2021 P&C Market Outlook

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Challenges Remain

2020 was a year unlike any other. A pandemic, domestic civil unrest, economic uncertainty, new norms, an election cycle and a multitude of weather and climate disaster events with losses exceeding $1 billion have all changed the way we live, work, conduct business and interact with each other. In short, 2020 was a year of massive upheaval across society.

Like many other sectors of the economy, the commercial insurance industry is experiencing changes to both its market cycles and its operating procedures. In particular, 2020 brought an acceleration of a hardening insurance marketplace—one that is less friendly to insurance buyers—which is now nearly two years old. Capacity has left the market, reinsurance has become more expensive, underwriting has gotten stricter and, most importantly, premiums are on the rise for nearly every line of insurance.

While the effects of this hardening insurance market on your business will depend on a variety of factors, many businesses will see premium increases for their insurance coverage in 2021. In fact, for some lines of insurance, businesses may see double-digit rate increases at their next renewal.

Beyond that, managing a business today is more challenging than ever. Organizations must account for dynamic, short- and long-term trends in their industry, while also addressing trends that affect the economy as a whole. What's more, all of this is unfolding at a time when the COVID-19 pandemic has upended life and business as we know it.

Throughout the past year, the world has had to navigate a series of lockdowns, surges in COVID-19 cases and frequently changing public health guidelines related to the pandemic. As such, organizations across industry lines have had to make significant adjustments to their daily operations. Between temporary closures, widespread remote work arrangements, mass layoffs and furloughs, updated workplace layouts, reopening plans, and varying state and local restrictions, running a successful business in the midst of the COVID-19 pandemic has been anything but simple. Further, COVID-19 has led to many complications in the insurance market—creating additional exposures across practically every line of coverage, elevating underwriting losses and motivating the development of various policy restrictions. And while the COVID-19 vaccine rollout offers hope for an eventual return to normalcy, much of the ramifications stemming from the pandemic are expected to carry on for years to come.

While this is unwelcome news for many businesses, they are not powerless. Now more than ever, it's essential for businesses to take a proactive approach when it comes to their risk management efforts and their insurance policies. Put another way, in an insurance and risk environment with many unknowns, businesses should focus on addressing the factors they can influence.

Nevertheless, you are not in this alone. To help you navigate the hardening market, you need an insurance professional who understands your business and its unique risks, and will advocate on your behalf. Secondly, you need insurance professionals who can tell your story to insurance carriers in a way that will best position your business come renewal time. Third, you need to work with an insurance professional who understands the dynamics of the current insurance market cycle and how to navigate businesses through a hard market. Finally, you need an insurance professional who fully understands your industry, the dynamic insurance landscape and how to provide targeted loss control solutions.

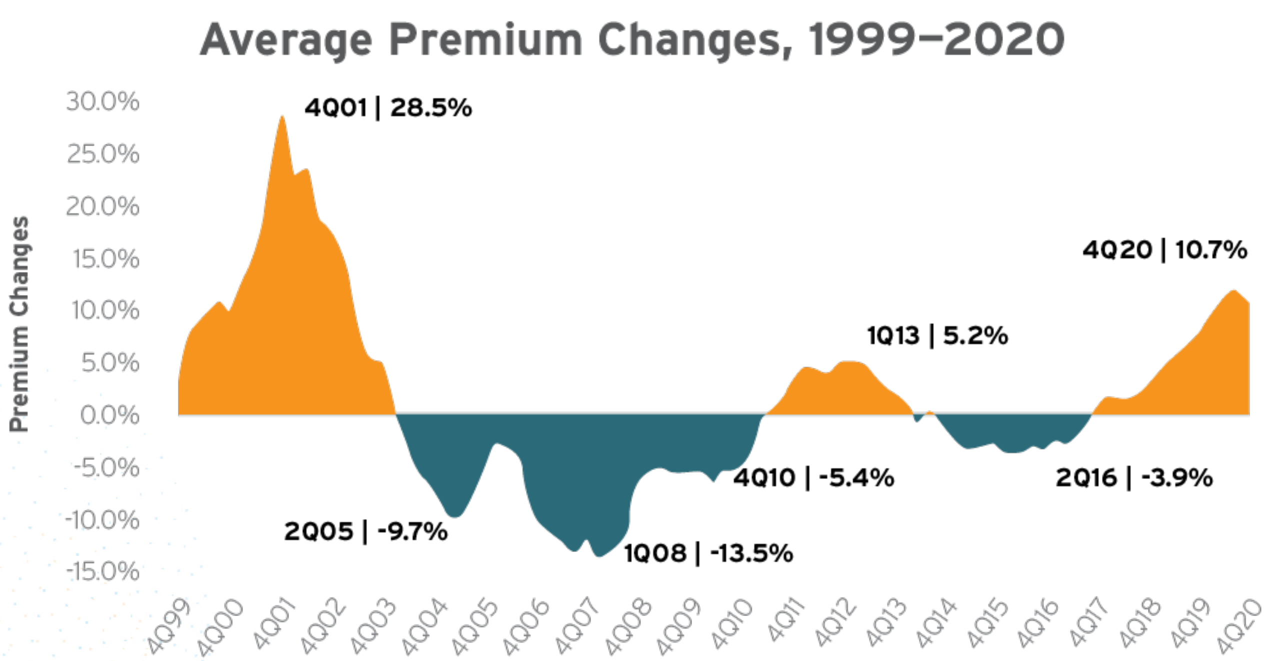
Remember, in these challenging times, Horst Insurance is here to provide the insurance guidance and expertise your business needs.

The Insurance Market Cycle: Hard vs. Soft Markets

The commercial insurance market is cyclical in nature, fluctuating between hard and soft markets. These cycles affect the availability, terms and price of commercial insurance, so it's helpful to know what to expect in both a hard and soft insurance market.

A **soft market**, which is sometimes called a buyer's market, is characterized by stable or even lowering premiums, broader terms of coverage, increased capacity, higher available limits of liability, easier access to excess layers of liability and competition among insurance carriers for new business. On the other hand, a **hard market**, which is sometimes called a seller's market, is characterized by increased premium costs for insureds, stricter underwriting criteria, less capacity, restricted terms of coverage and less competition among insurance carriers for new business.

During a hard market, some businesses may receive conditional or nonrenewal notices from their insurance carrier. What's more, during hard market cycles, insurance carriers are more likely to exit certain unprofitable lines of insurance.



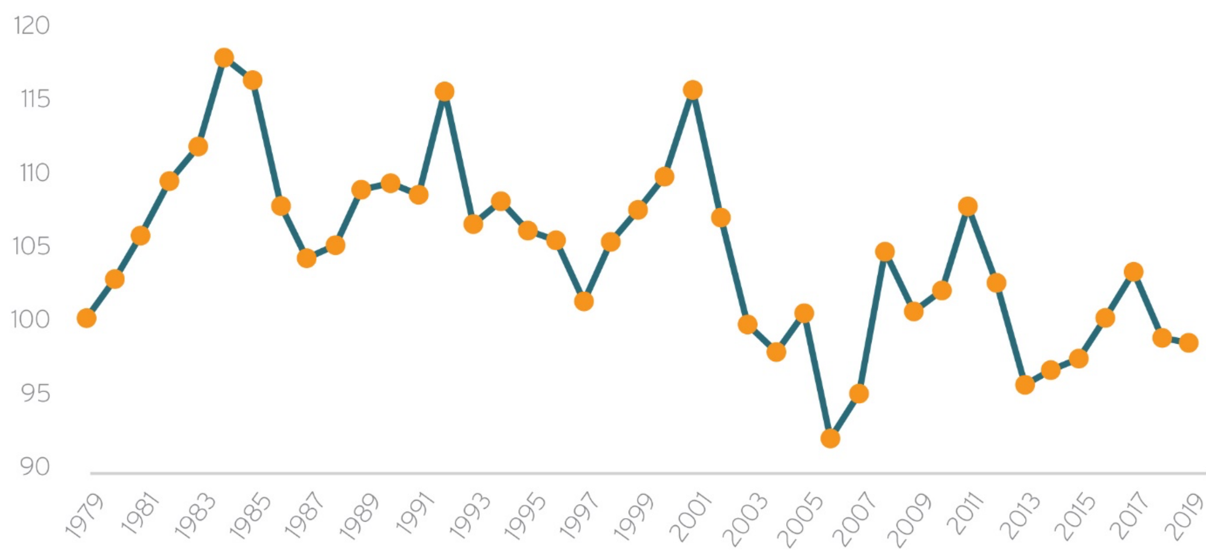
Source: The Council of Insurance Agents & Brokers

In what was one of the longest soft markets in recent years, businesses across most lines of insurance enjoyed stable premiums and expanded terms of coverage for decades. While the commercial insurance market hardened for a short period of time after the terrorist attacks of Sept. 11, 2001, the last sustained hard market occurred in the 1980s. However, after years of gradual changes, the market is firming, leading to increased premiums and reduced capacity.

