Market Trends
Quarter 3 | 2021

COMMERCIAL INSURANCE & RISK MANAGEMENT

OUR GOAL

Brown & Brown's Market Trends allows you to connect quickly to succinct key topics and notable updates in the insurance marketplace. Dive deeper on any topic with our Brown & Brown Team to better understand how these trends may impact your business. We welcome the conversation. Enjoy.

DISCOVER

PROPERTY

Q3 | 2021

The challenges in the property marketplace continue. While the majority of insureds are seeing renewal rate increases, they are not at previous years' intensity. Most insureds are currently experiencing high-single to mid-level double digit increases. Occupancy class, loss history and the level of competition amongst insurers for a spot on an insurance program can lead to renewal results outside of this range.

Despite increased deductibles and restricted terms imposed by insurers over the past several renewal cycles, most insurers have yet to realize profitability. Interestingly, this is leading to a competitive energy as underwriters look to achieve both renewal rate increases and new business growth goals. However, underwriting's attention to appropriate valuation, attachment points, and risk control continues to drive rating and capacity deployment.

As the market evolves, many insureds are able to find program alternatives and coverage options that did not exist in 2020. To maximize underwriter focus and response, insureds must continue to refresh their loss control and risk improvement profile and be prepared to provide deeper levels of data and exposure detail.

Hurricane Watch

The North Atlantic hurricane season is officially underway. The leading forecast groups are predicting 13 to 21 tropical storms and six to 10 hurricanes, with two to six becoming major hurricanes. These projections are at the high-end of historical averages, despite 2020s record year of 30 tropical storms and 14 hurricanes. Insureds with a catastrophic footprint and renewals in the last half of 2021 will bode well with documented CAT-driven loss control and continuity plans.

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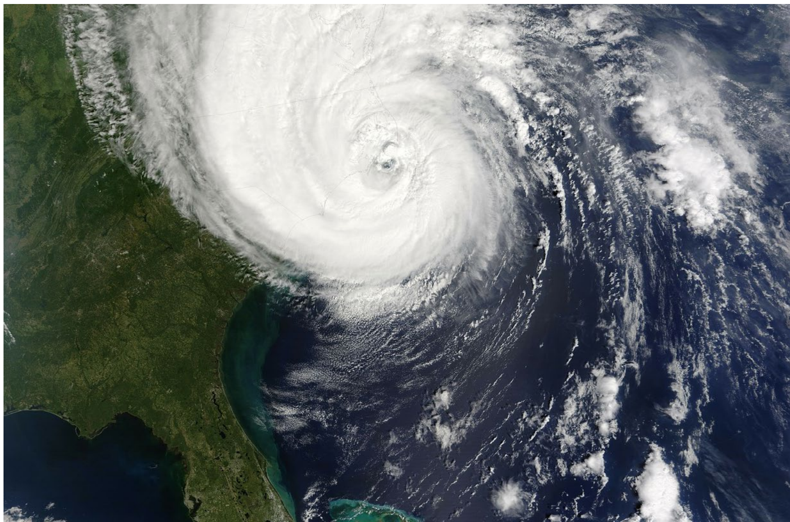

CASUALTY

Q3 | 2021

As we enter the third quarter of 2021, the casualty marketplace continues to experience a dichotomy between the large/national account marketplace and the middle-market/package marketplace. The large/national account marketplace continues to experience capacity reductions and pricing increases impacting nearly all lines of casualty coverage. The middle-market/package marketplace, while seeing capacity reductions and pricing increases, is not experiencing this to the same degree as the large/national account space.

Insurer competition for risks in the middle-market/package market remains high, as underwriters aggressively target profitable business. For large/national accounts, workers' compensation remains competitive; however, general liability, automobile, and umbrella coverage are experiencing double-digit rate increases with limited marketplace competition.

Nuclear verdicts, social inflation, and distracted driving continue to drive automobile rates, and the inflationary increases for repairing and replacing vehicles adds pressure on auto insurers. The current global shortages of many components used in vehicles and supply chain disruptions due to COVID-19 have increased the costs and decreased the availability of component parts for vehicles. Similarly, rental cars are in short supply and demanding higher rates. This leads to larger auto claim costs, even for minor incidents.

