WOODRUFF SAWYER

# Looking Ahead to 2023

**PROPERTY & CASUALTY CONSIDERATIONS FOR THE COMING YEAR**

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# INTRODUCTION

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**Prior to the COVID-19 pandemic, the insurance industry was already amid challenging times.** Natural catastrophes, increasing jury awards in liability cases, and medical cost inflation all resulted in premium increases coupled with drastic limits cuts—and that was before the global pandemic threw the market into more upheaval. Although the market has since stabilized to an extent over the last year, factors such as the current inflationary period, the war in Ukraine, and ongoing supply chain disruptions have created more economic uncertainty that has, in turn, impacted premiums.

Each year, our *P&C Looking Ahead Guide* provides clients with expert-sourced guidance regarding expectations for the upcoming year, along with forecasting premiums and offering actionable steps to mitigate risk for buyers. Our property, casualty, and middle-markets experts discuss the factors they expect to shape trends in 2023.

In our 2022 *Guide*, we accurately predicted that insurance premiums for commercial lines buyers would marginally stabilize as new insurers entered the market and aggressively quoted businesses to gain market share. When looking ahead to 2023, we expect a mixed bag with property premiums on the increase again and casualty lines also increasing, albeit at a slower rate than we've witnessed in previous years.

As you'll read in this *Guide*, certain industries are expected to fare better than others—the medical malpractice market is likely to see increased premiums due to more liability claims, while the tech sector's P&C market is expected to remain favorable, for instance. Such complexities are precisely why it is advantageous to have a knowledgeable and dependable insurance broker to help you maneuver through the evolving risks found in all types of insurance markets.

Above all, we help our clients navigate and mitigate the intricacies of both existing and emerging risks and deliver innovative, personalized solutions in insurance program design—all of which help you to achieve your growth goals.

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## US INSURANCE MARKET UPDATE

# COMMERCIAL LINES FORECAST FOR 2023

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**Insurance premiums for commercial lines buyers marginally stabilized in 2022.** Stabilization in 2022 meant premiums were still increasing in most commercial lines segments, albeit at a slower rate than in previous years, and this is in line with our prediction in the *2022 P&C Looking Ahead Guide*. Our forecasted premium stabilization was based on the belief that the new insurers that entered the market in 2021 would ramp up throughout the year and begin to aggressively quote business to gain market share.

New insurers are indeed quoting business, and premiums are **increasing at a slower rate**. However, in most segments of the commercial lines market, they are **not yet decreasing**.

Surprisingly, we have not yet seen a general pivot to decreasing premiums. We believe this is due to a unique combination of macroeconomic and industry-specific factors.

## Our View of 2023: Expect Varying Premium Increases Depending on Product and Industry

For most commercial lines segments, we believe 2023 will look very similar to 2022: Buyers should expect premiums to continue to increase, albeit at a slower rate. The exception to this is standalone property, where we expect premiums to increase at a faster rate than in 2022 based on the impact of Hurricane Ian. The Q2 2022 CIAB survey reported that the average premium increase across the major P&C segments was 6.1% for the quarter, which is up from 5.7% in the previous quarter.

The increase from Q1 2022 is not completely surprising, given the events of Q2. Inflation accelerated, exacerbated by the Russian invasion of Ukraine and pervasive supply chain disruptions due to the ongoing impact of COVID-19, particularly in Southeast Asia. The unique situation impacting our view of 2023 is this combination of inflation and healthy balance sheets at most commercial lines insurers. The increased premiums of the last several years have resulted in lowered combined ratios at almost every commercial insurer.

## Average Premium Changes, 1999 to Q2 2022

*Source: The Council of Insurance Agents & Brokers*

This improved profitability has led to increased surplus, which is the amount by which an insurer's assets exceed its liabilities. It's the buffer that ensures an insurer can deliver on its promise to pay claims. At the end of 2021, the surplus in the US P&C industry rose above $1 trillion for the first time, according to ALIRT Insurance Research. Growing surplus is great for insurance buyers, but for publicly traded insurers—which most large commercial insurers are—a high surplus makes it more difficult to deliver higher returns to their shareholders.

**The combined ratio is a measure of profitability because it is the sum of underwriting losses and expenses. For example, a 92% combined ratio means that for every $1 an insurer takes in as the premium, it pays out 92 cents in underwriting losses and expenses. The lower the combined ratio, the better.**

ALIRT Insurance Research has been commenting on this issue for the past year, and it believes these historically high levels of surplus are a contributing factor in the current premium environment. If the surplus keeps increasing, premiums need to continue to increase to deliver adequate shareholder returns. It is a plausible theory because it may explain why the increased competition from new market entrants has not forced premiums down, especially when the macroeconomic factor of inflation is added in. Among other factors, the current inflationary period is driven by a war that seems like it will go on for some time and persistent supply chain disruptions. This kind of economic uncertainty does not make insurers comfortable in attempting to capture market share with aggressive pricing.

## Economic and Social Inflation Keep Costs Up

Two lines particularly impacted by inflation are auto and property because parts, materials, and labor increases keep loss costs higher for insurers. The Q2 CIAB survey showed property premiums slightly lower from the previous quarter, but the decrease is minimal. This is likely due to relatively low catastrophic losses in the last half of 2021 and Q1 2022. This all changed with Hurricane Ian. We discuss the impact in greater detail in the Property section of this *Guide*.

Premium Change for Commercial Property, Q1 2013 to Q2 2022

*Source: The Council of Insurance Agents & Brokers*

Premiums in the casualty market are not decreasing, and many believe this is due to inflation of a different nature—specifically, social inflation. Social inflation is a topic in almost every commercial insurer's quarterly conference call and refers to things like increasing jury awards, litigation funding trends, and medical cost inflation. Insurers continue to point to their concern over a backlog of cases in the court system due to COVID-19 shutdowns.

Workers' compensation is a bright spot in the casualty segment for insurance buyers because premiums continue to decrease. We discuss this in more detail in the Casualty segment of this document. The other bright spot is the directors & officers liability market, particularly for established public companies. Premiums in this space fell quickly throughout 2022. Our *2023 D&O Looking Ahead Guide* provides a detailed forecast for this segment.