A number of different factors affect insurance pricing, but the following are common contributors to the hardening market:

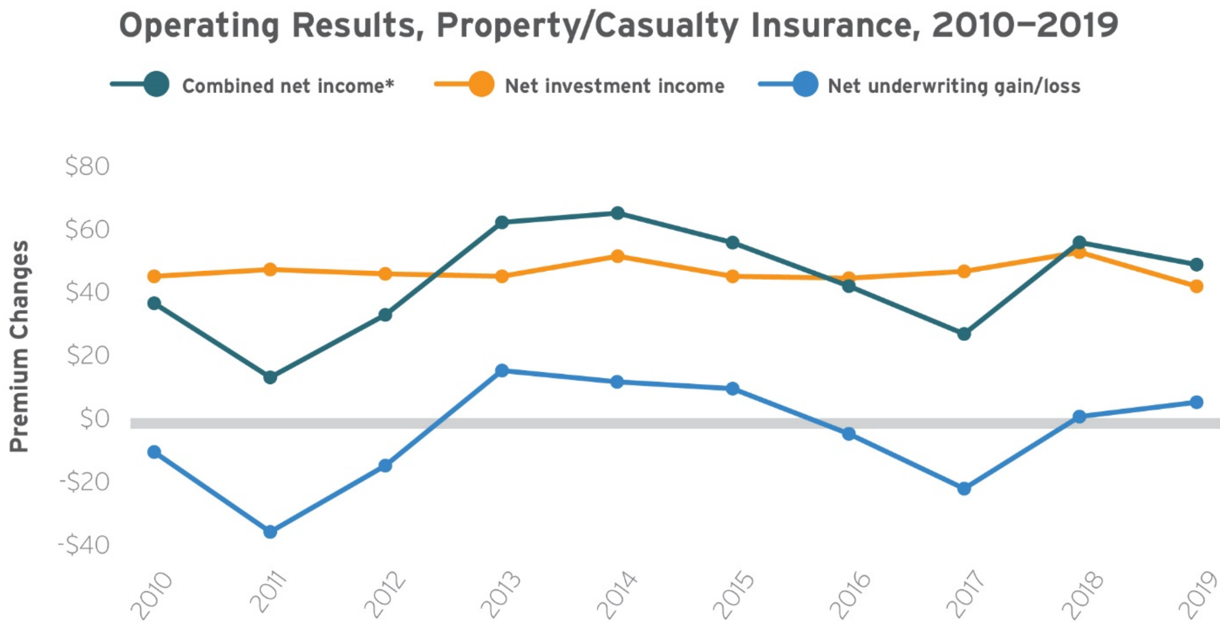
- **Catastrophic (CAT) losses—**Floods, hurricanes, wildfires and similar disasters are increasingly common and devastating. Years of costly disasters like these have compounded losses for insurers, driving up the cost of coverage overall, especially when it comes to commercial property policies.
- **Inconsistent underwriting profits**—Underwriting profits refer to the difference between the premiums an insurer collects and the money it pays out in claims and expenses. When an insurance company collects more in premiums than it pays out in claims and expenses, it will earn an underwriting profit. Conversely, an insurance company that pays more in claims and expenses than it collects in premiums will sustain an underwriting loss. An insurance company's combined ratio after dividends is a measure of underwriting profitability. This ratio reflects the percentage of each premium dollar an insurance company puts toward spending on claims and expenses. A combined ratio above 100 indicates an underwriting loss. Insurance companies generally do not generate profits from their underwriting operations. In the past 10 years, the commercial insurance industry has only had a combined ratio under 100 four times.

Property/Casualty Insurance Combined Ratio, 1979–2019



†Excludes state funds and other residual insurers.
Source: ISO

- **Mixed investment returns**—Insurance companies also generate income through investments. Commercial insurance companies typically invest in a variety of stocks, bonds, mortgages and real estate investments. Due to regulations, insurance companies invest significantly in bonds. These provide stability against underwriting results, which can vary from year to year. When interest rates are high and returns from other investments are solid, insurance companies can make up underwriting losses through their investment income. But when interest rates are low—like they currently are—insurers must pay close attention to their underwriting standards and other investment returns.



†Excludes state funds and other residual insurers. *Net underwriting gain/loss plus net investment income.
Source: NAIC, S&P and Insurance Information Institute

- **The economy**—The economy as a whole also affects an insurance company's ability to write new policies. During periods of economic downturn and uncertainty, some businesses may purchase less coverage or forgo insurance altogether. A business's revenue and payroll, which factor into how premiums are set, may decline. This creates an environment where there is less premium income for insurers.
- **The cost of reinsurance**—Generally speaking, reinsurance is coverage for insurance companies. Carriers often buy reinsurance for risks they can't or don't wish to retain fully, including those for severe weather events like hurricanes and wildfires. It's a way for primary insurers to protect against unforeseen or extraordinary losses. As a result, reinsurance helps to stabilize premiums for regular businesses by making it less of a risk for insurance carriers to write a policy. However, reinsurers have exposures to many of the same events and trends that are affecting insurance companies. For 2021, reinsurance is becoming more expensive to obtain, which is reflected in the overall cost of insurance for businesses.

Additional Factors That Influence Your Insurance Rates

In addition to the above, the following are additional factors that may influence your insurance rates:

The coverage you're seeking—The forms of insurance you're seeking, as well as the details of the coverage (e.g., limits of liability and value of insured property), will affect your insurance pricing.

The size of your business—As a general rule, the more employees your business has and the larger your revenue is, the higher you will pay for your insurance.

The industry in which you operate—There are certain industries that carry more risk than others. In general, businesses in these sectors are more likely to file an insurance claim. As a result, businesses involved in risky industries tend to, on average, pay more in insurance premiums.

The location of your business—The location of your business will also influence your commercial insurance rates. If your business is located in an area prone to certain natural disasters, insurers may determine that your facility is more at risk for property damage. This increased risk will translate to higher insurance premiums.

Your claims history—Your business's claims history, often referred to as your loss history, will also have an impact on insurance rates. If your business has an extensive claims history, then insurance carriers will tend to consider your company more likely to file future claims. This, in turn, means that your business will be viewed as risky to insure, subjecting you to higher commercial insurance premiums.

Your risk management practices—Now more than ever, conducting a careful assessment of your business's unique exposures and establishing effective, well-documented risk management practices can make your establishment more attractive to insurance carriers. After all, having a robust risk management program in place reduces the likelihood of costly claims occurring, as well as minimizes the potential losses that your business could experience from an unexpected event.

Put simply, during a hard market, insurance buyers may face complex considerations regarding their insurance coverage. Thankfully, businesses are not without recourse in the face of a hard market. Business owners who proactively address risk losses and manage exposures will be better prepared for a hardening market than those who do not. Furthermore, those who educate themselves on the trends that influence their insurance will have a greater understanding of what can be done to influence their insurance rates.

Trends to Watch in 2021

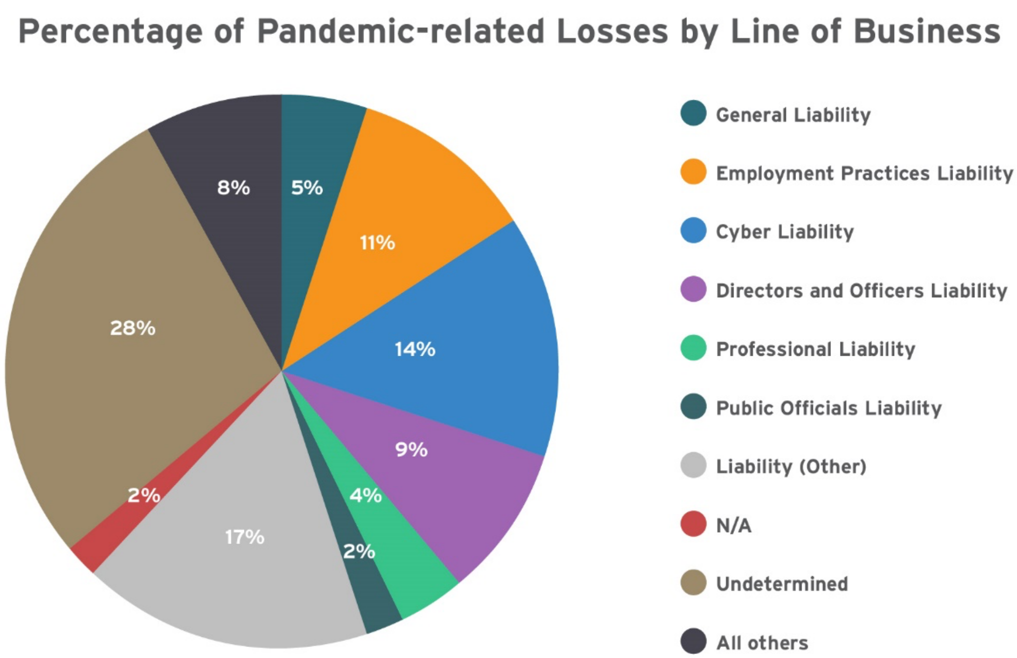
Insurance experts often examine how outside influences and trends affect the insurance marketplace, and businesses should follow suit to determine what factors impact their insurance coverage. For 2021, there are a number of sweeping market developments to consider.

COVID-19

Over the past year, the COVID-19 pandemic has essentially become one of the most significant public health crises that the world has ever seen, disrupting life as we know it. While the initial response to the pandemic resulted in millions of individuals across the United States being subject to stay-at-home orders and only essential businesses remaining open, organizations of all sizes and sectors have begun reopening in accordance with federal, state and local restrictions—whether it be remote or in person.

However, as COVID-19 cases continue to rise and fall, and the vaccine rollout progresses, widespread implications of the pandemic remain. Specifically, the insurance market has encountered a range of difficulties related to COVID-19. Namely, increased risks and losses stemming from the pandemic have complicated underwriting and renewal processes across most lines of coverage. Underwriter scrutiny is at an all-time high, with every aspect of policyholders' risk profiles being closely reviewed, and some underwriters refusing to consider classes of business with elevated COVID-19 exposures altogether. While deductible and premium costs are rising, capacity has decreased due to COVID-19, with more stringent coverage conditions and policy exclusions emerging for pandemic-related losses. Essentially, insurance carriers are being increasingly cautious toward taking on an excess of COVID-19 risks—making it crucial for businesses to have measures in place to minimize potential COVID-19 exposures.

Overall, the COVID-19 pandemic has significantly tested the preparedness of businesses everywhere. Moving forward, it's critical to take a hard look at your continuity and disaster response plans. You should also partner with experts who not only understand the risks your business faces on a daily basis, but can also help you prepare for the unexpected. This is particularly vital during times of uncertainty.



Source: Advisen/Zywave Loss Data

Spotlight on Social Inflation

As an insurance buyer, you may have heard the term "social inflation" used to explain one of the factors driving up the cost of insurance in today's market. In general, this term refers to societal trends that influence the ever-rising costs of insurance claims and lawsuits. As the insurance market changes, it's important for businesses to understand what's currently driving social inflation.

