PHYSICIANS MARKET UPDATE:

PERSISTENT LOSS SEVERITY & HARDENED MARKET - 2022

Although we seem to be moving toward a future where we are acclimated to the realities of the COVID-19 pandemic, we have yet to see the full ramifications of its aftermath. The healthcare landscape changed the past years, with physicians and their staff prioritizing immediate concerns, such as their patients' recovery from a novel illness and their staff's mental wellbeing. Even though these issues have been front and center and should continue to be a priority, it is also important to take a look at other concerning trends, some of which predate the pandemic.

These trends include rising costs for specialized lines of coverage nationally, including medical professional liability (MPL), excess liability, and cyber liability. Properties in catastrophic prone areas also continue to see steep rate increases. Social inflation, an uptick in cyberattacks, and extreme weather events are to blame. As a response to extreme and unpredictable losses, the market has hardened. This means that carriers are limiting their appetite for risk, increasing underwriting scrutiny, and increasing premium rates.

In a challenging market, physicians need to have resilient risk management strategies in place and partner with brokers who have carrier relationships and proven experience with the underwriting submission process.

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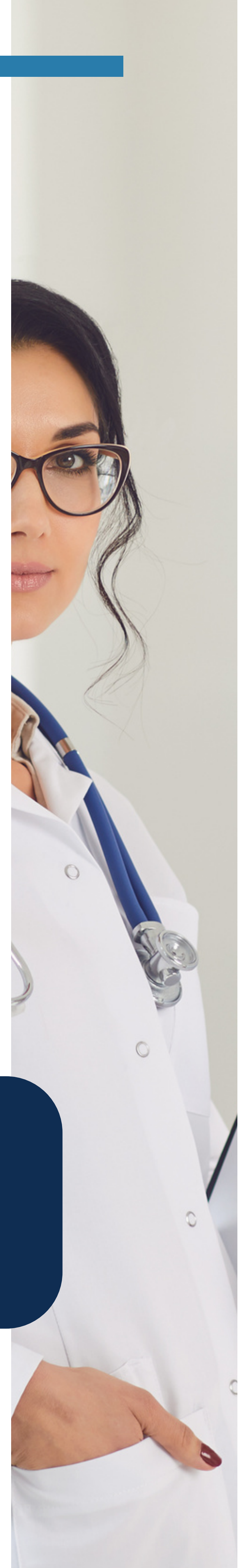
MEDICAL PROFESSIONAL LIABILITY



Despite industry combined ratios over 115%, declining investment income, and continued increases in claim severity (3% - 5% annually), rate increases are moderating (+5% to +15%). Larger accounts may experience much greater increases due to loss history, specialty mix, and venue.

Mergers and Acquisitions (M&A) in the physician space, as well as the Medical Professional Liability (MPL) carrier space, continues to trend upward. 2021 was the first year in which less than half of physicians worked in a private practice. Additionally, the market remains dominated by the top five carriers with Berkshire Hathaway topping this list with a 17.6% share.

There is a great deal of uncertainty about increased use of telemedicine as a potential area of litigation. Telemedicine saw a huge spike in consumer adoption as a result of the pandemic. In a claim scenario involving telemedicine, the lines between medical professional liability and cyber are often blurred.

The impact of COVID-19 on the MPL industry is still uncertain. Though claim frequency reached a historic low in 2020, there is an obvious backlog of unreported, undeveloped claims.

MANAGEMENT LIABILITY

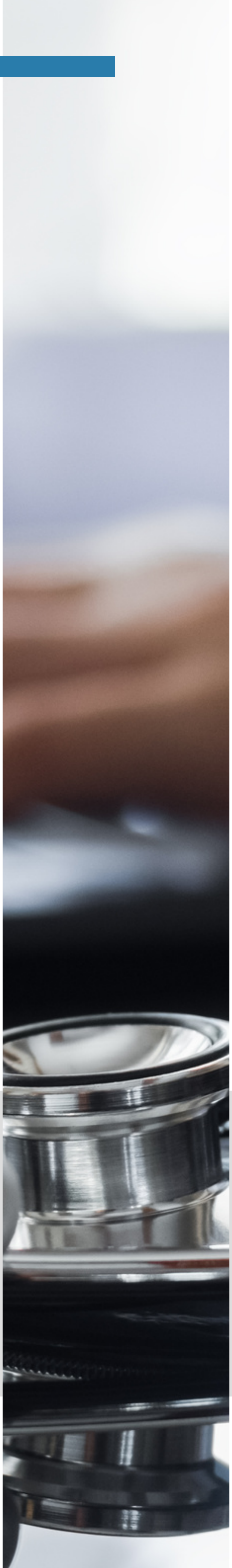
DIRECTORS & OFFICERS (D&O), EMPLOYMENT PRACTICES LIABILITY INSURANCE (EPLI), FIDUCIARY, CRIME

While the D&O and EPLI insurance markets remain challenging, the rate need has moderated with increases ranging from +5% to +35% for physician practices. **Physician groups with specific risk drivers, such as financial concerns, past and current layoffs due to COVID-19, higher risk venues or recent losses, will experience premium increases in excess of 15%.**

In the wake of the pandemic, D&O underwriters are concerned about a practice's liquidity/solvency, guidance and responsiveness to COVID-19, revenue disruption, and business plan changes. Due to these concerns and the higher risk nature of the healthcare industry, it's common for physician groups to see reduced limits and increased retentions.

