

# 2021 State of the Insurance Market

What to expect at your next renewal

Q2 Edition





## State of the Industry Report

Commercial insurance rates are going up. According to MarketScout's [Market Barometer](#), property and casualty rates increased an average of 5.9% in the second quarter of 2021. This is a more moderate increase than what was seen in the first quarter. However, rate increases are impacting a wide range of industries, although some sectors are being harder hit than others. The habitational industry saw rate increases of 8.6%, for example, while the transportation industry saw increases of 11%.

Policyholders with a renewal coming up should brace for these widespread rate increases and stricter coverage terms with more exclusions. Policyholders should also be ready to face a more challenging underwriting process. Underwriters want to see evidence of strong risk management practices. If you can't provide this, you may be denied coverage instead of being offered coverage with a rate increase.

Preparation is key. Review your claims history and risk management practices and see where improvement is possible. It will also be helpful to know about the current trends impacting coverage.

### This report will delve into emerging liability risks:

- The COVID-19 Pandemic
- The Effect of Increased Awareness of Discrimination and Harassment
- The Surge in Cyberattacks
- The Impact of Natural Disasters
- The Increase in Nuclear Verdicts

### This report will also look at the impact on various lines of coverage and the rate increases we're seeing:

- Commercial Property and Auto
- Business Interruption
- General Liability and Excess Coverage
- Directors and Officers
- Professional Liability
- Employment Practices Liability
- Cyber Insurance
- Workers' Compensation



## Emerging Liability Risks

In recent years, the insurance market has been impacted by several emerging and evolving risks. Five key trends stand out: COVID-19, natural disasters, nuclear verdicts, cyberattacks, and increased awareness of issues involving discrimination and harassment.



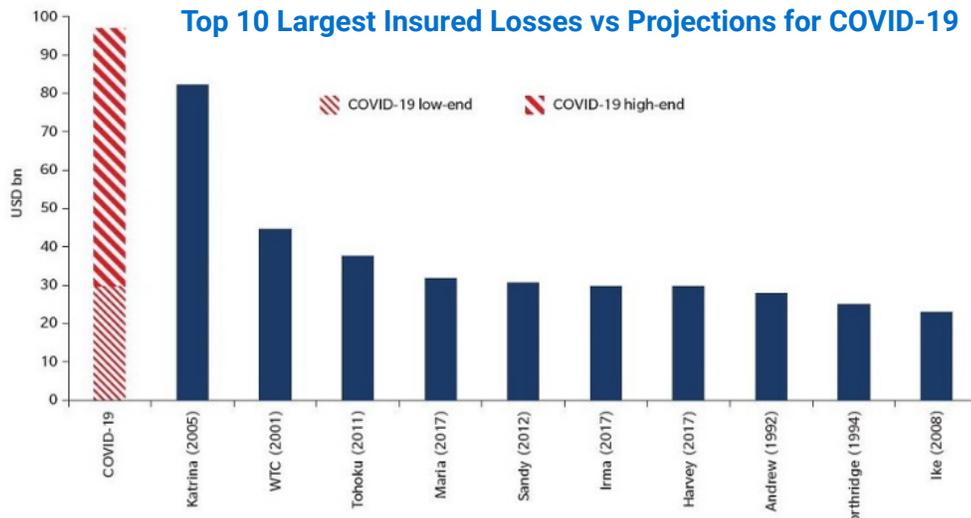
### COVID-19

The COVID-19 pandemic was the defining factor in 2020, and it continues to play a major role in 2021, largely due to the spread of the Delta variant.

Many states issued orders that prohibited gatherings and forced nonessential businesses to close or switch to remote work. Some cities issued orders of their own. Companies had to comply with these orders while also trying to stay in business, keep their customers and workers safe, and avoid lawsuits. Not all of them succeeded.

According to [SHRM](#), wrongful death lawsuits related to COVID-19 have been brought against JBS USA, a meat processing company, and Walmart. Other COVID-related claims could include wage and hour and layoff-notice violations, as well as workers' compensation claims. As [Reuters](#) reports, we're also seeing legal challenges to vaccine mandates.