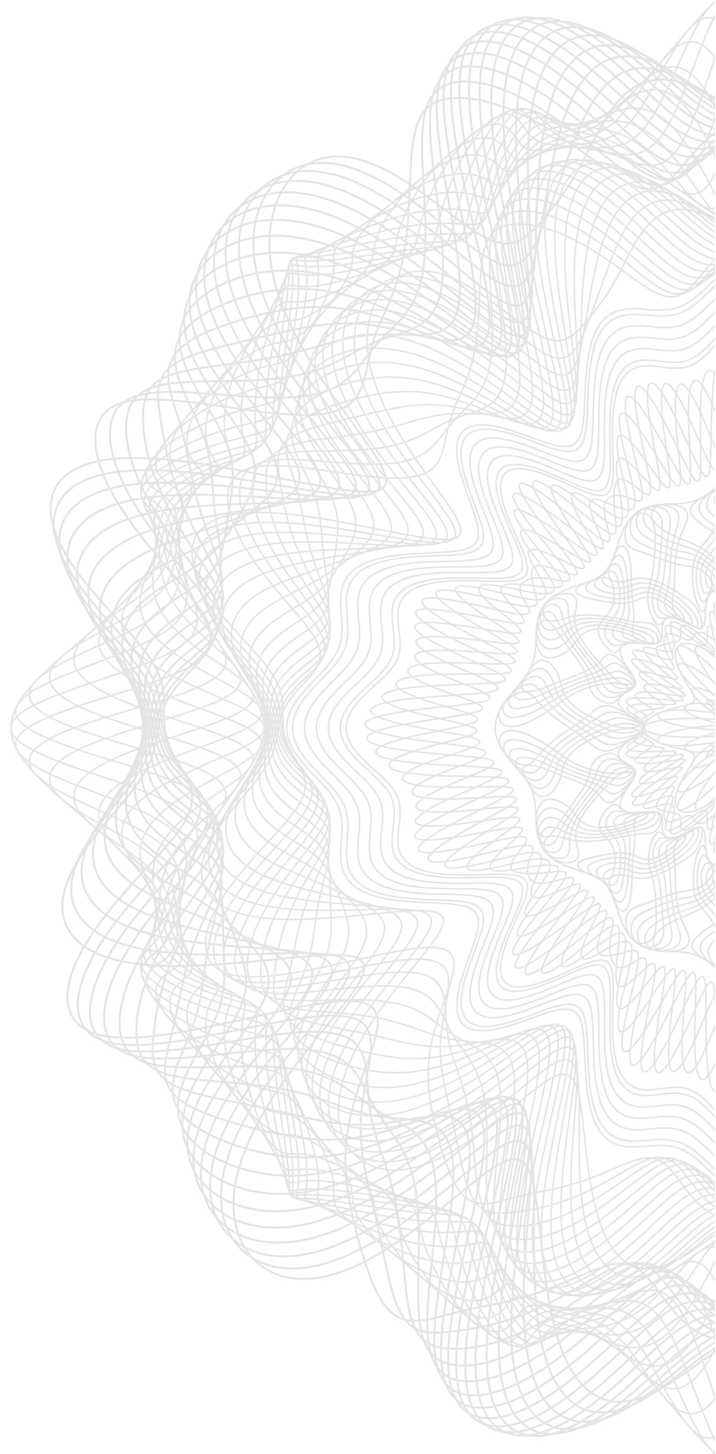
Cyber has been another source of pain for commercial lines buyers in the last few years as ransomware attacks have led insurers to cut limits, increase premiums dramatically, and limit coverage. There is evidence that the network security scrutiny and requirements demanded by insurers are leading to a slower pace of ransomware losses. Be on the lookout for our *2023 Cyber Looking Ahead Guide*, available in January 2023.

## Understand the Market and Your Options

Insurance premium cycles are inconsistent, and our goal with our annual *Looking Ahead Guides* is to give our clients some guidance about what to expect in the coming year. With our knowledgeable team and proven expertise, Woodruff Sawyer helps our clients understand different program options and determine the right amount of insurance to purchase. We leverage our strong insurer relationships to build programs with superior coverage and competitive pricing.

**Regardless of whether rates are rising or falling, there are certain best practices insurance buyers can follow to improve renewal results:**

- Start early and establish relationships with your underwriters.
- Work with your broker to gather detailed information about your risk. This will help differentiate you in the market.
- Address loss control recommendations and discuss these efforts with your underwriters. Proactive loss control demonstrates to underwriters a commitment to risk mitigation.



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## PROPERTY UPDATE

# CHALLENGES LIE AHEAD

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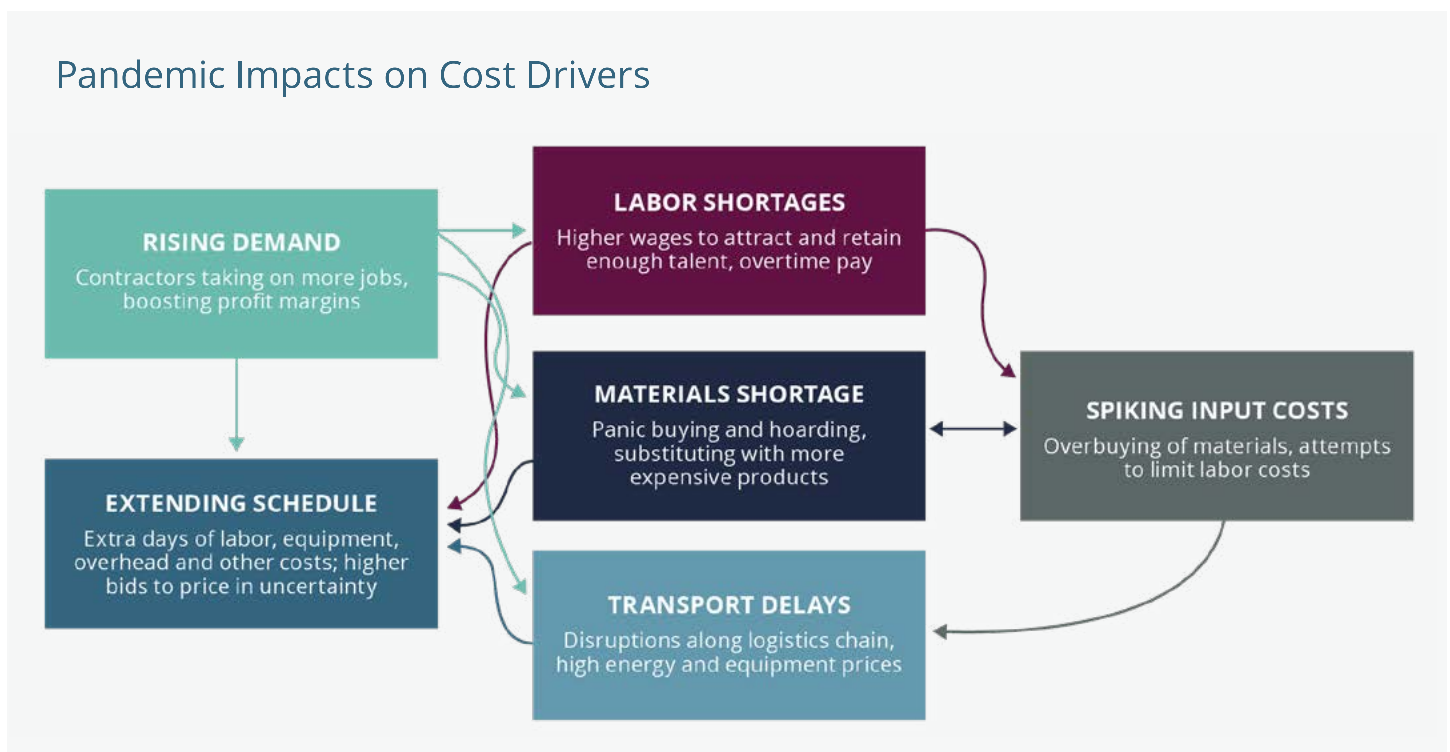
**We anticipate a continued hardening of the commercial property insurance market in 2023, largely due to inflation, supply chain constraints, secondary-peril losses, and a challenging reinsurance environment.** Before Hurricane Ian, there was slight enthusiasm that commercial property rates would stabilize, and in some cases, insureds would obtain rate reductions. That enthusiasm quickly dissipated after Hurricane Ian devastated Florida.