Litigation Funding

One of the factors driving social inflation has to do with increased litigation or, more specifically, litigation funding. Litigation funding is when a third party provides financing for a lawsuit. In exchange, the third party receives a portion of the settlement. In the past, the steep cost of attorney fees would often scare plaintiffs away from taking a lawsuit to trial. But, through litigation funding, most or all of the costs associated with litigation are covered by a third party, which has increased the volume of cases being pursued.

Not only is litigation funding becoming more common, but it also increases the cost of litigation, sometimes to seven figures. This is because plaintiffs are able to take cases further and seek larger settlements.

Tort Reform

Tort reform refers to laws that are designed to reduce litigation. Specifically, tort reforms are used to prevent frivolous lawsuits and preserve laws that prevent abusive practices against businesses.

Many states have enacted tort reforms over the last several decades, leading to fewer claims and caps on punitive damages. However, in recent years, a number of states have modified tort reforms or challenged them as unconstitutional. Opponents believe tort reforms lower settlements to the point where attorneys are less likely to take on new cases and help victims get justice for their injuries or other damages.

Further complicating matters, tort reform is subject to uncertainty, as it's largely tied to political leanings and the interests of individual states. Should tort reform continue to erode, there could be fewer restrictions on punitive and noneconomic damages, statutes of limitations and contingency fees—all of which can drive up the cost of claims and exacerbate social inflation.

Plaintiff-friendly Legal Decisions and Large Jury Rewards

The overall public sentiment toward large businesses and corporations is deteriorating, and anti-corporate culture is more prevalent than ever. A number of factors are contributing to this increasing distrust, including highly publicized issues related to the mishandling of personal data and social campaigns.

This has had a considerable impact on how businesses are perceived by a jury in court, and organizations are held to a high standard for issues related to the way they conduct their business. In fact, juries are increasingly likely to sympathize with plaintiffs, especially if a business's reputation has been tarnished in some way in the past. As a result, plaintiff attorneys are likely to play to a jury's emotions rather than the facts of the case.

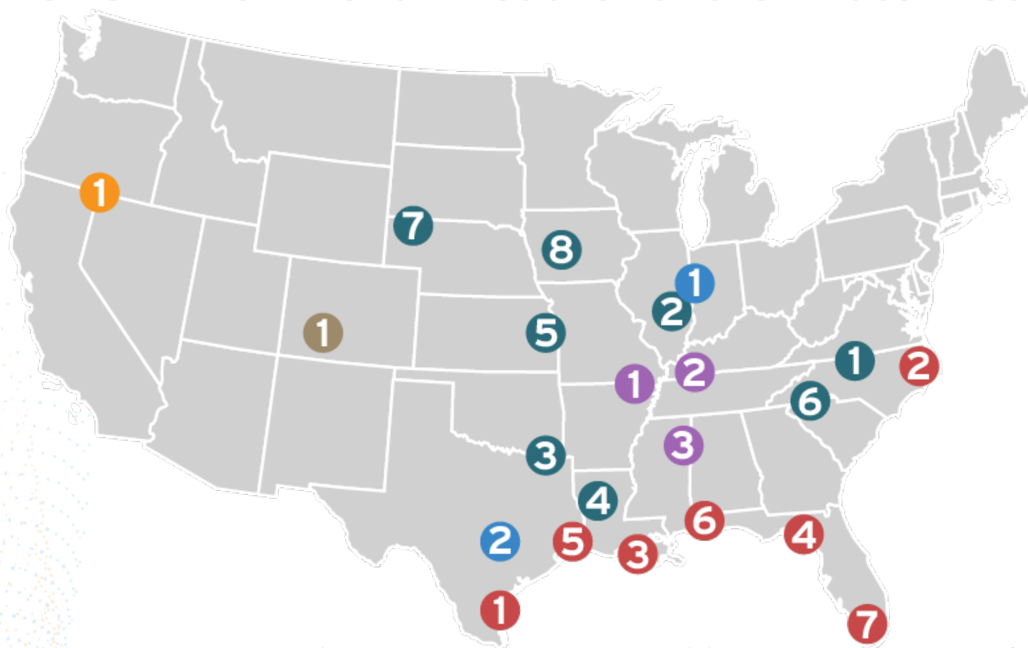
Compounding this issue, there's an increasing public perception that businesses—particularly large ones—can afford the cost of any damages. This means juries are likely to have fewer reservations when it comes to awarding damages. In the current environment, nuclear verdicts (awards of $10 million or more) have become more common.

Extreme Weather Events Examined

Extreme weather events—like hurricanes, tornadoes, hailstorms and wildfires—continue to make headlines as they become increasingly devastating and costly. Making matters worse, these events aren't limited to one geographic area or weather event, impacting businesses and residents across the United States.

In 2020, wildfires once again plagued the West Coast, recording a year-end total of more than 58,000 wildfires. Widespread drought and several heatwaves in the Western and Central United States contributed to approximately $4.5 billion in damages. Hundreds of tornadoes wreaked havoc across over 15 Southeastern and Northeastern states, while hailstorms, strong winds and heavy snow totaled over $5 billion in damages throughout the Midwest. On the East Coast, the 2020 hurricane season resulted in a record-breaking number of storms, causing over $40 billion in damages and affecting multiple states along the Atlantic Ocean.

U.S. 2020 Billion-Dollar Weather and Climate Disasters



Severe Weather
1. South, East, and Northeast | Feb 5-7
2. Midwest and Ohio Valley | Mar. 27-28
3. Southern | Apr. 21-23
4. Central, Southern, and Eastern | Apr. 27-30
5. Central and Eastern | May 3-5
6. South, Central, and Eastern | May 20-23
7. Central | July 10-11
8. Central - Derecho | Aug. 10

Tornadoes
1. Southeast and Northern | Jan. 10-12
2. Tennessee and Southeast | Mar. 2-4
3. Southeast and Eastern | Apr. 12-13

Wildfires
1. California, Oregon, Washington | Fall 2020

Droughts
1. Western / Central | Summer-Fall 2020

Hail Storms
1. North Central and Ohio Valley | Apr. 7-8
2. South Texas | May 27

Hurricanes
1. Hurricane Hanna | July 25-26
2. Hurricane Isaias | Aug. 3-4
3. Hurricane Laura | Aug. 27-28
4. Hurricane Sally | Sep. 15-17
5. Hurricane Delta | Oct. 9-11
6. Hurricane Zeta | Oct. 28-29
7. Tropical Storm Eta | Nov. 8-12

Source: NOAA

Many experts believe severe storms, extreme temperatures, wildfires and flooding are the new norm. As these catastrophes become more frequent, the insurance industry will need to come up with innovative solutions to keep up with weather-related losses. Moving forward, expect to see more emphasis around weather readiness, especially from an insurer's perspective.

Social Movements

Several social movements rose to prominence throughout the course of 2020, with the implications of these movements expected to affect organizations for years to come. The Black Lives Matter movement—which initially was founded in 2013 but resurged this past summer in the form of nationwide protests and civil unrest—has pushed for increased accountability (both at the corporate and individual level) regarding racial injustice, as well as encouraged organizations of all sizes and sectors to make strides in promoting racial equality and diversity within their workforce.

In addition to the Black Lives Matter movement, the #MeToo movement—which is an anti-sexual harassment campaign that was founded in 2006 but resurged in 2017 across social media—has repeatedly reigned as a relevant topic for many organizations in recent years. Since its resurgence, this movement has led to a sharp increase in work-related sexual harassment claims—especially as it relates to employees alleging sexual harassment from senior leadership. The movement has highlighted the need for all organizations to implement sexual harassment prevention and response measures (e.g., a zero-tolerance policy, awareness training and well-documented reporting procedures).

As a whole, both of these movements have contributed to the rising trend of increased corporate accountability in regard to social issues, thus elevating the risk of employment-related claims alleging discrimination, harassment or other forms of unfair treatment. Moving forward, it's important for employers to respond accordingly in the midst of such social movements, routinely adjusting organizational practices to ensure a positive, inclusive and diverse work environment. Failing to do so could result in increased losses and subsequent claims, as well as severe reputational damages. Policyholders who take the necessary actions to avoid such claims by documenting workplace inclusivity, diversity and social awareness initiatives may reap the benefits of reduced premiums.

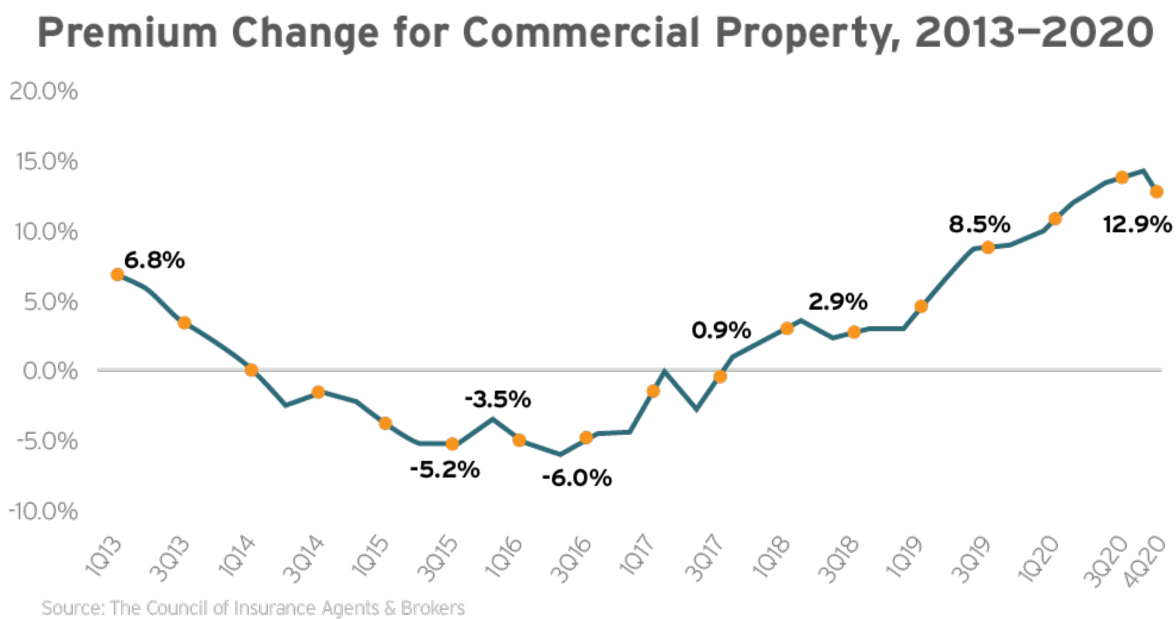
2021 Market Outlook Forecast Trends

Price forecasts are based on industry reports for individual lines of insurance. Forecasts are subject to change and are not a guarantee of premium rates. Insurance premiums are determined by a multitude of factors and differ per organization. These forecasts should be viewed as general information and not insurance or legal advice.

