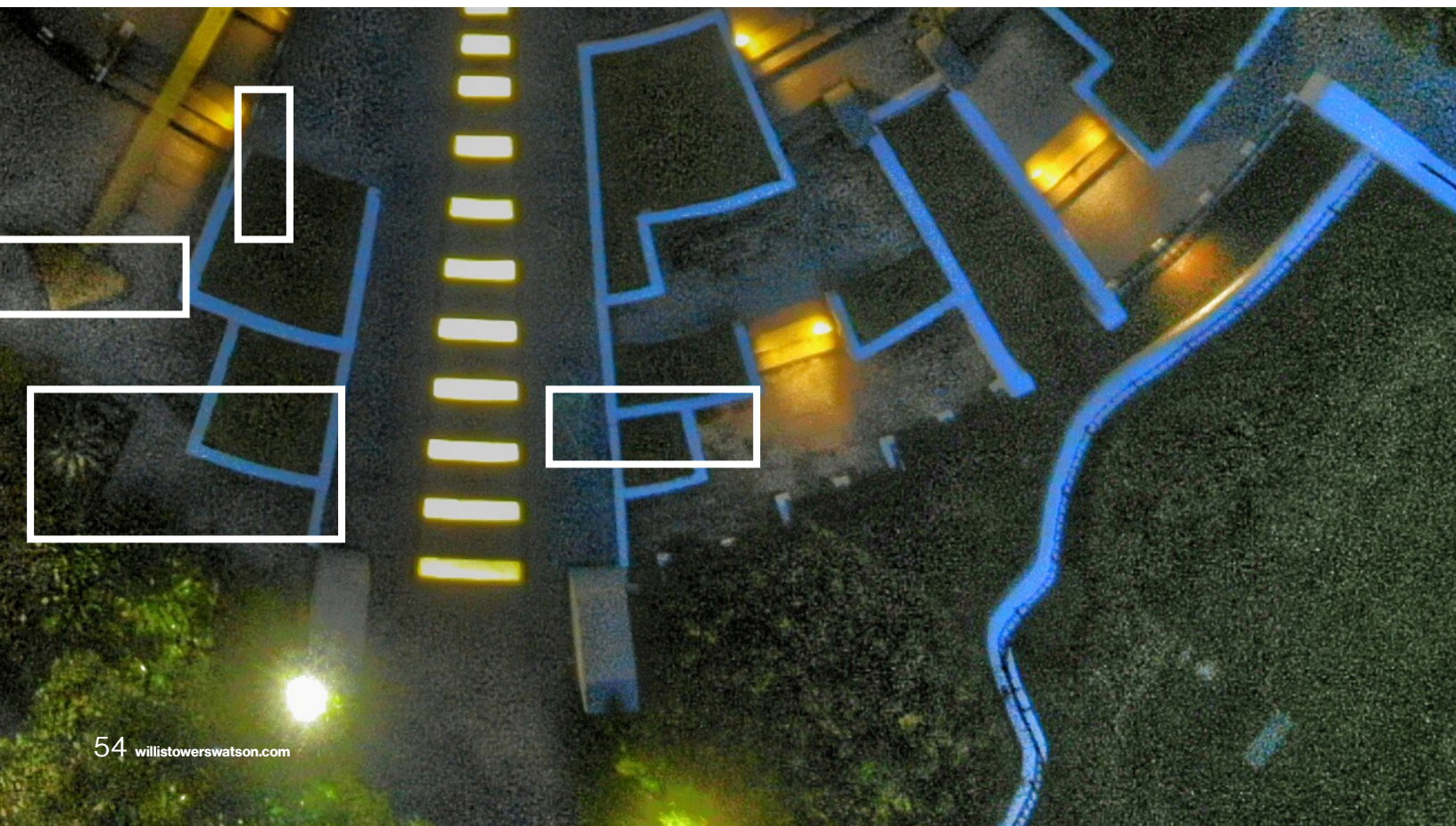
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Senior living and long-term care

Key takeaway

COVID-19 has substantially disrupted an already hardening senior care marketplace, further deepening rate increases, capacity shortages and coverage retrenchments in almost every product line.

Rate prediction

General and professional liability

Primary:

Favorable loss experience and venues: +15% to +30%

Adverse loss experience and poor venues: +40% or more

Excess: 50%+

Auto liability: +15% to +20%

Property

Non-cat exposed: +10% to +20%

Cat-exposed without losses: +15% to +25%

Cat-exposed with losses: +30% or more

Workers compensation: Flat to +5%

In an already deteriorating general and professional liability and excess marketplace, the emergence of COVID-19 has instigated a massive market disruption in all facets of this market sector: coverage, capacity and rate.