## Inflation Raises Property Repair and Replacement Costs

In 2022, the pandemic caused significant supply chain issues: increased demand, reduced supply, and transportation challenges. The result was a significant increase in the cost of building materials and a shortage of supply. The impacts of COVID-19 began to ease, and for a while, we anticipated a more balanced property market. Then the war in Ukraine began, inflation began to rise, and supply chain issues persisted, all of which kept the cost of goods high while companies struggled to retain staff.

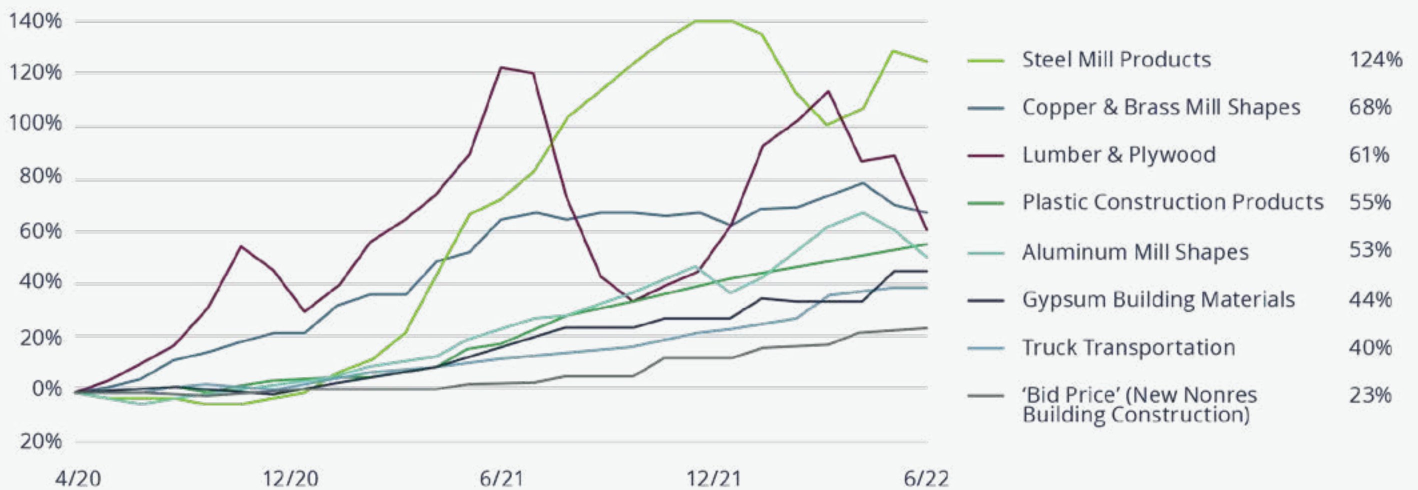
The result is a perfect storm of interconnected factors that put pressure on costs, according to CBRE Strategic Investment Consulting. The chart here illustrates the interconnected set of challenges impacting the industry, how each challenge affects certain costs, and how those impacts indirectly drive up costs for other factors.




**Source: CBRE Strategic Investment Consulting*

## Producer Price Index (PPI) for Construction Bid Prices and Select Inputs

Cumulative Change in PPIs, April 2020 – June 2022 (not seasonally adjusted)




*Source: Associated General Contractors of America from Bureau of Labor Statistics data*

Inflation will continue to be a key factor in 2023 and will directly impact carriers' ability to offer capacity and pay claims. Estimates show that rising prices contributed to an approximately $30 billion increase in loss costs—the amount an insurer must pay to cover claims—in 2021, over and above historical loss trends.

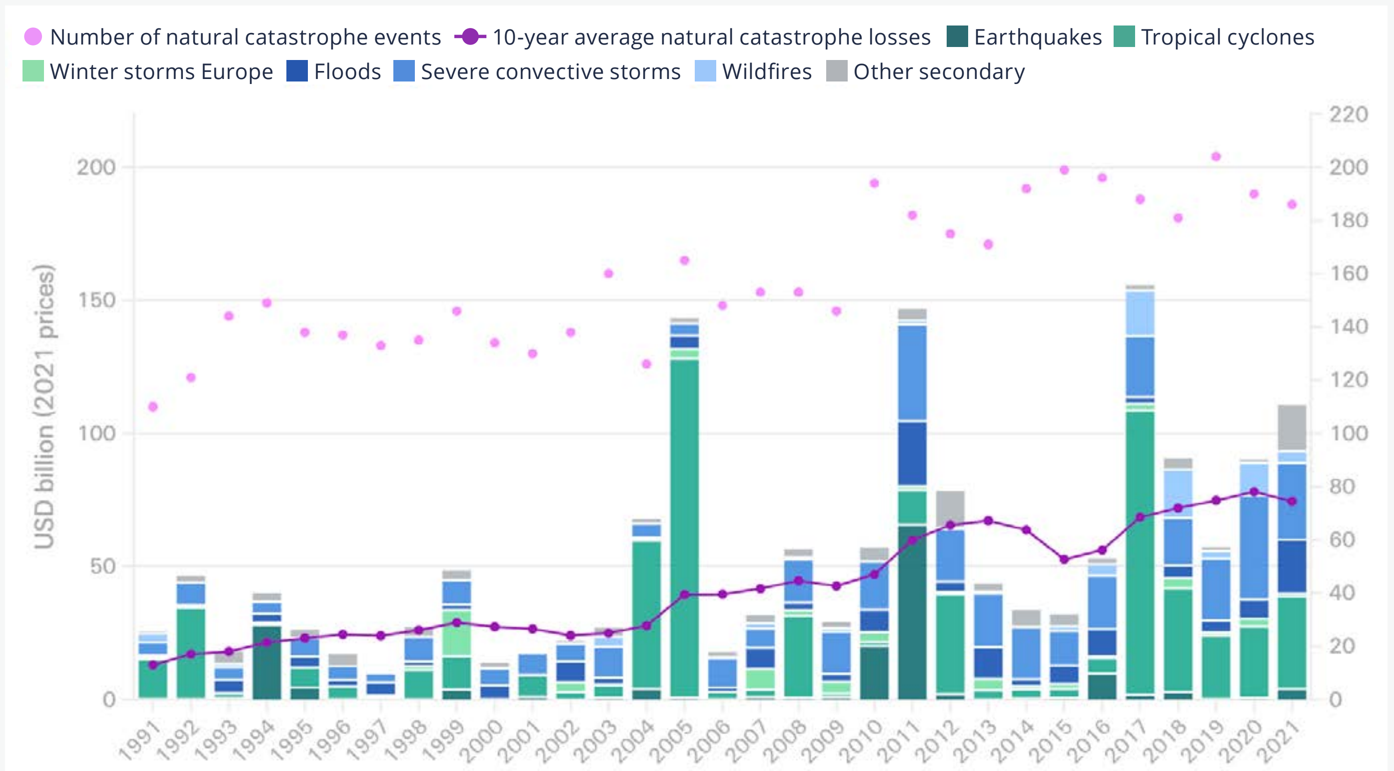
There has been some reduction and stabilization in the cost of goods, and we can only hope that continues into 2023.