There is also concern that lawsuits may occur if an employee gets infected at work and then infects family members. According to [Reuters](#), at least one lawsuit has already occurred, and numbers from Praedicat indicate that 7% to 9% of the U.S. COVID-19 deaths are believed to be take-home infections.



Source: <https://www.gccapitalideas.com/2020/11/30/chart-top-10-largest-insured-losses-vs-projections-for-covid-19-2/>





## Increased Awareness of Discrimination and Harassment

In recent years, we've seen social movements seeking to address issues of discrimination and harassment. The #MeToo movement has focused on sexual harassment, while Black Lives Matter has focused on racial discrimination and police brutality.

These movements can place business practices under scrutiny. For example, according to the [EEOC](#), lawsuits alleging sexual harassment claims increased 50% in 2018 in the wake of the #MeToo movement. We've also seen new laws and compliance issues, such as the legislation that requires boards in California to include women and members from underrepresented communities.

Protests related to social movements can also lead to business interruption and property damage. [The Armed Conflict Location & Event Data Project](#) (ACLED) says that there were more than 11,000 demonstrations associated with the Black Lives Movement. Most of these were peaceful, but approximately 6% involved violence, vandalism, looting, clashes with police, or other destructive activity.



## Cyberattacks

The switch to remote work created new cybersecurity gaps that hackers have been eager to exploit. For example, the FBI has [warned](#) that network access and an ability to escalate network privilege have not always been fully monitored during social distancing orders, and that cyber criminals have been targeting these weaknesses.

This may explain why ransomware attacks surged in 2020. According to [Security](#), ransomware attacks increased 62% worldwide and 158% in North America. Recent attacks have been targeted and sophisticated, and ransom demands have been getting larger.

Ransomware attacks are bad enough, but companies also have to deal with other cyber threats, including phishing and business email compromise. The FBI's [2020 Internet Crime Report](#) shows a massive spike in complaints of online crimes. In 2020, there were 791,790 complaints and \$4.2 billion in losses. In 2019, there were 467,361 complaints and \$3.5 billion in losses.





## Natural Disasters

Natural disasters and severe weather are on the rise. According to [NOAA](#), the U.S. experienced a record-breaking number of 22 separate weather and climate events with losses of at least \$1 billion each in 2020. The number of named tropical storms that formed in the Atlantic also broke a record.

Natural disasters weren't just a problem for the U.S. Based on data from Munich Re, the [Insurance Information Institute](#) says that global natural catastrophes resulted in losses of \$210 billion in 2020, up from \$166 billion in 2019.

### Global Natural Catastrophe Stats for 2020

- Number of events: **980**
- Overall Losses: **\$210 billion**
- Insured Losses: **\$82 billion**

Source: IIR and Munich Re



## Nuclear Verdicts

A nuclear verdict is often defined as a jury award of \$10 million or more. Nuclear verdicts are often associated with social inflation, a tendency for claim amounts to increase in response to increased litigation and larger jury awards.

Nuclear verdicts can impact many different industries, but the trucking industry has been especially hard hit. According to the American Transportation Research Institute, recent research has confirmed what many people already suspected: nuclear verdicts against the trucking industry have surged dramatically. An analysis of cases between 2006 and 2019 found that there were only 26 cases over \$1 million in the first five years, while there were close to 300 cases over \$1 million in the last five years.

Verdict amounts continue to rise. According to [Freight Waves](#), a \$1 billion verdict involving a 2017 crash may have set a new record. A Florida jury handed down the verdict, which includes \$900 million in punitive damages.



