AHT INSURANCE
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A Perfect Storm

2022 Mid-Year State of the Insurance Market

Insights for navigating turbulent times

Commercial Risk
Employee Benefits
Private Risk Management

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INTRODUCTION

Labor shortages. Rising inflation. Persistent supply chain slowdowns. Catastrophic weather events. Not to mention a near-global war in Ukraine. Each one of these current phenomena would be a major disruptor on its own. But together, they are causing significant impacts on almost every segment of the economy for businesses, organizations, and individuals.

At the same time, insurers, which typically safeguard against financial losses and provide a layer of security in periods of uncertainty, are also experiencing challenges and shifting fundamentals. Social and economic inflation is also wreaking havoc on claims-related losses, insurance costs, and individual policyholders and is impacting companies across the board.

As a result, markets for Commercial Risk, Employee Benefits, and Private Risk Management are all experiencing sizable headwinds at this time. In fact, a myriad of business-altering trends are not only causing major challenges, but they are also reshaping the protection insurance carriers offer and limiting their capacity to underwrite certain risks. These trends have had the greatest impact on certain lines of coverage such as catastrophic property and cyber insurance, as well as geographic areas that have seen extensive, historic losses, which are only projected to get worse due to the mounting effects of climate change.

With so much instability on the horizon, how can businesses, organizations, and individuals protect what's important to them, weather the storm, and ensure best possible outcomes? And how can their business advisors truly help them through these challenging times? The key is to understand current market forces along with the risks each one represents – and plan appropriately.

In our 2022 Mid-Year State of the Insurance Market report, we will examine:

- **Key trends in Commercial Risk, Employee Benefits, and Private Risk Management**
- **Significant challenges businesses, organizations, and individuals face right now**
- **Potential opportunities to mitigate impact, maintain stability, and protect profitability**
- **Important ways advisors can help both business leaders and individuals move ahead in these challenging times**

COMMERCIAL RISK

EXECUTIVE SUMMARY

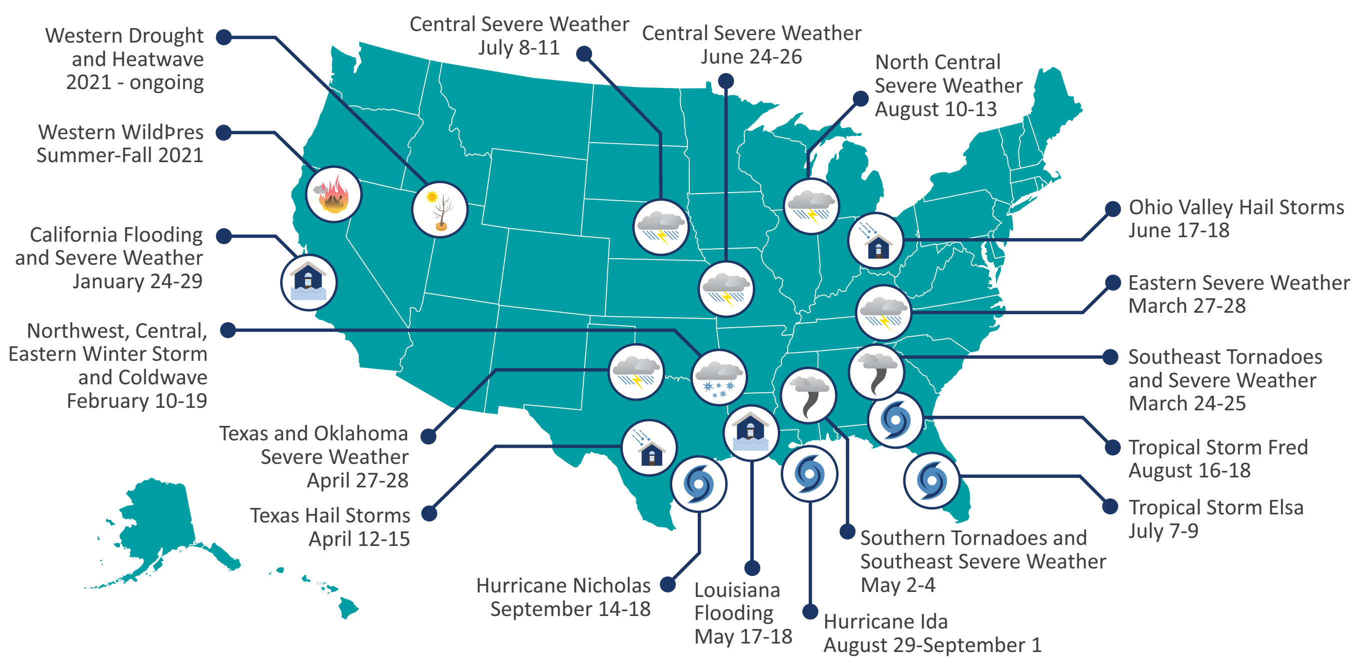
At this time, a hard market persists in commercial risk insurance, and it doesn’t show signs of softening. Contributing factors include:

Weather-related disasters

Data shows that storms, floods, and other weather events caused $148 billion in insured losses in just 2021 alone. These losses, combined with social and economic inflation and supply chain issues, are not only sending premium rates sky high for policyholders, but they are also making it difficult for insurers to determine accurate replacement costs in the event of a loss.

In 2021, each one of just 20 storms caused $1+ billion of damage. The total cost from these events totaled $148 billion and contributed to a five-year (2017-2021) total of $764 billion for an average cost of $153 billion per year for this period. *Source: https://www.ncei.noaa.gov/access/billions/*

U.S. 2021 Billion-Dollar Weather and Climate Disasters



This map denotes the approximate location for each of the 18 separate billion-dollar weather and climate disasters that impacted the United States, January-September 2021.

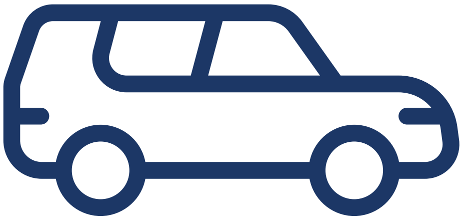
The risk of cyberattacks

The threat of cyberattacks remains heightened as more actors find creative and malicious ways to infiltrate computer systems, dupe users, steal data and money, and cause untold damage and disruption. Ransomware incidences, in particular, have shot up more than 150 percent since last year and damages are expected to exceed **$265 billion** by 2031. According to **Harvard Business Journal**, “Insurers are taking bigger losses, seeing tighter margins, and relying more on reinsurers to cover their own risk.”

Social inflation

Growing public distrust of companies, increasing litigation costs, and eroding tort reform legislation are all contributing to a surge in lawsuits against businesses, claims filed against insurance companies, and exorbitant amounts awarded to plaintiffs. Because the level of uncertainty and amounts associated with these trends is difficult to predict and quantify, the overall effect is increasing costs - for everyone.

Insurance lines currently most affected by social inflation:



COMMERCIAL AUTO

MEDICAL PROFESSIONAL LIABILITY

Supply chain issues

What originated as an after effect of the pandemic has only worsened due to labor shortages. Slowdowns in global supply chains have led to lower inventories for everything from armchairs to zucchinis, driving up prices and limiting revenue for many businesses.

These are just a few of the key highlights in our report for Commercial Risk.
Read on for a closer look at the current trends, challenges, and opportunities for stakeholders in this market.

STATE OF THE COMMERCIAL INSURANCE MARKET

While many insurers adapted processes and practices over the past few years to survive and better position their post-pandemic operations, a deluge of natural disasters, soaring inflation (both economic and social), historically low interest rates, supply chain slowdowns, and skyrocketing incidences of cybercrime have caused carriers to retrench, solidifying a hard market of higher premiums, lower capacity, more stringent underwriting, and less competition. The impact? Lowered expectations for organic growth.

