RISK strategies

STATE OF THE MARKET REPORT

2022 MARKET WRAP-UP
2023 INITIAL OUTLOOK

TABLE OF CONTENTS

RATE TABLE (REMAINDER OF 2022 - Q1 2023)

INDUSTRIES	FORECAST
Aviation	+ 5% to 25%
Education - Property	+ 15% to 30%
Education - Employment Practice Liability	+ 10% to 30%
Education - Student Health	+ 8% to 10%
Entertainment - Film / TV	+ 5% to 10%
Entertainment - Broadway / Theatre	+ 5% to 10%
Fine Art	Flat to + 5%
Fine Art - High Risk	+ 10% to 50%
Healthcare - Management Liability	+ 5% to 15%
Healthcare - Managed Care Errors & Omissions	+ 10% to 15%
Healthcare - Physician Medical Malpractice	up to 20%
Healthcare - Excess Liability	+ 10%
Healthcare - Property / Non-CAT	+ 10% to 15%
Healthcare - Auto	+ 5% to 15%
Healthcare - Workers' Compensation	Flat to + 5%
Healthcare - Primary Professional Liability	+ 10% to 20%
Marine - $10M+ Hull Values	- 10% to Flat
Marine - $1-10M Hull Values	+ 5% to 10%
Marine - $100K-$1M Hull Values	+ 10% to 50%

INDUSTRIES	FORECAST
Marine - Marinas & Marine Businesses	+ 5% to 10%
Marine - Yacht Clubs & Sailing Organizations	+ 10 to 15%
Private Equity - Directors & Officers - Private	Primary: Flat to + 5% Excess: - 5% to Flat
Private Equity - Directors & Officers - Public	- 20% to - 40%
Private Equity - Reps & Warranties	Flat
Professional Services - Architects & Engineers	+ 2% to 5%
Professional Services - Law	Flat to + 7.5%
Relocation - Cargo	+ 7% to 10%
Transportation - Auto	+ 15% to 25%
Transportation - Physical Damage	+ 20% to 25%
Transportation - Umbrella	+ 25% to 100%
Waste & Recycling - Transportation - Auto	+ 10% to 40%
Waste & Recycling - Transportation - Excess	+ 10% to 50%
Waste & Recycling - Transportation - Property	+ 10% to 75%

PRODUCT LINES	FORECAST
Casualty - Auto	+ 5% to 10%
Casualty - Workers' Compensation	Flat
Casualty - General Liability	+ 2 to 5%
Casualty - Umbrella	+ 5 to 10%
Cyber	+ 30% to 40%
Employee Benefits - Medical	+ 7% to 9%
Employee Benefits - Non-Specialty Prescription Drugs	+ 6% to 8%
Employee Benefits - Specialty Prescription Drugs	+ 10% to 12%
Employee Benefits - Stop-Loss Premium Leveraged Trend	+ 15% to 20%
Environmental	- 5% to + 5%
Management Liability - Private Company	Primary: Flat to + 5% Excess: - 5% to Flat
Management Liability - Public Company	Primary: Flat to - 20% Excess: - 10% to - 30%
Property - High Quality Risk / No CAT	Flat to + 5%
Property - Average Risk / Some CAT	+ 20% or more
Property - Unfavorable / High Risk	+ 50% or more
Private Client Services - Property	+ 8% to 12%
Private Client Services - Excess Liability	+ 15% to 20%
Private Client Services - Auto	+5% to 12%
Surety	Flat

EXECUTIVE SUMMARY

We are pleased to provide the latest Risk Strategies State of the Market Report. Our industry and product line specialists have collaborated to provide an update on current trends and market conditions for the remainder of 2022 and Q1 2023.

As we've navigated the insurance market this year, we see businesses facing an uncertain economic outlook and unprecedented disruptions. Businesses around the globe are facing new risks, shifting assumptions, and uncertain macroeconomic conditions:

- Economic uncertainty with inflation and rising interest rates driving higher prices and negative impacts to earnings. Some businesses continue to deal with the lingering effects of the pandemic.
- Catastrophic weather events occurring with higher frequency and severity, challenging underwriting models, pricing, and capacity. Hurricane Ian may turn out to be the most expensive storm in Florida's history.
- Social and behavioral shifts including changing workforce expectations, rising claims court and litigation costs, and overall shifts in attitudes.
- Medical costs are continuing to rise influenced by specialty drugs, short-term and long-term disability, behavioral health, and the Supreme Court Dobbs decision.
- War in Ukraine, in addition to being a humanitarian crisis, is having a direct global economic impact to many industries.
- Cyber-attacks and ransomware continue to grow, representing risks to businesses of all sizes and industries.

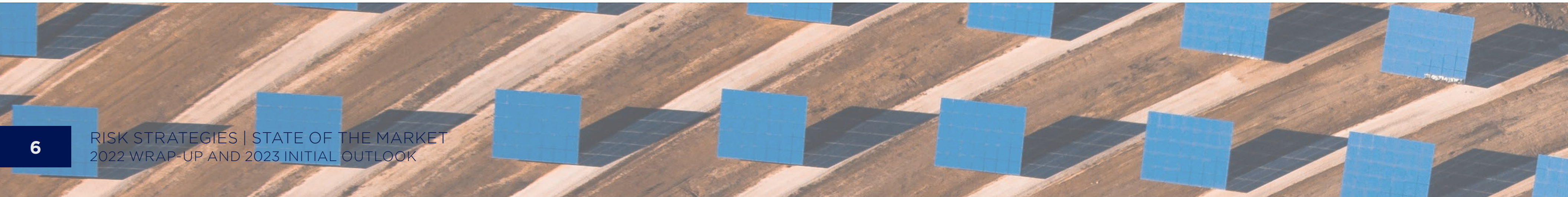
IMPLICATIONS TO CLIENTS

The Rate Table (see pages 4 and 5) provides a snapshot of current and anticipated market pricing for the next two quarters for our clients' businesses. Insurance premiums in the aggregate, are expected to rise as payroll and asset values increase and as insurers reassess their exposures due to inflation.

Businesses saw hard markets throughout the past year, most notably in Cyber, Property, Excess Liability, Directors & Officers, and Auto insurance lines. We are now seeing some evidence of market stabilization in the areas of Workers' Compensation and in the Directors & Officers (D&O) space. For most lines of insurance however, rate increases should be expected.

Businesses with an unfavorable loss history and those in CAT zones will continue to see price increases. Weather and climate change are significantly impacting areas of the country, Florida and California in particular.

> "Now more than ever, clients should get out into the market early since we expect a race to find capacity as 1/1/2023 nears.



Cyber will likely remain challenging in the short term, but we are seeing recent signs of slowing.

RECOMMENDATIONS TO SUCCESSFULLY NAVIGATE MARKET TRENDS

1. Conduct an honest assessment of how much risk you can take as a business. If you're confident with your exposure and your ability to mitigate your risks, that's a good place to start. Too often, clients just renew as expiring and do not account for whether their risk tolerance or their approach to risk mitigation has changed. Given recent inflation rates, it is particularly important to assess the limits you carry, both for property and casualty lines, and to determine whether they are still sufficient. Up to date property values will be especially important this renewal season.

2. A quality submission absolutely matters when vying for the best price and terms. It's a lot of work to put together a good story for underwriters that properly assesses the risk. Glossing over the details only adds uncertainty and that comes with increases in price, reductions in capacity, or both. The highest quality accounts will see the best pricing and coverage terms. Now more than ever, clients should get out into the market early since we expect a race to find capacity as January 1, 2023, nears.

