



2024 Midyear NFP P&C Client Claims Journal and Trend Report



Table of Contents

Claims Journal

Financial Institutions.....4

Directors & Officers.....8

Cyber 11

Employment Practices Liability..... 13

Trend Report

Financial Institutions..... 17

Construction and Infrastructure 25

Energy and Marine 35

Environmental..... 42

Legal Practice 44

Life Sciences 51

Management, Cyber and Professional Liability 53

Private Equity 62

Real Estate..... 64

Meet the Experts

Contacts..... 73



Claims Journal

Financial Services and Management Liability

Financial Institutions

Federal Court Vacates SEC Rules That Would Have Imposed Significant New Regulatory Obligations on Hedge Funds and Private Equity Funds

The Fifth Circuit Court of Appeals recently struck down the US Securities and Exchange Commission's (SEC) requirements that hedge funds and private equity firms must detail quarterly fees and expenses to investors.

Last year, the SEC issued rules under the Investment Advisers Act of 1940 requiring new disclosures by certain private investment funds. Private funds were first required to register with the SEC starting in 2010 under The Dodd-Frank Wall Street Reform and Consumer Protection Act, and the number of private funds and their assets under management have dramatically increased since then, from roughly 30,000 funds managing \$10T in 2012 to 100,000 managing more than \$25T in 2022.

The SEC argued that while such funds are only directly available to sophisticated large investors, many small investors are indirectly exposed through vehicles like public and private pension plans and endowments that invest in private funds, and those small investors require additional protections.

A group of trade associations challenged the rules in federal court, arguing, among other things, that they exceeded the SEC's statutory authority from Congress. Industry groups had argued to the Fifth Circuit that the agency overstepped its authority and that rules were not necessary for the "highly sophisticated" investors that pour money into private funds.

The Fifth Circuit Court of Appeals vacated the rules, concluding that:

The Dodd-Frank Act expanded the SEC's authority to require disclosures only with respect to retail investors, not the sophisticated market participants in private funds and (b) the proposed rules were not sufficiently connected to preventing fraud to justify relying on the SEC's general authority under the Investment Advisers Act.

The court also stated in its opinion that the SEC's claims of fraud prevention were too vague to justify the ruling explaining that *"the Commission largely fails to define the fraudulent acts or practices that the final rule purportedly is designed to prevent."* The court further stated, *"and while some conduct could involve fraud, the Commission has only observed misconduct by about 0.05% of advisers."* The appeals court rejected an argument from the SEC that the rule was necessary because it would weed out fraud, ruling that the SEC is conflating a lack of disclosure with deception.

This ruling **creates uncertainty** around the SEC's regulatory scheme, **especially with private funds.**

Hedge fund and private equity managers in the Fifth Circuit are obviously the most immediately impacted, with their new compliance obligations deferred for now and potentially indefinitely.

However, SEC information requests and enforcement action are likely to remain focused on the issues such as fee allocation and conflicts of interest addressed by the rule.

The SEC has relied on the same statutory authority for a host of other rules directed at fund advisors that may now also be vulnerable to challenge, including those addressing cybersecurity and predictive data analytics.

SEC Cracks Down on Recordkeeping Provisions

In recent years, the SEC has made **major changes to broker-dealer recordkeeping rules.**

Historically, the SEC's broker-dealer recordkeeping rule was that firms were required to preserve electronic records exclusively in a non-rewriteable, non-erasable format, known as the "write once, read many" format. Amendments to the electronic recordkeeping, prompt production of records, and third-party recordkeeping service requirements applicable to broker-dealers, security-based swap dealers (SBSDs), and major security-based swap participants (MSBSPs) were proposed.

In 2022, the SEC adopted rule amendments designed to:

- Modernize recordkeeping requirements given technological changes.
- Make the rule adaptable to new technologies in electronic recordkeeping.
- Facilitate examinations of broker-dealers, SBSDs and MSBSPs.

The amendments added an audit-trail alternative under which electronic records can be preserved in a manner that permits the recreation of an original record if it is altered, over-written or erased. The audit-trail alternative is designed to provide broker-dealers with greater flexibility in configuring their electronic recordkeeping systems so they more closely align with current electronic recordkeeping practices while also protecting the authenticity and reliability of original records. The amendments apply the same requirements to nonbank SBSDs and MSBSPs.

Fast forward to 2024, and 16 firms, including five broker-dealers, seven dually registered broker-dealers and investment advisers, and four affiliated investment advisers will combine to pay more than \$81M in civil penalties to settle charges for widespread recordkeeping failures of the federal securities laws. Eight firms were charged with violating recordkeeping provisions of the Securities Exchange Act of 1934 and with failing to reasonably supervise to prevent and detect these violations. The remaining firms were charged with violating provisions of the Investment Advisers Act of 1940.

For example, in addition to the significant financial penalties, each of the firms was ordered to cease and desist from future violations of the relevant recordkeeping provisions and was censured. The firms are also required to:

- Retain independent compliance consultants.
- Conduct comprehensive review of their policies and procedures relating to the retention of electronic communications found on personal devices.
- Review their frameworks for addressing noncompliance by their employees with those policies and procedures.

The Commission believes that the amendments and continued investigations into firms' recordkeeping will ensure the Commission's goal to preserve market integrity and protect investors.

Environmental, Social and Governance Outlook

The SEC has released its finalized climate change disclosure guidelines, which the agency first proposed in October 2022. In March, the SEC adopted rules to enhance and standardize climate-related disclosures by public companies and in public offerings. This decision comes after an ongoing demand by investors for more consistent and reliable information about the financial implications of climate-related risks on their operations.

Aside from these guidelines providing investors with decision-useful information, they will also require that climate risk disclosures be included in a company's SEC filings, such as annual reports rather than on company portals, which will help create more transparency.

Specifically, the final rules will require a registrant to disclose:

- Climate-related risks that have had a material impact on the registrant's business strategy, results of operations or financial condition.
- The actual and potential effects of any identified climate-related risks on the registrant's strategy, business model and outlook.
- Any transition plans, scenario analysis or internal carbon prices.

- Any oversight by the board of directors of climate-related risks and any role by management in assessing and managing the registrant's material climate-related risks.
- Information about a registrant's climate-related targets or goals and if any have been materially affected or likely to be affected.
- The capitalized costs, expenditures expensed, charges and losses incurred due to severe weather events and carbon offsets/renewable energy credits.

In a statement on the rules, SEC Chairman Gary Gensler stated, "By requiring large broker-dealers . . . to disclose execution quality . . . investors will be better able to factor execution quality into their decisions, and you will be able to compare the brokers when you select them."

The requirement of more types of data go into these execution quality reports is also being proposed. Institutional investors often use a percentage-based metric system to compare risks and evaluate execution quality, and Chairman Gensler believes that by giving regular investors the advantage of using these metric systems it will be easier for them to compare broker-dealers.

The amendments will require broker-dealers and market centers to present summary reports on execution quality that everyday investors can understand.

Fannie Mae and Freddie Mac Mortgage Lending Adjustments Causing Concern

Fannie Mae and Freddie Mac's recent adjustments to their mortgage lending guidelines, particularly shifting from actual value to replacement cost basis for property insurance, have sparked significant concern. The National Association of Mutual Insurance Companies and the Independent Insurance Agents and Brokers of America expressed strong opposition to these changes in an April 17 letter to the Federal Housing Finance Agency, urging an immediate suspension.

In addition, the American Bankers Association has voiced its opposition, stating that:

- The new product does not meet a need that is not already being met by the private market.

- Freddie has not demonstrated that the program will bring cost savings to borrowers that is not already being provided by the private market.
- It will not benefit low to moderate income borrowers consistent with the broader mission of the enterprises.
- It is not likely to bring greater stability to the primary mortgage market – and indeed may threaten stability.

Lawmakers expressed that "It is crucial to understand that second mortgages, such as home equity loans, are consumer loans that finance spending and consumption." They further added that "According to preliminary estimates, this proposal could lead Freddie Mac – and likely Fannie Mae – to finance hundreds of billions in additional equity extraction, which will only counteract the effects of tighter monetary policy and worsen inflation for Americans."

These modifications could have profound real-world consequences, potentially creating problems for many homeowners who are unable to meet new coverage requirements or the purchasing adjustments of higher-cost insurance policies. The switch threatens to disrupt an already uneasy property market, especially impacting insurers in states prone to catastrophic risks who rely on actual cash value for roof claims following numerous catastrophic events.

\$350M Payout in Baltimore Bridge Collapse

A \$350M insurance payout is expected in the collision of a Singapore-flagged container ship with the Francis Scott Key Bridge in Baltimore on March 26, 2024. This marks the beginning of what is expected to be a lengthy process to determine responsibility for the estimated \$1+ billion cost of the bridge's collapse.

Most of the financial burden will likely be carried out by reinsurers, who may attempt to spread coverage to mitigate the impact. However, the marine insurance sector has already been facing challenges in recent years, including losses from events like the Houthi rebel attacks in the Red Sea. The fallout from this bridge collapse further exhausts global marine insurance pricing.

The check will hit the upper limit of Maryland's coverage for the bridge. The payment will provide business-interruption coverage for the Port of Baltimore, which is already dealing with losses of \$88M per year in tolls. The insurer is also expected to support Maryland in suing the owner and operator of the Dali cargo ship to recover some losses.

While this specific incident affects the insurance industry's current operations, there are broader implications on how financial institutions approach the underwriting of risk management projects. Investors may monitor how insurers manage these substantial claims and assess their financial stability for future problems. Insurers need to manage their risks and establish a stable internal financial setting for when large-scale projects are presented.

Catastrophic Risks Driving Property and Casualty Insurance Prices Up

Catastrophic risks are pushing up property and casualty insurance prices as we enter H2 2024. The rising occurrence of severe weather events such as tornadoes, hurricanes and other perils has led property insurers to experience record-high payouts.