LINE OF COVERAGE	PRICE FORECAST
Commercial property	**Overall:** +5% to +25% **High risk/CAT exposed/poor loss history:** +25%
General liability	**Overall:** +5% to +15%
Excess and umbrella liability	**High risk**: +50% or more **Low to moderate risk:** +30% or more
Commercial auto	**Overall**: +5% to +25%
Workers' compensation	**Overall:** Flat to +5%
Cyber liability	**Overall:** +10% to +30%
Directors and officers liability	**Public entities:** +20% to +70% or more **Private/nonprofit entities:** +10% to +50%
Employment practices liability	**Overall:** +10% to +30%

Commercial Property

The commercial property market has steadily hardened in recent years, resulting in rate increases every quarter since Q3 2017. Unfortunately, these rate increases—as well as additional policy restrictions—are expected to continue in 2021.



Such unfavorable market conditions are the result of a record-breaking season of natural disasters (e.g., wildfires, hurricanes, windstorms, hail and floods) and the ongoing COVID-19 pandemic. An uptick in losses stemming from these trends has forced commercial property insurance carriers to elevate policyholders' premium costs and implement more restrictive coverage terms.

We predict that many insureds will experience double-digit rate increases, lowered available capacity, higher sub-limits, and various policy restrictions or exclusions—especially regarding losses tied to weather events or the COVID-19 pandemic. Policyholders who conduct high-risk operations with poor loss control practices or are located in natural disaster-prone areas may encounter more severe rate changes, higher retentions and decreased coverage limits.

2021 Price Prediction

Non-CAT exposed: **+5% to +20%**

CAT exposed: **+10% to +25%**

CAT exposed with poor loss history: **+25% to +40%**

Trends to Watch

- **Natural disasters—** According to the National Interagency Fire Center, the 2020 wildfire season resulted in over 58,000 wildfires—burning double the number of acres impacted in 2019 and destroying more than 10,000 structures across North America. In addition to wildfires, the National Oceanic and Atmospheric Administration reported that the 2020 Atlantic hurricane season produced a record-breaking 30 named storms, totaling $47 billion in overall costs. What's worse, many climate experts predict that both the frequency and severity of natural disasters will continue to worsen in the coming years. These catastrophes often leave behind devastating property damage for affected establishments, leading to significant rebuilding concerns.

- **Civil unrest incidents—**Occurrences of civil unrest—which have taken place in communities throughout the country in the past year—can create unique challenges for business owners and their commercial properties. Namely, these incidents can leave businesses vulnerable to vandalism, stolen or damaged goods, and extensive property damage. Apart from physical damages, civil unrest can also force establishments to temporarily close or alter business hours to ensure employee and customer safety, resulting in lost income.
- **Property coverage and the pandemic—**Although a significant number of businesses have encountered severe interruptions related to the ongoing COVID-19 pandemic, many establishments haven't been able to receive financial relief through their business interruption policies. While some businesses were granted a limited amount of protection from their property insurance policies for such losses, most businesses have encountered unresponsive policies stemming from either virus- and bacteria-related coverage exclusions or a lack of physical property damage—which is often a necessary policy trigger for business interruption claims. Despite numerous lawsuits between insureds and carriers regarding these policy concerns, most courts have continued to deny coverage. Going forward, the majority of commercial property policies issued after the emergence of COVID-19 have incorporated specific exclusions for losses pertaining to communicable diseases or the pandemic. Although some carriers offer policy extensions (e.g., infectious disease insurance) for this particular exposure, these extensions have become increasingly difficult to obtain.

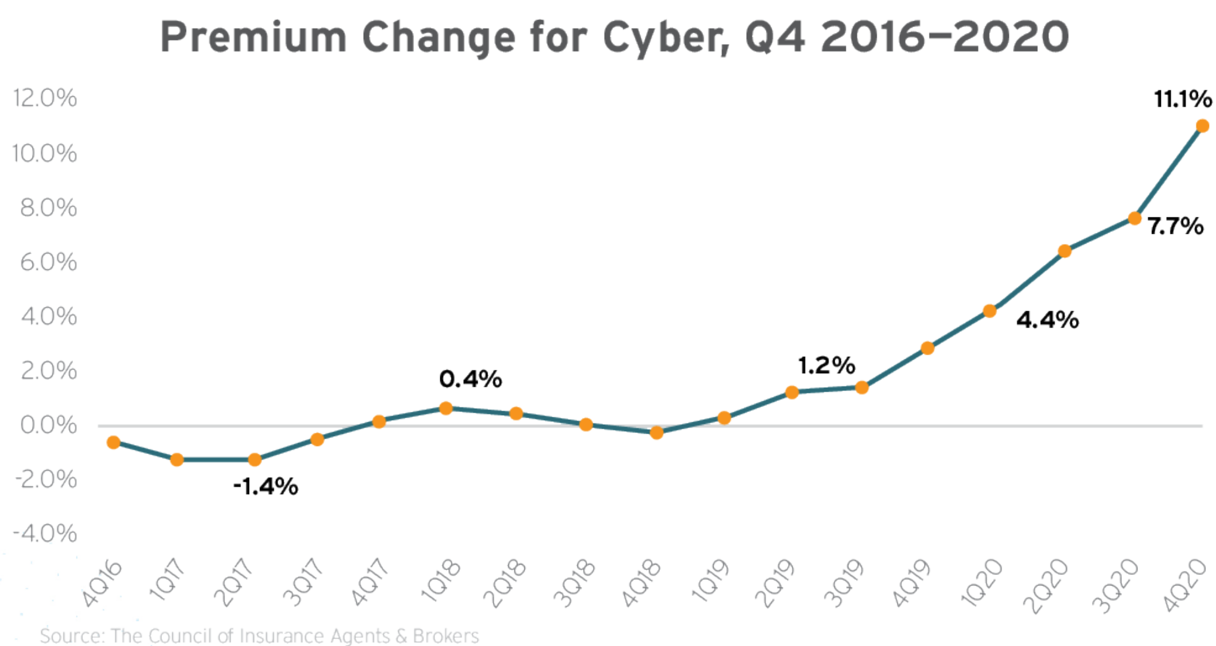
Tips for Insurance Buyers

- Work with your insurance professionals to begin the renewal process early. Many commercial property insurers are seeing an increased submission volume. Timely, complete and quality submissions are vital to ensure your application will be reviewed by underwriters.
- Determine whether you will need to adjust your business' retentions or limits to manage costs.
- Gather as much data as possible regarding your existing risk management techniques. Be sure to work with your insurance professionals to present loss control measures you have in place.
- Conduct a thorough inspection of both your commercial property and the surrounding area for specific risk management concerns. Implement additional mitigation measures as needed.
- Analyze your organization's natural disaster exposures. If your commercial property is located in an area that is more prone to a specific type of catastrophe, implement mitigation and response measures that will protect your property as much as possible if such an event occurs (e.g., installing storm shutters on windows to protect against hurricane damages or utilizing fire-resistant roofing materials to protect against wildfire damages).
- Develop a documented business continuity plan (BCP) that will help your organization remain operational and minimize damages in the event of an interruption. Test this BCP regularly with various possible scenarios. Make updates when necessary.
- Address insurance carrier recommendations. Insurers will be looking at your loss control initiatives closely. Taking the appropriate steps to reduce your risks whenever possible can make your business more attractive to underwriters.

Cyber Liability

Although the last few years have seen increased competition among cyber insurance carriers, higher capacity and expanded coverage terms, rapidly evolving cyber threats have led to a hardening market. Across industry lines, cyberattacks have surged in both cost and frequency, resulting in a rise in cyber liability claims and subsequent underwriting losses.

In fact, according to recent research from IBM and the Ponemon Institute, the average cost of a data breach in the United States jumped to $8.19 million in 2020—representing an increase of 5.3% since 2019. Driving factors contributing to this hardening market include remote work exposures as a result of the ongoing COVID-19 pandemic, elevated ransomware concerns, regulatory ramifications surrounding data privacy and fallout from the SolarWinds hack.