3. Choosing the right broker partner is critical to ensuring you have a quality guide to the marketplace. You will want to partner with your broker to build the best and most accurate picture of your risk. And with that, get it out in the market early; don't run out of time.

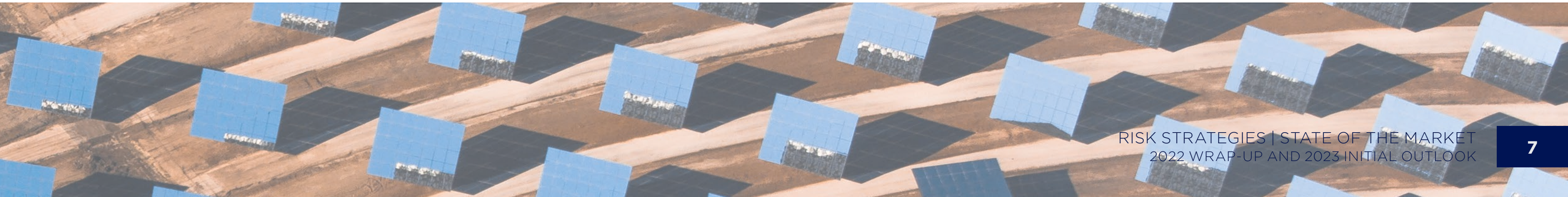
FORWARD OPTIMISM

Despite the economic uncertainty, year to date we have seen job growth, historically low unemployment rates, and strong business earnings in many sectors. Sustained rate increases have attracted some recent new entrants. This creates opportunities for those that have capacity and brokers who can access it.

Businesses will need to plan well ahead and work closely with their broker partners to optimize their risk profile, and potentially explore alternative risk sharing options such as captives as a long-term option in reducing their total cost of risk.

On behalf of the Risk Strategies team, we look forward to guiding you through these unusual times with our comprehensive, specialty expertise.

JOHN MINA, CEO



INDUSTRIES

AVIATION

INDUSTRY UPDATES

Throughout 2022, the aviation insurance market continues to contract and firm. Insurance companies are raising premiums, adding additional training requirements, and reducing coverage and limits at the fastest pace we have seen in the last 20 years.

Key factors affecting aviation insurance include:

- Strict pilot training standards: Underwriters' training guidelines are more stringent than the Federal Aviation Administration (FAA), requiring annual simulator-based training.
- Full Motion Simulator Training Schools: Due to pilot training standards, the demand for training is higher than ever. Schools are operating at maximum capacity and courses are booked. If the pilot is not on a schedule, chances are highly unlikely an opening will become available for another 12 months. This affects pilot currency and underwriter guidelines, so finding fully trained pilots for make and model aircraft has become more challenging.
- Pilot age: Coverage for pilots nearing 70 or older is considered riskier by underwriters, necessitating higher premiums.
- Aircraft age: The underwriting community is concerned about aging aircraft, especially with respect to large claims payments for repair and replacement, leading to higher deductibles. Several markets are no longer quoting new risks with older model aircraft.
- Single-pilot operations: Due to loss ratios, most insurers are no longer offering coverage for Part 135, single-pilot commercial operations. Those that do are offering coverage at average costs two-thirds above dual crew operations.
- Russia-Ukraine conflict: We began to see the effects of the Russia-Ukraine conflict mid-year. War hull rates almost doubled as a result. Aircraft confiscations in light of the conflict will result in multi-billion-dollar claims, which would significantly affect the aviation insurance market long-term.

COVERAGE CONSIDERATIONS

As aviation insurers and reinsurers continue to seek consistent profitable returns, buyers are seeing rate increases on most renewals as we end 2022 and head into 2023.

Liability limits are being reduced due to significant contraction in market capacity, inflation and increased liability claim awards. These coverage limit reductions are being presented by even the strongest insurers with the capacity to support the higher limits. There is a shared desire across the aviation industry to establish higher deductibles for physical damage losses that are being impacted by inflationary pressures and to help make up the shortfall associated with higher liability claims costs.

Turning toward Q1 2023, the U.S. aviation insurance market is relatively stable, and we expect some rate relief in early 2023; however, it is an uneasy stability as we learn more from the fallout of the Russia-Ukraine conflict and its effect on the general aviation market. As we saw in Q1 2022, an average of five percent (+ 5%) increases on renewals should be expected except for those with higher loss ratios and/or challenging risks.

Terry Miller
National Aviation Practice

EDUCATION

INDUSTRY UPDATES

Reduced enrollment and staff layoffs at many institutions put pressure on institutional budgets in 2022. This follows an ongoing trend – nearly 85% of institutions missed their budget targets in 2020 due to reductions in non-tuition revenue streams and increased costs.

Rising inflation is reducing the value of a college degree and impacting the growth of college tuition. Colleges and universities are opposing the year-over-year 8% rise in the consumer price index by slowing the pace at which tuition is rising to 2%. Such discounted tuition rates have made many institutions' financial positions less attractive to insurers.

The national mental health crisis impacts higher education in terms of both student success and staff/faculty performance. Colleges are beginning to think holistically about solutions that support all stakeholders on campus.

Issues of student sexual misconduct on college campuses continue to be of great concern for higher education institutions nationwide as regulatory guidance related to Title IX is likely to shift.

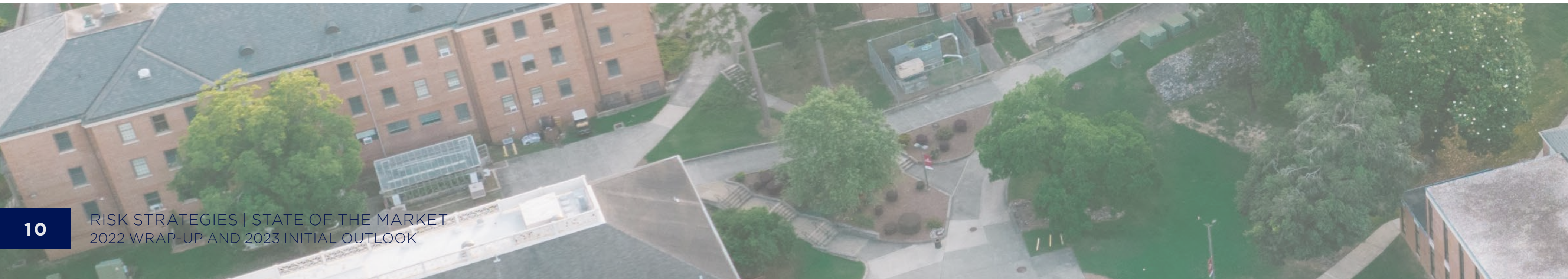
Personally Identifiable Information stored by colleges and universities continues to be a target for cybercriminals. Historically, higher education has been viewed a soft target for cybercrimes. Consequently, carriers now require all buyers to implement multi-factor authentication and endpoint protection and have adopted more rigorous underwriting practices.

COVERAGE CONSIDERATIONS

Capacity within higher education remains a concern. While some coverage lines are realizing a slow return of capacity, others still have limited capacity. Rate increases have slowed; however, as it currently stands underwriting scrutiny remains. Areas subject to catastrophic loss continue to experience rate increases for the limited capacity available.