- Insurers continue to cite the substantial increase in the frequency of high severity claims and their negative impact on loss ratios. These trends are driving insurers to adjust the structure, coverage and pricing of most towers of insurance.
- The recent withdrawal of multiple insurers from the market, in combination with moratoriums on new business imposed by others, has led to a dramatic reduction in available capacity, particularly excess liability capacity. Consequently, rate increases on excess layers often far exceed those of primary layers.
- Rates are expected to keep rising into 2021.
- To mitigate large premium increases, many insureds are assuming higher retentions or (in some cases) reducing excess limits purchased.
- The trend toward coverage retrenchment continues. Class action exclusions, punitive damage exclusions and sublimits for abuse (and other sublimits) are increasingly being introduced by insurers.
- Many insurers are mandating the addition of a COVID-19, pandemic or communicable disease exclusion on renewals and new business.
- In order to obtain appropriate premium rating, buyers must ensure that their submitted exposure base is accurate and has been updated to reflect changes caused by COVID-19.
- Renewal timelines are substantially longer due to the convergence of three main forces:
 - The disrupted marketplace has led to a large spike in the volume of new business submissions into carriers.
 - Underwriting authority in the field has been reduced, often necessitating more robust and time-consuming referral processes.
 - Closely monitoring the continuously evolving COVID-19 situation, many insurers are only issuing quotes within 30 days of renewal.
- Despite the exit of several insurers from the senior care segment, there are some positive signs in several new entrants, though these markets are entering cautiously and are being selective.
- COVID-related claims to date are limited, but we expect they will increase.
- Property and casualty lines are being negatively disrupted by COVID-19, and the market continues to harden.

Auto liability

- There are few, if any, monoline auto markets with an appetite for long-term care auto liability. As a result, many clients are exploring package solutions that combine auto liability with workers compensation or property.
- COVID-19 has parked many insured vehicles for extended periods without premium relief from the insurers.

Property

- Capacity is significantly shrinking, especially in catastrophe-prone areas.
- Insurers have less appetite for single carrier towers; consequently, insureds are increasingly exploring shared and layered programs in order to access adequate capacity.
- Deductibles and retentions are increasing to eliminate attritional loss dollar swapping and, in some cases, to help mitigate large premium increases.
- Business interruption values need to be reevaluated at the time of renewal to reflect the impact of COVID-19.

Workers compensation

- Many insurers have imposed a moratorium on new health care business. With less choice in the marketplace, many programs are vulnerable to large rate increases and increased deductible aggregates.
- As associates in the senior care industry often have acute exposure to COVID-19, insurers are scrutinizing risk management protocols.
- Given the heightened risk of exposure, many positive COVID-19 cases are attributed to associates' workplaces regardless of where they may have actually contracted the disease.

The senior care industry has been on the front lines of a global pandemic that is directly affecting the residents and the clients that we serve.

- We continue to partner with Argentum, ASHA, and other industry partners to support the industry in facilitating forums to share best practices in real time on infection control and COVID-19 mitigation strategies, as well as partnering with clients to help advance critical state and federal tort immunity initiatives. See [Willis Towers Watson Senior Living COVID-19 Resource Center](#) for additional information.
- Variability of infection control protocols, care settings, levels of acuity and geography have impacted infection rates in various long-term care venues, with assisted living facilities experiencing significantly lower infection rates than skilled nursing facilities.
- We will be watching all COVID-19-related developments closely.

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Surety

Key takeaway

Financial protection for contractual obligations in the current marketplace carries far more risk than it did prior to the COVID-19 pandemic, but despite the severity of the economic downturn, the global surety market is stable.

Rate prediction

Flat to 20% (varying across industries)

Marketplace

- Current marketplace risk appetite is causing sureties to become more selective, requiring additional detailed information, documentation and financial transparency through the underwriting process.
- Sureties are paying greater attention to contract language as it relates to delays, extensions, force majeure clauses and payment terms.
- Surety buyers must be prepared to demonstrate how they are mitigating increased contractual and financial challenges through the pandemic.
- To date, the surety industry has not experienced an increase in claim activity due to COVID-19. As the economy is further impacted, the [Surety and Fidelity Industry of America \(SFAA\)](#) anticipates losses may increase.

Contract surety

- Managing cashflow, skilled labor, diversifying supplier sources and focusing on core construction strengths will be necessary as contractors navigate a post-COVID-19 economy.
- Private projects are expected to renew an interest in bonds as an additional layer of financial protection for owners, while megaprojects and PPP are beginning to feel the impacts of COVID-19 on funding, surety capacity and political environments.
- Delayed projects will likely place stress on backlogs, labor and resources as they come on line. Expect additional scrutiny about backlog management and financing as the economy regains strength.