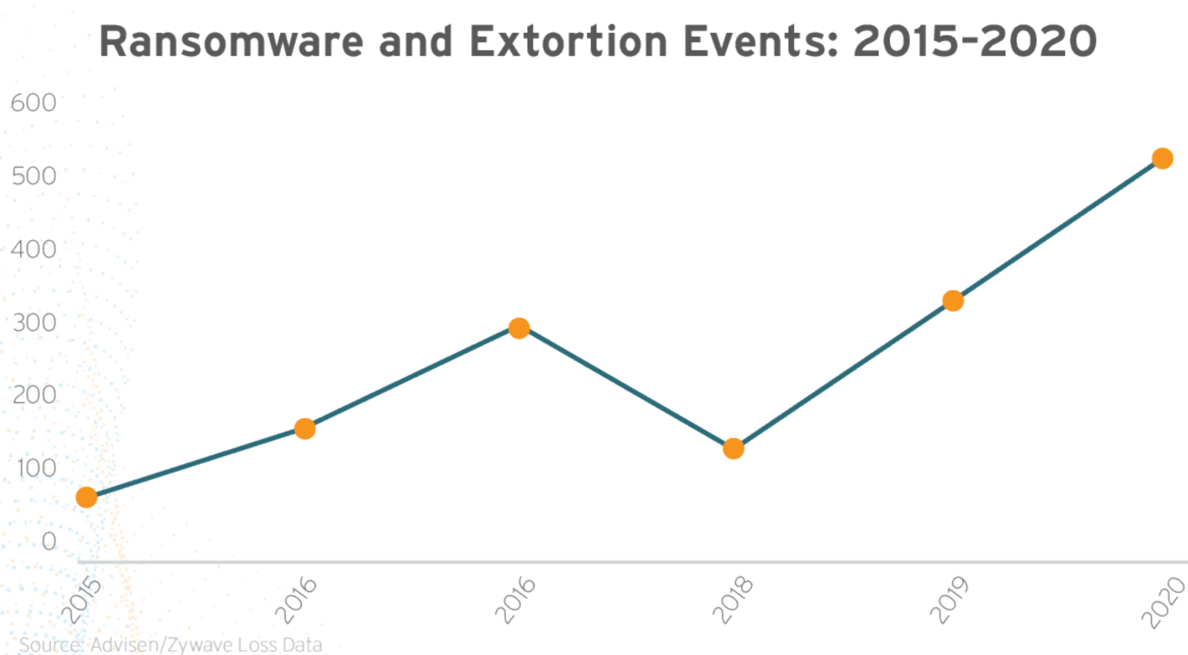
In light of these market conditions, we predict that most policyholders will experience higher cyber liability insurance rates in 2021. Besides increased premium costs, insureds may also encounter coverage restrictions or exclusions for losses stemming from specific types of cyber incidents (e.g., ransomware attacks), while still having more generous coverage terms for other exposures. Policyholders who operate in industries with more pronounced cyber exposures (e.g., education, technology, health care, finance, retail and hospitality) or generate higher revenue levels may experience more severe rate increases.

2021 Price Prediction

Overall: **+10% to +30%**

Trends to Watch

- **Push for standalone policies—**While many businesses have sought to secure protection from cyber exposures within their traditional property and liability policies throughout the past decade, standalone cyber liability policies have become an increasingly important purchase for establishments across industry lines. In the midst of growing cyber risks and a surge in both the cost and frequency of cyberattacks, most standard property and liability policies have begun implementing exclusions for cyber exposures to avoid unexpected underwriting losses—leaving businesses without a standalone cyber liability policy unprotected. As such, it's critical for organizations to have a clear understanding of the extent of coverage that their traditional policies provide for cyber-related losses, as well as seriously consider securing a standalone cyber liability policy to avoid potential insurance gaps.
- **Remote work exposures—**The COVID-19 pandemic forced many organizations to make the transition to remote operations, with a significant number of employees working from home for the first time. Unfortunately, these telework arrangements led to a rise in cyberattacks, as many cybercriminals have targeted remote employees in various phishing and hacking incidents—namely, social engineering scams. This is the result of many employees' home networks and software lacking the same level of security as that of their workplace.
- **Ransomware concerns—** Ransomware is a type of malicious software that cybercriminals use to compromise a device (or multiple devices) and demand a large payment be made before restoring the technology—as well as any data stored on it—for the victim. A ransomware attack is one of the most expensive and disruptive forms of cyberattack for organizations to deal with, with the average loss from such an attack exceeding $1 million. What's worse, the number of ransomware attacks has practically exploded in the past few years. In response, some cyber liability insurance carriers have implemented revised coverage conditions related to ransomware incidents.



- **Regulatory ramifications—**As workplace technology and its associated cyber threats continue to evolve, so have data privacy regulations across the globe. A multitude of both international and domestic jurisdictions have recently debuted new data protection laws aimed at increasing responsibilities and compliance considerations for organizations that handle sensitive data (e.g., employees' contact information or customers' credit card numbers). Examples of such laws include the European Union's General Data Protection Regulation and California's Consumer Privacy Act. Looking ahead, more and more states are expected to pass similar legislation—increasing employers' regulatory exposures in the realm of data protection.
- **Fallout from SolarWinds—**In late 2020, the U.S. government revealed that presumably, Russian hackers had orchestrated a supply chain cyberattack earlier in the year in an effort to compromise several federal agencies and organizations. The hackers initially infiltrated the technology company SolarWinds' network monitoring platform via malware before using that platform to gain access to sensitive data and emails from a range of U.S. government departments and private organizations. The attack—which has been dubbed as one of the largest and most sophisticated breaches the world has ever seen—is estimated to have impacted over 18,000 of SolarWinds' customers and incurred as much as $90 million in total losses. The fallout from this large-scale attack has motivated many businesses to take a closer look at potential security risks stemming from their supply chains and make necessary adjustments to ensure cyber resiliency. Looking ahead, underwriting guidelines are expected to become more stringent in regard to supply chain exposures.

Tips for Insurance Buyers

- Work with your insurance professionals to understand the different types of cyber coverage available and secure a policy that's unique to your needs. Carefully determine whether your organization should purchase standalone cyber liability coverage.
- Take advantage of loss control services offered by insurance carriers to help strengthen your cybersecurity measures.
- Provide remote employees with adequate resources, support and software to avoid cybersecurity concerns amid work-from-home arrangements.
- Focus on employee training to prevent cybercrime from affecting your operations. Employees should be aware of the latest cyber threats and ways to prevent them from occurring. After all, human errors are a factor in over 60% of all cyber incidents.
- Keep your organizational devices secure by utilizing a virtual private network, installing antivirus software, implementing a firewall, restricting employees' administrative controls and encrypting all sensitive data.
- Routinely update workplace software to ensure its effectiveness. Keep employees on a strict software update schedule and consider using a patch management system to assist with updates.
- Establish an effective, documented cyber incident response plan aimed at remaining operational and minimizing damages in the event of a data breach or cyberattack. Test this plan regularly by running through various scenarios with staff. Make updates to the plan as needed.
- Consult your insurance professionals and legal counsel to determine your organization's regulatory exposures in regard to applicable data protection laws. Make compliance adjustments as needed.

- Develop workplace policies that prioritize cybersecurity—including an internet usage policy, a remote work policy, a bring your own device policy and a data breach response policy.
- Be sure to consider potential supply chain exposures when establishing your organization's cybersecurity policies and protocols.

Commercial Auto

For the past decade, the commercial auto space has been challenging and largely unprofitable for insurance carriers. According to a recent report from AM Best, the commercial auto insurance segment's underwriting losses reached $4 billion in 2019—the worst loss the industry has seen in 10 years.

Various factors have led to this poor underwriting performance, including litigation trends, a wide range of driver safety failures, medical treatment inflation, distracted driving, surging accident expenses and a deteriorating public road infrastructure. In this environment, many commercial auto insurance carriers have elevated premium costs—with some policyholders experiencing double-digit rate increases. Despite rising premiums, as an industry, insurance carriers have not returned an underwriting profit for commercial auto lines in over a decade.

Unfortunately, industry experts predict that this hard market will continue to be a concern in 2021 and beyond. As such, we predict that the majority of businesses with commercial auto exposures—regardless of their industry or vehicle class—will have a more difficult renewal process by way of greater premium rates, lowered capacity and more stringent policy requirements or restrictions. Further, insureds with larger fleets or a poor loss history may experience more significant rate increases.

2021 Price Prediction

Overall: **+5% to +25%**

Trends to Watch

- **Delivery exposures—**Due to the ongoing COVID-19 pandemic, many organizations have adjusted their typical operations to remain open—including extending delivery capabilities or hiring delivery drivers for the first time. For many organizations, these new services represent new commercial auto exposures.
- **Driver shortages—**According to the American Trucking Associations, approximately 160,000 commercial driver positions will go unfilled in the next decade. As a result, many organizations have had to lower their driver applicant standards to fill open positions. These drivers often have fewer years of experience and shorter driving records. Such factors can make these new employees more likely to be involved in an accident on the road. Driver shortages have also forced some organizations to compete for experienced drivers. What's more, experienced drivers are often working longer hours. While this may seem like an effective measure, such a practice can greatly increase the risk of employees experiencing driver fatigue, which can elevate accident risks.
- **Distracted driving concerns—**Distracted driving reduces awareness, decision-making and performance—increasing the likelihood of driver error, near-crashes or crashes. Data from the National Highway Traffic Safety Administration indicates that, every year, up to 391,000 people are injured and 3,450 people are killed in crashes involving distracted drivers. As these incidents have become more prevalent, commercial auto insurance costs have climbed in tandem.

- **Additional vehicles on the road—**The Department of Transportation (DOT) reports that 286.9 million vehicles were registered in the United States in 2020, up from 284.5 million in 2019. Looking ahead, the DOT estimates that an additional 2.6 million vehicles will be registered in 2021. Industry demand is also on the rise, and drivers are logging more miles to make deliveries and meet employer demands. This means a higher number of drivers will be on the road for longer periods of time, increasing the likelihood of accidents and subsequent commercial auto claims.
- **Elevated accident costs—** As accidents steadily increase, their associated costs have unfortunately followed suit. First, the steep monetary value of technological advancements in commercial vehicles (e.g., blind-spot cameras, backup alarms, GPS devices and telematics software) has elevated vehicle repair costs in the event of an accident. In fact, according to a report from AAA, vehicles equipped with driver assistance systems often cost twice as much to repair as those that aren't. Second, medical expenses have risen over the past number of years. This is because injuries from accidents often require multiple doctor visits or even surgery, which can extend recovery time and influence overall medical costs.
- **Nuclear verdicts—**Settlement verdicts for bodily injury claims have been rising steadily. Specifically, nuclear verdicts—which refer to jury awards in which the penalties exceed $10 million—have become increasingly prevalent. As a result, attorneys are more inclined to go to trial. This extends litigation and significantly raises the cost to defend a claim.