Coverage for Sexual Abuse and Traumatic Brain Injury remains elusive with high pricing and limited capacity for institutions securing less than $25M.

Cyber insurance rates continue to increase by up to 100% for colleges and universities, especially for those without necessary risk management protocols in place. Incident frequency increased 150% from 2018. Eighty six percent of ransomware attacks involved data exfiltration threats. Average days

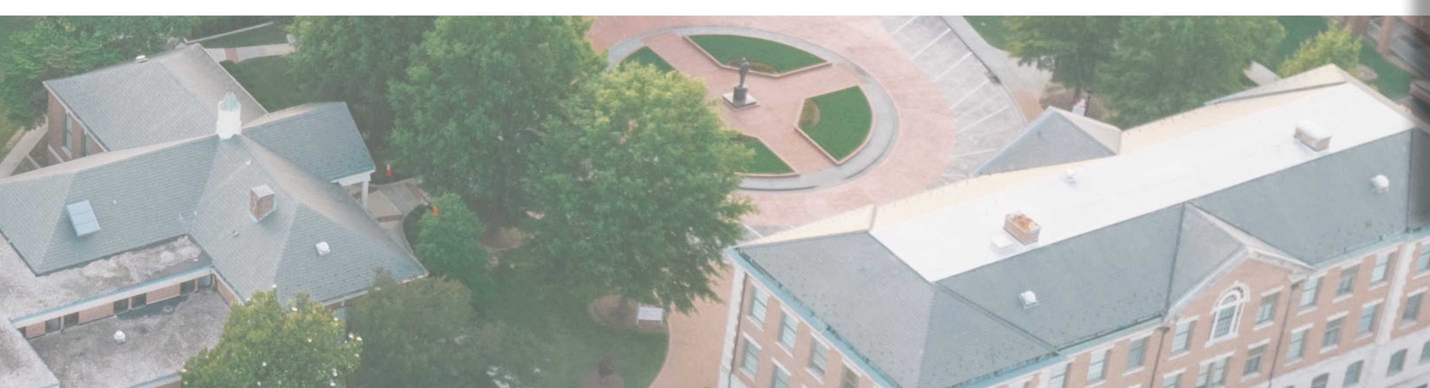


downtime from ransomware was 24 in the second quarter 2022. Limit capacity continues to shrink. Increases in self-insured retentions, co-insurance, and coverage restrictions are expected to continue. Enhanced security protocols are strongly encouraged. Endpoint security and multi-factor authentication are expected key elements for successful placement. Buyers should expect heightened underwriting scrutiny.

Property premiums within the education space have increased by 15% - 30%, driven by the rising costs of building materials, labor, and inflation. Property valuation remains a concern with recent analysis of appraisals showing 68% of buildings valued from 2020 to 2021 were underinsured by 25% or more and 19% were underinsured by 100%.

Underwriters will likely challenge client supplied data and buyers should expect to provide more detailed information than may have been required previously. Carefully review and understand proposed renewal terms, conditions, and provisions. Seek consultation with a trusted broker.

Student health premiums are increasing 8% - 10% due to annual carrier trend factors. The 2022 Risk Strategies Student Health Survey indicated annual costs have risen by 5%, the same as in 2021. One-quarter of institutions surveyed had rate increases higher than 10%.



Terry Lyons
National Education Practice

ENTERTAINMENT

INDUSTRY UPDATES

After two years of significant rate increases due to COVID-19, conditions within the entertainment insurance market are returning to pre-pandemic standards, and we are now seeing a flattening of the rate curve. Production operations have rebounded with continued safety protocols. Insurers have seen an increase in profitability in the past 12 to 18 months and underwriting rigidity has relaxed somewhat as a result.

Underwriters appear to be more willing to consider complex risks, leading to more flexibility in their terms.

There is also a continued shift towards new digital (Metaverse, NFTs, social media channels such as Tik Tok, influencers, and more). These evolving risks must be addressed by the industry to keep up with changing behaviors.

COVERAGE CONSIDERATIONS

The entertainment space is continuing to recover from heavy pandemic-related losses. Despite increased underwriting profitability, there is concern from the marketplace around inflation, social inflation, a recession, continued interest rate hikes, and other geopolitical factors which may impact the market in the coming year.

While we expect to see continued exclusions for pandemic risks and rates to hold firm, this may be dependent on the economic and geopolitical landscape. Pandemic risks aside, we anticipate challenging coverage offerings to include sexual abuse/molestation, cyber liability, as well as a renewed focus on climate-driven perils including not only traditional risks such as wind, hail, hurricanes, and tornadoes, but secondary CAT perils including wildfire and flood.

Although the limited number of carriers writing in this space is still concerning, we will likely see new entrants and a good deal of talent movement in 2023, which should further increase capacity. We are also seeing an uptick in M&A activity as well as strategic employee movement amongst both carriers, MGA's, and brokers which could impact the overall market.

John Hamby
National Entertainment Practice

FINE ART

INDUSTRY UPDATES

Pandemic-related supply chain issues and labor shortages are still affecting the fine art space. Shipping delays, questionable handling issues, and rising fuel costs are top of mind for underwriters who are seeking more advanced planning and information than ever before.

Due to major geopolitical shifts, some international clients are contemplating Political Violence coverage, although capacity is beginning to tighten. Lenders in volatile locations are considering potential conflicts and additional coverages before releasing artworks.

The NFT space is settling down following massive thefts. Storage of NFTs with a vetted repository is now being prioritized.

Major museums have re-examined their broker relationships in order to ensure adequate broker representation and access to creative problem-solving.

As the art market continues to grow and prices increase, there is more pressure on collectors to obtain updated appraisals, especially where collectors desire more generous valuation clauses.

COVERAGE CONSIDERATIONS

The fine art market rates have leveled off. However, in CAT-prone areas experiencing extreme weather events, we see price increases in the 10% - 50% range, deductibles are increasing, and some coverage is not being renewed. Private collectors experiencing non-renewals from homeowners' insurance carriers are working with brokers to find fine art specialty insurance elsewhere.

Underwriters are more stringent, seeking specific exposure information relative to "extra" coverages such as conservation coverage and event cancellation insurance. Insurers are charging more for coverages that had once been considered add-ons and may only contemplate these coverages for larger risks.

Auctions in Q4 2022 will likely create a rise in sales and price increases. Art investment vehicles will thrive as people capitalize on the financial growth.

Reinsurance negotiations and premium pricing for Q1 2023 may yield industry-wide increases. CAT risks will continue to see rate increases in 2023.

Mary Pontillo
National Fine Art Practice

HEALTHCARE

INDUSTRY UPDATES

Since the beginning of 2022, the healthcare industry has continued to rebound from the pandemic. COVID-19 is more manageable for healthcare organizations and services that were put on hold have returned.

However, continued staffing shortages have slowed growth, preventing healthcare systems from returning to pre-pandemic capacity. To retain staff, healthcare organizations are increasing salaries and improving benefits while also hiring temporary staff. These rising costs are affecting organizations' budgets. Additionally, the increased prevalence of alternative payment models means healthcare organizations are faced with unprecedented pressure to control costs and improve quality despite the other financial challenges they are facing.

The professional liability market continues to see increased severity. Nuclear verdicts in jurisdictions historically viewed as more favorable venues are of concern and are being closely monitored by insurers.