Commercial surety

- Due to the pandemic and most employees working from home, the surety industry has seen a significant increase in public owners willing to accept digital bonds, signatures and seals, advancing surety into the digitization age.
- Credit facilities have begun tightening and will likely incur sizable write-downs associated with business failures.
- Companies that are highly leveraged may have fewer options, further challenging their surety capacity.
- Future availability and pricing for large surety programs will be determined by the losses experienced by the global reinsurance industry.

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Terrorism and political violence

Key takeaway

Increased civil unrest driven by political and ideological polarization puts property coverages under scrutiny.

Rate prediction

Flat to +5%

Property insurers are signaling a narrowing of coverage following widespread damage caused by strikes, riots and civil commotion, which we expect to increase as the lasting impacts of COVID-19 are felt across the world.

- With lines between domestic terrorism and civil unrest blurring, we urge a careful analysis of in-force policies. Language in property and casualty policies excluding certain acts of a political, ideological or religious nature may serve to remove coverage for some of the threats frequently faced by insureds today, possibly pointing to a need to consider filling the gaps with terrorism and political violence insurance.
- Confronted with increasing business interruption losses without an accompanying physical damage component, risk managers should ensure that they understand what their programs cover and what they may not.

In response to an unfortunate trend, active shooter policies join the mainstream.

- Most terrorism enquiries now contain requests for active shooter coverage, which can often be housed economically within a traditional terrorism program to maximize available capacity.

- Having evolved from a means to plug potential gaps in traditional P&C policies, the latest products provide innovative, modular coverages that can be tailored to complement an insured's risk management program, covering crisis management, pre-litigation victim care, comprehensive business continuity expenses and even preventative consultancy and training.
- As these attacks become more prevalent, risk managers face expanded duty of care requirements and look to these products to fulfill them.

Analytics provide assurance on coverage levels.

- The **August 2020 Beirut explosion**, while not an act of terrorism, highlights the importance of applying modeling techniques to estimate the impact of blasts. Recent developments in deterministic analytics help estimate the possible intensity and scale of terrorist attacks.
- Risk managers should consider analytics a key tool in defining accurate risk concentrations and highlighting proximity to probable targets.
- While the terrorism market's hardening continues to be relatively gradual compared to other lines, a quantitative assessment of potential property damage, human vulnerability and operational disruption post event is nonetheless a crucial component in arriving at smarter purchase decisions.

Captives as a risk transfer option are seeing a resurgence following the renewal of TRIA.

- With the Terrorism Risk Insurance Act (TRIA) extended until 2027, we have seen a resurgence in captive deployment as organizations access the broad scope of coverage afforded by the backstop.
- In a market where premium is capacity driven, the flexible rating mechanisms permitted within a captive structure allow exposures to be priced for risk exposure and divorced from unrelated perils — generating significant cost savings for many clients.

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Trade credit

Key takeaway

The ongoing economic contraction and resulting losses due to COVID-19, coupled with an uncertain economic future, offer a reminder that trade credit insurance is a strategic buy, as having a trade credit policy in place provides an oasis to insureds who procured the protection prior to the economic downturn.

Rate prediction

+10% to +40%

A spike in losses has created a much more challenging underwriting environment, driving harder market conditions.

- The world's three largest trade credit insurers, representing about 70% of the market in the U.S., recently formed a coalition to approach the U.S. government for reinsurance support for trade credit carriers to help with needed capacity in support of open credit lines.
- They warn that reduced capacity for the trade credit insurance (TCI) industry could disrupt the stability of a multitude of businesses across the U.S.
- Insurers are bracing for a potential second outbreak of COVID-19. If this comes to fruition, which appears to be the case at time of this writing, further tightening will occur.
- Premium rate increases should settle in the 10% to 20% range for the remainder of the year, depending on loss ratio and industry sector — though some will see increases up to 40%.

Both insurers and buyers need to face the significant trade credit repercussions of the current economic downturn.

- Insurers have advised that they have largely completed their risk exercises to rightsize their portfolios — barring further significant developments relative to the global economy or specific trade sectors.
- The apocalyptic outlook that was foreseen in April and May of this year has tapered off. However, the economic uncertainty created by this pandemic may further pressure capacity restrictions.

Banks and credit insurers are working jointly on a streamlined policy template.

- Banking and private equity financing programs continue to see an uptick in demand given the current economic climate and focus on liquidity sources. Due to the monetization focus, quality of risk and profitability of these programs, they face fewer negative risk actions and pricing hikes from the insurers than other trade credit policies in the market.

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