Nuclear Verdicts in the Commercial Auto Space, 2010-2020

Source: Advisen/Zywave Loss Data

Tips for Insurance Buyers

- Examine your loss control practices relative to your fleet and drivers. Enhance your driver safety programs by implementing or modifying policies on safe driving and distracted driving.
- Design your driver training programs to fit your needs and the exposures facing your business. Regularly retrain drivers on safe driving techniques.

- Establish adequate driving schedules to reduce driver fatigue. Educate employees on driver fatigue and encourage them to take a break if they start experiencing symptoms behind the wheel.
- If you have just begun offering delivery services or recently hired new delivery drivers due to the pandemic, fully assess the risks associated with these changes and implement measures to minimize potential damages (e.g., driver training programs and safe delivery protocols).
- Ensure you are hiring qualified drivers by using motor vehicle records (MVRs) to vet a driver's past experience and moving violations. Disqualify drivers with an unacceptable driving record. Review MVRs on a regular basis to ensure that drivers maintain good driving records. Define the number and types of violations a driver can have before they lose their driving privileges.
- Consider technology solutions, such as telematics, where appropriate to strengthen and supplement other loss control measures.
- Implement a driver- or employee-retention program to maintain experienced drivers.
- Prioritize organizational accident prevention initiatives and establish effective post-accident investigation protocols to prevent future collisions on the road.
- Examine your Federal Motor Carrier Safety Administration BASIC scores to identify gaps in your fleet management programs, if applicable.
- Determine whether you should make structural changes to your commercial auto policies by speaking with your insurance broker.

General Liability

In recent years, the general liability market has consistently underperformed, resulting in heightened underwriting losses and subsequent rate increases. As worsening social inflation concerns, surging medical expenses and the ongoing COVID-19 pandemic continue to contribute to a rise in liability claim frequency and severity, the market has preceded to harden.

Due to these market conditions, we predict that most policyholders will encounter another year of rate increases across their liability lines in 2021. In addition to rate increases, many insureds may also experience lowered capacity and further underwriting scrutiny during the renewal process.

Policyholders who operate in sectors with elevated general liability exposures (e.g., real estate, construction, manufacturing, retail, hospitality and contracting) may be more prone to double-digit rate increases and restrictive underwriting standards, as well as experience significant difficulties securing or maintaining higher coverage limits.

2021 Price Prediction

Overall: **+5% to +15%**

Trends to Watch

- **Social inflation concerns—** Put simply, social inflation refers to the heightened frequency and severity of insurance claims. These rising costs are the result of societal trends and views toward increased litigation, broader contract interpretations, plaintiff-friendly legal decisions and large jury awards. Together, these factors can raise the cost of insurance. Currently, the key factors influencing social inflation within the liability market include the aforementioned issue of nuclear verdicts—especially in the case of commercial auto accidents and class action lawsuits. Collectively, these trends have contributed to a more than 300% increase in the median value of the top U.S. verdicts since 2014.
- **Surging medical expenses—**Although health care advancements and increasingly effective treatment options have helped injured individuals live longer and fuller lives following an accident, these advancements have also contributed to a surge in medical expenses, and—consequently—more costly liability claims related to such accidents (e.g., customer or visitor injuries at a business's establishment or commercial auto crashes). According to data from the American Medical Association, health care spending has steadily increased by approximately 4% every year since 2016. Looking ahead, health care spending is expected to rise by over 5% annually through 2028.
- **COVID-19 exposures—**The early days of the COVID-19 pandemic forced many businesses to temporarily close their doors. However, as business owners across industry lines start reopening to the public, doing so carries an increased risk of COVID-19 exposures. Specifically, visitors or customers who get infected with COVID-19 after visiting a business may allege that the establishment's lacking precautionary measures contributed to their illness. What's more, many

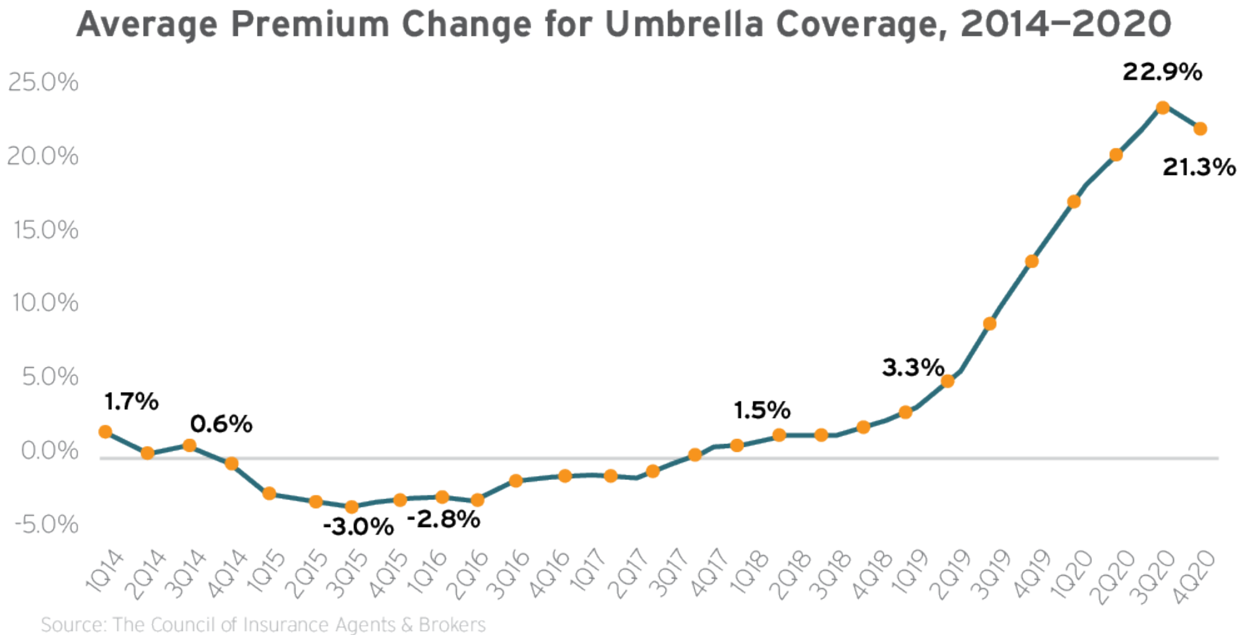
insurance carriers exclude claims related to communicable diseases from coverage, making businesses more financially vulnerable in the event of pandemic-related liability lawsuits.

Tips for Insurance Buyers

- Work with your insurance broker to educate yourself on key market changes affecting your rates and how to respond using loss control measures.
- Ensure your establishment has measures in place to reduce the potential for customer or visitor injuries (e.g., maintaining safe walking surfaces and promoting proper housekeeping).
- Consult federal, state and local guidance to establish a safe reopening plan for your establishment with adequate COVID-19 prevention protocols.
- Reach out to your insurance broker to review pandemic-related coverage restrictions.
- Examine your general liability coverage with your insurance broker to ensure limits match up with your insurance needs.

Excess and Umbrella Liability

Similar to 2020, the excess and umbrella liability market continues to experience large-scale disruption—becoming more challenging than the primary liability coverage markets. This is largely due to social inflation and its impact on exponentially rising claims costs, driven by factors such as litigation funding, nuclear verdicts and surging medical care expenses. Such severe underwriting losses have created an increasingly hardening market for 2021.



As a result, underwriters have made numerous adjustments—lowering capacity on excess layers, reevaluating coverage grants, increasing attachment points and narrowing their appetites for the writing of new business. We predict that these conditions will continue in 2021, alongside significant rate increases. Rates on excess liability may even exceed those of primary ones. Insureds seeking excess or umbrella liability in a high-risk industry may experience further rate increases and capacity concerns.

2021 Price Prediction

High risk: **+50% or more**

Low to moderate risk: **+30% or more**

Trends to Watch

- **Restricted capacity—**Since 2019, many carriers reduced their lead umbrella capacity from $25 million to less than $15 million. This trend has only worsened in the past year, with average blocks of capacity now sitting at $10 million. What's worse, insureds with prior loss history are encountering no more than $5 million in total maximum capacity. As such, it currently requires as much as 10-12 markets to complete a $100 million liability tower, while much of the past decade only required between four and six markets to do so.

- **Distorted liability tower pricing—**The impact of the aforementioned social inflation trends on claim frequency and severity have motivated organizations across industry lines to seek additional layers of liability. As layer demands increase, however, excess and umbrella liability carriers have responded by developing higher rates for the top layers of liability towers (e.g., $100 million or more in total capacity) than lower layers—despite lower layers being closer to potential risks.
- **COVID-19 exclusions—**The emergence of COVID-19 has prompted many organizations to look for additional liability coverage for pandemic-related claims. Nevertheless, communicable disease exclusions have been implemented in most policy renewal programs—especially for insureds operating within industries with elevated COVID-19 exposures (e.g., health care and hospitality).