COVERAGE CONSIDERATIONS

Overall, the hard market is beginning to improve. The following key issues are impacting coverage within healthcare:

- Professional liability rate increases for hospitals and other healthcare institutions are beginning to taper off. However, the increased severity of professional liability claims have led carriers to continue to limit excess capacity to a maximum of $10M.
- The Supreme Court Dobbs decision has caused issues within the medical malpractice market. Many doctors are concerned about their liability exposure but also fear breaking the law. Carriers will not offer coverage for illegal activities. Physicians are seeking quotes for excess coverage more than ever before. Physicians and brokers must monitor shifting guidelines closely.
- Supply chain disruptions and inflation have increased the cost of materials and property values overall. To renew property insurance, most insurers are requiring evaluations and increases of property values. It is unclear how the recent hurricane activity will impact the property market as carriers negotiate reinsurance contracts at year-end.
- Increased cyber claim activity has impacted the healthcare industry and resulted in continued premium increases, increased retentions, and coverage restrictions. Cyber-attacks and coverage will continue to be a major concern.

Workers' compensation premiums may be affected as healthcare systems increase salaries to retain employees. With the exception of physician medical malpractice and potentially property, rate increases will continue to taper off in Q1 2023 for healthcare coverages.

In the new year, healthcare organizations are expected to continue to evaluate alternative risk financing mechanisms such as captives.

Bob Dubraski
National Healthcare Practice

MARINE

INDUSTRY UPDATES

The last three years have brought change to the marine space. Increased demand for new boats has had lasting impacts on the supply chain and industry pricing – causing inventory issues and major delays.

While larger boats are being acquired by new and inexperienced owners, the used boat market is expected to rebound in 2023 – a significant change, since quality used boats have been difficult to find for the last two years.

The industry continues to experience consolidation. Family-owned marine operations are being rolled into much larger corporations, increasing costs for storage, rentals, maintenance, and repairs. The total cost of boat ownership has increased and will remain high for the foreseeable future.

COVERAGE CONSIDERATIONS

YACHTING & RECREATIONAL BOATING:

Deductibles and premiums are increasing. Underwriting eligibility requirements have become more stringent regarding owner-operator experience and previous loss history.

The yacht insurance market has continued to contract. Non-renewals are becoming more commonplace for marine risks with CAT exposures – primarily in Florida, the Bahamas, and the Caribbean. Terms, conditions, and coverages continue to get more restrictive, rather than expanding.

Vessels aged beyond 15 years are increasingly difficult to place with domestic carriers. Lloyd's markets have mostly withdrawn from US-based vessels with a hull value of less than $5M. However, some UK-based programs with a US front and Lloyd's reinsurance have begun to offer terms excluding all loss or damage from named windstorms.

We expect to see continued increases in yacht insurance rates into 2023, with continued capacity issues.

COMMERCIAL MARINE:

Severe weather events, constrained availability of excess liability and D&O limits, and increased cyber exposures are core drivers of marine business insurance pricing and market conditions.

The increase in severity and frequency of extreme weather events is resulting in unpredictable reductions in capacity and exits from the marketplace altogether. Cyber exposures are becoming a more frequent risk. Limit restrictions and decreased capacity for excess liability and D&O liability have resulted in challenges and price increases.

In 2023, we expect to see some moderation in rate increases for marine businesses.

John Fisher
National Marine Practice

Scott Stamper
National Marine Practice

PRIVATE EQUITY

INDUSTRY UPDATES

Volatile financial markets have significantly slowed IPO activity in 2022, affecting the Private Equity (PE) space. SPAC (Special Purpose Acquisition Companies) IPO activity has cooled in recent months after the SPAC IPO frenzy of 2020-2021.

There has been a significant amount of SPAC-related litigation this year making these placements expensive and difficult to place.

The pace of securities class action lawsuit filings against public companies from the first half of the year suggests they will decrease year-over-year. Claim activity has been decreasing over the past two to three years, with a significant drop in merger objection cases and core (non-M&A) cases.

COVERAGE CONSIDERATIONS

D&O pricing has softened driven by capacity influx, a more promising securities litigation environment, and a greater understanding of the pandemic's economic impact. Mature public companies are experiencing - 20% premium decreases, and companies that went public in the last two to three years are averaging - 30% to - 40% decreases.

The decrease in excess rates has created immense savings opportunities for commercial risks. General Partnership Liability premiums are seeing rates stabilizing after experiencing two years of a hard market.

D&O for private companies has also softened, with rates flat to - 5% decreases.

Cyber liability remains a top concern within PE with rates changing monthly depending on a company's industry and quality of cybersecurity controls.

REPRESENTATIONS & WARRANTIES ("R&W")

In the beginning of 2022, the R&W market maintained the level of rate increases that occurred throughout the second, third, and fourth quarters of 2021. The increases in pricing were attributed to the record number of M&A transactions and limited underwriting capacity. However, after the first quarter of 2022, the rates started to decrease and R&W underwriters were being more aggressive with their terms and conditions.

The standard premium range in January 2021 was $25,000 (2.5% Rate on Line (ROL)) to $35,000 (3.5% ROL) per million of limit of liability. By the end of 2021 that rate had increased to $40,000 to $50,000 per million of limit of liability and, in some cases, reaching as high as $60,000 to $70,000 for tougher to place risks. In the third quarter of 2022, the average ROL has decreased to around $31,000 for a standard risk.

The starting retentions have remained steady at an average of 1% of the target's enterprise value dropping to .75% for larger transactions.

The number of carriers quoting healthcare risk in 2022 has increased substantially. At the end of 2021, only one or two carriers were consistently quoting this segment. Many of the smaller healthcare acquisitions went without R&W coverage, not because the buyer did not want to purchase it, but because there was not a market that would offer an option. The same transaction now is getting several options with aggressive terms and conditions.

Neil Krauter Sr.
National Private Equity Practice

Neil Krauter Jr.
National Private Equity Practice

PROFESSIONAL SERVICES

INDUSTRY UPDATES

Conditions in the professional liability market seen at year-end 2021 continued throughout 2022. Competition has kept rate increases relatively moderate. The uncertainty brought on by COVID-19 seems to have subsided, which will likely flatten rates and give rise to more competitive terms from new market entrants.

Cyber insurance continues to be challenging in this space, as professional services firms remain primary targets of ransomware and data breach attacks.

COVERAGE CONSIDERATIONS

ARCHITECTS & ENGINEERS:

Professional liability rates for architects and engineers (A&E) remain on the rise, and underwriters are also limiting the per-claim limits they will offer, citing concerns about:

- Talent shortages
- An increasingly remote work environment leading to an increase in technical errors
- Inflation in the construction sector impacting budgets
- Heightened standard of care for design professionals due to climate change

While frequency remains relatively flat, there has been a significant increase in the per-claim severity of A&E professional liability claims in recent years. In addition to rising costs of defense, economic and social inflation are primary contributors to the higher claim valuations. These factors will cause underwriters to continue the current trend of 2% - 5% average rate increases in 2023.

The project-specific market continues to be difficult, with few underwriters willing to offer primary terms. Rates-on-line continue to be as much as 40% - 50% of the limit on challenging projects.

LAW FIRMS:

Lawyers' Professional Liability (LPL) insurance primary layer rates increased in 2022, but by less than the 2021 increases. There has also been less pressure to increase retentions. We anticipate further positive rate movements for clients in 2023 subject to the performance of the economy.