Although commercial carriers have grown by rate and exposure, they have not grown by the actual number of policyholders they insure. Growth has also been stymied by the triple pressure of rising losses, increasing expenses, and lower earnings, which only grew at 2.6 percent the first nine months of 2021.

In its recent 2022 market segment outlook, AM Best noted near-term challenges including inflation, an uneven economic recovery and continued pressure stemming from social inflation, such as extremely hefty jury awards and settlement costs.

Rising Tide: Expenses, Losses

- According to McKinsey's Global Insurance Report 2022, from 2014-2019 expense ratios did not improve (and even rose) for more than 50% of global P&C carriers.
- The frequency of severe ($15 million or greater) liability losses is expected to continue to grow as a result of social inflation.

Weather-Related Losses

With increasing global warming, higher temperatures, and drier conditions, the possibility for more extreme weather events like wildfires, droughts, floods, and more intense storms also rises - and so does the potential damage.

The 2021 hurricane season ranked as the third most active year in history. Total damages are estimated to cost more than $67 billion. Hurricane Ida alone caused more than $60 billion in damages and was linked to 26 deaths in Louisiana and 50 deaths in the Northeast.

The outlook for the 2022 hurricane season doesn't appear to show much promise for relief. Weather experts at Colorado State University recently noted an above-average chance for activity.

Outlook for 2022 Hurricane Season: Unsettled

40% above average chance for activity

13-16 named storms

6-8 hurricanes

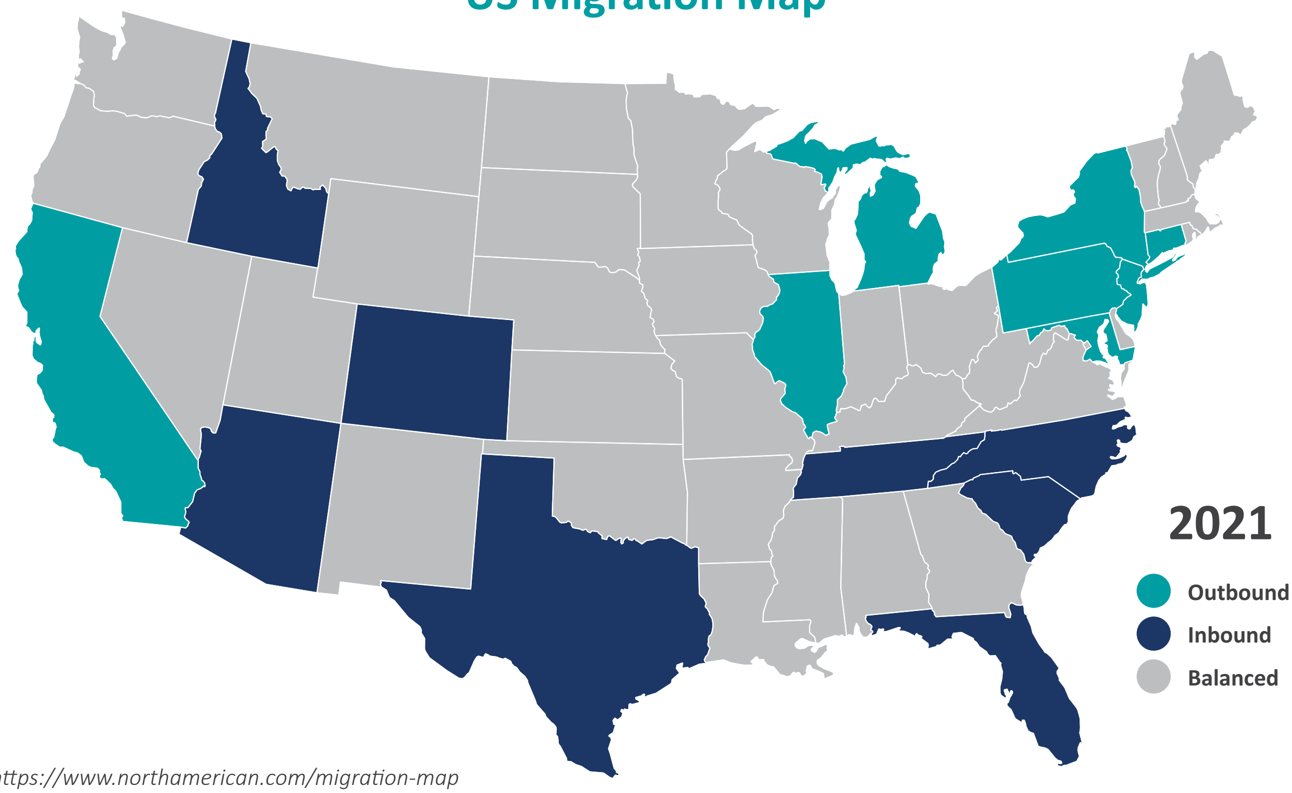
2-3 major hurricanes

Source: Colorado State University

Flooding from storms also costs billions of dollars every year. According to research conducted by First Street Foundation, 2022 predictions peg structural damage due to flooding at $13.5 billion. To make matters worse, flooding no longer seems isolated to coastal areas nor present a single threat. As Hurricane Ida proved, just one storm can extend its course, change conditions, and reverberate across different regions, leaving a path of destruction from the Gulf Coast to the northeast, even as it gets downgraded in intensity.

Further complicating matters is the great migration of people moving to warmer regions, particularly Florida. As an aftermath of the lockdowns mandated during the COVID-19 pandemic, people are moving to lower population densities as they retire, make lifestyle shifts, or simply choose to live closer to family members. Unfortunately, the largest influxes are occurring precisely in areas where the threat of extreme weather events and incidences for damaging storms is greatest, putting more people and property in harm's way and ratcheting up the potential for greater losses.

US Migration Map



ource: https://www.northamerican.com/migration-map

These colliding trends are not only widening exposure, but also making it more difficult for insurers to accurately price coverage and assess risk. As a result, many are now:

1. **Increasing premium rates** by an average of 15 percent - this takes into account non-catastrophic exposed property. Coastal accounts with losses or undesirable construction characteristics are seeing higher rate swings.

2. **Decreasing limits,** increasing deductibles, and setting more stringent underwriting guidelines, making it harder for businesses to qualify for coverage or even renew existing policies.

3. **Finding current business models inadequate** for predicting rapidly rising prices and determining realistic replacement cost values on new policies.

4. **Exiting certain markets** and geographies to further limit exposure.

What's Going on with the National Flood Insurance Program?

It was supposed to be fairer, easier to understand, and more reflective of a property's true flood risk. But the new Risk Rating 2.0 adopted by FEMA to overhaul the way premium prices are calculated for flood insurance coverage has led to further disruption in the industry. Instead of issuing more equitable rates in areas that may have been underpaying where there was a greater exposure to flooding risk, rates have actually skyrocketed for those with little to no risk at all. And some with a greater chance of flooding have received a reduction in premium, causing even more confusion for policyholders. **According to PropertyCasualty 360, there are four factors contributing to the inconsistencies:**

A new artificial rate cap has been implemented so that no matter the actual risk exposure, of an NFIP policyholder's property, they will never pay more than $12,125 per year for their policy, which still creates incentive to develop housing in flood-prone areas.

Rates do not align with risk. No matter how many losses a property has experienced over the past two decades, the structure is still rated as though it has never had a loss.

Discounts unrelated to specific risk will continue regardless of an individual property's risk profile.