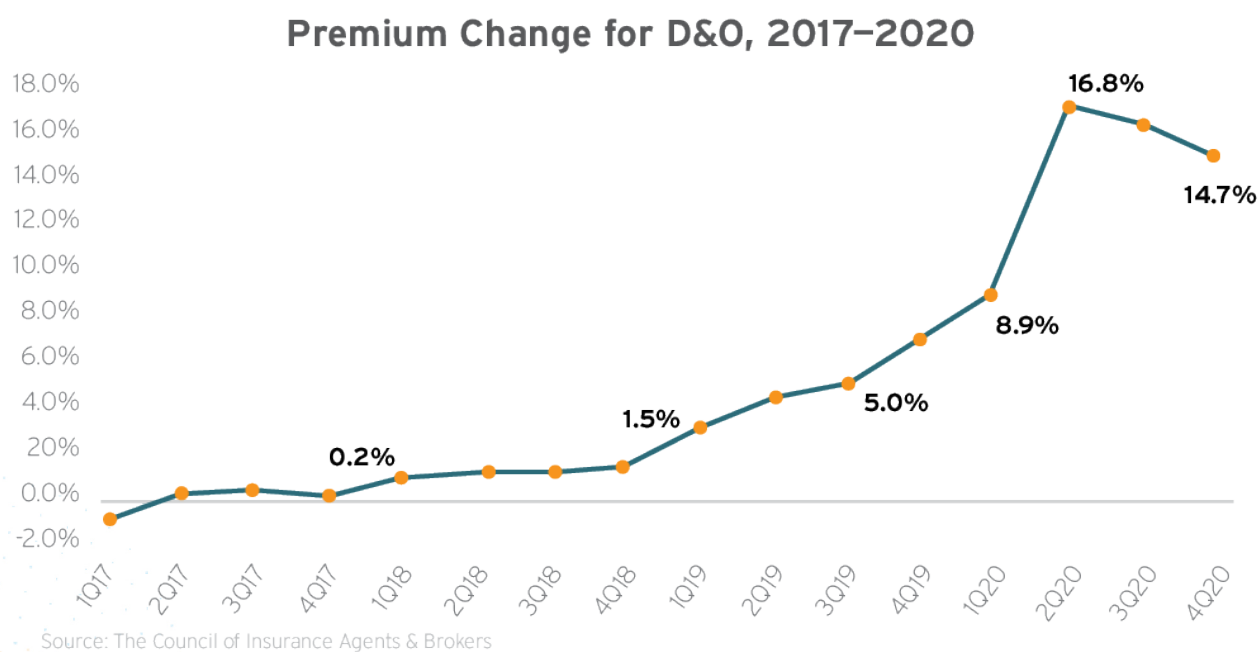
Tips for Insurance Buyers

- Plan for price increases and difficult renewals. Applications may have to be submitted earlier.
- Work with your insurance broker to submit a quality application. Because of the firming market conditions for excess and umbrella layers, submission activity is up. Insurance companies are dealing with a lot of submissions for both renewals and new business. In this environment, poor applications are likely to be denied by underwriters.

Directors and Officers (D&O) Liability

Although D&O insurance carriers offered mostly favorable pricing for businesses throughout much of the past decade, recent years have seen a shift in the market by way of elevated rates and reduced capacity. In the midst of a new decade, the D&O market has only continued to harden, with rate increases of double digits becoming the norm for most insureds. Looking forward, insurance experts anticipate that the D&O market will be the hardest it's ever been in 2021.

Many factors that contributed to the initial D&O market shift have remained top concerns, including increased corporate accountability, evolving cybersecurity threats and a surge in class action lawsuits. However, a range of additional trends have also emerged within the hardening D&O market—namely, further lawsuits and derivative actions, the COVID-19 pandemic, economic uncertainty, climate change and social movements.



In these tightening market conditions, we predict that many businesses will experience significant rate increases, fewer markets, lower available limits, more robust underwriting and higher retentions in 2021. Insureds may also encounter various coverage reductions—including costly extended reporting period terms, the elimination of shareholder derivative demand investigative costs coverage and additional policy restrictions related to Side A insurance. Public entities that belong to the airline, energy, auto, entertainment, health care, hospitality and retail industries may experience the most severe rate increases and coverage reductions.

2021 Price Prediction

Private/nonprofit entities: **+10% to +50%**

Public entities: **+20% to +70% or more**

Trends to Watch

- **COVID-19 concerns—**The ongoing COVID-19 pandemic has forced many organizations to make serious operational changes—such as conducting office closures, having employees work remotely, conducting furloughs or layoffs and altering various workplace procedures to comply with health and safety standards. Such changes can carry a wide range of D&O exposures, seeing as there is the potential for stakeholders or shareholders to allege that the senior leadership team mismanaged the organization. A lack of such changes can also cause D&O liability concerns, as stakeholders could allege that senior leaders were negligent and failed to respond appropriately to COVID-19.
- **Insolvency issues—** The global recession caused by the COVID-19 pandemic has led to major financial disruption for many organizations. These economic struggles have resulted in a wide range of employers going bankrupt or experiencing insolvency issues. Insolvency is a key contributor to D&O claims for both publicly and privately held organizations. Insolvency-related claims can result from stakeholders alleging that senior leaders failed to properly plan for financial disruption or did not respond correctly to prolonged periods of reduced revenue, ultimately putting the senior leadership team at fault for the financial hardship.
- **Cybersecurity struggles—**As workplace technology continues to advance, so do the tactics of cybercriminals. What's more, the growing number of employees working remotely due to the COVID-19 pandemic has resulted in additional cyber exposures for organizations. When cyberattacks occur, costly consequences can often lead to D&O claims. Specifically, stakeholders affected by a cyberattack may allege that the senior leadership team failed to properly address cybersecurity threats or establish a plan for responding to an attack.
- **Environmental, social and governance (ESG) topics—**ESG activism has become increasingly prevalent in today's business climate, making a noticeable impact on the D&O market. Rising ESG movements include the following:
    - **Climate change—**A cultural shift regarding the pressing issue of climate change—evidenced by a continued surge in natural disasters worldwide—has resulted in an increased demand on organizations across industry lines to "go green," thus holding senior leaders accountable for ensuring eco-friendly operations. This shift also led to a rise in environmental legislation and enforcement from governing bodies.
    - **The Black Lives Matter movement—**This movement is a racial justice campaign that was originally founded in 2013 and resurged in 2020 in the form of nationwide protests. Since its resurgence, the movement has caused organizational stakeholders to call out senior leaders on their alleged failures to promote equality and inclusion in the workplace, as well as ask for greater racial diversity among senior leadership teams.
    - **The #MeToo movement—**This movement is an anti-sexual harassment campaign that was originally founded in 2006 and has gained significant social media attention since 2017. The movement has contributed to a sharp rise in D&O litigation, as employees and other stakeholders have come forward to allege that organizations' senior leaders engaged in sexual harassment or acted negligently in their response to other allegations of sexual harassment.
- **Derivative claims**— One form of D&O claim in particular, known as a derivative claim, has become increasingly prevalent. In such a claim, one or more shareholders will file a lawsuit on behalf of an organization against a specific individual (or several individuals) on the senior leadership team rather than the whole team or board. Derivative claims are often caused by "event-driven" lawsuits, in

which shareholders allege that particular members of the senior leadership team failed to act accordingly in the midst of large-scale disasters or trends. These lawsuits are also more likely to result in costly settlements of $100 million or more.

Tips for Insurance Buyers

- Examine your D&O program structure and limits alongside your insurance professionals to ensure they are appropriate and take market conditions and trends into account.
- Consult insurance brokers, loss control experts and underwriters to gain a better understanding of your D&O exposures and cost drivers in the market.
- Work closely with senior leadership to identify any organizational risks that may arise from the COVID-19 pandemic and determine a course of action that prioritizes the needs of your stakeholders.
- Diligently evaluate any workplace adjustments related to COVID-19 prior to implementation to ensure regulatory compliance and minimize legal or financial fallout.
- Monitor organizational health and safety procedures, and update them as needed to reflect frequently changing federal, state and local COVID-19 requirements.
- Ensure your senior leaders follow safe and secure financial practices (e.g., timely payments, educated investments, accurate documentation and reasonable reimbursement procedures). Be transparent with stakeholders about your organization's economic state to avoid misrepresentation concerns.
- Make sure your senior leadership team is actively involved in monitoring your organization's unique cyber risks, implementing proper cybersecurity practices to help prevent potential attacks (especially in the realm of remote work arrangements), ensuring compliance with all applicable data security standards and establishing an effective cyber incident response plan to minimize any damages in the event of an attack.
- Implement measures to foster an inclusive workplace and ensure diverse representation within your senior leadership team.
- Enforce a zero-tolerance policy on sexual harassment within your organization and take any reports of such behavior seriously. Require your senior leadership team to participate in routine sexual harassment awareness training.

Employment Practices Liability (EPL)

Like many other lines of insurance, the EPL insurance market has also hardened. This is due in part to a higher frequency and severity of claims in recent years, as well as increased legislative activity at both the state and federal level. What's more, the ongoing impact of the COVID-19 pandemic is a particularly pressing concern in the EPL market. Specifically, pandemic-related remote work operations, return-to-work plans, and furlough or layoff decisions have fueled a variety of EPL claims across industry lines (e.g., discrimination, invasion of privacy and retaliation).

Apart from pandemic-related issues, the EPL market has also seen a recent rise in potential exposures due to a wide range of emerging trends—including a rapidly aging workforce, increased LGBTQ+ protections, social movements and widespread marijuana legalization. Moreover, judges and juries seem increasingly sympathetic to plaintiffs in employment-related actions. Over the past few years, there has been an acceleration of large judgments (more than $5 million) issued against employers for EPL claims. In response, many carriers are decreasing their appetite to write new EPL business.

That being said, we predict that the majority of businesses will experience rate increases, coverage reductions and additional retention requirements in 2021. Larger organizations and insureds that operate within riskier states (e.g., California, Illinois, Florida, New York and Texas) may encounter more significant rate increases.