The increasing costs of covering LPL malpractice claims is causing underwriters to seek single-digit rate increases, which we expect to continue into 2023. Law firm Management and Employment Practices Liability insurance rates have increased for larger firms.

New entrants to the excess layer markets are providing additional capacity and slightly reducing rate pressure, with a core focus on the Increased Limit Factor.

Underwriters are more focused on trusts and estates practices due to the increasing size of estates and the frequency of claims. Some large firms have reduced or eliminated this practice area and work has moved to mid-sized and smaller firms.

Darren Black
National Professional Services Practice, A&E, Law Firms

Darren Williams
National Professional Services Practice, Law Firms

TRANSPORTATION

INDUSTRY UPDATES

Commercial transportation is still facing significant challenges regarding labor shortages, increased last-mile delivery activity due to rising consumer expectations, and rising claim severity as we move through the second half of 2022 and into 2023.

Insurance rates are increasing due to growing exposures. Many drivers are considered high-risk due to a lack of qualifications and businesses are skirting safety regulations in favor of meeting short-term financial goals. The associated results – nuclear verdicts, medical and legal costs, as well as repair costs for physical damages – all contribute to rising pricing.

However, businesses are beginning to adopt new technologies to help monitor driver behavior, meet increased demand, address safety concerns, and optimize efficiency.

COVERAGE CONSIDERATIONS

Transportation is still facing a hard market. Commercial auto rates continue to increase by 15% - 25% on average.

Package policies (which cover cargo, general liability, and crime) are seeing single digit increases in the 5% - 7% range.

The industry is also experiencing less capacity and stricter underwriting, leading businesses to seek alternative coverage options through higher deductible programs, risk reduction groups, and captives.

While some are tempted to reduce coverages to cut costs, having adequate insurance remains an essential safety net.

UPDATES AND COVERAGE CONSIDERATIONS

RELOCATION INDUSTRY

Supply chain issues and capacity constraints have impacted the household goods moving industry, increasing damages and missing items, affecting the frequency and severity of claims, and creating a tense and contentious claims process.

Cargo coverage premiums, specific to household goods movement of furniture and personal effects, have risen 7% - 10%, as has the demand for an increased level of service. Only the most experienced claims staff and underwriters can meet the demands of the new normal.

Bryan Ice
National Transportation Practice

WASTE & RECYCLING

INDUSTRY UPDATES

The Waste & Recycling industry continues to experience limited capacity and rate increases across most lines of coverage, especially in Auto, Excess Liability, and Property. This is due to the severity and frequency of claims and the impact of recent nuclear verdicts. Plaintiff's attorneys continue to focus attention on the trucking and transportation space, resulting in large claims paid or settled. These factors, coupled with limited capacity, continue to push upward rate pressure.

Property coverage for the Waste & Recycling industry continues to be difficult due to the prevalence of, and exposure to, fire risks at their facilities. Improper disposal of lithium batteries is the leading cause of facility fires.

COVERAGE CONSIDERATIONS

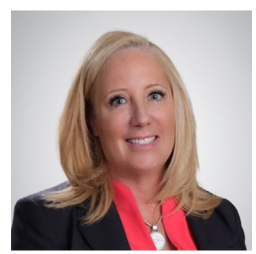
With few new viable carriers entering the Waste & Recycling market, there are still limited solutions within this space to provide quotes for these businesses. However, while rate increases are still the norm, the rate increases have started to decelerate and level off compared to the previous few years.

Due to this difficult market, many businesses are turning to higher deductibles and captives as alternative solutions which can often be advantageous. Increased safety initiatives including driver training, truck cameras, and new technologies are critical factors when moving to high deductible programs.

Underwriters continue to be disciplined in this space. The core drivers and trends affecting their pricing include:

- Five to ten years of loss history
- Safety programs including training, documentation, accident investigation, disciplinary action, etc.
- Safety and Fitness Electronic Records (SAFER) scores
- Telematics
- Motor vehicle records and criteria for hiring new drivers
- Property conditions
- Location - some counties in the US are considered "hot spots" for claims; many carriers will not write coverage in these locations

Entering 2023, we expect to see limited capacity and rate increases for the next six months in the 10% - 50% range.



Pam Caron
National Waste & Recycling Practice

PRODUCT LINES

CAPTIVES

MARKET UPDATES

Throughout 2022, hard markets continued in many commercial insurance markets including Cyber and Excess Liability. Rising commercial premiums drove increased interest in captive insurance companies and a high number of new captives were formed to improve overall costs and help manage risks.

Business leaders continue to deal with financial upheaval caused by the pandemic and navigate ongoing uncertain economic conditions. They are looking to alternative risk solutions as a long-term strategy to reduce their total cost of risk.

Executives are also recognizing the need to retain more control over their insurance programs, especially in turbulent times. More companies are investing in risk mitigation programs that improve their captive's chances of profitability, allowing them to capture underwriting profit typically only accessible to commercial insurers.

COVERAGE CONSIDERATIONS

More than ever before, business owners are recognizing that significant coverage gaps in commercial insurance policies can be solved with a captive. Businesses are shifting to captive insurance companies to better manage substantial enterprise risks residing on balance sheets.

Existing captive owners are expanding the utility of their captives to take advantage of current market conditions. Strategies include group medical stop-loss, pivoting away from high deductible plans to more favorable alternative structures, and adding more robust coverage for emerging and previously uninsured risks such as business interruption covering viral/bacterial events.

We do not anticipate a significant slowdown in the captive insurance industry in 2023. As concerns about a recession build, companies will be hyper-vigilant about how each dollar is spent. Captives will continue to be a favored tool in helping mitigate risk and reduce overall costs.

Mike DiMayo
National Captives Practice
Oxford Risk Management

Max Jong
National Captives Practice
Risk Management Advisors

CASUALTY

MARKET UPDATES

Premiums have continued to increase throughout 2022 in the Casualty market, driven by reinsurer concerns, rising jury verdicts, and settlements including the recent billion-dollar settlement for victims of the Florida condo collapse. A notable exception to this remains in the workers' compensation space.

Insurer loss ratios deteriorated in Q2 2022, which could impact future rate stability. Over the next several years, as large losses spurred by social inflation persist and sizable claims make their way through the backlogged court system, insurers may be forced to remain conservative in their pricing and terms despite the need to grow their books.

Reinsurers are wary of these trends and will expect carriers to demonstrate underwriting discipline and quality risk selection. Further rumblings in the wake of Hurricane Ian leave 2023 in greater doubt than previously considered on the reinsurance side.

Rising interest rates have played a modest role in the underwriting process thus far, but that may shift if insurers are willing to accept lower premiums with the expectation of earning greater investment returns.

COVERAGE CONSIDERATIONS

Overall, capacity is stable and competition for business is getting stronger. Barring any outside shocks to the global economy, rates should begin to flatten out within casualty lines to the 5% - 6% range except for Auto (5% - 10% range), for most industries into 2023.

Insurers' ongoing areas of concern, which continue to be underwritten with caution, include:

- Organizations with poor loss experience
- Businesses with tough product liability exposures
- Habitational risk
- Large commercial auto & trucking fleets
- Residential construction
- Risks exposed to sexual molestation and abuse
- Higher education risks

While additional capacity has entered the market, Umbrella premiums are still rising somewhat as a result of "shock loss" claims and social inflation to 10% - 20% range. Additionally, carriers have limited their capacity for providing abuse & molestation coverage due to claims experience and the removal of statutes of limitations in several states.