This trend is particularly pronounced in states prone to catastrophes like Florida and Louisiana, where escalating premiums over the past five years have contributed to the closure of many businesses. In Florida alone, average property premiums have surged 27% in the past year. Businesses should carefully assess their exposure in these high-risk states as the frequency and severity of billion-dollar disasters continue to escalate.

Financial institutions may need to assess or update their own risk exposure requirements due to the increasing insurance costs. Institutions could possibly allocate even more capital to cover those catastrophic losses and adjust their risk outlooks. The lending decision-making of banks, particularly businesses that have a higher exposure to catastrophic risks, could also be affected due to higher insurance costs.

Directors & Officers

Deciphering Cooperation in SEC Investigations

Recently, the SEC has emphasized that timely cooperation not only enhances credibility but also improves the chances of securing favorable outcomes for investigation targets.

The SEC outlined specific behaviors that qualify as cooperation, such as providing documents that are not compelled, conducting internal investigations and waiving privileges to facilitate the development of a comprehensive record.

However, not all actions are considered cooperative. Merely complying with subpoenas and document requests is expected and does not necessarily qualify as cooperation. Moreover, there are behaviors, according to the SEC, that can hinder cooperation efforts and negatively impact credibility. The SEC warned against unreasonable delays in document production, spurious privilege claims, witness coaching, conflicts of interest and attacks on SEC staff, labeling such conduct as *"lawyers behaving badly."*

The SEC has provided a framework that outlines the range of tools available to facilitate and reward cooperation, emphasizing its importance in fulfilling the agency's mission of protecting investors and maintaining fair and efficient markets.

They established guidelines for evaluating cooperation by individuals and entities involved in its investigations. These guidelines consider factors such as:

- The value and nature of the cooperation.
- The importance of the underlying matter.
- The accountability of the individual or entity.
- The acceptance of responsibility for misconduct.

Similarly, the SEC has articulated measures for evaluating cooperation by companies, including self-policing, self-reporting of misconduct, remediation efforts and cooperation with law enforcement authorities.

Cooperation in SEC investigations and enforcement actions can take various forms, ranging from providing valuable information to actively assisting in the investigation process. The benefits of cooperation can be substantial, including reduced charges and sanctions, or even the possibility of no enforcement action being taken at all. This incentivizes individuals and entities to proactively engage with the SEC and contribute to the resolution of matters under investigation.

Cooperation with the SEC is not only a regulatory requirement but also a strategic approach for mitigating potential enforcement actions. By actively engaging with the SEC, individuals and entities can contribute to the detection of violations, enhance the effectiveness of investigations and potentially avoid or minimize sanctions. Understanding what constitutes cooperation and adhering to ethical conduct can significantly influence the outcome of SEC inquiries, underscoring the importance of transparency and accountability in the regulatory process.

Robotic Automation Company Hit with AI-Related Securities Suit

As artificial intelligence (AI) becomes a larger component in the operations and decision-making of many companies, concerns about how this technology is employed could affect companies' litigation risk exposures. Companies that publicly promote using AI strategies in their business may be susceptible to allegations of overstating their AI capabilities.

For example, a robotic process automation (RPA) company that uses AI tools to conduct repetitive humanlike tasks has been struck with a lawsuit by one of its shareholders. In September 2022, during a time when the demand for the company's RPA tools was declining, the company announced a turnaround strategy. Along with their rebranding strategy to attract more demand, the company overhauled its sales strategy, too, focusing on selling a plethora of products to larger customers rather than selling single-product offerings.

The company claimed at the time that its turnaround strategy allowed them to seek larger clients and that their AI-powered products set them apart from the competition.

Initially, the company stated that the turnaround strategy increased sales, and its share price went up. However, in May 2024, the company announced the departure of their CEO, while at the same time stating their disappointing 1Q 25 sales report. They explained that the company's poor results were due to execution challenges on large-deal contracts and that the potential of their AI-powered platform was not being realized. Following some disconcerting statements from the company's CEO, its share price fell 34%.

On June 20, 2024, a plaintiff shareholder filed a securities class lawsuit against the company and some of its officers. The complaint was made on behalf of investors that purchased the company's securities between December 1, 2023, and May 29, 2024. The complaint alleges that, contrary to the company's statements about their turnaround strategy's exceptional performance, it had failed instead. The plaintiff claimed that the company's AI-powered platform was confusing to customers and could not be scaled adequately. These issues caused the company to struggle to close or expand large multiyear deals, according to the plaintiff. This was a direct violation of Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder regarding misstatements and omissions.

SEC Chair Gary Gensler has frequently expressed the possibility of investors being misled by statements about specific company's AI capabilities. These companies overstate their AI potential to capitalize on the enthusiastic AI market, a perception called "AI washing" that Gensler has made notorious in the past few years.

This is the third AI-related securities action lawsuit to be filed this year, along with previous lawsuits against two other technology companies. From the perspective of a securities litigation risk allegation, the concerns involve allegations that the defendant company insufficiently disclosed risks associated with its AI-based strategy to its shareholders. Many companies continue to face the pressure from their investors and marketplace to implement AI strategies at a time when the technology is rapidly changing.

In the ever-evolving technology push-pull with regulators, companies must weigh overall risk and reward when determining the best possible AI strategies. Companies will need to define their services completely so investors can finance confidently and understand their specific risks in the AI market.

What a Recent Pay Decision Means for Executive Compensation

The Delaware Court of Chancery in January voided a CEO's compensation package. By its own words, the court had gone where no Delaware court dared go before, overriding a favorable shareholder vote to find that an executive compensation package was fundamentally unfair. The company may appeal, and the broader implications, if any, will take some time to reveal themselves. However, here are three general themes of note from the decision.

The Moving Goalposts of Executive Compensation

What constitutes an enlightened executive compensation program has long been something of a moving target, informed by governance lessons of the past. First, we understood that it was better to pay senior executives largely in stock, more closely binding their personal outcomes with those of the company. Then we learned that those stock grants should be heavily contingent on long-term performance targets, to avoid perverse incentives for financial manipulation. Finally, we came to appreciate that those performance targets need to be sufficiently difficult, to require a true value add to the company commensurate with the proposed compensation.

This company's compensation package appeared to pass these tests, at least on its face. It bound the CEO's personal fortune to the fate of the company for a long period against what seemed at the time remarkably ambitious performance targets. As the Delaware court noted, the market capitalization targets required that the company grow essentially by the size of a Ford or GM for each tranche of the CEO's stock to vest and for the company to maintain that market cap over time.

However, even discounting for the improbability of reaching the performance targets, the compensation package was independently valued at more than \$2B at the time of the grant. Institutional Shareholder Services called the amount "staggering" and recommended that shareholders vote against it, despite the challenging performance goals. Shareholders ultimately did approve the plan, but the Delaware court found the package was simply unfair and that even a favorable shareholder vote could not save it against the backdrop of a fatally flawed governance process.

The Substance of the Process Matters

The process for arriving at the compensation plan seemingly adhered to governance norms. The board had a compensation committee composed of nominally independent directors that retained an outside compensation consultant and a

valuation expert. There were extensive deliberations about performance targets and testing of those targets against long-term expectations. Many meetings were held over several months before the board ultimately approved the package and put it to a shareholder vote.

However, when the Delaware court looked closely at the governance process, they found what they considered to be significant deficiencies. The court concluded that the directors were not actually independent of the CEO, the compensation consultant did not provide any meaningful benchmarking, and some of the performance targets were not as difficult as they may have seemed based on the company's own projections. Among other issues, the court found that several of the "independent" directors owed their personal wealth to the CEO, among other close ties. These and other important details were not disclosed in the proxy, and thus the shareholder vote was not adequately informed. It then became the company's obligation to prove that the compensation package was fair. The company was not able to do so, as it was unable to provide evidence that the unprecedented compensation package was necessary to retain the CEO.

What we do not know from this case is whether the package would have survived judicial review with the benefit of a more rigorous process and more clearly independent directors. The court might never have reached the fundamental fairness of the compensation if it had found the proxy disclosures accurately described the governance process to shareholders.

Fairness and the Minority Shareholder

Despite the Delaware Chancery Court's voiding of the compensation package, shareholders voted to reaffirm the compensation package, which was originally approved in 2018. Another vote on the package was held in hopes of showing that if the package was approved again, the court could be persuaded to reinstate it. It should be noted that more than 70% of voting share voted in favor of the package, which was almost identical to the 2018 vote. The company will next ask the judge to revisit the decision due to the vote. If the judge refuses, the company is likely to appeal.

What Comes Next

The implications for directors on other boards are less clear. While this compensation package may be considered to have been such an outlier to not serve as an effective example, insureds should expect additional scrutiny on the independence of compensation committee members, reaching beyond the mere fact that they do not work for the company to encompass personal, social and outside business

relationships with officers. This attention will be especially acute where a CEO holds considerable ownership, even if less than a majority.

Applied to more pedestrian circumstances, this decision, if anything, only further emphasizes the well-understood importance of a truly independent governance process relying on external expert advice to craft carefully benchmarked and reasonable executive compensation programs with transparent shareholder disclosures.

It appears that over the last five years, there has been a notable uptick in the frequency of lawsuits initiated by stockholders against directors and executives concerning compensation-related issues. Plaintiffs are introducing innovative claims against boards in these instances. Moreover, courts are shifting towards employing the entire fairness standard of review instead of the traditionally more lenient business judgment standard, thereby enabling these compensation-related lawsuits to progress beyond the initial motion to dismiss phase. When claims withstand a motion to dismiss, the likelihood of reaching a settlement increases. This can potentially lead to substantial attorney fees and unfavorable publicity for the companies involved.

Such litigation brought by shareholders in their own interest or in the name of the company are typically covered under insurance. For a discussion on your specific business needs and comprehensive insurance solutions for directors and officers as well as those of the company, NFP's professionals are available to assist and navigate the diverse exposures your business may encounter.