### Annual Cost Increase Between 2010 and 2018

- Verdict Awards Against Fleets: **51.7%**
- Inflation: **1.7%**
- Healthcare Costs: **2.9%**

Source: [American Transportation Research Institute](#)

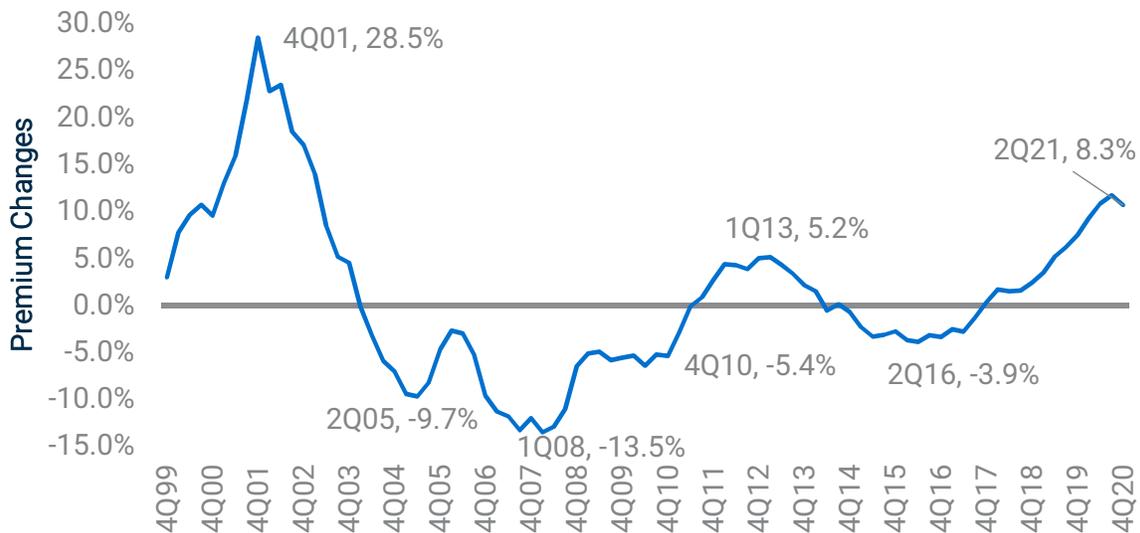
## The Impact on Coverage Lines

Commercial insurance rates are increasing across the board, although some lines are seeing much larger increases than others. Here's a look at the rate hikes we're seeing now.

While rates are steadily climbing, they have still not reached the extreme highs we saw in 2000 and 2001.

The rate increases we're seeing now are notable because they follow several years of favorable rates.