No refunds after an NFIP policy has been in force for more than 30 days, making it almost impossible for advisors to help clients replace it with one from a private insurance company that may offer better coverage or lower rates.

A Tale of Two Types of Industries

CHALLENGED:		NOT CHALLENDGED:
Habitational Construction Public Entities (ex. utilities, transit authorities, municipal buildings)	VS.	Financial Institutions Technology

Opportunity

Engage with a broker proactively to review submissions, as well as property modeling results, together to ensure construction characteristics are accurate and all factors that enhance the desirability of a risk are included. It is also prudent to work with lenders prior to the renewal process in the event that a potential renewal structure is acceptable (example – a loss limit to reduce overall costs when a lenders requirement is 100% replacement cost).

Persistent Supply Chain Slowdowns

Rising import costs, material and product shortages, shipping bottlenecks, and labor challenges are some of the major factors impacting the supply chain. Slowdowns and delays are drastically decreasing the availability of raw materials needed for many businesses to produce goods and services, and the lack of supplies lowers the ability to meet demand and fill work orders. Industry research also sheds light on this continuing trend. According to the Federal Emergency Management Agency (FEMA), a full 25 percent of businesses do not reopen after a disaster strikes.

The supply chain crisis is unlikely to disappear anytime soon. As a result, businesses across industries continue to see lower revenues and cash flows, forcing some to skinny workforces, pass on projects, and/or close their doors, which only makes the problem worse.

Addressing risks associated with the supply chain crisis will be important for businesses moving forward. Cash management, in particular, can help. By reviewing processes and costs throughout the operation, business leaders can identify unnecessary expenses, production inefficiencies, and material waste that can be cut to optimize cash flow. In addition, managing the risk of suppliers will also be key to operating effectively. Understanding the ability of major suppliers to meet requirements and get visibility into inventories and fulfillment will not only help businesses develop plans to help secure alternative vendors, but also help prioritize high-demand supplies so the most important products are not out of stock.

Hope on the Horizon?

Companies like United Parcel Service (UPS) are deploying innovative solutions, such as RFID tags to ramp up productivity, effectively manage labor shortages, and eliminate more than 20 million manual scans of packages daily to speed deliveries.

Opportunity

Business leaders should partner with a broker to take a transparent look at their exposure to supply chain risk, take steps to mitgate weaknesses in an unpredictable market, and offset the negatve effects of the ongoing situaton. An experienced broker should help your company build a risk management strategy that leverages the most appropriate insurance coverages and optons to help businesses withstand further supply chain disruptons—and ensure a best possible outcome in the future.

CYBER RISK

Transformational Claims

As organizations across industries leverage more technology solutions to improve efficiency, work remotely, conduct business online, and facilitate virtual transactions worldwide, this gives malicious actors and organizations more opportunities to take advantage of, identify, and exploit virtual vulnerabilities. Almost overnight, the fundamentals of this business line have turned on their head. Research shows:

- Data breaches exposed 36 billion records in the first half of 2020
- As of 2020, the average cost of a data breach is $3.86 million
- On average, ransomware attacks cost businesses $133,000
- More than 77% of organizations do not have incident response plans in place.

Because the severity and frequency of claims continues to rise year over year, cyber insurers are taking a close look at how this trend is impacting their profitability. Recent losses, threat volatility, and lack of historical data create layers of unpredictability that make cyber insurers wary of providing broad coverage. They are also offloading a greater percentage of risk to reinsurers to stay in market.

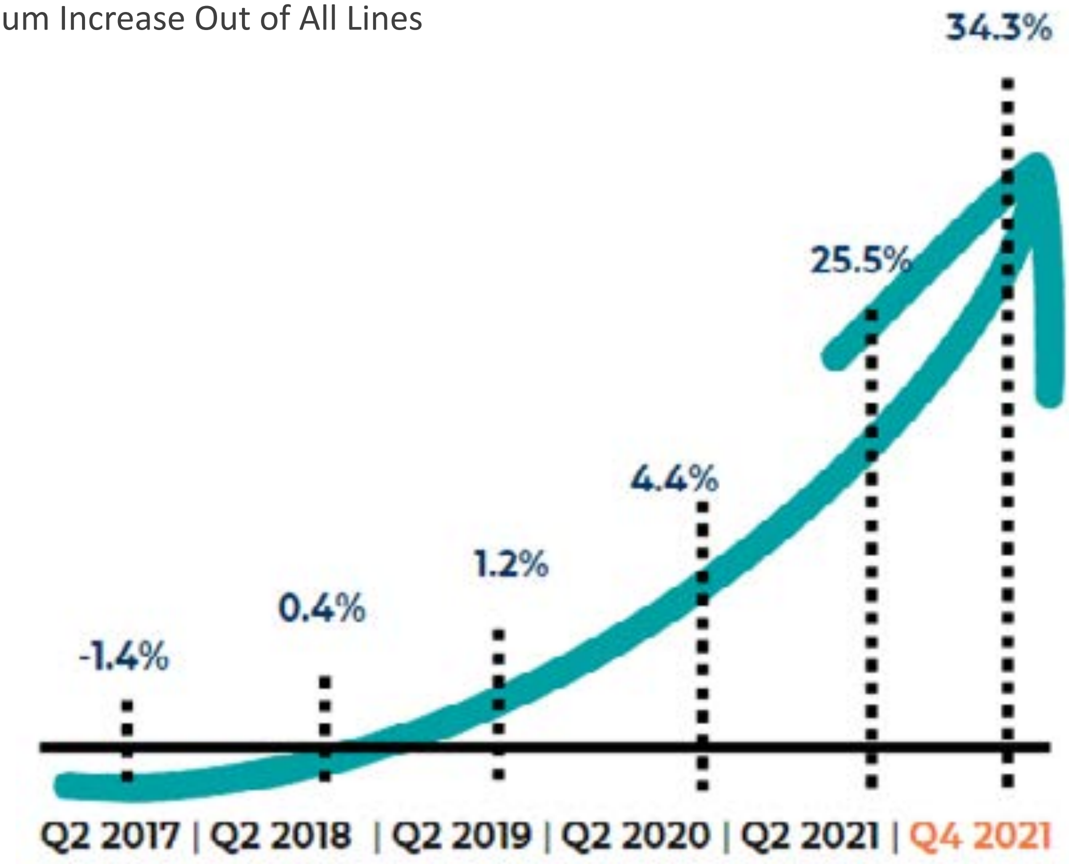
As a result, premiums are up, deductibles are up, and capacity is down. The requirements to get and even renew existing policies are also increasingly numerous and stringent, going beyond a surface-level assessment of IT systems and firewalls. For example, carriers want to see longer passwords for system access, two-factor authentication for all employees and devices, documentation of incident response plans, and ongoing cybersecurity trainings for all staff members.