Insurers have also recently attempted to exclude or limit coverage under General Liability for assault and battery claims in retail and real estate due to increased loss activity spilling into excess layers.

Inflation and labor shortages may lead to higher claims for worker injuries, construction defects, or other third-party claims. We will monitor these trends in 2023. Clients should also review the limits they carry since inflation has had an impact on the adequacy of those limits.

Mike Vitulli
National Casualty Practice

CYBER

MARKET UPDATES

As we get further into 2022, we see the Cyber insurance market beginning to stabilize after years of steep rate increases, but insurers will continue to be on high alert through the remainder of the year and into 2023.

Ransomware attack claim activity persists and business email compromise and funds transfer schemes remain an ongoing issue. Insurers are also concerned about the potential for a systemic event. However, the pace of attacks has slowed throughout the year due to a number of factors including better awareness and cyber maturity in the marketplace driven by the increased underwriting scrutiny over the last 24 months.

Carriers are still being conservative and restrictive on coverage, limiting their exposure to ransomware claims and systemic events in certain instances where controls still require improvement.

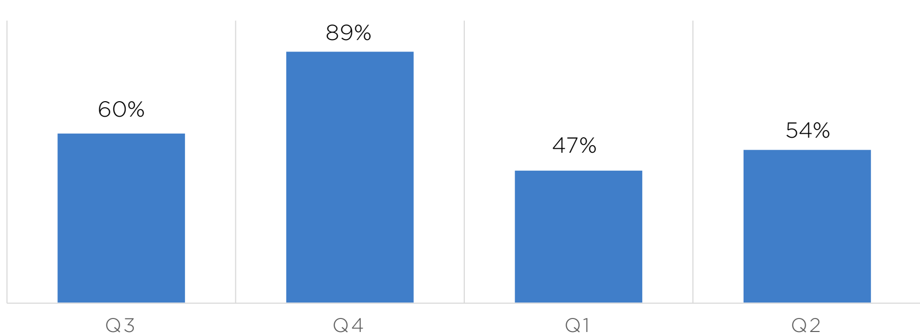
COVERAGE CONSIDERATIONS

The first two quarters of 2022 saw 50% rate increases on average, but Q3 decelerated to increases in the 30% - 40% range. Buyers with claims and industries with historically adverse claims experience are still seeing increases well in excess of market averages. Insurers are still focused on proper risk selection and buyers failing to prioritize proper cyber controls are struggling to maintain and secure the full breadth of coverage or in some cases any coverage.

In a market absent of a catastrophic event, there should be further stability heading into 2023. As evidenced by the Risk Strategies rate index, we have seen rate deceleration amongst our client base in the last two quarters. Excess rates are beginning to come down due to new capacity entering the market, which is usually a precursor to further softening of primary layers.

Risk Strategies projects rate increases could get down to the 10% - 25% range in 2023 under the right conditions.

CYBER RATE TREND YEAR OVER YEAR



Source: Risk Strategies 2022 Cyber Liability Portfolio

Rob Rosenzweig
National Cyber Liability Practice

EMPLOYEE BENEFITS

MARKET UPDATES

During 2022, market conditions for employee benefits remain similar to what was presented at the beginning of the year, with notable exceptions:

- Telehealth utilization is here to stay but has dropped slightly as healthcare providers return to full operations as the pandemic wanes. Regulations around telehealth services may continue to evolve as the type of care becomes a 'norm.'
- Stop-loss premiums are on the rise, increasing by 15% - 20% on average due to large losses growing in severity and complexity.
- Behavioral health continues to be an ongoing crisis.
- Employers with fewer than 100 employees (i.e., small group, Community Rated) are experiencing renewal rates increasing at or above trend, 9%+ on average.

The unit cost for care is rising, driving overall health insurance cost increases. Medical plan increases may approach double digits in the mid-market segment (i.e., typically employers with 250 – 3,000 employees) driven by medical and pharmacy trends, general inflation, and the ongoing impact of delayed care during the pandemic. Short-term and long-term disability rates are also rising due to extended COVID-related illness/recovery periods.

New technologies and treatments have caused the cost of large claims to rise. Simultaneously, the development of effective new gene-specific therapies has significantly increased Specialty Rx costs. These costs will continue to trend in the high double digits.

INDUSTRY PREDICTIONS
FOR THE REMAINDER OF 2022 INTO 2023

Employer-sponsored health care premium increases are anticipated to be larger than usual in 2023. According to the Society for Human Resource Management (SHRM), medical plan costs per employee are expected to rise by an average of 5.6%, reflecting inflationary pressures. Due to rising costs, it is imperative employers explore all possible options for efficiently financing their healthcare spend through arrangements such as self-funding, level-funding, captive arrangements, and others. However, employers will need to decide how to manage rising costs without impacting their talent strategy or employee wellbeing.

John Greenbaum
National Employee Benefits Practice

ENVIRONMENTAL

MARKET UPDATES

In 2022, there was an expected uptick in environmental claims within various industries such as Private Equity, Real Estate, Higher Education, Aviation, and Healthcare. The Environmental market is currently stable and has remained competitive with ample capacity to build towers of environmental limits through the end of 2022 and into 2023.

Underwriters are paying more attention to and becoming more stringent regarding polyfluoroalkyl (PFAS). As these substances affect many industries and products, carriers have taken a greater interest in the development of a standard by federal and state regulators.

Weather events are now playing a more significant role in environmental claims caused by flooding, wind damage and wildfires. Insurers are now considering geographic areas more when writing policies, especially in areas that have experienced historical losses due to severe weather events.

COVERAGE CONSIDERATIONS

Competition and available coverage enhancements, capacity, and the desire of carriers to write new business have driven pricing down to the benefit of our clients. Carriers do want to see preventative maintenance and response plans for mold, indoor air quality, legionella, and handling of hazardous materials in daily operating procedures, but coverage remains available. Should regulatory agencies establish PFAS thresholds, coverage for PFAS would be significantly affected. We are monitoring those developments.

Environmental due diligence should be considered in all buy/sell transactions. Baseline assessments, preventative maintenance, response plans, and the use of environmental insurance should be considered as part of all risk management decision strategies.

Expectations around pricing, capacity, and terms should remain consistent with 2022 through Q1 2023. It is expected that carriers will push for rate increases, but given the size and capacity of the marketplace, rate increases should not exceed 5%, and in some cases may be flat to a slight reduction.

Joe Quarantello
National Environmental Practice

INTERNATIONAL

MARKET UPDATES

The overall market environment is improving after two years of fallout from the COVID-19 pandemic, global and civil unrest, and increased catastrophic (CAT) activity.

International property rates are moderating after several years of increases. However, the impact of inflation on construction costs since 2020 has been dramatic, leading reinsurers to re-evaluate their appetite for CAT perils and how to deploy capacity.

Rate increases in the London cargo/stock throughput market have also leveled off. However, poor performing accounts and/or accounts with significant CAT exposures can still expect to see rate increases in the +15% to +25% range. As a result of the war in Ukraine, cargo underwriters are now excluding war, strikes, riots, and civil commotion risks for exposures in Ukraine, Russia, the Black Sea, and the Sea of Azov.

COVERAGE CONSIDERATIONS

The international casualty market is stable. Most renewals are seeing modest rate increases with some low hazard/loss-free accounts seeing renewal rates as expiring.