Company Loses Millions on Deepfake Scam

Recently, cyber criminals utilized an AI deepfake to induce a finance department employee at a Hong Kong company to transmit wire transfers valued at HK\$ 200M (\$25.6M USD). As this incident occurred very recently and is still under investigation, the Hong Kong police have redacted a number of details regarding the event, such as the names of the victim company and employee. However, based upon news reports, here is what we know so far.

The company involved had a multinational presence. The finance employee, located in Hong Kong, was initially contacted by the CFO based in the UK. We now know that the contact was made illicitly by fraudulent actors. The worker was apparently suspicious of the tenor of the CFO's email requesting "secret transfers" of funds. However, the fraudulent actors subsequently set up a video call not only with the CFO but also with other known colleagues. Yet the only real person on that video call was the victim. The call was in fact comprised of computer-generated images using the likeness/images of the CFO and several work colleagues known to the victim.

Based upon his interaction on the video call, the finance employee proceeded to initiate 15 separate wire transfers to five different bank accounts. It was not until a week later when he followed up to check on the transfers that he discovered the awful reality — the money was gone.

So how were the thieves able to pull off a seemingly elaborate and well-choreographed scheme such as this? Unfortunately, it's not as elaborate as you may think.

A deepfake involves an algorithm fed into a computer that allows the machine to "learn." The algorithm can recreate not only a person's voice but also inflection and intonation. It can duplicate a person's mannerisms, making it difficult to discern

real from deepfake in a video or phone conversation. It does require a source, however. Unfortunately, there is plenty for cyber criminals to harvest from on the internet. Unlike decades ago, where only celebrities or political figures would have videos, movies, news clips and more posted online, there is a multitude of social media platforms now that contain our images, videos and voice imprints which thieves can potentially cull from. In the subject case, it is believed the scammers may have pulled a publicly available video from a local online newspaper to ultimately duplicate the video call.

It is important that **any** company, large or small have a well-developed protocol regarding the **review and authorization for financial transactions.**

While it may seem antiquated or low tech, a preset internal series of security questions or passcodes is an excellent way to ensure that information is being provided to the genuine individual. Remember that no matter how sophisticated the deepfakes are, the scammers should only be able to duplicate and produce publicly available information. Presumably they would have no way of providing a confidential set of predetermined security responses or passwords.

Additionally, a callback to a trusted phone number is a good practice to implement. Email correspondence can be spoofed or hijacked, and calling a number on a potentially hijacked email thread can also be unsecure.

Finally, ensure that employees receive consistent cyber training not only on how to spot scams but also on how important it is to follow internal security protocols.

Healthcare Cyber Attacks Shows Vulnerability

In February 2024, a healthcare services group suffered a major distributed denial-of-service cyberattack on their systems, forcing the company to disconnect more than 100 systems. The hacking groups BlackCat and RansomHub have claimed responsibility for the attacks thus far, claiming to have taken over 10 terabytes of the company's data. The attack capitalized on the cyber vulnerabilities across the company's systems, with a state senator highlighting that if the company had multifactor authentication in place, that the attack might have gone differently.

The attack is expected to cost the group around \$1.6B throughout 2024, excluding further potential litigation costs or regulatory fines. It is essential for insureds to make sure all systems are up to date with proper cyber safeguards and that their third-party vendors are establishing their own protections with sensitive data.

Employment Practices Liability

US Supreme Court Rules on Case Involving Dismissed Pro-Union Employees

The US Supreme Court heard a case brought by the National Labor Relations Board (NLRB) against a food and beverage retailer involving the termination of pro-union employees. The controversy emerged when several employees, advocating for the formation of a union, were allegedly retaliated against and fired by the retailer. The workers argued that their termination was a direct response to their pro-union activities, a claim the retailer denied. The case had garnered attention for its potential implications on workers' rights to organize and the broader landscape of labor relations.

The Supreme Court ruled in favor of the retailer, setting a new standard for preliminary injunctions under §10(j). District courts must now apply the traditional four-part test for all NLRB requests for such injunctions, which is a win for employers.

This decision reduces the risk for employers of having to immediately reinstate an employee challenging their termination. The NLRB now faces a higher burden to demonstrate the necessity of injunctive relief, allowing employers to make employment decisions without immediate legal consequences. However, employers should be aware that if the NLRB later wins an unfair labor practice case, the make-whole remedy requires compensating employees for all costs incurred due to their termination.

The above is yet another example of the importance of understanding and having in place employment practices liability insurance (EPLI) policies. EPLI policies serve as a safeguard for employers, offering protection against the potential financial burdens associated with claims arising from the employment relationship. While EPLI addresses issues such as discrimination, harassment and wrongful

discharge, among others, it's important to note that certain claims, such as violations of the National Labor Relations Act, may not fall under its purview; however, retaliation and retaliatory discharge claims may be covered. Regardless, businesses should explore options for coverage to mitigate defense costs and employment-related exposures.

DOJ Targets Citizenship Status Discrimination and Unfair Documentary Practices

Since the start of 2024, the US Department of Justice (DOJ) Civil Rights Division has pursued and settled several cases related to citizenship status violations and unfair documentary practices.

The Immigrant and Employee Rights Section (IER) of the Civil Rights Division enforces the antidiscrimination provision of the Immigration and Nationality Act. This federal law prohibits:

- Citizenship status discrimination in hiring, firing, and recruitment or referral for a fee.
- National origin discrimination in hiring, firing, and recruitment or referral for a fee.
- Unfair documentary practices during the employment eligibility verification process (generally, Form I-9 and E-Verify).
- Retaliation or intimidation.

The IER has targeted companies ranging from higher education institutions to nursing homes. The civil penalties have ranged from a few thousand dollars to over six figures paid to the United States and, in some cases, back pay to the affected workers. In addition to the monetary portion of the settlement, other settlement provisions include retraining employees, revising eligibility verification policies and instituting multiyear monitoring periods.

Federal law requires employers to follow Form I-9 and E-Verify rules consistently, regardless of an employee's citizenship or immigration status. When completing the Form I-9, the employee should complete Section 1 and the employer should complete Section 2. The employer must allow the employee to show their choice of acceptable documentation. In addition, employers should not ask employees to prove their citizenship or immigration status when they complete the Form I-9. This could be deemed unlawful. If you use E-Verify, do not create an E-Verify case for someone before hiring them. The case creation should only come after completing a Form I-9. We recommend that employers check the Employer Fact Sheet located on the DOJ website.

Employers at risk for violating federal, state or local immigration laws will find these violations are typically not covered by the basic EPLI coverage form. However, immigration violation coverage can be added to EPLI policies via endorsement.

The immigration violation coverage endorsement typically addresses three types of costs that are normally excluded by standard EPLI provisions:

- Defending managers/supervisors charged with criminal violations of federal, state and local immigration laws.
- Criminal fines & penalties related to immigration violations.
- Civil fines and penalties associated with immigration law violations.

In addition to allegations of immigration law violations, claims alleging discrimination may be made against an entity, particularly those based on national origin of the claimant. Such claims would typically trigger coverage under an employment practices liability policy.

DOL Issues a Final Rule on Employee or Independent Contractor Classification Under the Fair Labor Standards Act

On January 10, 2024, the US Department of Labor (DOL) announced its new final rule on classifying workers as employees or independent contractors under the Fair Labor Standards Act (FLSA). The 2024 IC Rule rescinds the 2021 IC Rule, which applied a variation of the traditional multifactor test but emphasized two core factors that were largely determinative of whether a worker is an employee or independent contractor. This emphasis on two core factors was a stark deviation from the traditional economic reality test adopted by the courts going back to the 1940s.

The 2024 IC Rule, effective March 11, 2024, *"retain[s] its longstanding interpretation, as it did in the 2021 IC Rule, that economic dependence is the ultimate inquiry, and that an employee is someone who, as a matter of economic reality, is economically dependent on an employer for work — not for income."* The rule disposes of the emphasis on two core factors and returns to a *"totality-of-the-circumstances analysis in which the economic reality factors are not assigned a predetermined weight [but instead] each factor is given full consideration."*

The DOL acknowledged that *"the 2021 IC Rule did not fully comport with the FLSA's text and purpose as interpreted by the courts and departed from decades of case law applying the economic reality test."* The DOL further recognized that *"[the 2021 IC Rule] provisions narrowed the economic reality test by limiting the facts that may be considered as part of the test, facts which the Department believes are relevant in determining whether a worker is economically dependent on the employer for work or in business for themselves."*

Therefore, in an effort to align the analysis with historical interpretations, the 2024 IC Rule rescinds and replaces the 2021 IC Rule with a new Part to 795 to Title 29 of the Code of Federal Regulations. The DOL believed that *"leaving the 2021 IC Rule in place would have a confusing and disruptive effect on workers and businesses alike due to its departure from decades of case law describing and applying the multifactor economic reality test as a totality-of-the-circumstances test."*

The 2024 IC Rule:

- No longer uses core factors but instead *"returns to the totality-of-the-circumstances analysis of the economic reality test in which the factors do not have a predetermined weight and are considered in view of the economic reality of the whole activity."*
- Adopts a six-prong totality-of-the-circumstances analysis to ultimately determine economic dependence, including opportunity for profit or loss depending on managerial skill, investments by the worker and the employee, degree of permanence of the work relationship, nature and degree of control, extent to which the work performed is an integral part of the employer's business, and skill and initiative.

EEOC Settles AI Employment Discrimination Suit

The Equal Employment Opportunity Commission (EEOC) recently added another agency victory in procuring a six-figure settlement in its merit lawsuit against an online teaching service. The defendant hired tutors based in the United States to provide online tutoring services from their homes and other remote locations to students in China. The EEOC alleged that the company programmed their application software to automatically reject female applicants over the age of 55 and male applicants over the age of 60. As a result of the programming, the company excluded over 200 otherwise qualified applicants in violation of the Age Discrimination in Employment Act. The parties settled the suit for \$365,000.