Carriers are decreasing their overall capacity, particularly in sectors that have been hardest hit by cybercrime, namely:

- **education**
- **healthcare**
- **public entity/government**
- **construction and manufacturing**

Cyber Premiums: 34.3% increase

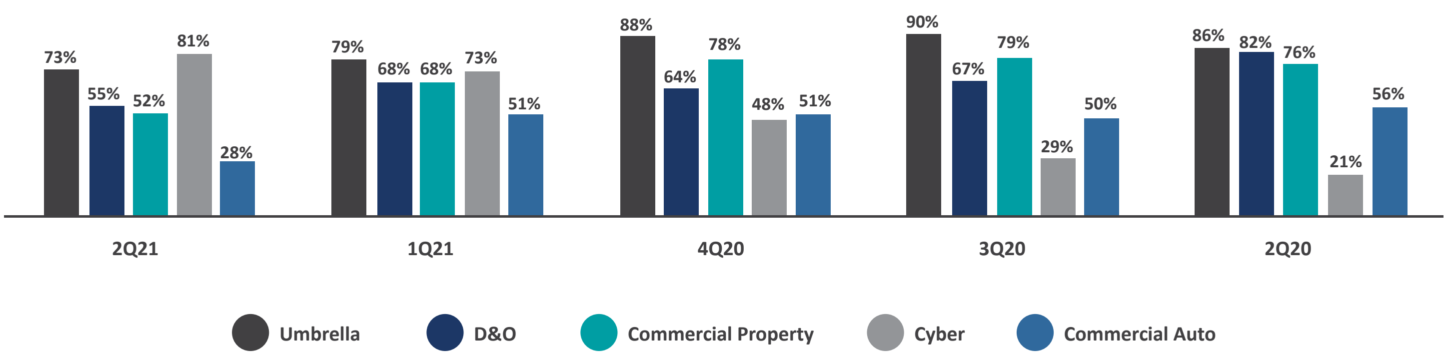
Highest Premium Increase Out of All Lines



Source: The Council of Insurance Agents & Brokers' Commercial Property/Casualty Market Report Q2 2021
(The data provided above contemplates a significant amount of smaller enterprises and the rate environment is more stable for more Mainstreet businesses. We are seeing more market volatility in the middle market space. Each insured should understand the unique nature of their risk profile and rely upon more individual expectations setting by your Advisor firm.)

Underwriting: Drastic Decrease in Capacity

Respondents Reporting a Decrease in Underwriting Capacity



Source: https://www.insurancebusinessmag.com/us/news/cyber/cyber-insurers-hiking-premiums-lowering-coverage-limits--report-312738.asp

Keep cybersecurity practices up to date.

Currently, the Cybersecurity & Infrastructure Security Agency (CISA) suggests business leaders adopt a heightened cybersecurity posture using these best practices:

- **Mandate** the use of multi-factor authentication on systems to make it harder for attackers to get onto your system.
- **Deploy** modern security tools on computers and devices to continuously look for and mitigate threats.
- **Check** with cybersecurity professionals to make sure that systems are patched and protected against all known vulnerabilities. Change passwords across networks so that previously stolen credentials are useless to malicious actors.
- **Back up** data and ensure that offline backups are beyond the reach of hackers.
- **Run** emergency drills so that you're prepared to respond quickly to minimize the impact of any attack.
- **Encrypt** data so it cannot be used if it is stolen.
- **Educate** employees on common tactics that attackers will use over email or through websites. Encourage them to report if computers or phones experience crashes or operate very slowly.
- **Assess** the cybersecurity posture of third-party vendors with access to critical systems and sensitive data.

Opportunity

There is no instruction manual to navigate the complexities of the cyber insurance space from point A to Z, but there are deeply experienced insurance professionals who navigate them day in and out for their clients. You should align with a broker who understands how you can develop an offensive strategy against malicious actors due to the volatile current threat landscape. Our team has a pulse on underwriters' ever-evolving expectations for cyber security programs and maintains trusted relationships with insurers.

We help underwriters understand your cyber risk in its totality, which better positions your company's risk profile and makes insurers more likely to take on your risk. The ability to do this is especially critical for those with a loss history who will find it even more difficult to find coverage. Because cyber threats, the insurer market, and coverages change constantly, we continually provide in-depth coverage comparisons, proposals, and webinars that help educate clients about how to help protect critical digital assets and mitigate losses.

EXECUTIVE RISK

EMPLOYMENT PRACTICES LIABILITY

Rates for Employment Practices Liability (EPL) are slightly improving at this time. **But potential litigation still remains likely due to trends in this space, including, but not limited to, the following:**

The growing number of controversial return-to-work policies that require employees to get vaccinated.

- **Continuing social change movements**, like Black Lives Matter, and Me Too, along with greater efforts for diversity, equity and inclusion (DEI) for businesses. Each of these continue to challenge the market with new employment-related litigation. In turn, companies should expect insurers to ask for details about their practices and programs when they renew or apply for coverage.
- **A push for pay equity in many states,** which now requires disclosure of pay ranges for workers and applicants. Lack of transparency or compliance could set off a slew of lawsuits.
- **An uptick in disability accommodation requests from employees and potential new hires.** This should serve as a signal to HR and EEOC teams to remain up-to-date about how to best comply with anti-discrimination and ADA rules and regulations to avoid any conflict.

As a result of these trends, underwriters will likely look for ways to relieve pressure on profit margins and limit losses.

DIRECTORS & OFFICERS INSURANCE

A LOOK AT WHERE WE STAND IN 2022

After several years of hard market conditions, we have begun to see a modest softening in excess Directors & Officers (D&O) liability rates through Q1 2022, likely driven via transitioning supply/demand dynamics.

2021 proved to be a record year for initial public offerings, with over 1,000 new listings (including 613 SPAC IPOs). Q1 2021 was particularly noteworthy, with nearly 400 business listing shares on public exchanges, raising $140 billion in capital. This increased activity on the IPO front created significant additional demand on a market already dealing with a constrained supply.

Consequently, over the past 12-18 months, a large amount of new capacity has entered the D&O marketplace, attracted by the elevated premium rates and retentions prevalent across the space. More specifically, new insurers have primarily entered the excess D&O market, adding substantial new capacity to the marketplace, and helping to stabilize rates for clients.

Q1 2022 stood in stark contrast to that same period in 2021, with only 77 new companies entering the public markets (53 being SPACs). While it is likely the IPO market will thaw through the middle of the year, to date the capacity available in the market appears to outweigh current demand. We are starting to see this shift translate into a more favorable environment for clients, as carriers increasingly focus on renewing existing books of business. Additionally, we have noted a change in insurer underwriting appetite, showing flexibility to broaden contract language around previously restrictive terms. Finally, we posit that the increase in interest rate levels should serve to buttress insurer investment portfolios, allowing for even greater flexibility across underwriting.

Although the macroeconomic outlook remains somewhat unstable (global conflict, inflation, etc.), we remain cautiously optimistic about the D&O rate environment through the remainder of 2022. Absent any significant exposure changes, we anticipate stable renewal premiums for most clients through the remainder of the year. Furthermore, we believe that current D&O premium levels, particularly on the excess layers, should benefit from new market capacity, and may ultimately serve to drive material savings for many clients.

Our Renewal Recommendations:

START EARLY:

The renewal process should begin at least 90-120 days prior to the renewal date, with a strategy discussion. Time is a critical tool in the renewal process, allowing for a broad marketing effort to ensure best-in-class pricing and terms.

RUN A COMPETITIVE MARKETING PROCESS:

We recommend a broad marketing process for most clients in 2022. Host an underwriting call for insurers to hear the company story directly from the executive team. The call will expose the firm to new D&O market entrants, while also serving to drive competition with incumbent insurance carriers.

REVIEW POLICY LANGUAGE:

Policy terms and conditions should be reviewed at each renewal. Carriers are increasingly open to negotiate material coverage enhancements in the current marketplace.

GENERAL LIABILITY

Pervasive Social Unrest and Inflation

Social inflation is straining the market. Increasing litigation, nuclear verdicts, and moves to roll back tort reform are the specific trends driving change.

According to Verisk, which compiles insurance data nationwide:

- The average size of jury awards rose almost 1000 percent from 2010 to 2018 to about $22 million.
- There was a 300 percent increase in verdicts of $20+ million in 2019 alone compared to the average from 2001 to 2010.

Social unrest is also impacting losses. For example, the World Economic Forum estimates current insurance losses from the George Floyd protests and social unrest from 2020 at $2 billion. With little and sporadic historical data, these types of activities are difficult for insurance carriers to quantify with accurate pricing models and hamper their ability to set appropriate reserves.

