



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**



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:



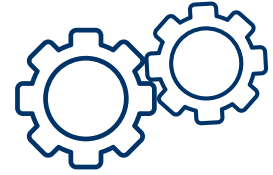
HOSPITALITY



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.



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.

[DOWNLOAD THE FULL REPORT HERE, INCLUDING COMMERCIAL & PRIVATE RISK](#)

[CONNECT WITH US TODAY TO DISCUSS YOUR CURRENT SITUATION AND GET HELP GUIDING YOU THROUGH THIS TUMULTUOUS TIME.](#)

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