## Not-So-Secondary Perils

Secondary perils used to be considered high-frequency, low-severity events, such as wildfires, floods, tornados, or hail. Oftentimes, these events were not modeled to the same extent as natural catastrophe perils, such as earthquakes or hurricanes. However, it's now difficult to call these perils "secondary." The rise in insured losses maintained a long-term trend (based on 10-year moving averages) of 5–7% growth annually. Once again, secondary perils, including floods, were at the forefront, accounting for more than 70% of all insured losses. It was the first year ever that two separate secondary peril events—winter storm Uri in the US and the flood in western/central Europe in July—each caused losses of more than $10 billion.

## Insured Losses Grew 5-7% Annually, Continuing a Long-Term Trend

Global Insured Natural Catastrophe Losses by Peril




*Source: Swiss Re Institute*

*Note: Primary perils: earthquake, tropical cyclone, winter storm Europe | Secondary perils: flood, sever convective storm, wildfire*

Carriers continue to develop their understanding and rating methodology of these events, which will continue to be a focus in 2023.

## Hurricane Ian's Impact on Reinsurance Will Trickle Into the Commercial Property Insurance Market

Underwriting profitability has been elusive to many property insurance carriers over the past few years. In 2022, this appeared to be changing, with many carriers reporting strong underwriting results in the first half of the year. These results were primarily due to below-average natural catastrophe losses in the first half of 2022. At the time, carrier results looked favorable and, while reinsurers were cautioning increased rates and restricted capacity, the magnitude of rate increases was slowing. Unfortunately, the second half of 2022 has brought earthquakes in Taiwan and Mexico, severe flooding in Alaska and Canada, and the devasting impact of Hurricane Ian in Puerto Rico and Florida.

RMS, a Moody's Analytics company and world-leading risk modeling and solutions company, estimates total private market insured losses from Hurricane Ian to be between $53 billion and $74 billion, with the best estimate of $67 billion.

Hurricane Ian made landfall in Florida on Sept. 28, 2022, as a Category 4 hurricane, tied for the fifth strongest hurricane to make landfall in the US. Prior to Hurricane Ian, reinsurers were suggesting rate increases of 15–20% on well-managed portfolios. After Hurricane Ian, the focus has shifted from rate increases to concerns around capacity.

While the headline increases being talked about are eye-catching, **reinsurers and brokers alike** are now characterizing this as a situation where price is largely irrelevant, with the main issue being whether buyers will be able to secure the capacity they need at all—a sure sign of a transition to a hard market.

While Hurricane Ian will have a significant impact on insureds with exposures in Florida, there will also be a trickle effect from reinsurance pricing on property carriers' commercial insurance portfolios. The increase in reinsurance costs will indirectly affect the commercial property market, with insureds bearing some of the increased costs.

## With Challenges Ahead, How Do We Prepare?

Over the past three years, many property carriers adjusted their portfolios, reduced line sizes, altered terms and conditions, and sought to achieve what they viewed to be rate adequacy. These actions translated to more stability on accounts. Stability and familiarity of a client's property portfolio should result in more consistent renewals.

Insureds that continue to improve their risk quality, demonstrate adequate values, focus on business continuity, and experience low loss activity will continue to see favorable results. High-risk occupancies with loss-impacted portfolios will experience much more challenging renewals.

### Rate Change Projections for 2023

| | |
|---|---|
| Non-CAT, Risk Improvement, Favorable Loss History | 0%–5% |
| Heavy-CAT, Risk Improvement, Favorable Loss History | 5%–10% |
| Non-CAT, Minimal Risk Improvement, Unfavorable Loss History | 15%+ |
| Heavy-CAT, Minimal Risk Improvement, Unfavorable Loss History | 30%+ |

There will be outliers—both above and below the averages—due to factors such as occupancy, risk quality, or loss experience.

Simplistically, property premium is derived from this calculation:

**(Rate × Total Insured Value) ÷ 100**

All else equal, property premiums are rising following inflation. These rising costs are two-fold: Inflation is driving premiums up and creating demand for higher policy and natural catastrophe limits. Not only will many insureds see higher rates but there may also be a need for additional insurance.

We must separate risk from total insured value. An increase in value doesn't mean a higher loss expectancy. For example, if risk improvements have been made, such as the addition of sprinklers, the loss expectancy of that location decreases, and there should be a corresponding premium decrease. Demonstrated risk improvement will lead to more favorable results.

This will be the year of options. In 2023, there will be a significant focus on retaining and ceding risk, with alternative options such as parametric insurance needing to be explored. Carriers will continue to monitor adequate values, and there will be a heightened focus on business income and business continuity. Risk management is pivotal, and insureds and brokers will need to strategically determine how to best internally allocate or externally rent capital.

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## CASUALTY UPDATE

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**The casualty insurance market remains challenging for corporate insurance managers.** For liability coverage, the trends we highlighted in last year's *Guide* have only intensified.

**Heightened litigation, third-party investment in lawsuits, and increased liability verdicts and settlements continue to strain insurer competition and increase rates at a steady clip.**

The market for workers' compensation (WC) also carries on the trend that started in 2022: continued best-in-industry underwriting results despite recent rate reductions. Wage inflation and increasing interest rates (and the resulting investment income) will continue to make WC hugely appealing to insurers and stimulate competition to the benefit of policyholders.

In this *Guide*, we provide advice on how to capitalize on the positive WC dynamic while mitigating the liability challenges. Our recommendations focus on strategically aligning insurer relationships and carefully utilizing retentions and limits to achieve the most cost-efficient programs. We also provide an update on best risk control practices for two critical challenges in today's risk environment: fleet safety and worker safety in a high-turnover employment environment.

## Workers' Compensation: Competition Drives Down Rates

Workers' compensation remains the best performing casualty line of insurance and is increasingly important to organizations' overall insurance program structures, as many risk managers continue to leverage their WC programs to generate insurer competition on tougher lines of insurance. While some uncertainty remains regarding the potential latent emergence of COVID-19 claims, the pandemic barely impacted insurers' underwriting results.

Underwriting results for WC remain strong. The combined ratio for private WC insurers was 87% in 2021, the fifth straight year with a combined ratio below 90%, according to the National Council on Compensation Insurers (NCCI). In contrast, the overall US P&C industry posted a 99% ratio in 2021.

**87%** combined ratio in 2021 for private WC Insurers

**The fifth straight year with a combined ratio below 90%**

Insurers cut rates by 1.2% on average in the second quarter of 2022 in response to the profitable underwriting results, according to the Council of Insurance Agents and Brokers Q2 2022 Rate Survey. We expect continued underwriting profit and insurer competition in the coming year. Huge wage inflation, as high as 15% for certain industries, continues to drive up premiums. The rise in interest rates over 2022 also translates to materially higher investment income. Meanwhile, the frequency and severity of claims involving lost time remain essentially stable, per NCCI.