If the likeliest source of a third-party claim against a business is a member of the public, increases due to social inflation costs, such as habitational risks, retail, and hospitality, are more likely.

"The frequency of severe ($15 million or greater) liability losses is expected to continue to grow as a result of social inflation, which is the phenomenon of increasing claims costs due to changing societal factors, such as legal advertising, litigation financing, the appeal of class action lawsuits, and growing public distrust of corporations."

Source: Jdsupra.com

Opportunity

Deeper evaluation of loss mitigation practices, as well as ensuring a nimble and responsive claims outcome management process, can help differentiate your business. Business leaders should work with a broker to leverage their relationships with insurers that understand different business segments and potential exposure to risk and also remain committed to offering general liability coverage at reasonable rates over the long-term.

AUTO

At this point in time, many insurers that previously retreated from this market to shield themselves from the rising incidences of nuclear verdicts are beginning to re-emerge.

Several encouraging trends are emerging:

- Premium rates are starting to flatten, particularly for those companies that own fleets with more favorable risk profiles and fewer losses. The trucking industry, however, is still experiencing a rising cost of business due to escalating insurance costs.

- Increased deductibles, self-insured retention and other alternatives are expanding previously limited opportunities for riskier fleets. This means they can gain the insurance coverage they need to operate, albeit at an increase.

- Insurer appetite is currently geared around companies that have both a laser-like focus on safety and a heavy use of technology and telematics to monitor vehicles on the road.

- Legalization of both medical and recreational use of cannabis as well as the ubiquitous use of cell phones have contributed to more distracted driving crashes–and losses for insurance companies. A recent study found about 50 percent of all settlements exceeded $500,000 and average settlement payment was $629,375.

Looking ahead, industry sources predict the overall commercial auto insurance market will continue to rise.

UMBRELLA

While other markets show some signs of softening, the commercial umbrella insurance market remains firm due to several persistent trends:

- **The keyword "more"** - More motor vehicles on the road driven by more distracted drivers who are causing more accidents - the result? Yes, more claims by companies to cover the damages and injuries.
- **Historic rise in inflation** is drastically elevating the cost to rebuild, repair, and replace property, making it even more challenging to price coverage appropriately.
- **Limited capacity to underwrite business profitably** continues given the unpredictable nature of the current risk environment and the ever-increasing size of potential losses.
- **Social inflation** stemming from increasing numbers of lawsuits, legal fees, and massive jury verdicts continues to drive up claim costs for insurers and, consequently, premiums for businesses.

As a result, greater use of effective risk mitigation practices and programs are likely to help this segment move forward.

EXCESS & SURPLUS MARKET

Escalating Catastrophic Losses

The E&S market is growing due to admitted carriers pulling back. E&S carriers/Managing General Agents are more agile than their admitted counterparts but still are straining under profitability pressures. This has led to serious pullback and reduction in the total number of viable markets for any single risk, as well as the need to build limits with multiple carriers on both the layered property and excess liability side. Where a carrier would previously offer $10M, they may now only be able to offer $1M (due to general guidelines changing or reinsurance treaty changes). This leads to further inflated rates, as most E&S carriers have minimum premiums. For example, $10M last year could have been $100K premium, this year it is $100K premium for the first $2.5M and $25K-$50K minimum for each additional $1M of limit.

As a result, retrenchment is occurring. E&S carriers are likely to adjust their risk appetites, reduce their books of business, and not surprisingly, increase deductibles and rates especially for business property in catastrophic (cat)-prone coastal areas.

The 2022 E&S property hard market

Expectations

- Rate increases north of 20% will be widespread
- Higher deductibles
- Tighter terms and conditions
- Strong demand as submission flow accelerates
- Capacity shortages in some tier 1 and tier 2 zones
- Capacity crunch in some loss struck areas (commercial/residential/hab)
- Carrier enrtrenchment from MGAs and other parts of portfolio
- Some incumbents that have been conservative will seek growth
- MGAs may see top line growth on reduced capacity as pricing surges

Drivers

- Significantly higher reinsurance costs for property cat
- Less availability of lower layer/aggregate reinsurance coverage
- Portfolio repositioning by carriers to manage PMLs
- Greater focus on insurance-to value
- Concern over loss creep/inflationary pressures not factored into models
- Surge of business through the wholesale channel as admitted market moves away from cat
- Potential for higher capital charges against cat for carriers as ratings agencies respond
- Boardroom level concern about climate change at carriers and how to manage volatility of earnings

Source:https://www.theinsurer.com/news/us-cat-focused-mgas-seek-new-capacity-as-carriers-retrench/19542.article

EMPLOYEE BENEFITS

Executive Summary

Currently, a wide range of factors largely stemming from the aftereffects of the COVID-19 pandemic, are driving up operating budgets for U.S. employers.

Among the key trends:

- **The Great Resignation.** This trend has spurred a massive labor shortage across industries as people leave jobs – with no immediate plans to assume new ones. The move has challenged processes, productivity, and profits for employers across the nation. As the Bureau of Labor Statistics reported, there were about 11 million job openings across the country on December 31, 2021—and only 6.3 million unemployed workers. *Source: Bureau of Labor Statistics*

- **Wage inflation.** To attract more workers back to the workforce, employers are paying higher wages and offering more robust benefit packages that absorb/share higher health plan costs, and include a broader array of employer-sponsored offerings that provide today's extremely diverse workforce with the customized and flexible options to help preserve a healthy work-life balance. As a result, the required resources to set up, administer, and maintain these programs are swelling overhead and impacting bottom lines. *Source: paycor.com*

Top 10 industries with highest % increases in labor costs over 2019

Industry	% increase	Industry	% increase
1. Air transportation	106.9	6. Periodical Publishers	11.1
2. Amusement Parks & Arcades	76.4	7. Newspaper Publishers	8.2
3. Travel Arrangement & Reservation Services	73.7	8. Couriers & Messengers	7.3
4. Warehousing & Storage	15.0	9. Automotive Repair Maintenance	6.5
5. Engineering Services	11.8	10. Commercial Banking	5.1

- **Larger spend for IT security.** The shift to more flexible work arrangements and work-from-home policies to accommodate employee preferences are, in turn, requiring employers to make greater investments in secure IT services, equipment, and training to protect against the increased threat of malicious cybercrimes.

- **Persistent supply chain issues.** The Great Resignation and global supply chain disruptions are very closely intertwined - creating an endless cycle of issues for those desperate to find talent and those on the receiving end of the supply shortage. On the supply chain front, the pandemic led to a loss of 1.52 million workers and a shortage of 330,000 truck drivers is forecasted through 2024, according to Business Insider. Bare shelves, inability to complete projects, and much longer shipping times is leading to unhappy, concerned customers.

"The imperative to protect increasingly digitized businesses, Internet of Things (IoT) devices, and consumers from cybercrime will propel global spending on cybersecurity products and services to $1.75 trillion cumulatively for the five-year period from 2021 to 2025."

Source: Cybersecurity Ventures, 2021

These are just a few of the key highlights in our report for Employee Benefits.
Read on for a closer look at the current trends, challenges and opportunities for stakeholders in this market.

EMPLOYEE BENEFITS

The U.S. workplace is undergoing a metamorphosis. Shape-shifting trends such as labor shortages, higher wages, diversity, equity, and inclusion (DE&I) initiatives, and higher health plan costs, are all converging at this time and causing significant increases in operating budgets for employers.