2021 Price Prediction

Overall: **+10% to +30%**

Trends to Watch

- **Pandemic-related claims—**The ongoing COVID-19 pandemic has forced many organizations to make workplace changes—such as having employees work remotely, adjusting office setups and conducting staff layoffs or furloughs. And with these changes, EPL claims followed. According to data from Fisher Phillips, some of the top pandemic-related EPL claims include:

1| Allegations regarding employee leave concerns and remote work capabilities (27% of claims)

2| Allegations of discrimination related to workplace adjustments or layoffs (23.7% of claims)

3| Allegations of retaliation after an objection to unsafe work conditions (22.5% of claims)

4| Allegations related to wage and hour concerns (6.7% of claims)

5| Allegations pertaining to unsafe work conditions (5.2% of claims)

- **Social movements—**Several social movements have led to an increase in EPL claims in recent years, including the aforementioned #MeToo movement and the Black Lives Matter movement. In fact, the #MeToo movement largely contributed to a 50% rise in sexual harassment lawsuits against employers over the past few years, according to the U.S. Equal Employment Opportunity Commission (EEOC). Looking ahead, the Black Lives Matter movement has the potential to become a driving factor in race-related workplace discrimination and harassment lawsuits.
- **LGBTQ+ protections—**Although the EEOC had previously released guidance stating that workplace discrimination and harassment based on sexual orientation, gender identity and gender expression violated Title VII of the Civil Rights Act of 1964, the U.S. Supreme Court just recently confirmed in 2020 that Title VII protects gay and transgender employees from such treatment. While this is a relatively new development, the Supreme Court's decision could open the door for additional discrimination-based EPL claims throughout the course of 2021.
- **Age discrimination issues—**According to the U.S. Bureau of Labor Statistics, the share of employees over the age of 55 in the labor force is expected to rise to nearly 25% by 2024 (up from 13% in 2001). This demographic shift makes it increasingly important for employers to take steps to minimize the potential for age discrimination issues within the workplace. After all, the Age Discrimination in Employment Act (ADEA) forbids age discrimination against employees and job applicants aged 40 and over. Despite the ADEA; however, a recent Hiscox study found that 21% of U.S. employees have reported experiencing workplace discrimination based on their age. Such discrimination can lead to poor staff morale, a tarnished organizational reputation and an increase in EPL claims.
- **Marijuana legalization—**Following the 2020 election, medical marijuana is now legal in 36 states and recreational marijuana is now legal in 15 states. As a result, some states have enacted legislation that restricts an employer's ability to conduct drug tests for marijuana. Further, several state court cases have ruled in favor of the employee in recent employment lawsuits related to marijuana usage. This includes a case in which a disabled employee sued their employer for alleged workplace discrimination due to medical marijuana usage, as well as a case in which an employee sued their employer for alleged wrongful termination due to a positive drug test for marijuana.

Tips for Insurance Buyers

- Review your employee handbook and related policies. Ensure you have all appropriate policies in place, including language on discrimination, harassment and retaliation.
- Take note of any organizational changes created by the COVID-19 pandemic. These changes should be reviewed to ensure they adequately consider the needs of your workforce and are compliant with employment law.
- Implement effective sexual harassment prevention measures (e.g., a zero-tolerance policy and a sexual harassment awareness program), reporting methods and response protocols.
- Promote diversity, acceptance and inclusion in the workplace through staff education and training. Take any accusations or reports of discrimination seriously.
- Document all evaluations, employee complaints and situations that result in employee termination.
- Consult legal counsel for state-specific employee wage and hour guidance. Pay close attention to workplace issues that could lead to wage and hour complaints.

- Review any state-specific legislation related to marijuana legalization. Consider revising procedures related to conducting workplace drug tests for marijuana or basing employment decisions on an employee’s marijuana usage, as these practices could potentially contribute to EPL claims.

Workers' Compensation

Unlike other casualty lines, the market for workers' compensation insurance has remained stable in most states and industries, performing as an outlier by producing profitable underwriting results. According to the National Council on Compensation Insurance (NCCI), the private carrier combined ratio for workers' compensation in 2020 is estimated to be 86%, compared to an 85% ratio for 2019.

Because the COVID-19 pandemic resulted in many organizations transitioning to remote work operations, many employees across industry lines have been less prone to illness and injury within their work-from-home arrangements. Further, the emergence of telemedicine has helped many organizations supply more immediate and cost-effective treatment options for any employees that get injured on the job—thus providing the potential to minimize workers' compensation claim costs.

Nevertheless, there are still some trends that cause reason for concern within the market for 2021. Apart from increasing remote work operations, the COVID-19 pandemic has still carried consequences in the realm of workers' compensation by way of claims related to occupational COVID-19 exposures (especially in the health care industry). What's more, due to the COVID-19 pandemic, many employers have scaled back their workforces or shuttered operations. This directly impacted insurance carriers in the workers' compensation space. According to NCCI estimates, the private carrier net written premium is estimated to be $38.6 billion in 2020. This represents an 8.1% decline from that of 2019.

Further, various workforce trends—including a rise in comorbidities, labor shortages and an aging population—are also expected to elevate the likelihood of workplace accidents and subsequent claims. With some degree of market uncertainty for 2021 in mind, we predict that workers' compensation rates will remain stable, with moderate rate increases becoming the norm.

2021 Price Prediction

Overall: **Flat to +5%**

Trends to Watch

- **COVID-19 presumptions—**As the pandemic continues, a number of states have enacted legislation that assumes workers' compensation coverage for certain employees (e.g., health care workers and first responders) in regard to COVID-19 illnesses. In particular, some states have created new rules regarding COVID-19 presumptions (the conditions in which an employee's injury or illness is presumed to have happened on the job and should be compensated), increasing the likelihood of pandemic-related claims. As of late 2020, nine states have updated their statutes to include presumptive liability, which provides workers' compensation benefits to a larger spectrum of employees—namely, essential workers who contract COVID-19. More than a dozen other states currently have similar legislation under consideration. Although such laws are rebuttable, overcoming presumptions has become an increasingly difficult feat, seeing as the burden of proof in these cases is often being pushed to the employer rather than the employee.
- **Mega claims—**A mega claim is an exceptionally large claim—totaling $3 million or more in incurred losses. In the scope of workers' compensation, these claims typically stem from employees

experiencing severe (and possibly permanent) injuries on the job. Mega claims are not only expensive, but often lengthier and more complex in nature. Such claims can leave lasting impacts on organizations by way of hefty costs, lost time and the potential for severe reputational damage. Mega claims have become a rising concern in the past decade. According to a recent study conducted by the NCCI, these claims have reached a 12-year high—increasing in both frequency and severity.

- **Comorbidities—**Put simply, a comorbidity is the simultaneous presence of two or more medical diagnoses for an individual. Comorbid conditions are typically long-term health complications that have the potential to increase the severity of other injuries or illnesses that the affected individual may experience, making it more difficult to fully recover. Common comorbid conditions include obesity, diabetes, hypertension, depression, anxiety and substance abuse. According to a study conducted by the NCCI, workers' compensation claims involving comorbidities have nearly tripled since 2000. Further, the average cost of workers' compensation claims connected to a comorbid condition is almost twice as much as that of comparable claims that don't involve comorbidities.
- **Qualified worker shortages—**Filling jobs with experienced workers has been a challenge for organizations across industry lines due to ongoing labor shortages. As a result, many employers have begun hiring a larger number of inexperienced workers. However, such a practice comes with workers' compensation risks. According to a recent survey conducted by the Golden Triangle Business Roundtable in Texas, employees with less than five years of experience contribute to 43% of overall workplace injuries. This is likely because inexperienced workers often lack years of safety training and may be more willing to take unnecessary risks.
- **An aging workforce—**In addition to a rise in inexperienced employees, the past decade has also brought on an aging workforce. According to the U.S. Bureau of Labor Statistics, the share of employees over the age of 55 in the labor force is expected to increase to nearly 25% by 2024 (up from 21.7% in 2014). Such a statistic is notable, as the cost of workers' compensation claims generally increases as employees age. After all, because health typically diminishes with age, the impact of minor injuries can be more severe for older workers—taking them longer to fully recover. Furthermore, age-related changes and declines can include a shorter memory, slower reaction times, a decline in vision and hearing, or a poor sense of balance. These limitations can lead to many injuries for older workers, including falls caused by poor vision or a slowed reaction time, sprains and strains due to a loss of strength or balance, and injuries from repetitive tasks.

Tips for Insurance Buyers

- Enforce workplace health and safety measures to help protect your staff from COVID-19 exposure and limit the likelihood of related claims. Review guidance from your state workers' compensation board and speak with an insurance professional to learn more about how your coverage may or may not respond to COVID-19 claims.
- Implement safety and health programs to address common risks, especially when using a loss-sensitive workers' compensation program.
- Reevaluate the effectiveness of pre-loss safety initiatives and post-loss claims handling procedures.
- Conduct routine safety training for employees of all ages and experience levels.
- Establish workplace wellness initiatives aimed at preventing or treating chronic health conditions and improving the overall well-being of your staff. These initiatives can help reduce the risk of your workforce developing comorbidities.

- Develop an effective return-to-work program that properly supports employees in the process of healing from a work-related illness or injury and resuming job duties following their recovery.
- Ramp up your organizational safety efforts and injury-prevention methods—particularly when it comes to preventing falls, motor vehicle accidents and struck-by incidents, as these types of accidents are most likely to result in mega claims.
- If your workforce is operating remotely, provide guidance on how employees can make their workspaces more ergonomic in order to prevent injuries at home.

Moving Forward

It can sometimes seem as if the forces determining your insurance rates are beyond your control. But, as an insurance buyer, it’s important to know how your premiums are calculated, what trends influence the market and what you can do to get the best price.

Your claims history—which you can control—has an enormous impact on whether your rates go up or down. That’s where implementing a solid risk management plan will help steer your pricing in a more favorable direction, both now and in future renewal periods.

The following are five key components of a successful risk management strategy:

1. Pinpoint your exposures and cost drivers.
2. Identify the best loss control solutions to address your unique risks.
3. Create a solid business continuity plan to account for disasters and other unpredictable risks.
4. Build a company culture focused on safety.
5. Manage claims efficiently to keep costs down.

In addition to implementing the above risk management strategies, working alongside an experienced insurance broker is equally crucial. Qualified insurance professionals can help their clients analyze their business, understand their exposures and establish a suite of customized insurance policies that act as a last line of defense against claims. A broker will also thoroughly explain your policies, notifying you of any additional considerations to keep in mind.

Remember, the insurance landscape is complex, and while the predictions found in this outlook are based on expert research, they are subject to change. Fortunately, your partners at Horst Insurance are diligently monitoring the market throughout the year and will keep you informed of any changes that might affect your business.

For More Information

For more details regarding the information contained in this report, contact Horst Insurance today.

In addition to helping you navigate the insurance market, Horst Insurance has resources to assist in your risk management efforts. Business owners who proactively address risk, control losses and manage exposures will be adequately prepared for changes in the market and will get the most out of each insurance dollar spent.