This lawsuit and settlement are indicative of the agency's targeted initiative to address the use of AI and the potential for discrimination in violation of the various federal laws under its purview. In 2021, the EEOC launched its Artificial Intelligence and Algorithmic Fairness Initiative aimed at insuring that the use of software, including AI, machine learning and other novel technologies used in the recruitment and hiring process, comply with federal civil rights law. In furtherance of its goal, the EEOC aggressively targeted the issue by releasing a number of technical assistance documents. On May 12, 2022, the EEOC issued *"The Americans with Disabilities Act and the Use of Software, Algorithms, and Artificial Intelligence to Assess Job Applicants and Employees."* The guidance *"explain[s] how employers' use of software that relies on algorithmic decision-making may violate existing requirements of Title I of the [ADA] . . . and provides practical tips . . . on how to comply with the ADA..."*

Most recently, in May 2023, the EEOC issued a technical assistance document titled *"Select Issues: Assessing Adverse Impact in Software, Algorithms, and Artificial Intelligence Used in Employment Selection Procedures Under Title VII of the Civil Rights Act of 1964."* This guidance discusses how existing Title VII requirements may apply in assessing adverse impact by employment selection tools that use AI.

As companies look toward streamlining and optimizing human resources functions, we can expect an increased utilization of AI technology. Currently, nearly one in four organizations use automation and/or AI to support HR-related activities, and one in four organizations plan to start using or to increase their use of automation or AI in recruitment and hiring over the next five years.

When it comes to assessing employment litigation exposure and AI implications in the workplace, there are several important considerations:

- AI systems used in hiring and human resources can sometimes introduce bias into decision-making inadvertently.
- If your company already uses or is planning to use AI technology in recruiting, consider conducting audits to ensure there is no unintended disparate discriminatory impact against a particular demographic, which may lead to legal exposures.
- Discrimination and disparate impact claims such as the ones at the center of this matter constitute employment practices wrongful acts under standard EPLI policies.
- Claims brought by the EEOC alleging wrongful employment practices acts would likewise constitute claims as defined by an EPLI policy. These types of claims should be reported to your EPLI policy, and NFP will assist its clients in doing so.
- As the use of AI becomes more prevalent, along with its concurrent risks as illustrated above, it is likely to become a component in the insurance underwriting process.
- Using an outside vendor for recruiting or HR services may lead to claims against a company as the actual employer. Inquire as to the vendor's use of AI, their third-party discrimination liability insurance and their professional liability insurance. Additionally, when selecting an AI vendor, ensure that the vendor has also conducted bias audits.

The legal and regulatory landscape for AI in the workplace is continually evolving. EPLI policies may need to adapt to changes in laws and regulations related to AI and employment practices.

You will need an insurance broker that is **well-versed in EPLI and the evolving AI exposure.**

The background of the entire page is a dark blue field filled with abstract, glowing elements. There are several bright blue lines of varying thickness and opacity, some appearing as solid curves and others as dotted paths. Scattered throughout are numerous small, bright blue dots and short, horizontal or vertical dashes, creating a sense of digital data or a complex network. The overall effect is futuristic and high-tech.

Trend Report

Property and Casualty

Financial Institutions

Commercial Banks, Investment Management, Insurance Companies, Loan Portfolio



Financial Institutions – H1 2024 Summary

The financial institution (FI) insurance marketplace saw more stability the first half of this year, with the rapid rate decreases seen in 2023 starting to stabilize. The market is still soft, especially in the investment management space where we have seen large decreases continue. However, other parts of the market, particularly banking and lending, have seen a leveling of rate. This is due to a number of factors, including continued economic tightening, concerns over the commercial real estate and auto market, increased regulatory scrutiny and more frequent consumer actions.

New carrier capacity is still impactful and has created an overall competitive market. The new carrier entrants over the last few years have not only led to a decrease in pricing

but also a more policyholder-friendly coverage environment. New coverage enhancements continue to be available in the market, and now is a window of opportunity for FIs to push on terms and conditions.

We saw a slight uptick in claims the first half of the year, and we do not expect claims activity to dissipate anytime soon. FIs will always be a prime target for fraud – both cyber and social engineering fraud claims have impacted FIs the first half of the year. Cyber risk against FIs has taken its toll in both number and severity, especially social engineering and third-party vendor attacks. We are also seeing a marked rise in business email compromise and check fraud claims. It continues to be imperative that FIs train and test their employees to spot and mitigate these kinds of attacks and risks.

With the rapid adoption of AI technologies, FIs **should ensure they are staying up to date on the latest threat actors and trends.** FIs should continue to be focused on **both** preventing, responding and reporting any potential cyber incident.

Regulatory enforcement activity has increased across the board and will be monitored throughout 2024, especially with the federal election looming. New cyber, climate and fee disclosure rules will continue to be under the spotlight by both regulators and investors. Recent federal court activity, including the Supreme Court's reversal on deferring to federal agencies to clarify laws passed by Congress, could drastically change the regulatory landscape, and we will be closely monitoring those impacts. We expect continued increase in claims costs, driven by rising defense costs, social inflation and event litigation.

Banks and Credit Unions

Financial lines pricing has remained stable with some decreases, mainly in the excess layers. Directors and officers (D&O) and bankers professional liability (BPL) have historically been the main drivers in overall pricing, and both remain stable. The bank failures in the first half of 2023 and ratings agency downgrades more recently have not led to material insurance events but did curtail expected rate decreases. Pricing has remained stable and softened slightly for the strongest risks. Cyber continues to be a focus, and the market has experienced a softening period following the hard market conditions prior to 2023.

The bank insurance market is expected to remain stable but will likely not see any significant drop in pricing the rest of the year. Profitability remains a significant challenge for banks as the elevated interest rates have increased funding costs and squeezed net interest margins. There is potential for relief if the Fed cuts rates in the second half of 2024, which would potentially boost loan demand. Underwriting will continue to focus heavily on credit concentration (commercial real estate (CRE) in particular), capital ratios and bank funding sources (i.e., attention to brokered deposits). Excess capacity remains plentiful, which should continue to put pressure on excess pricing.

The market is slowly showing signs of expansion due to increased competition and pressure by newer insurers, especially on excess capacity. After relatively consistent coverage and terms since 2020, an increase in overall primary appetite and

overall competition has led to coverage enhancements on strong risks. Although there is still uncertainty surrounding the underwriting factors mentioned above and the potential for increased litigation, we expect enhancements of coverage terms and conditions to be more available. This will primarily be driven by the competitive bid process and an increased appetite for primary risk.

Retentions remain stable but have not trended downward. Increased competition has continued to pressure-test this trend but has not had a material effect in the first half of 2024. While specific deals may warrant retention decreases, we do not expect any material or consistent downward movement until claims frequency sees a notable dip. Retentions are expected to stay at current levels. Certain banks may be willing to entertain higher retention options if premium deltas warrant a change. Most carriers will make that trade if requested but are not expected to view the market as broadly warranting retention decreases in the coming year.

Overall, claims activity remains elevated. BPL, employment practices liability (EPL) and D&O claims remain the loss leaders in the commercial bank space. FI bond claims related to computer systems fraud (e.g., diverted wire transfers), check forgery and unauthorized signature have been on the rise over the last two years. Social engineering claims also continue to impact banks, their vendors and their customers. Recent suits against two financial services groups have elevated carriers' focus on D&O exposures. Mergers and acquisitions (M&A) should remain muted but could tick up as banks are forced to reevaluate loan portfolios and capital levels, potentially driving claims volume.

Investment Management

The market for investment managers continues to be extremely favorable. Competition among new and established carriers is fierce, with all markets very hungry for premium. Given the traditional profitability when writing policies for investment managers, this space remains very desirable and is an area of focus for most carriers.

As such, many of our investment manager clients have experienced very positive renewal results, with significant reductions in premiums and retentions and additional accommodative terms being granted by insurers. In addition, for multilayer programs, we continue to see increased limit factors erode rapidly. Overall, the environment for placement of these policies continues to be positive for our clients.

Further evidence of insurers' appetite for investment management risks is the growing willingness we have seen

for markets to write managers with nonstandard investment strategies. Whereas previously we may have seen much more interest in a common long-only or long/short strategies, now we generally see multiple insurers quoting managers with much more innovative investment approaches. Other than for the most esoteric strategies or those including cryptocurrencies, cannabis and psychedelics, there is significant capacity in the marketplace willing to provide terms.

There is no letup in the regulatory pressures being experienced by our investment manager clients. New Securities and Exchange Commission (SEC) rules regarding climate disclosures will have an impact on investment managers, with broker-dealers especially coming under SEC Chairman Gensler's spotlight. Adding to the confusion, the Fifth Circuit recently found that the SEC overstepped its authority with its new fee disclosure rules, finding that the rules were not necessary for the "highly sophisticated" investors that invest in private funds. Meanwhile, the number of enforcement actions continues its upward trajectory with new requirements around such events as cyber breach notification being added to the list of issues with which investment managers must grapple. There is not expected to be any relief on the regulatory front until at least the federal elections in November.

Insurance Companies

For insurance company clients, the pricing environment has remained competitive. Primary pricing is roughly flat, with insurance company professional liability (ICPL) the continued barrier to entry. Excess capacity has proven to continue to be a very competitive space, with most meaningful FI carriers targeting excess insurance company placements. The pricing environment for insurance companies is expected to remain relatively stable to slightly down. Carriers will continue to monitor underlying performance of their insurance company clients, particularly with respects to high-risk property and casualty geographies and other areas of focus.

Insurers for the most part have maintained expiring capacity on insurance company renewals through the first half of the year. In some cases, for the right risks and mostly outside of ICPL, carriers have been willing to consider higher limits. ICPL capacity continues to be challenging but has remained stable. Of note, insurtech clients with a clear path to profitability may become a more competitive space, with carriers willing to deploy capacity when they otherwise may not have in the past.