Industry sources report the following:

- **U.S. labor costs in Q3 2021 increased by the biggest margin since 2001** as companies boosted wages and benefits amid a severe worker shortage, suggesting inflation could remain high for some time.
- The Employment Cost Index (ECI), the broadest measure of labor costs, **surged 1.3 percent** in Q3 2021 after rising 0.7 percent in the quarter before, the Labor Department said in October. It marked the largest gain in 20 years.
- **The Bureau of Labor and Statistics** reports that compensation costs for private industry workers increased 4.8 percent over the past year.
- U.S. employers were expecting their group health plan premiums to increase an average of 5 percent in 2022, even after taking cost-management initiatives into account, according to recent employer surveys by **several HR consultancies**.

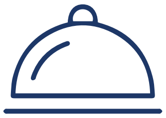
Labor Shortages

According to the Society for Human Resources Management (SHRM), a record breaking **4.5 million Americans quit their jobs** in November 2021.

Indeed, the pandemic put many things into perspective for frontline and essential workers across many industries, particularly healthcare, hospitality, logistics, food, manufacturing, and transportation, as they were either let go unexpectedly or worked longer hours to keep businesses up and running with smaller headcount. Faced with greater stress, workers reevaluated their lives and sought improved work-life balance, predictability in schedule, higher wages, and better benefits and perks. In a departure from historic labor trends, employees no longer feel that if they leave their current position, they won't be able to find another one when they want re-enter the workforce. As **SHRM** data suggests, they may be right. **Currently, there are more than 4 million more job openings than people who are looking for jobs.** Also contributing to the current labor shortage is an unexpected surge in retirement. **In November 2021, 1.5 million more people retired than what was expected based on pre-pandemic trends.** With more experienced workers retiring, now many employers experience a skills gap in their workforces.

The overall effect is a major disruption in the fundamental dynamics of the labor market, creating an acute shortage of workers across nearly all sectors of the U.S. economy. So now, not only do companies have to pay more to recruit and retain workers, but they are struggling to find applicants.

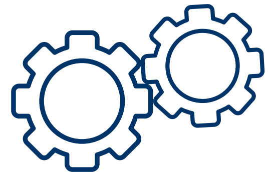
Facing severe headwinds for labor:



HOSPITALITY

FOOD

LOGISTICS



MANUFACTURING

Benefits are becoming more important as a recruitment and retention tool. Structuring compensation packages to offer more of the benefits today's employees want may provide a solution, but it will also likely transfer more costs to employers who are already navigating rising costs due to inflation, supply chain issues, wages, and other overhead.

Opportunity

An experienced employee benefits broker can help employers customize holistic compensation packages that offer high-value, low-cost benefits that meet the needs and preferences of today's employees, based on income level, stage of life, and age.

WAGE INFLATION

To attract and retain workers, employers have had to increase full time employee (FTE) budgets to offer increased pay and incentives. With inflation on the rise, some employers are deciding to revisit budgets and consider raising salaries beyond what they have already forecasted.

In fact:

"**Executives now estimate that salary increase budgets for 2022 will be 3.9 percent**, the highest growth rate since 2008." Source: The Conference Board, a membership and research organization for large businesses.

Benefits costs are also rising. As discussed earlier, there's a growing necessity for richer, more holistic benefits packages that offer perks beyond traditional health and retirement plans. By offering benefits such as adoption services, unlimited PTO, flexible work options, and financial coaching, employers hope to be more aligned with new perceptions about work and the evolving role of employers.

Structuring more robust benefits packages and increasing compensation levels for new hires may, however, create challenges, and put pressure on employers to adjust wages across the board for all employees to avoid the risk of high turnover from existing employees. Of course, by offering more benefits, employers run the added risk of increasing administration costs to manage all those extra benefits and responsibilities with adds to people, processes, and practices.

Opportunity

Business leaders should work with an experienced Employee Benefits team to explore ways that can help instill a greater appreciation of all they offer employees. Whether it's surveying employees to check on their satisfaction and/or to monitor which benefits they value most, they can help customize a full range of benefit offerings that are in line with specific employee populations.

"[It's] essential for employers to develop a compelling employee value proposition that includes competitive compensation and meaningful benefits, especially career development opportunities and flexible work."

Source: Society of Human Resources Management

LARGER SPEND FOR IT SECURITY

The shift to more flexible work arrangements and work-from-home policies to accommodate employee preferences are, in turn, requiring employers to make greater investments in secure IT services, equipment and training to protect against the increased (and more likely) threat of malicious cybercrimes. In fact, **Gartner** reports that cybersecurity is the top priority for new IT investment with more than 58 percent of spend going toward cloud security and data security.

Information Security & Risk Management End User Spending by Segment, 2020-2021 (Millions of U.S. Dollars)

MARKET SEGMENT	2020	2021	GROWTH (%)
Cloud Security	**595**	**841**	**41.2**
Data Security	**2,981**	**3,505**	**17.5**
Infrastructure Protection	20,462	23,903	16.8
Identity Access Management	12,036	13,917	15.6
Integrated Risk Management	4,859	5,473	12.6
Application Security	3,333	3,738	12.2
Security Services	65,070	72,497	11.4
Other Information Security Software	2,306	2,527	9.6
Network Security Equipment	15,626	17,020	8.9
Consumer Security Software	6,507	6,990	7.4

Source: Gartner

Heightening the necessity for cyber spending is the most recent announcement issued by the FBI about the growing likelihood of attacks on businesses and infrastructure due to U.S. economic sanctions imposed on Russia for its invasion of Ukraine. This new exposure strains already tight budgets to hire even more IT experts and invest in more training and systems—and with a layer of extreme urgency.

Opportunity

As the world continues to offer flexible work locations for employees, it is even more important that your IT and security team has the best coverage and plans in place for your business or organization. Fifty four percent of all ransomware attacks were successful, even in cases where organizations took preventive measures. This statistic illustrates the great need for business leaders to create effective incident response plans in the event they suffer an attack and their systems/data are compromised. Working with a broker who has deep cyber experience can help clarify existing coverages and confirm protection in case of a loss, which may include:

- System breakdown
- Power outage
- Virus or denial of service
- Income loss from disrupted service
- Theft
- Ransom of files/computers
- Privacy breach
- Damaged data or files

HIGHER HEALTH PLAN COSTS

The cost of health plans continues to rise and is taking a bigger bite out of employer budgets and employee paychecks. According to the **Kaiser Family Foundation' 2021 Employer Health Benefits Survey**, the total cost for employer-sponsored health insurance rose approximately 22 percent over just the last five years.

While employers seem optimistic that this sharp increase is simply a result of people feeling safer about seeing a doctor and taking care of conditions they put off during the pandemic, there are other factors that could result in ongoing cost acceleration, including claims for COVID-19, high-cost drug therapies, and inflation.

The impact is that employers can no longer continue looking toward traditional cost management strategies that shift the increasing cost to employees. More U.S. employers are shifting to self-funded health plans to contain employee benefit costs, which has experienced growth exceeding 10 percent in each of the past four years, according to **AM Best**.

The bigger challenge, however, is how to manage affordability of healthcare, while still offering the comprehensive medical coverage along with things like access to mental health services and wellness benefits, which are among the preferred offerings for many of today's workers.

Opportunity

Utilize an Employee Benefits broker who will take a more consultative approach when working with your business to squeeze efficiencies out of the benefits you offer and keep plans cost neutral. Among the expertise they should offer employers is:

- Help narrowing health plan options to offer most profitable/selected plans from the most efficient providers.
- Customizing health plan benefits to better mirror needs of specific and more diverse employee populations.
- Becoming even more effective at communicating benefit options to employees, and providing tools and resources they need to assess/choose the right health plan, etc.