COVID-19 and communicable disease exclusions are becoming more common in the casualty lines of coverage. Some insurers are also adding exclusions for perfluoroalkyl or polyfluoroalkyl substances, commonly referred to as PFAS or "forever chemicals." PFAS are most typically referenced as being found in fire-fighting foams. They are also found in many household products, including stain- and water-repellent fabrics, nonstick products, polishes, waxes, paints, cleaning products, and in production facilities or industries.

Take Note

Providing a complete and thorough submission is critical to combat increases, changes in terms, or to engage insurers for additional capacity. Buyers should be prepared to provide more information than they may have historically. Casualty loss control recommendations should be addressed to best position an account for renewal.

EXECUTIVE LIABILITY

Q3 | 2021

After a tumultuous year, the executive liability market shows signs of stabilization. From the first quarter in 2020 through the first quarter in 2021, retention rates on directors and officers (D&O) accounts were well above 90% as insurers tightened their appetite given the COVID-19 pandemic. This trend is not expected to continue through 2021. There is an appetite to provide new capacity as new insurers enter the space. There is also a notable change in senior management and underwriting, leading to more willingness to quote new opportunities. Overall, book performance is a key reason for a more stabilized marketplace.

Cybersecurity incident securities claims may increase as cybersecurity and ransomware events continue to rise. Companies face protecting themselves from a cybersecurity threat in addition to protecting themselves from potential lawsuits based on how the company communicates a cybersecurity incident. A lawsuit filed in May 2021 against Ubiquiti focused on how the company allegedly downplayed a breach and misled investors about the severity of the cybersecurity breach. The case targeted the company, CEO, and CFO and sought damages after stock prices plummeted earlier this spring. While cases like this are not present in every cybersecurity incident, it shows the importance of a company's due diligence in communicating after an incident.

Historically, excessive fee litigation was targeted at select large organizations; however, there recently has been an uptick in claims against all sizes of retirement plans. In 2020 alone, there were more than 90 excessive fee lawsuits filed. Insurers are scrutinizing fiduciary exposures more than has been seen in the marketplace in the past. Mass/Class action retentions are becoming increasingly common. In response, insurers are looking to reduce capacity on fiduciary renewals. One common theme insurers want to establish is that the plan sponsor has a detailed process, including documentation of why decisions were made or providers were selected.

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CYBER LIABILITY

Q3 | 2021

Ransomware has become so prevalent and significant that the United States Federal Government has labeled it a national security threat and called on those in both the private and public sectors to acknowledge a “critical responsibility to protect against these threats.”

Cyber insurers continue to reevaluate cyber risk, causing significant changes in underwriting, pricing models, capacity availability, and coverage.

Insurers have become extremely conservative in their underwriting, with some insurers declining more than 90% of applicants. Additionally, many insurers are only willing to offer excess limits outside of the perceived ransomware primary loss area or the “burn” layer. Entities of any size will struggle to find risk transfer options if they lack broad implementation of multifactor authentication for remote access, endpoint detection and response solutions, rapid patching cadences, encryption of backups, offline backups, robust and regularly tested business continuity plans, and privileged access to backups and remote desktop protocols both when remote and on-premise.

Even with these controls in place, insurers are fully reevaluating their pricing models, which have been proven to be wrong or inadequate in the past 12 to 24 months. Average, unweighted price increases have more than doubled in the first half of 2021, rising from 28.8% in January to 65.2% in May. This trend will likely continue through at least the end of the calendar year. Companies who purchase coverage from many insurers, known as towers of coverage, will experience increased pricing due to primary layer pricing and adjustment of excess rates. These rates, which historically may have been as low as 50%, are trending closer to 90%. In some cases, rates are inverting where excess pricing exceeds current pricing.