Carriers in the insurance company sector, and more broadly in the FI space, are more willing to discuss coverage improvements and enhancements than in prior cycles. This trend has remained

consistent through the first half of the year. Discussions on broadening coverage will continue. Most carriers will stick to their positions on coverage in the ICPL space specifically but will be willing to entertain coverage enhancements on other lines of coverage. NFP continues to focus on areas for improvement in coverage in the continued soft market. We do expect carriers to keep an eye on roadshow and/or public D&O coverage following the paused IPO efforts of several insurance companies due to valuation concerns.

The US and London markets have seen a slowdown in new entrants to the space. A handful of predominantly excess carriers have taken action with strategy shift and/or personnel changes. That said, the number of carriers writing insurance companies remains strong, with carriers actively pursuing business in this class of FI but with primary ICPL remaining the exception for some. Barring any significant personnel moves or unforeseen industrywide events/trends, the carrier universe should continue, and we do not expect a pullback in carrier appetite.

Claims trends have remained consistent through the first half of this year. The common theme of inflation (both fiscal and social) and its impact on overall claims costs has remained a hot topic, and we expect this theme to continue. Bad faith will remain the main ICPL concern, but underwriting/pricing exposure has driven some recent claims development/activity. Potential D&O exposure remains elevated given regulatory and investor focus on disclosures around climate change and AI. Recent IPO activity (both successful and stalled) and other M&A in the space will continue to be an area carriers will monitor.

Loan Portfolio

Pricing on the real estate portfolio continues to trend upward, exacerbated by primary carriers withdrawing from residential markets such as Florida and coupled with constrained reinsurance capacity. Mortgage impairment rates continue to remain stable for now. Lenders single interest rates on the auto side continue to trend upward because of increase in delinquency rates and the cost to repair.

We continue to see increases on our lenders single interest deductibles, with the \$0 deductible option slowly phasing out, while many of our larger lenders are looking at higher deductibles to take on more retention and reduce cost. Separate deductible options per coverage type is also coming into play to offset losses. On our real estate side, deductibles are continuing to rise as lenders are more concerned with catastrophic losses versus small repairs. We expect to see larger lenders take on higher deductibles to offset the continued rise in rates, especially on the commercial real estate side.

Insurers continue to show a keen interest in mortgage hazard and mortgage impairment, particularly as they assess investor schedules. Insurer interest on the auto side continues to be evaluated in more detail due to increase in delinquencies and defaults among borrowers. Carrier interest will continue to remain stable on mortgage-related coverages.

Carrier appetites are reactive to loss trends on the auto side. With no sign of slowing claim frequency and severity, we expect appetite and rates to adjust accordingly. Some markets are less interested in auto portfolios due to continued increase in delinquencies.

Auto claims continue to see an increase on physical damage due to the high cost of replacement parts. Skip claims continue to be an issue, with delinquency rates rising and find rates from our skip tracers decreasing due to an industrywide staffing shortage. Auto claims will continue to increase in frequency and severity. The combination of rising car payments and unaffordable premiums continue to push borrowers behind on payments, increasing filed claims. Real estate claims are starting to increase as rising interest rates increase delinquency and foreclosures.

Financial Institutions – H2 2024 Outlook

The FI insurance marketplace stabilized in the first half of this year, with the decrease in rates slowing. Continued economic tightening, concerns over the commercial real estate and auto market, increased regulatory scrutiny, and more frequent consumer actions have led to a leveling of pricing. Coverage enhancements continue to be available in the market, and now is a window of opportunity to push on terms and conditions. As with any election year, much of next year and future years will be predicated on the national election and the candidates' respective regulatory outlook. The bank insurance market is expected to remain stable but will likely not see any significant drop in pricing the rest of the year. Profitability remains a significant challenge for banks as the elevated interest rates have increased funding costs and squeezed net interest margins. There is potential for relief if the Fed cuts rates in the second half of 2024, which would potentially boost loan demand. Underwriting will continue to focus heavily on credit concentration (CRE in particular), capital ratios and bank funding sources (i.e., attention to brokered deposits). Excess capacity remains plentiful, which should continue to put pressure on excess pricing.

For asset managers, the significant number of insurers focused on the investment adviser space will continue to have a positive impact on pricing and coverage trends. Minimum premiums being reached may be the only reason that price decreases abate. The new SEC rules around fee disclosures, recently overturned by the Fifth Circuit, and climate disclosures could lead to further regulatory or private claim action.

The pricing environment for insurance companies is expected to remain relatively stable to slightly down. Insurers will continue to monitor underlying performance of their insurance company clients, particularly with respects to high-risk property and casualty geographies and other areas of focus. NFP will continue to focus on coverage as the market environment continues to improve.

For loan portfolio coverage, we anticipate that moderate rate increases will continue on the real estate portfolio as the market starts to adjust for the primary markets, catastrophic events and potential economic tightening. Auto rates will likely continue to see rates increase as losses continue to increase with the rise in delinquencies. Carriers are looking for higher rates and deductibles to offset projected losses.

We do not expect claims activity to dissipate anytime soon. We are seeing a marked rise in social engineering, business email compromise and check fraud claims. With the rapid adoption of AI technologies, FIs should ensure they are staying up to date on the latest threat actors and trends. FIs should continue to be focused on both preventing, responding and reporting any potential cyber incident.

Regulatory enforcement activity has increased across the board and will be monitored throughout 2024, especially with the federal election looming. New cyber, climate and fee disclosure rules will continue to be under the spotlight by both regulators and investors. Recent federal court activity, from the Fifth Circuit striking down the SEC's fee disclosure rules to the Supreme Court's decision on no longer deferring to federal agencies to clarify laws passed by Congress, has the potential to upend regulatory oversight and we will be closely monitoring those impacts.




Commercial Banks

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|--|---|---|--|
|  Pricing |  -10% to 10% | Financial lines pricing has remained stable with some decreases (mainly excess), in line with second half 2023 trends. D&O and BPL have historically been the main drivers in overall pricing, and both remain stable. The bank failures in the first half of 2023 and ratings agency downgrades more recently have not led to material insurance events but did curtail expected rate decreases. Pricing has remained stable and softened slightly for the strongest risks. Cyber continues to be a focus, and the market has experienced a softening period following the hard market conditions prior to 2023. |  -5% to 5% | The bank insurance market is expected to remain stable but will likely not see any significant drop in pricing in 2024. Profitability remains a significant challenge for banks as the elevated interest rates have increased funding costs and squeezed net interest margins. There is potential for relief if the Fed cuts rates in the second half of 2024, which would potentially boost loan demand. Underwriting will continue to focus heavily on credit concentration (CRE in particular), capital ratios and bank funding sources (i.e., attention to brokered deposits). Excess capacity remains plentiful, which should continue to put pressure on excess pricing. |
|  Limits |  | With the appropriate underwriting information, we continue to see some carriers more willing to offer larger limits on bank programs in some cases. Some key sublimits remain prohibitively low (e.g., social engineering fraud on the FI bond) as claims frequency remains an issue. |  | We expect this trend to continue into next year, with capacity increases more likely on excess participations than primary. Some key sublimits will likely remain restricted as some specific types of claims continue to exhibit higher frequency. |
|  Retentions |  | Retentions remain stable but have not trended downward. Increased competition has continued to pressure test this trend but has not had a material effect in the first half of 2024. While specific deals may warrant retention decreases, we don't expect any material or consistent downward movement until claims frequency sees a notable dip. |  | Retentions are expected to stay at current levels. Certain banks may be willing to entertain higher retention options if premium deltas warrant a change. Most carriers will make that trade if requested but are not expected to view the market as broadly warranting retention decreases in the coming year. |
|  Coverage |  | Coverage and terms have remained relatively consistent since Q2 2020. We just recently exited a five-year sustained hard market and, as a result, the market is slowly showing signs of expansion. An increase in overall primary appetite has led to coverage enhancements on strong risks. |  | Although there is still uncertainty surrounding the underwriting factors mentioned previously and the potential for increased litigation, we expect enhancements of coverage terms and conditions will continue for strong risks. This will primarily be driven by the competitive bid process and an increased appetite by primary insurers. |
|  Carrier |  | Since Q2 2020, several notable carriers that have occupied primary positions in the bank market have taken a more conservative stance on quoting new business. That said, most traditional bank markets remain committed to the space. This, combined with new capacity entering the market over the past 12 – 24 months, has led to increased competition, predominantly on excess. Excess competition remains strong. |  | Volatility in the market has led to a reshuffling of the carrier mix on many bank programs over the last several years. While we remain hopeful that some of the more conservative carriers will shift focus and pursue lead positions on the right risks, some may remain status quo as the banking environment plays out in the coming year. While not expected in the near term, we do think newer carriers will stand ready to be opportunistic in entering the bank space or dropping down on programs should capacity be needed. |
|  Claims |  | BPL, EPL and D&O claims remain the loss leaders in the commercial bank space. FI bond claims related to computer systems fraud (e.g., diverted wire transfers), check forgery and unauthorized signature have been on the rise over the last two years. Social engineering claims also continue to impact banks, their vendors and their customers. Recent suits against two financial services groups have elevated carriers' focus on D&O exposures. |  | Overall, claims activity remains elevated. M&A should remain muted but could tick up as banks are forced to reevaluate loan portfolios and capital levels, potentially driving claims volume. From a fraud perspective, social engineering and business email compromise claims volume continue to trend upward. |