PRIVATE RISK MANAGEMENT

Executive Summary

For individuals and families seeking to insure their home, property and valuable assets, industry experts say the effect of the current hard market may get worse before it gets better. More stringent underwriting guidelines, lower eligibility rates, increasing non-renewal notices, and declining capacity are all making it extremely difficult for individual insureds to acquire and afford the coverage they need.

Key factors noted in the following report include:

- **Destructive wildfires.** The impact of incredible losses from recent wildfires across the western U.S. are causing insurers to not only stiffen eligibility requirements to buy or renew coverage, but to completely retreat from certain markets, like California, Colorado, and Washington, where wildfire destruction has intensified in recent years.

- **Widespread fraud.** The fallout from frequent insurance fraud, resulting from predatory sales practices particularly in the state of Florida, is driving up claims and leaving insurance companies on the hook to pay for expensive and unnecessary services and/or incur legal costs to fight or settle the claims. To stymie continued losses, insurers have resorted to cancelling policies and leaving this geographic market at an alarming rate. The result is more stress on homeowners to secure coverage and more pressure on agents and brokers to help them find it at a price they can afford.

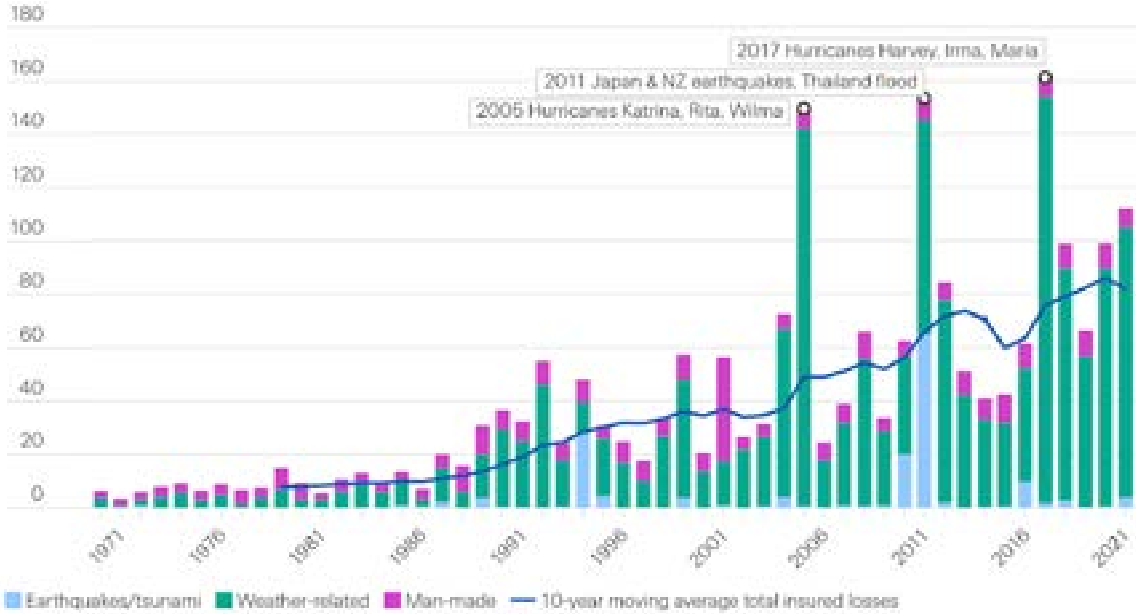
Across the U.S.
Insurance fraud costs consumers at least $80 billion every year.
Source: The Coalition Against Insurance Fraud (CAIF); https://www.iii.org/article/background-on-insurance-fraud

In Florida
"Property insurers are projected to post a cumulative underwriting loss of $1.7 billion due to runaway litigation costs."
Source: Mark Friedlander, iii.org

- **Floods, hurricanes, and tornadoes.** Rising temperatures due to climate change are driving a variety of weather-related events and stretching capacity for insurers. Whether it's floods, hurricanes, or tornadoes, events seem to be getting worse - increasing in number, impacting more areas, putting more people in harm's way, and causing greater damage. And it's getting harder for forecasting models to predict. Now, some insurers are "underwater". Others are drastically modifying guidelines to scale back exposure. Both of these realities are forcing homeowners to pay exorbitant premiums, leaving them underinsured in order to manage rising costs or without insurance at all.

Insured losses from weather catastrophes exceeded previous 10-year average.

USD billion (in 2021 prices)

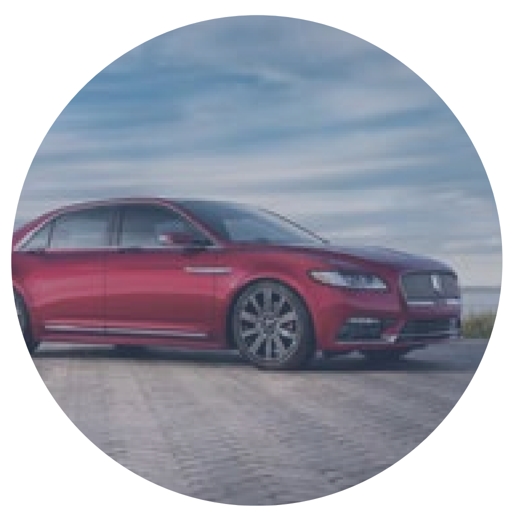


Source: SwissRe Institute

- **Soaring inflation.** Just as with food, gas, and almost everything else, individuals are also likely to pay more for insurance this year. For example, due to supply chain issues for cars and car parts, both new and used cars are increasing in value. So even small accidents are carrying huge price tags to fix damage.

1977 Car Part Average = $500

2022 Car Part Average = $1,137



These are just a few of the key highlights in our report for Private Risk Management.
Read on for a closer look at the current trends, challenges and opportunities for stakeholders in this market.

Mirroring trends that are occurring in the commercial risk insurance market, private risk insurers are also entrenched in a hard market. Suffering record losses from social inflation and billion-dollar weather events, insurers are doing whatever is necessary to better manage growing exposure to risk. Raising premiums and deductibles. Reducing capacity. And even exiting geographic markets in some cases. Unfortunately, these trends are making it difficult for individuals to get and afford the coverage they need to protect their homes, vehicles, and valuable assets.

Shifting winds

According to a 2022 EY report, insurance priorities for individual consumers are evolving.
As a result of coming through the pandemic, they have:

- A renewed focus on financial protection;
- More interest in obtaining affordable insurance alternatives; and
- A desire for customized coverages that fit their needs.

PROPERTY

WEATHER & WILDFIRE

Due to climate change, hotter average temperatures are leading to more numerous and destructive weather events, like wildfires, floods, and storms. In fact, record-breaking losses are reshaping the market for personal property insurance. In some cases, storms were not confined to a single geographic area as effects lingered and extended across multiple states.

Statistics compiled by industry sources give insight into the severity and frequency of current conditions:

- As of **May 2, 2022, more than 21,000 fires had already burned a total of 1.1 million acres** in the U.S., well above the 10-year average of about 16,000 fires and approximately 689,000 acres.
- A major fire in Colorado in January destroyed 1084 homes. Insured losses for this single event is estimated at more than **$513 million**.
- In 2021, wildfires cost insurers **$13 billion**; natural disasters caused $120 billion in insured losses.
- Hurricane Ida was the year's costliest natural disaster, with insured losses of totaling $36 billion from this one event.
- There were **20 separate billion-dollar** weather disasters last year alone.

In addition, the supply chain crisis, which continues to limit the supply of and increase the price for raw materials and construction supplies necessary to rebuild, and repair damages. It's also challenging insurers' ability to accurately estimate replacement values on homeowner policies.