Pandemic-related remote work operations, return-to-work plans, and furlough or layoff decisions have fueled a variety of EPLI claims across industry lines (e.g., discrimination, invasion of privacy and retaliation). It's critical physician groups establish procedures and processes to mitigate these risks.

Talk to your broker about your practice group, the risks you currently face, and the emerging risks you may face in the near future, so you can ensure you have the most effective risk management program in place.



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LIABILITY

GENERAL LIABILITY, AUTO, UMBRELLA

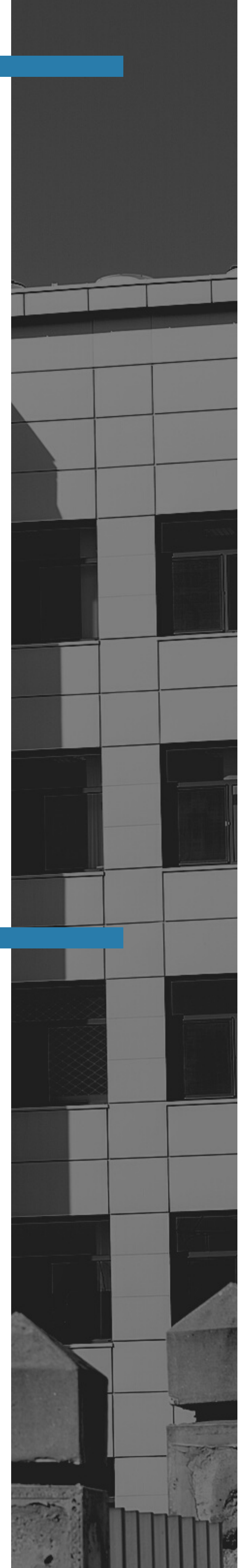
The rate of General Liability increases has decelerated for most risks, including healthcare. Rates, terms, and conditions continue to depend on the exposures, and loss experience. That said, we're seeing pricing increases hover around 5% to 15%, or more.

Depending on hazard level, Umbrella and Excess Liability pricing ranges from +10 to +30%, and risks with prior losses are seeing rate increases that are much more significant. In addition, underwriters are applying restrictive wording in policies as it relates to communicable diseases, pandemic exclusions, wildfires, abuse and molestation, cannabis, and CBD coverages.

Looking toward the rest of 2022, liability underwriters will continue monitoring a number of other factors to ensure rate adequacy. These include, but aren't limited to, reserve adequacy on open claims, class action trends, litigation finance, and plaintiff's bar tactics on impressionable jurors.