Investment Management

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|---|--|--|--|
|  Pricing |  -20% to 0% | Pricing trends are very favorable for investment manager clients. Premiums are rapidly decreasing along with increased limit factors for programs with multiple layers. Competition among insurers for most risks is extensive. |  -20% to 0% | We expect that the significant number of markets focused on the investment adviser space will continue to have a positive impact on pricing trends. Until the insurance cycle turns across the board – or if there is some systemic issue that impacts profitability across these books of business – this trend is expected to continue for the foreseeable future. Minimum premiums being reached may be the only reason that price decreases abate. |
|  Limits |  | Markets are more willing to expand their exposure to individual risks and/or to provide larger limits on new programs. Appetite for investment management risks is substantial, and markets continue to look to deploy capacity wherever they can as a result. |  | Until there is some sort of pivot in the marketplace, we do not expect that insurers will look to do anything but maintain or increase limits on investment manager programs. Stand-alone EPL and fiduciary remain the exception to this trend for investment advisers. |
|  Retentions |  | Lower retentions are also becoming more commonplace. For renewals where retentions had been walked up over the past few years, we are seeing much more willingness for markets to start bringing them back down. For new risks, initial quoted retentions are below what we have seen for many years. |  | We would expect the trend towards lower retentions to continue. As competition in the marketplace is driving down premiums, so too are retentions experiencing the same competitive pressures. |
|  Coverage |  | We are finding it easier to get clients the broadest possible terms on renewals and for new business. In most cases, carriers are offering these broad terms of their own volition, but in cases where NFP has had to ask for expanded terms, we are finding much less reluctance on the part of the carriers to grant our requests. |  | As coverage is relatively broad in this space already, there is not much more that markets can give to expand coverage. However, given the level of competition in the space, we would expect to start seeing some innovative new coverage grants. |
|  Carrier |  | There have not been any substantial new entrants to the marketplace recently, although new startups do keep popping up. Many of the more recent entrants are looking to grow their investment management books as quickly as possible, making the space less attractive for underwriters as this competition continues to drive down premiums. |  | We would expect that some of the more recent entrants into the marketplace that are finding it difficult to meet their growth goals in a competitive and declining rate environment may start to rethink their participation in the financial lines space. We would expect some carriers to pull out, potentially reducing competition over the next 18 – 24 months. |
|  Claims |  | Regulatory risk is very significant for our investment adviser clients and in many cases is seen as their largest exposure. Regulators have shown no inclination to reduce oversight of clients or to stop increasing regulatory reporting requirements. |  | Other than an administration change in Washington, there seems to be no end in sight for increasing regulatory exposure for investment adviser clients. NFP will continue to be vigilant to ensure that we are keeping up with any regulatory changes and conforming our clients' coverage appropriately. |

Insurance Companies

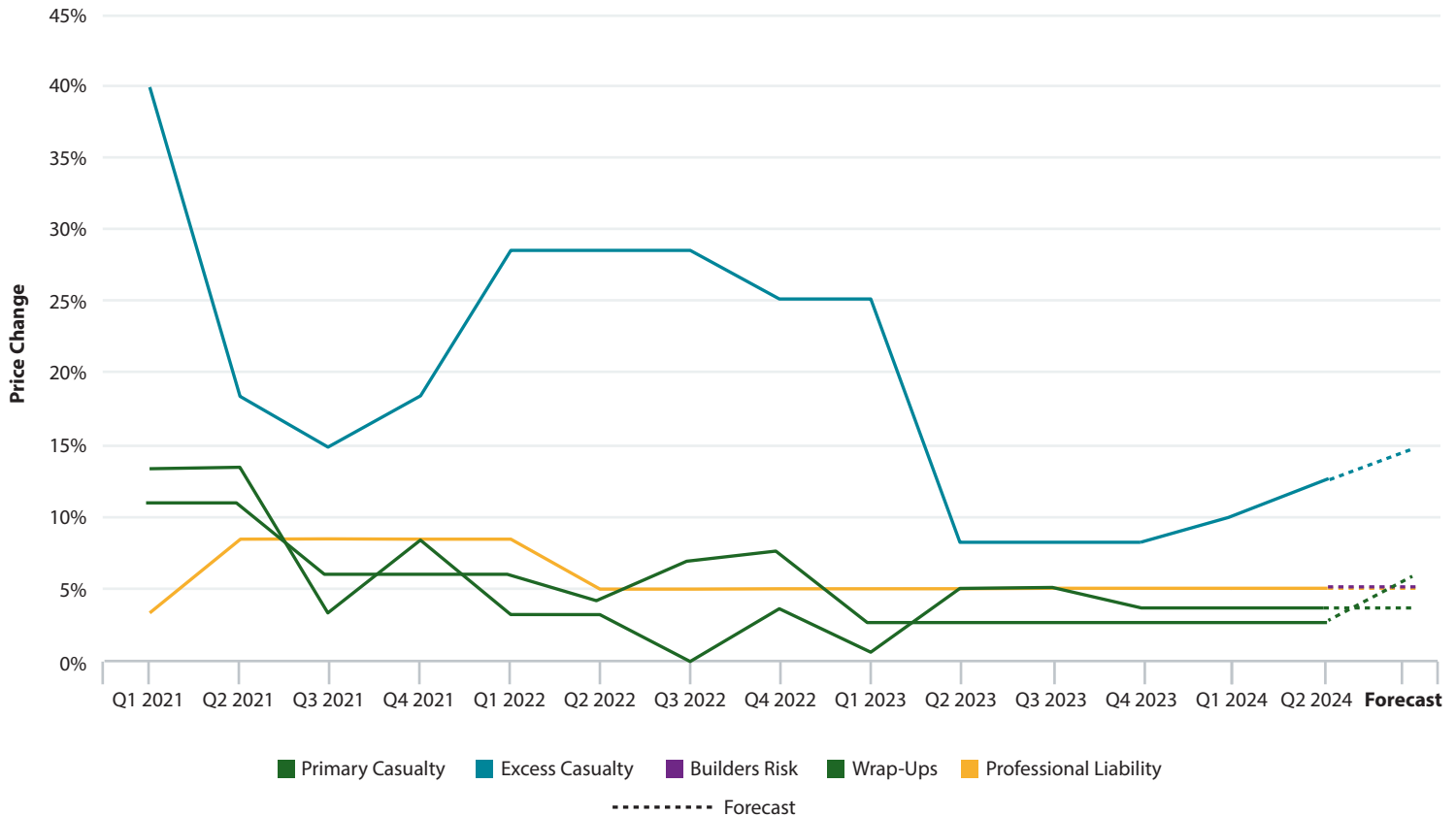
| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|---|---|--|---|
|  Pricing |  -10% to 0% | <p>The pricing environment has remained competitive. Primary pricing is roughly flat, with insurance company professional liability (ICPL) the continued barrier to entry. Excess capacity has proven to continue to be a very competitive space, with most meaningful FI carriers targeting excess insurance company placements.</p> |  -10% to 0% | <p>The pricing environment for insurance companies is expected to remain relatively stable to slightly down. Carriers will continue to monitor underlying performance of their insurance company clients, particularly with respects to high-risk property and casualty geographies and other areas of focus.</p> |
|  Limits |  | <p>Insurers for the most part have maintained expiring capacity on insurance company renewals through the first half of the year. In some cases, for the right risks and mostly outside of ICPL, carriers have been willing to consider higher limits. ICPL capacity continues to be challenging but has remained stable.</p> |  | <p>Capacity in the insurance company space is expected to remain stable, with carriers willing to entertain higher limits for the right risks. Of note, insurtech clients with a clear path to profitability may become a more competitive space with carriers willing to deploy capacity when they otherwise may not have in the past.</p> |
|  Retentions |  | <p>In the first half of 2024, retention levels have remained roughly flat. Carriers have remained steady specifically on ICPL and fiduciary liability retentions and are finding that retentions on the other financial lines are competitive at expiring levels.</p> |  | <p>Retention levels in the insurance company space have remained stable, and we expect that trend to continue. Barring any significant change in exposure and/or overall market performance, there is the potential for carriers to consider lower retentions on non-ICPL lines.</p> |
|  Coverage |  | <p>Carriers in the insurance company sector, and more broadly in the FI space, are more willing to discuss coverage improvements and enhancements than in prior cycles. This trend has remained consistent through the first half of the year.</p> |  | <p>Discussions on broadening coverage will continue. Most carriers will stick to their positions on coverage in the ICPL space specifically but will be willing to entertain coverage enhancements on other lines of coverage. NFP continues to focus on areas for improvement in coverage in the continued soft market. We do expect carriers to keep an eye on roadshow and/or public D&O coverage following the paused IPO efforts of several insurance companies due to valuation concerns.</p> |
|  Carrier |  | <p>The US and London markets have seen a slowdown in new entrants to the space. A handful of predominantly excess carriers have taken action with strategy shift and/or personnel changes. That said, the number of carriers writing insurance companies remains strong, with carriers actively pursuing business in this class of FI but with primary ICPL remaining the exception for some.</p> |  | <p>We expect carrier appetite and the number of carriers in the space to remain static. Barring any significant personnel moves or unforeseen industrywide events/trends, the carrier universe should continue, and we do not expect a pullback in carrier appetite.</p> |
|  Claims |  | <p>Claims trends have remained consistent through the first half of this year. The common themes of inflation (both fiscal and social) and its impact on overall claims costs have remained hot topics. Multiple carriers saw development on legacy ICPL claims based less on bad faith and more on underwriting/pricing exposure.</p> |  | <p>Potential D&O exposure remains elevated given regulatory and investor focus on disclosures around climate change and AI. Bad faith will remain the main ICPL concern, but underwriting/pricing exposure has driven some recent claims development/activity. Recent IPO activity (both successful and stalled) and other M&A in the space will continue to be an area carriers will monitor.</p> |