FRAUD

Losses arising from social inflation are also impacting insurers, particularly exploding from fraud and "nuclear" verdicts. Roof-replacement fraud, for example, is playing a major role in claims trends, particularly in the state of Florida, where roofing companies are using predatory sales practices. After a storm, these companies canvass neighborhoods to get people to agree to repairs for roofs which are supposedly covered by insurance. Homeowners then sign an agreement which states the insurance company will pay the contractor for the cost of repairs. If the insurance company denies the claim because it finds that the roof damage wasn't caused by the storm, or the cost to repair is too high, the contractor will take the company to court.

Social inflation is also contributing to larger losses. According to the **Society of Actuaries**, total class action settlements in the U.S. increased more than 10 percent from 2019 to 2020 ($2 billion to $2.3 billion). In many cases, insurance research provider, **Conning**, reports that insurers are now paying out more money in claims than they're receiving from premiums.

Combined, the overall impact of these trends is resulting in multi-pronged challenges and making it more difficult for insurers to forecast risk, establish accurate premium levels, and assess replacement cost value for rebuilding structures. For individual policyholders, this means jacked up rates, more stringent underwriting guidelines, fewer insurers in market, and scaled back limits, all of which make it more difficult to purchase, or even renew, insurance coverage.

A study by the Florida Association of Insurance Agents found that while only 8.15% of U.S. homeowner claims were opened in Florida in 2019, Florida accounted for more than 76% of property claim lawsuits in the U.S. Moreover, between 2013 and 2020, Florida's property insurers paid out $15 billion in claims cost, of which only 8% was paid to consumers. A staggering 71% was paid to attorneys. The result was insurers lost $1.22 billion in the first three quarters of 2021.

Opportunity

Facing rising premiums, stricter underwriting requirements, and fewer insurers in market, individuals are challenged to find the insurance they need. Set yourself up for a successful outcome by working with an insurance broker who has deep expertise developing effective and creative ways to adjust coverage, will utilize their extensive network of insurers to help secure the most appropriate coverage, and will educate clients about how to remain an attractive risk to insurers. Be proactive taking preventive measures to protect your assets so insurers are more likely to positively view your risk profile. Keep up with home maintenance, trim back large trees, and replace shingle roofs that are more than 10 or 15 years old. Consider installing risk mitigation controls, such as a surveillance system, storm shutters, water shut off devices, and electrical system monitors. Implement cyber security best practices for your online accounts and devices, as cyberattacks continue to increase in frequency and severity. And be sure to review your insurance policies at least once a year to make sure the coverage still matches your need.

AUTO

Soaring Inflation

Individuals are likely to pay more for auto insurance this year, as well as the necessary car parts for repair in the event of an accident. According to **the U.S. Bureau of Labor Statistics**, prices for motor vehicle parts and equipment are 125.3% higher today than they were in 1977. And so far, 2022 has seen the third-largest price increase in this sector in more than 40 years.

Year	USD Value	Inflation Rate
1978	$515.22	3.04%
1988	$649.86	1.86%
1998	$671.47	-0.75%
2008	$854.89	5.89%
2018	$953.93	0.43%
2019	$972.36	1.93%
2020	$983.07	1.10%
2021	$1,029.88	4.76%
2022	$1,130.89	9.81%*

Source: https://www.in2013dollars.com/Motor-vehicle-parts-and-equipment/price-inflation

Exacerbating current conditions are accident victims suing more and winning a greater number of cases with larger settlements and jury verdicts, if they do go to trial.

For example, data compiled by CaseMetrix reports:

- A man struck by an elderly driver and suffered a brain injury was awarded $30.1 million.
- An Army vet disabled in a motorcycle accident in Alabama received an $18 million verdict.
- A cyclist was hit by a sportscar and won a $6 million settlement.

Opportunity

In a recent survey, 65 percent of drivers said they would allow telematics to monitor their driving if it meant a discount on their auto insurance. But the same survey revealed that only 27 percent of drivers actually understand this innovation. Work with a broker who has a broad background that includes auto insurance and will share information with you about the benefits of use-based premiums, help close the knowledge gap, and may help you save a little money at this time.

VALUABLE ARTICLES

At this time, several trends are impacting this sector. Increasing stock market valuations, soaring property values, and rising savings rates during the pandemic drove an uptick in personal wealth and spurred purchases of art and jewelry, as individuals had money to spend and added to their private collections.

Online buying made it easier to add to those collections. In fact, according to the **Art Market Report 2022**, "The shift online transformed buyer behavior and demographics. Different ways of purchasing art enticed new buyer segments," drove demand and contributed to strong performance in recent months.

However, the concentration of valuable articles and collections in disaster- and flood-prone areas also increased as individuals migrated to warmer climates in response to pandemic-induced lifestyle changes. Frequent wildfires challenged the market, as well. With little advance warning of one starting and little time to take precautions to protect or save valuable articles, chances for total loss rose.

Not surprisingly, individuals in states like California, Florida, and other areas where extreme weather events have resulted in catastrophic weather-related losses, are finding insurance coverage for their art and valuables becoming more expensive and more difficult to get. If and when they can secure coverage, they're finding it now contains new exclusions, higher deductibles, and higher premiums.

According to an article in the **artnewspaper.com**, "Individuals living in areas where there are recurring losses and claims resulting from natural disasters, who want full insurance protection for their art collections, are paying up to 25% increases in premiums at renewal."

As another way to reduce the overall exposure to risk, some insurers have started to place limits on transit coverage, which tends to be a major area of claims.

Opportunity

Check in with an experienced broker to learn about the importance of risk mitigation, especially if you live in places where natural disasters are recurring events. Creating preparedness plans, for example, can identify what events present the most exposure for risk and what action steps can be taken to limit your losses.

Review your existing insurance coverage to make sure you understand what's actually covered under your homeowners policy and review the replacement cost value for any art collections or valuable articles. If appraisals for certain items are more than a year or two old, it's wise to get a current appraisal, and adjust coverages as needed.

AHT INSURANCE
A BALDWIN RISK PARTNER

CLOSING

The insurance market is in a state of flux and will likely continue to face challenges over the short term. Fortunately, insurance brokers and advisors are prepared to help both businesses and individuals move ahead by sharing practical insights that can steady the way forward.

KEY TAKEAWAYS:

ALIGN WITH TRUSTED PARTNERS

With so much disruption and uncertainty, now is the time to align yourself with experienced broker partners who can help you navigate the everchanging risk and insurance landscape. Your trusted advisor should not only keep abreast of the current state of the market but also build and foster existing relationships with carriers and other partners to ensure your decisions are based on sound knowledge and guidance. Finding the best strategic partner who will take the time to understand and guide you through your unique situations is the the key to developing the most effective risk management strategy for you, your family, or your business.

KEEP A REALISTIC MARKET VIEW

With so many sectors of the economy in a state of unrest, it's important to only trust reputable sources of information and understand changing conditions so you can make the most informed decisions about possible impacts on your specific situation and how to respond appropriately.

COMMUNICATE. COMMUNICATE. COMMUNICATE

We always recommend keeping the lines of communication open with your insurance brokers and advisors, but now, it is more important than ever. Ask questions about your unique situations pertaining to the current market, update your broker about any changes in your business or personal life immediately, and strengthen the relationship with your broker. Your support team should be readily available to help, proactively offering guidance based on the current market, and helping you plan for a successful future – regardless of the current hard market.

As we continue to work through this unique and unpredictable time, we remain focused on exploring and developing creative and innovative ways to effectively address current challenges for our clients and future clients.

CONNECT WITH US TODAY TO DISCUSS YOUR CURRENT SITUATION AND GET HELP GUIDING YOU THROUGH THIS TUMULTUOUS TIME.

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