Applicants will see significantly higher increases or struggle to transfer risk if they:

- Lack the controls mentioned previously
- Have significant aggregations of personal information
- Are government or municipal entities
- Have significant physical operations, such as manufacturing, agriculture, or transportation
- Have revenue over $1 billion
- Are a tech company

Insureds who have experienced very competitive pricing due to prior aggressive marketing are also likely to face above-average increases.

In addition to more strict underwriting standards, insurers are actively practicing limits management to avoid deploying their full capacity for a single applicant. Many insurers are unwilling to provide limits that are highly exposed to ransomware losses, typically limits exceeding $5,000,000 for a single layer. Some insurers also require more advanced security controls, such as endpoint detection response, to consider limits higher than $3,000,000. Insurers are also increasing minimum waiting periods for business interruption and minimum retentions offered based on an insured's size, limits purchased, and dependence on third parties.

While few insurers have implemented drastic coverage changes, several insurers have expressed a willingness to curb ransomware losses via coverage limitations. These limitations may apply to ransom payments, privacy breaches, regulatory investigations, or any resulting loss, such as business interruptions. Although the marketplace continues to harden primarily due to increased claims activity, several new insurers or managing general agents have emerged and expressed interest in this market segment; however, they focus primarily on smaller and lower middle-market applicants.

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INTERNATIONAL

Q1 | 2021

The international casualty marketplace remains unchanged since last quarter. Global litigation continues to be slower than in the U.S. Therefore, rates remain stable due to a competitive marketplace. International casualty remains a profitable underwriting class.

Company size and marketing continue to impact renewal rates. Recent renewals on middle-market, multinational casualty programs have experienced flat rates with some pressure to increase rates depending on the insurer. Larger multinational casualty programs are highly dependent on loss history, though marketing a company's program can result in flat or decreased rates. Many insurers are opening up capacity to tougher products and risks than in the past.

Many companies have experienced reductions in revenues during 2020; however, insurers have not reduced premiums in equal proportions to their customers' revenue reductions. Most insurers evaluate risks and know their premium floor regardless of exposures.

Some insurers are incorporating communicable disease exclusions into their policy forms. These exclusions should be avoided whenever possible. However, several insurers are taking a measured approach when reviewing the communicable disease exposure. Companies with minimal exposures and/or strong corporate protocols for managing the communicable disease risk have generally avoided the exclusion.

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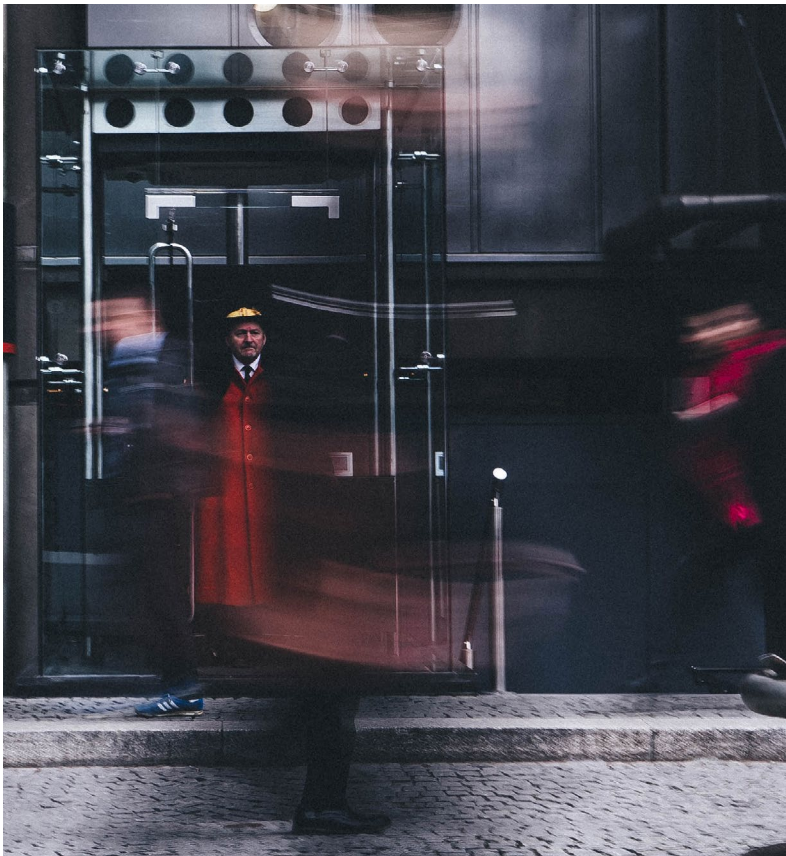