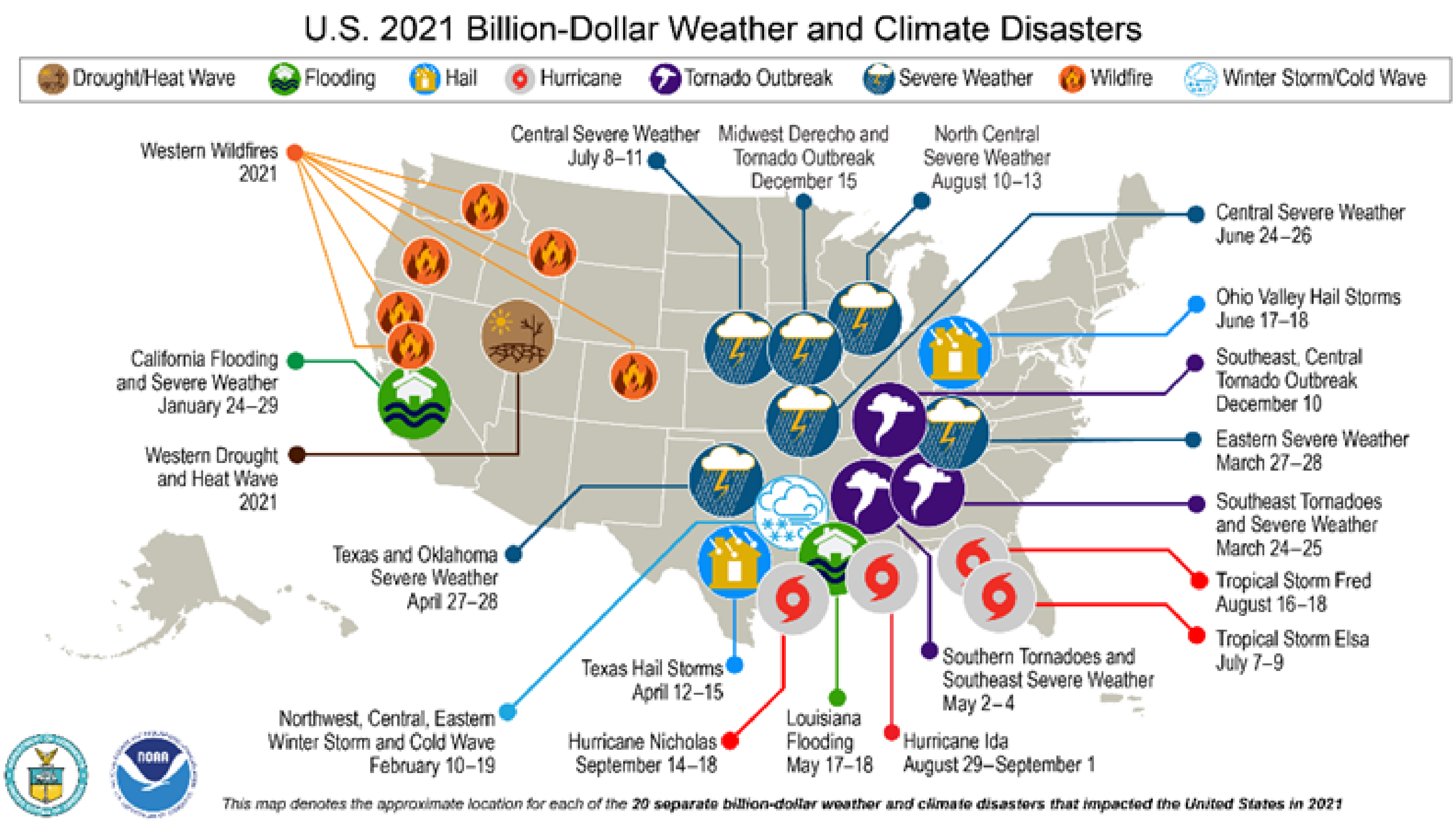
PROPERTY

2022 property insurance rate increases for physician groups are generally moderating. However, groups with physical locations in high-risk areas where hurricanes, wildfires, hail, and windstorms are prevalent will continue to see rate hikes anywhere between 10% and 30%. Of course, the increases are much more noticeable and concerning for groups insuring multiple buildings and large amounts of medical equipment.



Underwriters are taking a hard stance on insuring accurate replacement cost values, especially for medical buildings. The shortage of labor and raw material combined with severe inflation is driving the overall cost of construction through the roof. Physicians who have not thoroughly evaluated the current replacement cost of their owned buildings or engaged an appraisal firm recently will likely see demands from underwriters to increase insurable values, and therefore, premium.

After factoring in risk associated with physicians' geographic location, insurers' property rate need primarily stems from the frequency and severity of natural catastrophes in preceding years. **The graphic below illustrates the most severe U.S. weather and climate events from 2021.**



[Source: The National Oceanic and Atmospheric Administration (NOAA)]

CYBER LIABILITY

It's widely known that physician groups have a much higher level of cyber risk than most organizations because of Protected Health Information (PHI) storage, handling, and responsibility. Physicians are experiencing drastic double to triple digit premium increases (25% - 100%) in part because of this heightened risk, but mostly as a result from overall cyber insurance market dynamics.

Ransomware is the primary culprit for the cyber market's significant premium adjustment. The number of attacks, surging ransom demands, and associated recovery/mitigation costs are wreaking havoc on insurers' balance sheets.

In addition to increased premiums and restricted coverage, physician groups will see cyber carriers require certain cybersecurity measures, like Multi-Factor Authentication (MFA), Endpoint Detection & Response (EDR), and recoverable cloud backups. **In many cases, physicians may not be able to secure renewal terms at all without MFA implementation on their email, EMR, and backups.**

View our list of "6 Mitigation Measures Carriers Want to See" to help carriers take notice when your cyber liability policy is up for renewal.

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WORKERS' COMPENSATION

Workers' Compensation (WC) premiums remain stable, especially for physician groups with low claim activity. In general, WC rates have decreased each year since 2018. Physician groups with relatively clean loss experience are positioned to negotiate for lower rates and higher dividends depending on the state.

Physicians and allied providers know firsthand the effects of COVID-19 and its variants. However, it is important to track the pandemic's effect on the WC market, as well. **WC continues to experience the most COVID-19 claims of any coverage line.** Healthcare and first responders accounted for almost 75% of all COVID-19 claims in 2020. So, although the WC market is currently very competitive, low rates and prolonged claim activity related to the pandemic could begin to harden this line of coverage.

TIPS FOR NAVIGATING THE MARKET

- Depending on size and complexity, start the renewal planning process between four to six 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. Be prepared to provide complete, organized data to carriers so that underwriters know the full scope of your risk.
- If you do have unfavorable loss history, be ready to show evidence of any corrective measures you took to prevent similar incidents from occurring in the future.
- 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 healthcare landscape and has strong relationships within the medical professional liability community

Now more than ever before, it's important to partner with an experienced team that has a proven track record in navigating the complexities of a hardened market and placing coverage.

Contact our team today to learn more about how we can help you protect you from risk exposures.

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