Inflation, supply chain disruptions, and labor shortages have negatively impacted the property insurance market. Inflation's impact on construction costs is as high as 20%. As a result, insurers and reinsurers are focusing on proper valuation of building and equipment for all renewals. A substantial number of reinsurers are exiting the CAT reinsurance market due to the significant increase in loss costs and increased severity of CAT events. This will impact most accounts to some extent as increased exposure bases require more capacity. For CAT perils, it is becoming an environment where demand outstrips supply in certain cases.

Pricing in the London cargo/stock throughput market has benefited from new capacity entering the market, as well as the completion of re-underwriting efforts undertaken by many insurers to shed unprofitable business.

As we head into 2023, January 1 property reinsurance renewal rates will continue to increase and capacity will be more cautiously allocated, reinforcing a bifurcated property market – stable rates and ample capacity for low-hazard accounts and a continued hard market for challenging occupancies and CAT-driven accounts.

In contrast, international casualty rates should remain stable for the majority of clients except those in high-hazard classes and/or with distressed loss histories.

Carl Smith
International Practice

MANAGEMENT LIABILITY

MARKET UPDATES

As we move through 2022, the Management Liability market continues to soften. We are seeing this decline in most industry segments, notably in Directors and Officers (D&O). There is a noticeable flattening of renewal pricing for both primary and excess layers. Reasonable coverage extensions and enhancements are also emerging.

We also saw a shift occur beginning in Q2 2022 as insurers became incentivized to competitively deploy capital, coupled with a favorable claims environment. The number of Securities Class Action (SCA) lawsuit filings are down on a year-over-year basis.

Initial Public Offering (IPO) activity has lessened significantly in 2022 compared to 2021. Insurers are looking for alternative revenue streams, hence providing more competition in the Management Liability space.

Some larger insurer trading partners have strengthened claims reserves due to recent rate increases. Those same underwriters are cautiously assessing the potential emergence of derivative claims, along with delayed filing and court hearings related to COVID-19.

Challenges still exist on a risk-by-risk basis, however hard market conditions have significantly decelerated. New carriers have entered the market with fresh capacity while some legacy insurers are attempting to correct their books.

COVERAGE CONSIDERATIONS

PRIVATE SECTOR:

Continued uncertainty surrounding employment practices liabilty (EPL) litigation is making underwriters more conservative in their approach. Low single-digit rate increases in the Management Liability space are expected.

Carriers will continue to scrutinize risks by managing the deployment limits, increasing retentions, and narrowing coverage by introducing exclusions in volatile industries and distressed companies. However, increased competition has allowed buyers to secure favorable terms.

PUBLIC SECTOR:

The D&O hard market is easing, with rate decreases of 0% to - 20% on primary and decreases of - 10% to - 30% on excess. Excess carriers have pushed rates, but the competitive landscape is forcing excess insurers to reconsider this position.

Companies going through an IPO continue to see exponentially greater SCA risk, which has driven increased D&O rates for IPOs.

Donovan Nowell
Management Liability
Practice Group

PRIVATE CLIENT SERVICES

MARKET UPDATES

Private Client Services continues to endure the impact of a hard market. Ongoing capacity constraints are compounded by overall negative market trends, increased frequency and severity of natural disasters, escalating rebuild costs, and looming cyber threats.

Homes in catastrophe-prone areas such as California, Florida, and Texas are increasingly difficult to place in the admitted market. Impacted high-net-worth (HNW) and other homeowners must rely more heavily on excess & surplus lines (E&S), self-insurance, and state-sponsored insurance programs.

Inflation and supply chain disruptions have also contributed to a hardening personal lines market. As labor and material shortages drive up construction costs, carriers are reevaluating inflation factors more frequently and raising property coverage limits by 8% - 12%.

Similarly, excess liability rates are rising, driven by social inflation and increasing court costs and litigation settlements. Some carriers are reducing excess liability limits while raising rates by 15% - 20%.

In terms of loss trends, water damage from plumbing leaks remains the most common and costly cause of homeowners' claims, reinforcing the merits of water detection devices to reduce or prevent damage. Auto loss frequency returned to pre-pandemic levels, and rates are expected to increase as a result in 2023.

COVERAGE CONSIDERATIONS

HNW homeowners should expect the property market to remain hard. With at least one major carrier exiting catastrophe (CAT)-prone markets altogether, reduced capacity and increased rates are the norm for the foreseeable future. Underwriters will approach each risk with more scrutiny, underscoring the importance of proactive risk mitigation wherever possible. Additionally, E&S solutions will become critical to maintain adequate coverage, primarily in California and coastal states.

Regardless of location, flood risk is a major concern. The aftermath of Hurricane Ian will unfortunately reveal a critical coverage gap for countless households. According to the *New York Times*, 47.3% of evacuated homes in the government-designated floodplain have flood insurance. In the counties whose residents were told to evacuate, just 18.5 percent of homes have coverage through the National Flood Insurance Program. In impacted and damaged areas outside the floodplain, only 9.4% of homes have flood coverage. All homeowners should not only seek flood insurance, but also obtain adequate coverage limits for their property's replacement cost.

Alison Murphy
Private Client Services Practice

PROPERTY

MARKET UPDATES

In the aftermath of Hurricane Ian, buyers with locations exposed to climate change-related events, even Earthquake, will see significant reductions in coverage capacity, as well as higher deductibles and pricing throughout the balance of 2022 and well into 2023. This is being seen not only in Commercial Property, but also with catastrophe (CAT)-exposed homeowners' policies, especially in Florida.

Secondary perils, such as tornadoes, floods, wildfires, hailstorms and freezes are increasing in frequency, leading to costly claims and a stress on carrier profitability. CAT models are now being expanded to include projected exposures to secondary perils. Underwriters are relying on these results to set limits, deductibles, and rates in problematic areas.

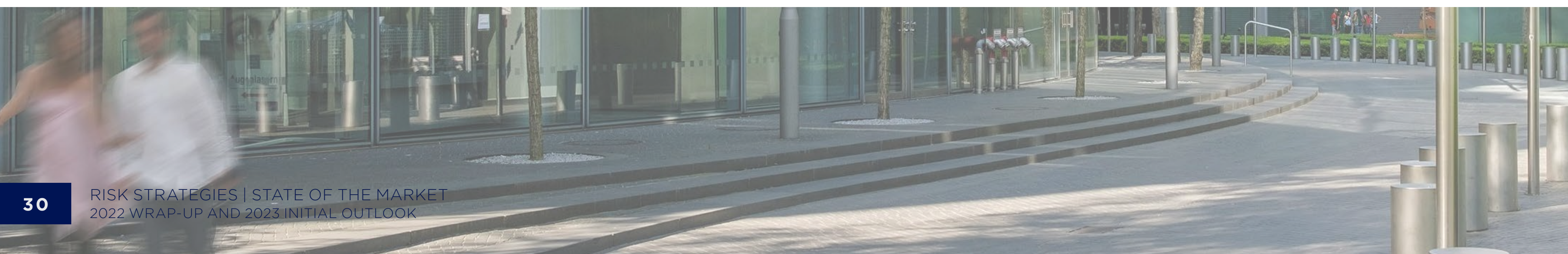
Reinsurers are concerned about inadequate values and primary and secondary peril losses driven by climate change as balance sheets are being impacted by investment volatility, leading to a reduction in capital. The reinsurance market tightened in January 2022 and continued through mid-year renewals. Hurricane Ian will make the end of year/ beginning of the year renewal cycle extremely tough. The 2023 CAT market has all the ingredients for a very hard market in 2023.