Business Travel Accident Coverage: A Key to Foreign Business Travel in 2021

As business travel resumes, countries are enforcing various COVID-19 restrictions. Some countries require travelers to prove they have medical insurance with quarantine expense coverage that pays the treatment costs of any illness, including costs associated with COVID-19. The only product available for this protection is a quality Business Travel Accident (BTA) policy, with coverage for out-of-country medical costs.

Underwriters in this line of coverage have not added COVID-19 or other virus exclusions as they understand the value proposition. As companies begin traveling again, a quality business travel accident policy will have a high level of importance in the duty of care owed to the employees.

Global Compliance

When companies become multinational, whether organically or through mergers or acquisitions, risk managers need to be aware of the international insurance structure. If insurance is not placed correctly throughout the world, non-compliant coverage could result in uncovered claims, imposed taxes and penalties, damage to assets and reputation, unpaid defense, and in some cases, the local subsidiary management could even be jailed.

If your company is expanding into new countries, work with Brown & Brown to negotiate and place globally compliant programs.

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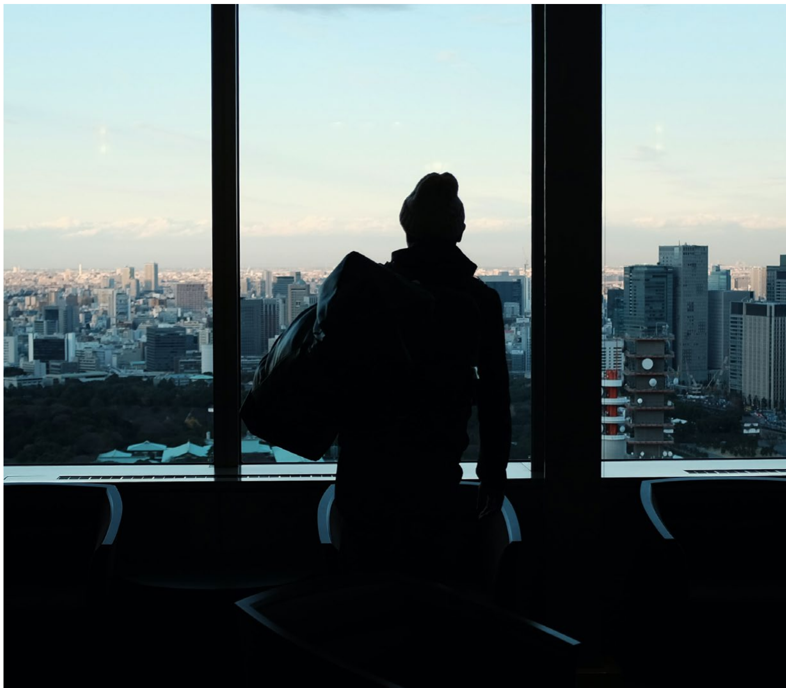

BROWN & BROWN AND COVID-19

The Brown & Brown team is closely monitoring the outbreak. If you have any questions, please reach out directly to your service team. We're here to help.

Please be advised that any and all information, comments, analysis, and/or recommendations set forth above relative to the possible impact of COVID-19 on potential insurance coverage or other policy implications are intended solely for informational purposes and should not be relied upon as legal or medical advice. As an insurance broker, we have no authority to make coverage decisions as that ability rests solely with the issuing carrier. Therefore, all claims should be submitted to the carrier for evaluation. The positions expressed herein are opinions only and are not to be construed as any form of guarantee or warranty. Finally, given the extremely dynamic and rapidly evolving COVID-19 situation, comments above do not take into account any applicable pending or future legislation introduced with the intent to override, alter or amend current policy language.

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