One area of concern for employers is the huge increase in employee turnover since 2020. Employees quit positions 50 million times during 2021, about 25% higher than pre-pandemic levels, according to NCCI. The increased turnover translates to a higher ratio of short-tenured workers, who are twice as likely to experience workplace injuries as experienced workers. It is critical that employers implement proactive and strategic safety training and claims investigation processes to minimize the risk of newly hired worker injuries.

**New Strategies in Transitional Return-To-Work in Workers' Compensation Claims >>**

Get an overview of traditional RTW programs, as well as new strategies that consider pandemic changes and improved technology.

### Rate Forecast for 2023

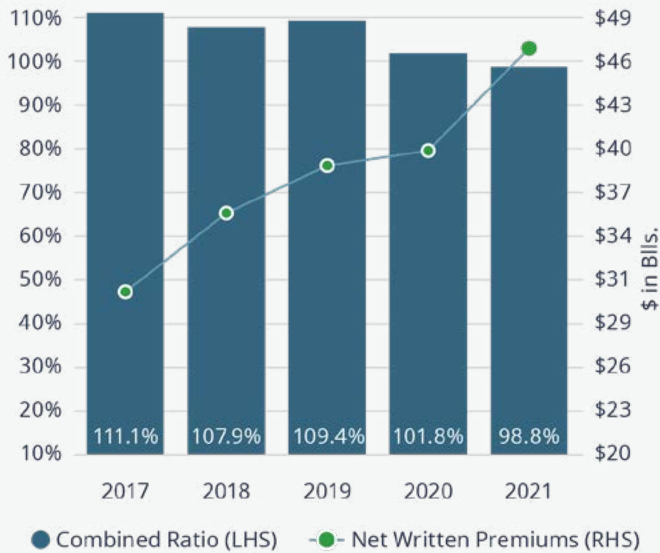
The combined factors of stable loss costs, growing wages, and high interest rates will create continued competition among WC insurers and drive down rates. Risk managers will continue to be able to both negotiate favorable WC rates and leverage the WC program to drive insurer competition for tougher lines of coverage—namely general/products liability, commercial auto, and umbrella liability. We anticipate rate movement of -4% to +1%.

## Commercial Auto: Expect Modest Rate Increases

Commercial auto coverage continues to vex insurers. Insurers have passed along auto rate increases for 44 consecutive quarters but have failed to meaningfully improve underwriting performance until 2020, when the pandemic reduced miles driven by businesses.

## Commercial Auto Insurance Combined Ratio Improvement

CR Decline Tied to Lower Pandemic Claims, Higher Pricing, Re-Underwriting




*Source: Fitch*

The key challenges for commercial auto remain the same as in the preceding years: increased cost of vehicle repairs, more aggressive litigation, and greater frequency of distracted-driving accidents. Price increases and higher deductibles have improved underwriting results, but not to the point that competition will yield price reductions. Insurers will still seek rate increases to keep up with the loss cost trend while maintaining discipline in selecting auto risks.

### Rate Forecast for 2023

We anticipate modestly lower rate increases of +5% to +8%.

**Key challenges affecting commercial auto are the increased cost of vehicle repairs, more aggressive litigation, and a greater frequency of distracted-driving accidents.**

## Commercial General Liability: More Frequent Large Claims

Rate pressure is diminishing but is still present for general and products liability (which covers a policyholder's liability for bodily injury or property damage arising out of their premises, operations, or products, or for liability related to personal and advertising injury).

An increased frequency of large claims continues to stress primary GL underwriters, though the need for significant premium increases is less likely, given the typical 6% to 10% rate increases charged in prior years. Per CIAB, rates rose 4.3% on average in the first half of 2021, though increases were steeper for businesses in high-hazard

industries: manufacturers of tough products (e.g., kids' goods, auto or medical parts, and chemicals), habitational real estate owners and operators, sharing economy firms (on-demand delivery services and home sharing), and companies with material wildfire exposure (utilities and forestry concerns).

### Rate Forecast for 2023

We anticipate rate movement of +2% to +7%.

## Umbrella and Excess Liability: A Difficult Environment

The excess casualty market remains a difficult environment, with challenging large loss trends stressing umbrella liability pricing while insurer competition for higher layers of liability coverage provides some rate relief.

### Social Inflation Drives Large Liability Claims

We have warned corporate risk managers of the dangers of social inflation in this *Guide* for three straight years and continue to highlight the acceleration of large settlements and jury verdicts.

**Social inflation refers to the phenomenon of increasing claims costs due to changing societal factors, such as legal advertising, litigation financing, the appeal of class action lawsuits, public anger over wealth disparity, and growing distrust of corporations.**

We expect this dynamic to continue to drive up the frequency and severity of large liability claims. A Woodruff Sawyer analysis of Advisen's large auto liability claims data illustrates the impact of social inflation. The number of auto liability claims with settlement and judgment value of $15 million or greater grew more than four-fold from 16 for the 2008–2011 window to 71 from 2016–2019.

**Managing the Impact of Rising Auto Liability Claims Volatility >>**

Learn more about the rise in large auto liability claims and how to design a strategic insurance program despite the tough auto liability outlook.

Insurers have focused on the trend of increasing frequency of severity for several years as the justification for significant rate increases up entire casualty towers. For lead umbrella layers, insurers will continue to seek rate increases to catch up with the rising large loss totals. Lead umbrellas are the most dangerous coverage for casualty insurers, as they typically involve larger layers of insurance ($5 million to $15 million) and are at a steadily increasing risk of catastrophic, full-layer losses.

Underwriters in the past few years have sought to mitigate this risk by both increasing prices and requiring higher attachment points (achieved either via greater use of self-insurance or the expansion of primary liability limits). For large organizations, attachment points are now adequate, but rate pressure remains as the universe of insurers willing to sit in the lead layer remains small.

While umbrellas remain challenging, higher excess layers have seen huge rate and capacity relief over the past year as even more new insurers emerged to offer excess coverage. Insurers generally view high excess pricing for large risks as adequate and are competing vigorously for both large and middle market risks.

### How to Counter Rate Increases

Companies' best strategic countermoves to umbrella insurers seeking rate increases include:

- Stoke competition by increasing self-insurance, either in the primary layers to bump up umbrella attachments or via self-insured retentions or corridor retentions below the first full risk transfer in the tower.
- Leverage the primary casualty, namely the workers' compensation, to push insurers to provide lead umbrella capacity at pricing below what is achievable as a standalone product.
- Break larger lead umbrellas into shorter layers (for example, break a $15 million layer into a $5 million lead with a $10 million first excess layer) as a way to get insurers more comfortable sitting in the lead position and to generate more competition.

### Rate Forecast for 2023

For large companies (revenues of $1 billion+), we anticipate rates of +6% to +15%. For small commercial and middle-market firms (less than $1 billion), we anticipate rates of +4% to +10%.

