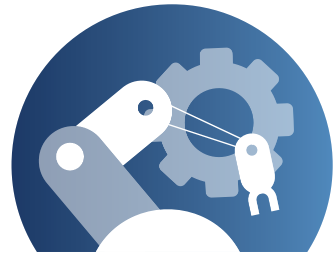
MANUFACTURING GROUP
2021 STATE OF THE COMMERCIAL P&C MARKET



The past year has been challenging across the board, to say the least, especially in commercial property & casualty (P&C) insurance for the manufacturing industry. Manufacturing organizations have likely experienced rate increases, restricted coverage, increased deductibles, and decreased competition in the market environment regardless of loss experience. This P&C market report will shed insight into each coverage line specific to manufacturing and offer tips for navigating uncertain insurance renewals.

CORE RISKS

PROPERTY

- The property market, in general, is still in a “hardening state”. An uptick in frequency and severity of natural disasters in recent years has mainly been the cause.
- Insurance carriers have either pulled out of the property market entirely or limited their capacity in the marketplace. This has caused larger properties that have traditionally had one carrier insure the entire TIV, to now must have multiple carriers to build that same tower, leading to increasing rates.
- Carrier underwriting has been heavily scrutinized during the 2021 renewal cycles, as well. Underwriters are particularly wary of: building updates, maintenance programs in place, fire sprinkler type and service contracts, secondary risk characteristics, and disaster response programs that are in place.
- The geographic location, type of manufacturing being contemplated, and amount of TIV at a location are also major factors into rating calculations. Rate expectations: if you have a clean account with little to no claims, anywhere from 5-15% rate increases. If you have poor loss history and/or are in a cat-exposed geographical area, expect rates to increase by a minimum of 35 - 50+%.

AUTO

- Driving is the most common risk amongst all businesses, as simple business travel exposes liability.
- Most manufacturers are experiencing some form of supply chain pressure, some due to a lack of drivers supporting transportation companies. As a result, some transportation companies may reduce costs by reducing their insurance limits and intentionally or inadvertently breaching contractual terms.
- Also, the severity of losses continues to rise due to increased litigation financing, anti-corporate juries, and replacement part inflation. So, if a transportation company’s limits are exhausted in the event of an accident, attention will shift to the manufacturer’s transportation or cargo policies.
- Auto rate expectations are 5-15% increases.

CYBER LIABILITY

- Ransomware attacks cost manufacturing organizations $20.8B in 2020. This figure includes all costs associated with ransomware events, such as forensics, data restoration, business interruption, ransom payment, defense costs, regulatory fines, and legal damage awards.
- The average premium increase across the board was 18% in Q1 2021. The cyber market hardening is attributable to frequent and more severe claim activity, especially within the manufacturing industry. However, this market fluctuation is relatively new because manufacturing organizations have enjoyed low cyber premiums prior to 2020 despite the significant, inherent risk for the manufacturing industry.
- Many underwriters are requiring Multi-Factor Authentication (MFA) to offer renewal quotes for manufacturing firms. If MFA has not been implemented, beware of outright non-renewals. This increased underwriter scrutiny leads to supplemental application requirements, vendor management review, and cyber incident response plan verification.
- Security awareness training is a key risk management measure to reduce human error risk. Periodic education is important, but the real value lies in simulated phishing testing on employees.

EXECUTIVE LIABILITY (D&O, EMPLOYMENT PRACTICES LIABILITY, FIDUCIARY, CRIME)

- Directors & Officers (D&O) Liability recorded a significant average price increase of 15.1% for Q1 2021. Manufacturing companies with specific risk drivers, such as substantial debt or bankruptcy concerns, continuing COVID-19 exposures, or groups with recent losses will experience premium increases in excess of 15%.
- Rates, terms, and capacity will continue to see upward pressure into 2021. Underwriters are concerned about a company's liquidity/solvency, guidance and responsiveness to COVID-19, revenue disruption, and business plan changes in the wake of the pandemic.
- Employment Practices Liability (EPLI) rates for Q3 2020 increased anywhere from 8% to 21.9%, according to the highly regarded Council of Insurance Agents & Brokers Survey (CIAB).
- Employers are collecting more information about employees as they test for COVID-19 as part of their reopening practices. This may lead to more employee privacy claims and ADA claims. In response to these types of actions, manufacturing firms should anticipate high retentions, hard-market pricing, and conservative terms to continue in the future.
- The manufacturing industry is facing continual challenges related to COVID-19 and declining reimbursement rates. A hardening executive liability market further exacerbates the stress on their financial position.

LIABILITY (GENERAL, PRODUCT & UMBRELLA)

- The liability marketplace continues to experience significant liability losses stemming from many sources, including auto accidents, sexual abuse and molestation, traumatic brain injuries, and a number of large class actions suits (wildfires, active shooter, and opioid cases).
- Unsustainable combined ratios (the primary profitability metric for insurance companies) for the manufacturing industry are the primary driver of firming rates.
- Expect to see General Liability rate increases continue throughout 2021. This is based on manufacturing trends and recent reports that anticipate a continuation of rising medical costs, social inflation, increased attorney involvement, and funded litigation, as well as higher jury awards.
- Today's legal climate will canvas all parties remotely involved in the manufacturing and distribution of a product, so contractual review with vendors and distributors/dealers/customers is critical in proactively mitigating legal exposure through proper risk transfer language.
- Since the pandemic, communicable disease exclusions have been added to most renewal programs, particularly for highly exposed industries, such as manufacturing, health care, retail, and hospitality.

WORKERS’ COMPENSATION

- Over the past 10+ years, many states have decreased base rates, lowering the initial factor in determining overall premiums.
- There is some uncertainty around the future cost of COVID-19, and presumptive state legislation could contribute to rate increases in the future.
- Additionally, manufacturers continue to improve processes with technology and protocols, lowering loss expectations.
- In general, Workers’ Compensation rates are set by NCCI and other states; therefore, carriers create competition in the marketplace by offering dividends. Assuming relatively good loss experience, manufacturing companies should look for dividends in excess of 10% and containing a fixed structure rather than a sliding scale.
- The insurance industry saw decreases in workers’ compensation premiums while maintaining profitable combined loss ratios below 90%. Rate expectations are -15% to 5%, but we could see additional volatility with a significant fluctuation in the experience modification rate (EMR).

* Please note Workers’ Compensation varies by state, so keep in mind, these are general comments.

TIPS FOR NAVIGATING THE MARKET

- **Depending on size and complexity, start the renewal planning process between 4-6 months out.**
- **Craft a carrier RFP that highlights your positive risk characteristics and gains preferential treatment.**
- **Utilize analytics to project renewal pricing and improve negotiation leverage.**
- **Consider using video conferencing to meet with competing underwriters and personalize the process.**
- **Demand a detailed coverage analysis to avoid punitive exclusions being added to your program at renewal.**
- **Request a detailed service plan after binding the renewal to ensure a return on broker compensation.**
- **Work with a broker who understands the nuances of an evolving manufacturing landscape and has strong relationships with carriers.**

AHT Insurance is an insurance brokerage and consulting firm offering property and casualty, employee benefits, retirement, private client and international services for clients throughout the United States and 42 other countries. Supporting numerous industries and boasting national recognition in the technology, manufacturing, government contracting and nonprofit practice areas, AHT offers clients highly customized solutions to identify and help mitigate risks they may face. AHT’s professionals put clients’ needs first and focus on what they do best –providing best-in-class service and solutions. Learn more about AHT at ahtins.com.

AHT INSURANCE
A BALDWIN RISK PARTNER