Loan Portfolio – Lenders Single Interest, Mortgage Impairment, Mortgage Hazard

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|--|--|---|---|
|  Pricing |  5% to 10% | <p>Pricing on the real estate portfolio continues to trend upward, exacerbated by primary carriers withdrawing from residential markets such as Florida and coupled with constrained reinsurance capacity. Mortgage impairment rates continue to remain stable for now.</p> <p>Pricing on the auto side continues to see an increase in delinquency rates and the cost to repair. Lenders single interest rates on the auto side continue to trend upward as a result.</p> |  5% to 10% | <p>Moderate rate increases will continue on the real estate side as the market starts to adjust for the primary markets, catastrophic events and potential economic recession.</p> <p>Auto rates will continue to see rates increase as losses continue to increase with the rise in delinquencies. Carriers are looking for higher rates and deductibles to offset projected losses.</p> |
|  Limits |  | <p>Mortgage hazard property maximum amounts of insurance up to \$5M are typically available.</p> <p>Mortgage hazard liability limits of \$1M per occurrence/\$2M annual aggregate are standard, while we have the ability to adjust this based on the portfolio.</p> <p>Lenders single interest limits sit at \$100,000 limit per collateral type, while the amount financed can exceed this limit. As car values continue to increase, we are seeing more limits closer to \$150,000.</p> |  | <p>We foresee no changes on the residential real estate side of the business, while the commercial side continues to see requests for significantly higher limits.</p> <p>We continue to see increases on our lenders single interest side of the book, with limits up to \$150,000 to \$250,000, depending on the type of collateral.</p> |
|  Retentions |  | <p>Mortgage hazard property and flood deductibles remained stable, with deductibles ranging from \$1,000 to \$10,000 typically being available and higher deductibles being available, depending on the insured's size and risk appetite.</p> <p>Lenders single interest typically runs at a \$0 deductible, but with the rising cost of collateral/repair, we have seen these deductibles range from \$0 to \$10,000.</p> |  | <p>We expect to see larger lenders take on higher deductibles to offset the continued rise in rates, especially on the commercial real estate side.</p> <p>We continue to see increases on our lenders single interest deductibles, with the \$0 deductible option slowly phasing out. Separate deductible options per coverage type is also coming into play to offset losses.</p> |
|  Coverage |  | <p>Coverage availability and terms remained stable.</p> |  | <p>Coverages will continue to remain standard with no material changes.</p> |
|  Carrier |  | <p>Insurers continue to show a keen interest in mortgage hazard and mortgage impairment, particularly as they assess investor schedules.</p> <p>Insurer interest on the auto side continues to be evaluated in more detail due to increase in delinquencies and defaults among borrowers.</p> |  | <p>Carrier interest will continue to remain stable on mortgage-related coverages.</p> <p>Carrier appetites are reactive to loss trends on the auto side. With no sign of slowing claim frequency and severity, we expect appetite and rates to adjust accordingly. Some markets are less interested in auto portfolios based on continued increase in delinquencies</p> |
|  Claims |  | <p>Real estate claims frequency and severity continue to remain stable.</p> <p>Auto claims continue to see an increase on physical damage due to the high cost of replacement parts. Skip claims continue to be an issue, with delinquency rates rising and find rates from our skip tracers decreasing due to an industrywide staffing shortage.</p> |  | <p>Real estate claims will start to increase as rising interest rates will increase delinquency and foreclosures.</p> <p>Auto claims will continue to increase in frequency and severity. The combination of rising car payments and unaffordable premiums continue to push borrowers behind on payments, increasing filed claims.</p> |

Construction and Infrastructure

Primary Casualty, Excess Casualty, Builders Risk, Surety, Subcontractor Default Insurance, Construction Professional, Wrap-ups (OCIP and CCIP)



Construction and Infrastructure – H1 2024 Summary

The construction and infrastructure market across North America continues to attract interest from contractors and other industry stakeholders from all over the world. While stimulus spending in the areas of infrastructure, renewable energy and microchip production capacity have generated significant interest from contractors and developers globally, major challenges remain for market participants. These challenges include but are not limited to:

- Supply chain instability
- Labor market shortage
- Climate change and unprecedented weather events
- Environmental, social and governance; sustainability; green material requirements (including mass timber)
- Cyber security threats

- Nuclear verdicts and social inflation
- Navigating risk allocation under evolving project delivery methods
- Employee-sustained injuries during the trial of innovative equipment
- Cost overruns

Navigating these risks continues to pose a problem to some contractors, developers and other industry stakeholders. The substantial labor shortage poses a significant safety challenge as companies resort to hiring inexperienced workers. Furthermore, the uncertainty around interest rates movement persistently impacts the bankability of projects that are yet to begin.

Florida, Colorado and Texas continued to witness the acceleration in insurance premiums particularly for wood-framed and residential construction risks. Thus far in Canada, the macroeconomic trends are mixed. GDP growth came in lower than anticipated with a slight increase in

unemployment. Despite those conditions, the outlook continues to be promising for infrastructure, renewable energy and residential construction. Generally speaking, premiums through the first half of 2024 were consistent with rate trends predicted at the beginning of the year.

A **notable trend** in the insurance industry is the use of **technology** to **reduce risks** and **secure savings** on premiums.

Many have discovered that harnessing technology and data enhances their risk management, leading to reduced retentions and better pricing. Those who utilize technology as a solution are benefiting from more advantageous underwriting and witnessing a decrease in the occurrence and intensity of claims, particularly those related to water, fire and vandalism.

Liability (Primary Casualty, Excess and Wrap-Ups)

The casualty marketplace in the first half of 2024 has largely stabilized for workers' compensation (WC) and general liability (GL). We are, however, still seeing some volatility in excess liability rates for clients exposed to states prone to nuclear verdicts. WC and GL product lines rate changes on a year-over-year basis are flat to 10%, while auto rates are generally increasing at 10% to 15% and excess liability increases have moderated. But we continue to experience high volatility for clients exposed to areas with high social inflation with rate changes from 5% to 20%. In the US, wrap-up capacity for two-line (WC and GL) programs through the retail insurance channel is ample except for New York-based projects. Capacity for GL-only programs in the US and Canada remains widely available through wholesale channels.

Builders Risk

The builders risk market continues to show signs of divergence between project types as insurers have become more selective with the risks they pursue. Construction type, location, scope and size are all factors impacting rates. Some areas – such as catastrophe (cat), hot testing, and significant delay in start-up exposures – continue to see increasing rates. However, there are pockets of flattening, or even decreasing, rates for frame, concrete commercial and low-hazard infrastructure risks. Rates have moderated as we are seeing rates at flat to 10% rate increase depending on exposure classification as well as increasing rates for cat-exposed projects.

Surety

In the US we continue to see stability on the rate front. There has been little change to date in 2024, and outside of significant claim activity, best-in-class accounts will continue to benefit. With regards to Canada, surety rates have steadily crept up through the first half of the year.

Subcontractor Default Insurance

In the subcontractor default insurance (SDI) market, insurance programs experiencing higher rates are those with less robust operational controls and higher claims. Additionally, new insurance programs are likely to experience slightly higher rates than those established programs with a clean history of claims.

Professional Liability

Architects and engineers (A&E) continue to see rate increases in the 2% to 5% range and may be higher for firms with incurred losses and a high percentage of residential projects. Pricing for contractors continues steady with renewal pricing completely dependent upon individual firm risk profiles. Project-specific construction professional liability for A&E continues to be difficult to place.

Construction and Infrastructure – H2 2024 Outlook

Given the tailwinds propelling the construction economy, we anticipate seeing continued interest in major projects in infrastructure, renewable energy and semiconductor processing. We also anticipate significant demand for wood frame construction given housing shortages in several major growth areas across North America. The following list provide our predictions for core insurance and surety products through the rest of the year.

Liability (Primary Casualty, Excess and Wrap-Ups)

In the primary casualty market, stability will prevail, apart from auto liability, which is facing challenges. Insurers are increasingly opting not to renew policies or are raising prices significantly, with rate changes ranging from 5% to 10%. In the excess casualty market, there is a trend for underwriters to seek higher rates when possible. Over the next 12 months, it will be crucial to focus on marketing umbrella and excess lines, anticipating rate changes between 10% and 20%. The wrap-up market is expected to maintain generally steady rates, with anticipated rate changes limited between of 0% to 5%. Given the potential strain on the commercial market from substantial infrastructure and government-sponsored projects in light of the upcoming election, the emphasis on risk mitigation strategies will be more important than ever.

Builders Risk

The overall property market, including builders risk, will be experiencing a deceleration in the previously aggressive rate hikes, now ranging between 0% to over 10% and particularly noticeable in frame and commercial sectors. Over the forthcoming year, the market could tilt toward being more favorable to buyers, provided there are no significant wind, flood or earthquake events. Rates for low-hazard risks are expected to stabilize, reflecting their status as the most profitable for carriers.

Surety

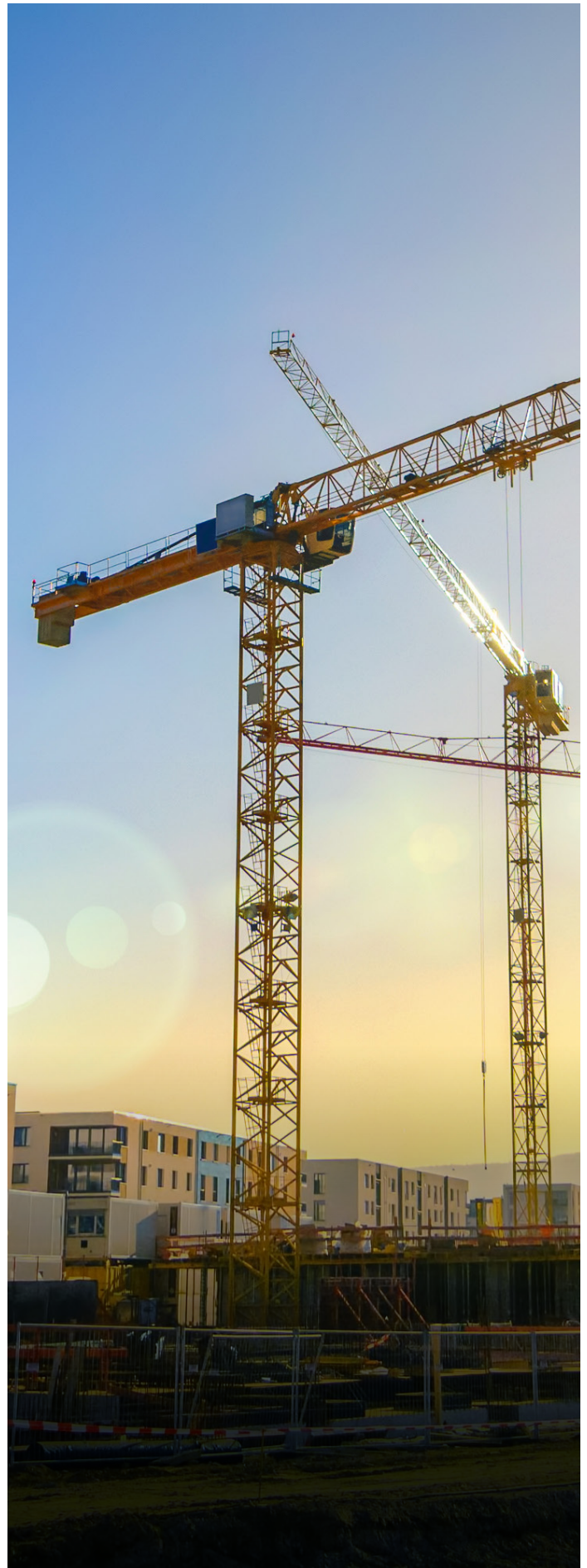
Through the rest of the year certain sectors are poised for rate increases. The reinsurance surety market's loss activity is expected to increasingly influence traditional surety market rates as claims mature.