### Average Premium Changes, 1999 - Q2 2021



Source: The Council of Insurance Agents & Brokers





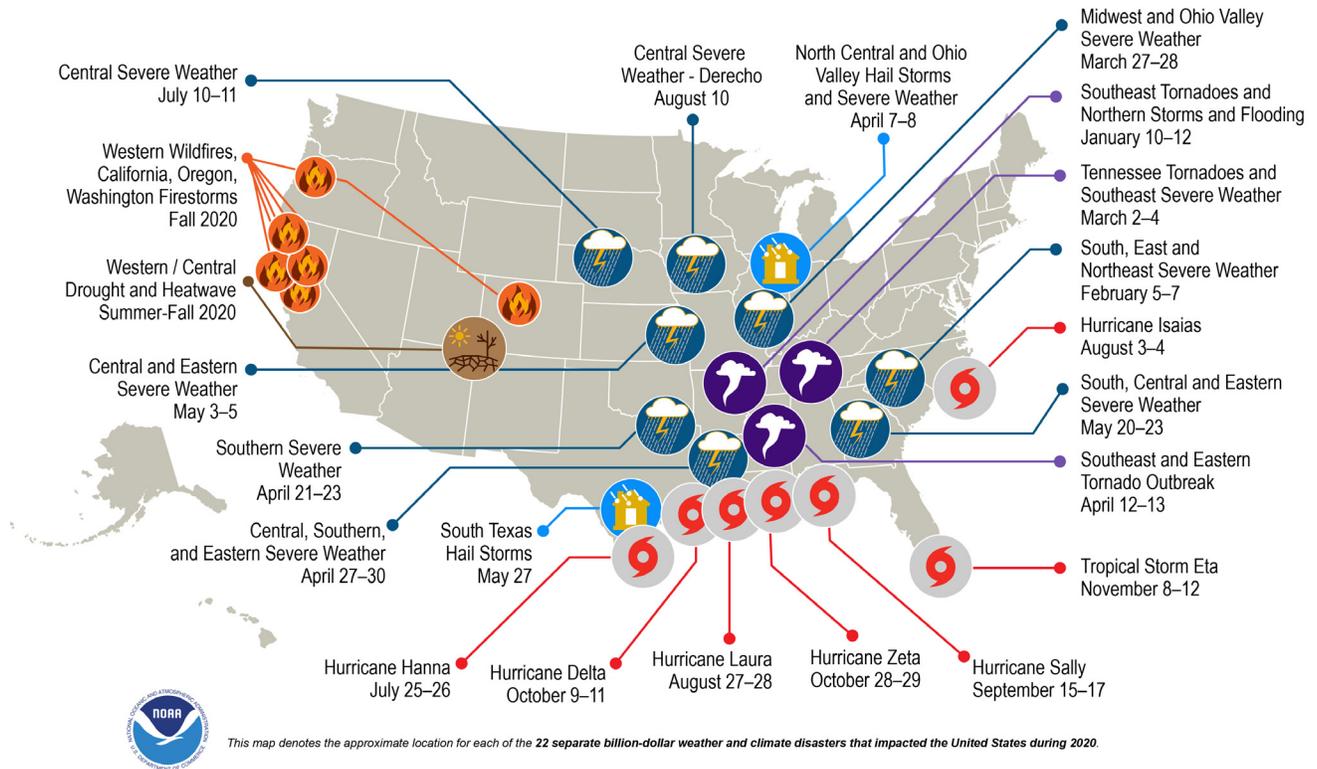
## Commercial Property and Auto

According to [MarketScout's Market Barometer](#), Commercial Auto increased 9% in the second quarter of 2021, and Commercial Property rates increased 9.6%, nationally. However, catastrophe-prone areas may see significantly higher rate increases.

**Rates Up**  
**9%**

Natural disasters are a key factor in rising rates. Social inflation and nuclear verdicts have also had an impact on Commercial Auto rates, and preliminary data from the [National Safety Council](#) shows that traffic fatalities increased 24% in 2020 – despite a drastic decrease in miles driven.

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



Source: [NOAA National Centers for Environmental Information \(NCEI\) U.S. Billion-Dollar Weather and Climate Disasters \(2021\)](#).





## Business Interruption

Business Interruption rates increased 7% in the second quarter of 2021 as a national average.\*

COVID-19 forced many businesses to close their doors. Some would never reopen.

In September 2020, Yelp published its [Local Economic Impact Report](#). According to the report, both permanent and temporary closures were common in light of state shutdown orders. Nearly 100,000 businesses had closed permanently since the start of the pandemic.

Many insurers have argued that COVID-19 closures are not covered under standard business interruption policies. This has led to a legal fight between business owners and carriers. According to the COVID Coverage Litigation Tracker at the University of Pennsylvania Carey Law School, more than [1,500](#) lawsuits have been filed since March 2020.



## General Liability and Excess Coverage

Emerging liability risks and rising claim amounts are pushing rates higher and making coverage difficult to secure.

Nationally, Umbrella and Excess Liability rates increased 11.6% in the second quarter of 2021, while General Liability rates increased 6.3%.\*



## Directors and Officers

Directors and Officers (D&O) Liability rates increased 11% in the second quarter of 2021 as a national average.\*

It is challenging to secure limits for D&O coverage. Cybersecurity and COVID-related issues, as well as merger and acquisition activities, have impacted D&O coverage. According to Cornerstone Research's [Securities Class Action Filings – 2020 Year in Review](#) report, there were 19 COVID-19 filings, 11 cryptocurrency filings, seven SPAC filings, six cannabis filings, four cybersecurity filings, one sexual misconduct filing and one opioid filing in 2020.





## Professional Liability

Nationally, Professional Liability rates increased 4.3% in the second quarter of 2021. This is a significantly more moderate than what was seen in the previous quarter, when rates rose 11.3%.

Some industries are seeing higher rate increases. The COVID-19 pandemic has put strain on the healthcare sector, especially nursing home facilities. The aging population is also resulting in increased liability risks for this sector. According to a report from the [American Medical Association](#), 31.1% of medical liability premiums increased in 2020, compared to only 26.5% in 2019 and only 13.7% in 2018.