## Managing The Impact of Employee Turnover on Workers' Compensation

The twin forces of fast-increasing wages and mass quitting have created a hugely challenging environment for employers. The result of that change is that many employers currently have a larger number of new hires in their workforce than in past years. This, combined with the increased tendency for new hires to become injured in the first year of employment, has led some employers to start asking questions about their own loss trends and looking at their new hire orientation process to try to prevent that trend. Two large insurer studies were completed in the last year, and both pegged new-hire injury rates at between 35% and 38% of WC injuries across industries. In one study completed by Travelers Insurance, restaurants (53%) and construction (48%) showed two of the highest new-hire claim percentages.

**Newly hired employees account for 35%–38% of WC injuries across industries.**

While much of the data examined was pre-pandemic, if we assume that a similar percentage of new hires will be injured and accept that most employers have more new hires than normal, the potential problem becomes somewhat obvious. It is no secret that the pandemic and other factors have combined to create a job market that, to put it mildly, has seen a good bit of change in the last couple of years.

### Reduced Training and Deferred Machine Maintenance Can Drive Injuries

When a manager, director, or supervisor role is empty or filled by a new employee, the employees under that supervisor or manager may not get the training and attention needed to both prevent injuries and help them feel connected to the company. The same goes for "eyes on supervision," which includes ensuring the employee is working safely and that positions are filled to a level that prevents overworking one or more employees.

**Factors that can drive injuries in the workplace**

1. Supervisor turnover
2. Lack of supervision for new employees
3. Deferred maintenance

Additionally, maintenance has been deferred or done differently for some manufacturers and processors because of turnover and new employees in maintenance and engineering positions. A combination of these factors can create perfect storms where a new employee is working on a machine that has not been properly adjusted or repaired, without direct supervision, while being overworked and not feeling connected to the employer. Amputations and other high-severity injuries, although less frequent, can easily occur based on this type of scenario.

## Solutions for Improving Employee Safety

Although not new strategies, some employers are using solutions that can make a large impact on these potential threats to employee safety. They worked pre-pandemic and will work now if the employer can allocate the resources and drive to them.

- Ensure new employee orientation is actually being done. Many employers saw this training fall off secondary to unfilled positions and production pressures. Make sure it is back online and is a priority.
- Make certain the on-the-job/hands-on portion of the new employee orientation is occurring. It is sometimes easier to track electronic training and ensure it is done than to ensure that on-the-job, one-on-one training is complete. Have you assessed this lately? Does it have the same depth and quality it did three years ago? Does it need to be revamped in some way?
- Make sure you are doing all you can to reach out to employees to connect and make them feel that they are valuable to the company. If an employee is injured, send a get-well card, ensure they are getting a call from their supervisor or HR on a weekly basis, and offer return-to-work positions.
- Many employers conduct safety observations for new employees more frequently. This provides an opportunity for one on-one-coaching and connection points with new employees, as well as ensuring that unsafe conditions and behaviors are addressed as early as possible. These programs often start out with daily observations and move to weekly or a regular behavioral observation cadence over time. Be careful with new supervisors and managers. If they have not been trained to do safety observations and don't have the authority and ability to address safety concerns, this may not work well.
- Make sure employees in your workplace do not feel isolated and know how to address problems at an early stage. If employees can't easily reach out to a supervisor and address safety and injury concerns, the first time you hear about the issue may be during a root cause analysis after a WC injury.
- When supervisors or managers turn over, have a plan to increase support for and communication with employees the supervisor managed. Be intentional about this effort to prevent problems that almost always occur alongside vacant supervisor and manager positions.

## Drive Continuous Improvement in Fleet Safety

It has always been a good idea to periodically evaluate your fleet safety program, but it is more important now than ever. With larger liability verdicts being passed down and physical damage repair costs continuing to rise, insurance carriers are spending more time vetting clients' fleet safety controls. One way to make sure you are prepared for their questions and that you are doing what you can to prevent injury and losses is to work through your current fleet safety policy using questions such as the sample questions from our fleet underwriting preparation tool.

Remember that this applies to rented and personal vehicles used for business, as well as company-owned vehicles.

**With larger liability verdicts being passed down and physical damage repair costs continuing to rise, insurance carriers are spending more time vetting clients' fleet safety controls.**

If you have a light fleet, your Woodruff Sawyer account team can give you a copy of our sample light fleet auto policy. If you have a DOT-regulated fleet, speak with your team to identify the best method of auditing that program.

**Fleet Liability: DOT-Regulated, Light, and Non-Owned Fleet Exposures Explained >>**

Read more about the rise in large verdicts, liabilities for light and non-owned fleets, and strategies to mitigate fleet exposure.

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# INDUSTRY INSIGHTS

The risk and insurance environment is, of course, nuanced and can vary by industry. In this section, our experts provide insights on rate trends and market expectations for various industry segments.

HEALTHCARE

# CAPACITY CONSTRAINTS AND PANDEMIC DRIVE RATE INCREASES

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**The medical malpractice market experienced over a decade-long soft market, with declining rates from 2006 to 2017.** Much of this resulted from the industry's investment in improving quality and patient safety, which reduced claim frequency. However, that trend reversed in 2017, and combined ratios began exceeding 100%. This overall hardening trend has continued through today and will likely continue into 2023 as the broader healthcare professional liability market is experiencing the same social inflation and frequency of severity as other liability lines.

## Carrier Exits and Late Filings Contribute to the Hard Market

Some major carriers have exited the market in the past few years, including One Beacon, Swiss Re, and Zurich. At the same time, mergers and acquisitions have been prevalent on both the insurer and provider sides, shrinking the total marketplace in both supply and demand.

Additionally, many of the remaining carriers paused new business underwriting for in-person healthcare providers during the COVID-19 pandemic.

Against this backdrop, the market continues to experience loss incidents, especially in some of the more highly exposed industry segments like long-term care and in venues where legal defense is tougher. Carriers believe insureds are just beginning to file claims from the past few years, as closed courthouses and the "halo effect" surrounding healthcare providers during COVID-19 had resulted in temporarily improved loss trends. Most expect a whipsaw effect as the conditions that have hidden losses recede.

### 2022 Insurance Rate Environment for Healthcare Providers (2022 YTD)

| | |
|---|---|
| Hospital | **+5% to 15%** |
| Allied Health/Facilities | **+5% to 15%** |
| Physicians | **+5% to 15%** |
| Long Term Care | **20% to 50%** |
| MCO | **25% to 50%+** |

## Concerning Pandemic Trends Emerge

In recent months, the pandemic's effect on loss trends is starting to emerge. The quality of care has deteriorated. Providers have ceased elective procedures, and patients have avoided or delayed treatment, resulting in sicker patients with more complex care needs. There are concerning increases in facility-acquired conditions emerging.

We also anticipate continued increases in telehealth claim activity as more care is delivered virtually. Communicable disease and opioid exclusions remain prevalent, and regulatory exclusions are emerging post-Dobbs.