On a positive note, Builder's Risk insurance capacity is available with favorable pricing and terms and conditions for high-quality projects without a CAT footprint. Wood frame and joisted projects are still challenging placements and are pretty much wholesale market plays. Underwriters are requiring more information around GCs, budgets, timelines, construction plans and water and fire mitigation procedures.

COVERAGE CONSIDERATIONS

According to some estimates, property values have increased by over 20% in the past year due to inflation, supply chain issues and labor shortages. Underwriters are aggressively addressing shortfalls. They need accurate property values to analyze risks in order to set limits, purchase adequate reinsurance, and price programs appropriately. They will impose coverage restrictions and limitations if they do not feel values are accurate.

The Property market will continue to be tight for the remainder of the year and will get even tighter in 2023 as the impact of Hurricane Ian on 1/1 Treaty renewals rolls across the industry. Under their Treaty programs, primary insurers will be expected to retain more risk. They will see material reductions in available capacity and the price of available capacity will be significantly higher. These changes will be passed on to buyers with higher rates, higher deductibles and a lower limits for all CAT perils.



Buyers that are up to date on property value trends, well protected from exposures, and have robust risk management practices in place will benefit from more favorable pricing and terms than those falling short and/or are CAT exposed. Rate disparity between good risks without CAT and poor risks with CAT will be greater in 2023. Good risks without CAT will see single digit rate increases while poor risks with CAT will see increases of 50% or more. Wind deductibles in CAT prone areas will jump dramatically from 3% - 5% to as high as 15%.

Peter Fallon
National Property Practice

SURETY

MARKET UPDATES

Surety market conditions have remained competitive throughout 2022, as the surety industry continues to be profitable.

The health of the construction industry drives the success of surety. In general, construction companies reported profitability this year with steady work and consistent projects. Construction of multi-family residential properties and warehouse/industrial facilities have been in highest demand.

However, given increasing interest rates and the continuing supply chain issues for various construction inputs, many expect activity to slow in the private market in the coming years.

Public work will likely increase in Q1 2023, as government funding for infrastructure projects is released and public entities at the state, municipal, and local levels spend money previously allocated to COVID relief on construction projects.

COVERAGE CONSIDERATIONS

Sureties' underwriters are increasingly concerned about issues challenging the construction industry. These include:

- Rising interest rates
- Supply chain disruptions
- Variability of risk across the construction chain, parts of which have been impacted to varying degrees since 2020
- Availability of qualified field supervisors, which is affecting the industry's ability to adequately staff projects and amplifying performance risk

The surety industry is bracing for an uptick in loss activity in the next few years as the financial impacts of today's issues are realized.

Doug Joyce
National Surety Practice

Brian Whipple
National Surety Practice

CLAIMS

NATURAL DISASTERS, HURRICANE IAN LOSSES, AND CONSIDERATIONS

Hurricanes, tornadoes, floods, wildfires, and earthquakes are projected to increase in frequency and severity in the coming years, all having an impact on how we insure commercial and personal lines insurance. The increased number of events is making it more costly to properly insure businesses and homes.

As we moved through a quiet hurricane season and into the third quarter of 2022, Hurricane Ian struck the Gulf Coast of Florida and moved back out into the Atlantic, striking South Carolina. As of October 7, damages from Hurricane Ian are estimated at upwards of $74B in Florida alone, with $46B in residential property and auto damages.

Those affected by Hurricane Ian are filing claims and the loss adjustment process is just beginning. Three events will complicate the process:

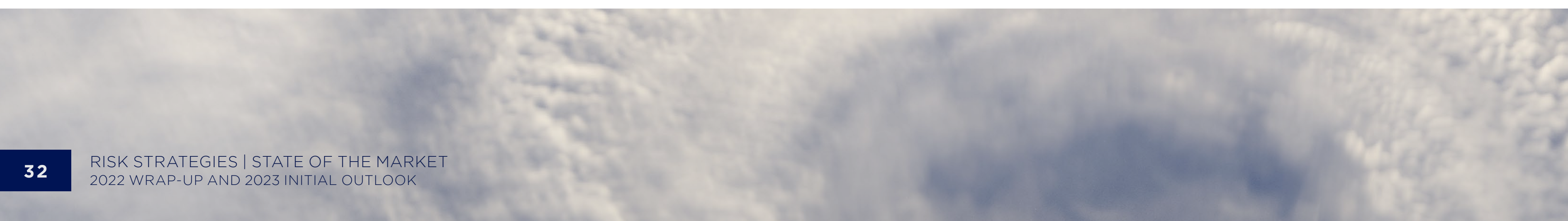
1. Flood vs. Wind losses are creating a confluence of issues. Depending on the primary cause of damages, buyers may not have proper or adequate coverage for both, leaving many residents underinsured or completely uninsured for this event.

2. Underinsured property values caused by significant construction cost increases over the past few years or “stated value” losses on automobile claims are leaving a shortfall in the rebuilding process.

3. The inability of the standard insurance market to continue to provide coverage and ability to purchase adequate or affordable coverage limits in coastal areas is putting more pressure on state and federal insurance programs.

Coverage issues related to Hurricane Ian are already beginning to surface, revealing key limitations of certain insurance plans. Property owners can learn from past natural catastrophes, working closely with their insurance brokers and claims teams to examine the interplay of their specific policies, the coverages triggered by the CAT loss, and the coordination of the multiple insurance adjusters involved.

The expected increase in losses, especially those within CAT zones, makes it necessary for all property owners to have a disaster emergency plan in place and understand proper steps to take when an event strikes. Best practices include taking the necessary steps in advance of a loss to prepare your business and home, making temporary repairs immediately following a loss to protect the property from further damage, documenting and saving damaged property, submitting detailed estimates of claim-related expenses (including documents to substantiate a business interruption loss), and working closely with an insurance adjuster.



ESCALATING CLAIMS ENVIRONMENT

Devastation and CAT losses in the wake of Hurricane Ian will continue the trend of higher-than-normal losses driven by climate change.

At the same time, we continue to see claims costs rapidly escalate in commercial liability and property insurance lines with social inflation being a primary driver of loss costs. The most direct consequence of high inflation in insurance is the rising costs of claim verdicts and settlements in certain coverage areas - Workers' Compensation, General Liability, Product, and Auto.

As a result, Auto, certain General Liability, and certain Product Liability policies will increase premiums and retentions in Q1 2023. Businesses with primary limits of $1M with heavy fleets or product issues will either be forced to self-insure more or can expect higher primary limits before accessing excess coverage.

John Meder
Head of Risk Consulting & Claims Advocacy

ABOUT RISK STRATEGIES

Risk Strategies is a specialty national insurance brokerage and risk management firm offering comprehensive risk management advice and insurance and reinsurance placement for property & casualty, employee benefits, and private client services risks. With more than 30 specialty practices, Risk Strategies serves commercial companies, nonprofits, public entities and individuals, and has access to all major insurance markets. Ranked among the top brokers in the country, Risk Strategies has over 100 offices including Boston, New York City, Chicago, Toronto, Montreal, Grand Cayman, Miami, Atlanta, Dallas, Nashville, Washington DC, Los Angeles and San Francisco.

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