Rates Up  
**4.3%**



## Employment Practices Liability

Employment Practices Liability Insurance (EPLI) rates increased 7% in the second quarter of 2021 as a national average.\*

Social movements have placed an increased spotlight on harassment and discrimination issues. Wage and hour disputes – including debates of independent contractor status and complications arising from remote work – have also been an issue, although many EPLI policies include exclusions for wage and hour claims.



Rates Up  
**7%**



## Cyber Insurance

According to the Council of Insurance Agents & Brokers' [Q2 2021 Commercial P/C Market Survey](#), Cyber rates increased 25.5% in the second quarter of 2021. While most lines saw more moderate rate increases in the second quarter, this large hike made cyber the exception.

For a long time, general liability and property policies that were not intended to cover cyber risks but did not specifically exclude them could provide what has been termed “silent Cyber” coverage. Now, with the increase of exclusions and standalone policies, this is less common. For policies that do include cyber coverage, underwriting is becoming stricter. Coverage is becoming difficult to source and many underwriters are requiring multi-factor authentication (MFA) practices.



Rates Up  
**25.5%**



Carriers are requiring multi-factor authentication. Requirements on clients are increasing and carriers may not even write coverage for clients who do not have MFA or in some cases, end-to-end encryption.



## Workers' Compensation

Nationally, Workers' Compensation rates increased 1% in the second quarter of 2021.\*

The [National Conference of State Legislators](#) says that 17 states have taken action to classify COVID-19 as a work-related illness for workers' compensation purposes. This means that workers – or at least some types of workers, such as healthcare workers and other essential workers – may be able to file a claim if they get sick.

According to [Insurance Journal](#), a report from the National Council on Compensation Insurance show that the claims situation for COVID-19 is not as bad as some may have feared. In 80% of cases, only limited treatment has been required. However, 20% of claims involve workers who have been admitted to the hospital, and the average inpatient stay costs nearly \$40,000.



\* Source: [MarketScout's Market Barometer](#)





## What We're Seeing

While the numbers shared on the previous pages represent national averages, here are the forecasts of what we're seeing with renewals. Accounts with lower than average losses and lower hazard classes see increases on the low range, while accounts with higher than average losses and in higher risk classes see increases on the high range.

Line Of Coverage	Price Forecast
<b>Commercial Property</b>	+5-20% (non-CAT exposed) +10-50% (CAT-exposed & earthquake) +25-60% (CAT-exposed with poor loss history)
<b>General Liability</b>	+5-20%
<b>Excess and Umbrella Liability</b>	+30-60% possibly higher for those in the transportation industry and/or higher risk classes
<b>Commercial Auto</b>	+5-30%
<b>Workers' Compensation</b>	+0-5%
<b>Cyber Liability</b>	+20-100% or more (see our cyber article for additional details)
<b>Directors and Officers Liability</b>	+10-70%
<b>Employment Practices Liability</b>	+10-30%

These numbers are average estimates based on what we're seeing in the market today and are not intended to predict your actual experience. Your company's insurance rates and renewal experience may be much different than these average estimates.



## Five Key Takeaways

- 1 Start preparing for your insurance renewals well in advance.** Give your broker time to shop the market, advocate on your behalf and secure the best options for you.
- 2 Budget for rate increases.** You don't want to be caught unprepared.
- 3 Shore up your risk management practices in all areas.** You may have to prove that you are a good risk to get coverage. Get your policies, procedures, training and documentation in order. This helps us tell your story and make a strong case to underwriters. Also, revisit your business continuity plan to be sure you can minimize business interruption if your operation is affected by a natural disaster or other unexpected circumstances.
- 4 Pay attention to open claims and reserves.** Work with RiskPoint to accelerate claim closure and to mitigate the cost of any open claims using proactive strategies like early-return-to-work.
- 5 Check for coverage adequacy.** Be sure your limits are high enough to withstand a nuclear verdict. Check your cyber coverage to ensure that incidents caused by remote workers and devices are covered. Your RiskPoint agent can help you review key exposures.

**RiskPoint is here to help you navigate this tumultuous insurance market.**

**Contact us anytime!**

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