Sexual abuse exclusions or sublimits are prevalent, and there is renewed pressure on tort caps as changes to California's Medical Injury Compensation Reform Act (MICRA) will vastly increase tort caps in pre-set intervals.

## The Bottom Line

Rate pressure remains prevalent across most segments, with variability depending on the risk, venue, loss experience, and other characteristics. Clients should expect restricted market capacity and terms and conditions.

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## LIFE SCIENCES

# PLENTY OF CAPACITY AS THE INDUSTRY EXPANDS

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**Fortunately, the life sciences market continues to be stable, with plenty of capacity.** Insurance markets are interested in writing new business while retaining and expanding their renewal portfolio. The past several years have shown us this will carry well into 2023 as the industry continues to evolve on a global basis, and markets are eager to evolve with their insureds.

## Average Rate Change Q1 2022

Life Science Industry*

| General Liability | Property | Workers' Compensation |
|---|---|---|
| -2% | 3% | -6% |

**Data Source: Woodruff Sawyer life science client renewals*

**Insurance rates in the life sciences industry mirror those in technology, with the main differentiator being product liability. Product liability is subject to the social inflation trends we've discussed in other parts of this *Guide* and will likely be the place where life sciences companies will see premium increases.**

# Combat Market Fatigue

It's important to build a strong relationship with your carrier. Given there is so much insurer capacity, clients going to market each year with little to no movement can develop market fatigue. One suggestion to prevent market fatigue and take advantage of the stable market is to have early conversations with incumbent carriers around securing competitive rates so that you remain out of the marketplace. Staying out of the market can save you time, and you may also be able to secure lower rates.

# What Are Some Challenges Insureds Face?

One is the rising cost to do business due to inflation, and another is supply chain disruptions. Supply chain management has always been an issue for life sciences companies because they both receive materials for manufacturing and ship finished products. Temperature fluctuation leading to spoilage is one of their biggest risks and these issues have been exacerbated during the pandemic due to transportation issues in the supply chain. Spoilage losses can result in increased premiums for stock throughput insurance. These issues and the potential for increased insurance costs have led many companies to focus on building a more resilient supply chain.

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TECHNOLOGY

# TAKE ADVANTAGE OF FAVORABLE MARKET CONDITIONS

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**There's good news for technology companies: Property and casualty market conditions remain much better than in other industries.** In the first quarter of 2022, insurance rates decreased in the general liability and workers' compensation sectors, while the property rate increase was much lower than for all industries.

### Average Rate Change Q1 2022

| | General Liability | Property | Workers' Compensation |
|---|---|---|---|
| Technology Industry* | -2% | 3% | -6% |
| All Industries** | 3.9% | 8.6% | -0.5% |

**Data source: Woodruff Sawyer technology client renewals*
***Data from CIAB Q1 P/C Market Survey*

The main reason for the favorable market conditions is the tech industry is still very profitable for insurers. Most tech companies have very few losses, so insurers can continue to offer them reduced rates relative to other industries.

Given that there are six or seven leading technology insurers that all want to write this profitable business, we see no reason for the competitive rate environment to change. During the latter half of 2022, the competition for business remains as fierce as the first half of the year, and 2023 shouldn't be any different.

## 4 Strategies for Coverage Renewal

Insureds can consider several strategies to take advantage of these favorable conditions.

1. Approach your incumbent carrier early for pre-agreed terms on your renewal. Many insurers are willing to offer a discount if they can keep the account out of the market. Your Woodruff Sawyer broker can help you determine what should be aggressive (but fair) renewal pricing.
2. Ask for multi-year rate agreements, particularly if you are switching insurers.
3. Consider splitting the workers' compensation (WC) from the other P&C lines. WC has been extremely competitively priced lately, and your property/liability insurer may not offer the best WC terms. Another WC strategy is to ask for a dividend plan. Under these arrangements, you get money back if you have very few losses. Some insurers will offer dividends without a tie to loss experience.
4. Consider your cyber insurance partner. Some insurers are willing to leverage cyber capacity and pricing in return for a chance to write the P&C. Depending on the insurers involved, this could provide significant benefits to the overall program costs of cyber and P&C combined.

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## BUILDER'S RISK

# MITIGATING INFLATIONARY PRESSURES

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**As we move into 2023, the economic outlook remains cloudy.** Persistent inflation, the Federal Reserve's attempts to abate it, continued supply chain delays due to COVID-19, and labor shortages all contribute to a sense of uncertainty for owners and developers planning construction projects. Insurance policies, like builder's risk, are not immune to the issues affecting the broader economy and though indirect, the impact may be felt in higher prices, increased deductibles, and reduced coverage terms.

## Higher Contract Prices Increase Premiums

Within the construction industry, material and labor costs are increasing, and supply chain delays mean projects take longer to complete. The cumulative effect is a higher contract price, which in turn increases insurance premiums.

- Outside of wood frame projects, rates are stable, but premiums are increasing due to increased project duration and higher contract values.
- Supply chain delays are also increasing the duration of projects and consequently the premium charged, as wait times for materials or specialty equipment to be installed delay project completion.
- The combination of higher contract values and longer project duration is driving repeated requests for extensions of coverage. This increases the risk of significant loss, given the buildup of values over time.
- In response, insurers can require higher deductibles, increased security at the project site, and/or higher rates, all increasing premiums and the financial consequence of a loss to the policy owner.

## Steps to Take to Reduce Insurance Costs

Policy owners can take the following steps to minimize or manage these real and potential inflationary pressures.

- Order materials or equipment with long lead times well in advance of the project's start.
- Pre-negotiate escalation clauses in the event of contract value increases.
- Scrutinize the project schedule with an emphasis on realistic, rather than optimistic, timelines to avoid the need for multiple extensions.
- Confirm how many extensions the insurer is willing to offer.
- Negotiate deductible commitments to limit increases should project extensions become necessary.

Whether embarking on a small tenant improvement of an existing structure or a large multi-building campus development, involving your insurance broker early when placing a builder's risk policy can help mitigate the inflationary pressures driving premium and deductible increases. The more time your broker has to negotiate terms with builder's risk insurer partners, the more favorable the results and the lower your overall costs.

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## REAL ESTATE

# A MARKET IN TRANSITION

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**Like every asset class, the real estate market is governed by the economics of supply and demand.** In the years leading up to the pandemic, the commercial real estate sector was booming globally, with prices rising an average of 6% per year from 2009 to 2019, according to the International Monetary Fund.

Commercial real estate rebounded strongly after the Great Recession—the economy was performing well, job growth was robust, monetary policy was accommodative, and the real estate industry benefited.

## Winners and Losers from the Pandemic

When the pandemic struck, it created winners and losers within the commercial real estate industry. The winners typically were industrial/ logistics properties (think of all those orders shipped to your house) and data centers (think of the need for processing and disseminating all that data from remote locations). The valuation of those properties or occupancies grew as shipping and data use needs surged. Not surprisingly, valuations decreased significantly for brick-and-mortar retail properties, including large shopping centers, and especially for assets in the hospitality sector.

### Successful Commercial Real Estate Industries through Pandemic

Industrial/Logistics properties

Data centers

As the pandemic eases, the winners and losers will continue to evolve. For example, once out of favor, hospitality assets are booming. In many markets, the office sector is making a comeback as workers gradually return to the office.

## Inflation Yields Mixed Outcomes for Real Estate

A recent and growing factor that may affect every industry is rising inflation. Higher inflation for a short time is generally good for real estate because it is often associated with an increase in total returns to investors—although this depends on the sector. Higher interest rates also limit a real estate developer's ability to borrow to develop, thereby keeping supply lower than that typically seen in a low-interest rate environment.

However, rising costs to finance, operate, and maintain real estate during an inflationary market may end up eroding the net operating income of individual asset classes over time. While higher financing costs will likely continue to slow real estate sales, leasing, and construction activity, there is little evidence that the financial excesses and extraordinary leverage of the real estate crisis of 2008–2009 are present today.

Real estate fundamentals are generally solid, and we believe most sectors will prove resilient even in the face of an economic slowdown and elevated inflationary pressures.

**Higher interest rates will keep real estate supply low, but rising costs to finance, operate, and maintain properties may erode income.**

## Three Changes in the Risk Environment

First, multifamily assets continue to be a less-than-desirable class for insurers, especially if the asset is in a highly litigious state with an active plaintiff's bar. The rise of social inflation and nuclear verdicts has been well documented. With round-the-clock occupancy, little control over resident activities, and limited access to unit interiors, multifamily property owners may struggle to control their exposures to loss.

Pools, playgrounds, balconies, fitness facilities, and other amenities installed to attract tenants may create additional risk that needs to be adequately controlled and monitored. Carriers we work with are carefully evaluating all multifamily assets and, if they offer terms at all, are insisting on higher rates with reduced limit capacity extended.

Second, the risk of mixed-use occupancies is on the rise. Many property owners are investing creatively to attract tenants and consumers. A retail store is now an experience, the office is an environment, and shopping centers contain food fairs, craft breweries, and other attractions. All of these increase the risk for injury and property damage. Insurers are still attracted to this space but want to understand the complete spectrum of exposures and loss potential.

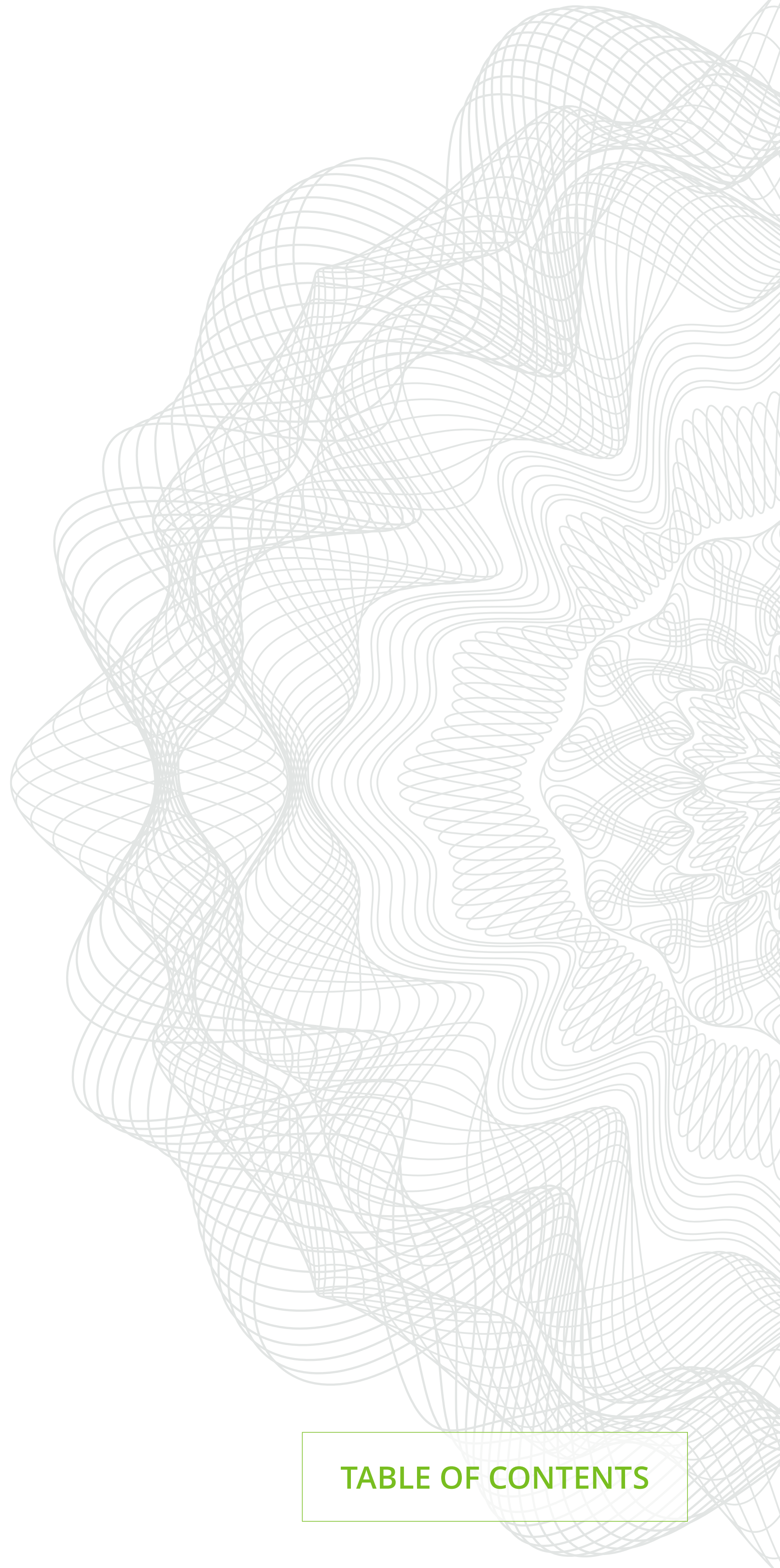
A well-written submission addressing these exposures up front is the key to generating competition in the market for your risk.

**The risk of mixed-use occupancies is rising. Owners seeking insurance need to address the added exposures up front in their submissions.**

Third, the weather is more volatile and unpredictable that it's ever been. Hurricane Ian caused considerable damage to the southwest coast of Florida—tipping the Florida property market into insolvency. Wildfire risks are highly scrutinized, and carriers are managing their portfolio aggregations aggressively to limit losses from a single event. Hailstorms have decimated vast parts of the country over the last two years. Geographic location, occupancy types, and business continuity plans are under the microscope.

# Capacity Expands for a Market in Transition

Carriers we work with prefer generally stable and consistent markets for commercial real estate risks, and this sector remains a profitable class of business for them. The rise of managing general agents (MGAs) and managing general underwriters (MGUs) targeting specific classes of business or geographies are providing much-needed capacity to a market that is in transition. Above all, real estate owners need a broker with the right market access and intellectual capability to craft a compelling narrative about their account. In a difficult insurance market, where underwriters are buried in submissions, you need an effective broker who will make your risk stand out from the crowd.



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