Subcontractor Default Insurance

The SDI market continues to enjoy robust support from carriers, with competitive rates prevailing for both new business and renewals. There is a potential for a price adjustment due to an uptick in claims activity, with rates expected to increase between 0% to 5% over the next year.

Construction Professional Liability

We can expect a degree of equilibrium in the A&E market, particularly for entities with a positive loss history and no involvement in residential projects. Insureds may encounter rate hikes ranging from 0% to 10%, but the overall pricing landscape is projected to maintain its stability through the remaining part of the year.


















Primary Casualty (WC, GL, Auto)

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|---|---|---|---|
|  Pricing |  -5% to 15% | <p>General liability (GL) policies witnessed rate stability with minimal increases and some slight reductions depending on the loss experience and financial strength of the client. Workers' compensation (WC) witnessed mostly flat renewals, with some rate reductions for policies with loss-sensitive structures, while auto liability rate increases are up significantly, ranging between 10% to 15% increases. Loss experience for the auto liability sector is mostly driven by the overall severity and frequency of claims the last three years.</p> |  5% to 10% | <p>We anticipate a continued softening in the GL and WC lines, with new markets eyeing entry into the construction sector. Auto liability poses challenges as an increasing number of carriers opt for nonrenewal or price themselves out of competition.</p> |
|  Limits |  | <p>Markets are becoming increasingly competitive, with lead umbrellas being used to leverage highly sought-after business.</p> |  | <p>We see no changes in limit structure on the primary lines of coverage. The only concern would be umbrella carriers requesting higher auto liability limits such as \$2M – \$3M combined single limits.</p> |
|  Retentions |  | <p>While retentions remained consistent on most programs, we've noticed an increasing interest from clients in considering higher retentions during the renewal process. In addition, there's a notable trend of more carriers actively pursuing the enrollment of clients into large retention programs. However, significant obstacles remain, particularly related to collateral requirements and the availability of only minor premium credits.</p> |  | <p>In the second half of 2024, we anticipate carriers to enhance premium credits for higher retentions, particularly for clients/prospects expiring with a guaranteed cost program. However, the collateral requirement is expected to remain a sticking point, especially as most contractors are experiencing a reduction in their pipeline.</p> |
|  Coverage |  | <p>No significant coverage changes were observed. New York contractors continue to grapple with New York labor law claims. Notably, wildfire exclusions and broader catastrophe (cat) peril exclusions are increasingly appearing in renewals. We are starting to hear and anticipate the possibility of PFAS (per- and polyfluoroalkyl) exclusions in upcoming renewals.</p> |  | <p>We will maintain our policy form reviews for all clients and prospects, anticipating no significant changes in coverage terms. However, it's important to note that this may change in the event of a significant court decision in the second half of 2024.</p> |
|  Carrier |  | <p>The overall marketplace has seen an influx of additional capacity with a somewhat restrained appetite. These new entrants include MGAs, proprietary programs with wholesalers, and direct carriers. These programs are tailored to address specific market needs, such as subcontractors in New York, Florida construction and for-sale residential projects.</p> |  | <p>We anticipate these new entrants to expand their market share, as many insureds seek comprehensive marketing efforts for their renewals to alleviate insurance costs. Additionally, we can anticipate a few more direct markets entering the construction space. There will also be a focus on telematics implementation, which will be a topic of conversation around auto liability underwriting process.</p> |
|  Claims |  | <p>Despite surging demand, the construction industry continues to face significant labor shortages, prompting the hiring of a younger, less-experienced workforce. This shift correlates with an increase in the frequency and severity of GL and WC claims. Furthermore, escalating industry payrolls with certain trades, driven by inflation, are amplifying overall risk exposure, resulting in a consequent surge in WC premiums.</p> |  | <p>The increase in claim frequency and severity in the construction industry has led to a focused evolution in risk management. Carriers and clients are now reevaluating contract terms between owners/developers, contractors and subcontractors, thereby adding complexity to the marketing procurement process. It is essential for risk managers to closely monitor the impact that recent court decisions have on statute and policy interpretation in the various jurisdictions where they are actively working.</p> |








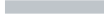




Excess Casualty

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|--|--|--|---|
|  Pricing |  5% to 20% | Umbrella and excess underwriters are still pursuing rate increases. Preferred renewals are experiencing a minimum 5% increase, while clients with lower revenue projections and some past claim activity are facing increases exceeding 10%. |  10% to 20% | We anticipate underwriters to persist in seeking rate increases whenever possible. Renewals where carriers offer all primary lines as well as the lead umbrella will have an advantage. However, it should be standard practice to market umbrella and excess lines to mitigate overall increases for the client. |
|  Limits |  | Capacity restrictions and/or reductions persist across all segments of construction. The umbrella/excess market may be limited for contractors with large auto fleets or specializing in single-family residential, frame construction and wildfire-exposed utility work. Additionally, trades engaged in activities such as steel erection, glass and glazing, roofing, foundation work and mechanical contracting may also encounter limitations. |   | Overall, we don't anticipate any major changes to limits within the first \$25M. However, we expect excess markets above the \$25M attachment point to offer more limits than in previous years. |
|  Retentions |  | For GL, the umbrella markets are comfortable sitting above the \$2M/\$4M/\$4M primary GL and offer better pricing for higher limits. There's ongoing pressure to increase auto liability retentions or policy limits. |  | We do not see any major changes in attachment points or retention in the excess markets. |
|  Coverage |  | Coverage remained consistent throughout the first half of 2024. It's crucial to carefully review renewal forms and identify any potential changes or policy revisions. |  | As we monitor renewals in the second half of 2024, we plan to broaden our marketing efforts to include London capacity. This expansion can foster competition not only on pricing but also on terms and conditions. |
|  Carrier |  | Overall, capacity remains robust above certain attachment points. However, we continue to encounter challenges in securing support for the first \$10M in excess/umbrella coverage. Furthermore, there are instances where we observe markets entering the lead umbrella space unsupported from their primary lines. |  | We will continue exploring and advocating for all available markets that underwrite construction risks. Additionally, we are collaborating with carriers on leveraging technology and deploying new technological services to help achieve premium savings. |
|  Claims |  | Nuclear verdicts continue to pierce excess and umbrella layers. The construction industry needs to proactively respond to carrier adjustments, which often include higher premiums and more stringent policy terms. Detailed risk assessments and strategic planning are essential to better understand exposures so that coverage adjustments can be effectuated. This could involve more aggressive negotiating of terms, seeking alternative risk transfer options or increasing focus on loss prevention and control measures to mitigate the potential financial impact of such verdicts. |  | Social inflation and nuclear verdicts are expected to continue to impact the excess market, resulting in premium volatility as insurers adjust to the increased risk these verdicts pose. The construction industry can expect stricter underwriting criteria and possibly more conservative coverage limits. Insurers are also likely to offer specialized products and enhanced risk management services to address these challenges effectively. |



















Builders Risk

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|--|--|--|---|
|  Pricing |  0% to 10% (CAT 10% to 15%) | <p>The builders risk market continues to show signs of divergence between project types as underwriters become more selective with the risks they pursue. Construction type, location, scope and size are all factors impacting rates. Some areas – such as cat, hot testing and significant delay in start-up exposures – continue to see increasing rates. However, there are pockets of flattening, or even decreasing, rates for frame, concrete commercial and low-hazard infrastructure risks.</p> |  0% to 10%+ | <p>The aggressive rate increases seen in the overall property market (including builders risk) appear to be slowing. If we avoid above-average wind, flood or earthquake events, it's conceivable to see the market become more buyer friendly. Lower-hazard risks will be the first to experience a flattening of rate as carriers compete for these historically profitable exposures. Pockets of rate decreases are beginning to show up in areas like frame and some commercial sectors.</p> |
|  Limits |  | <p>Carrier capacity remains consistent. The macro-level trend of risk sharing between markets continues. Projects that used to be written by a single market are now being quota-shared by multiple markets. It is important to note that while overall capacity is stable, carriers are continuing to try to sublimit coverage due to specific types of loss (e.g., severe convective storm). Clients should remain diligent in reviewing the policy wording and endorsements as more carriers seek to reduce limits in loss-leading areas.</p> |  | <p>Carrier capacity in the US and Canada is expected to be largely unchanged in the upcoming year. It will be important to monitor carrier performance and the potential slowing of premium growth if rate increases cease. If premium growth becomes a challenge, we may see markets increasing the limits they deploy to help achieve growth targets. With that said, the trend of sublimiting perils and exposures that were traditionally included to the policy limit is expected to continue.</p> |
|  Retentions |  | <p>The trend towards increased deductibles continues. In many jurisdictions, overall insurance costs continue to rise to the point that they are becoming detrimental to the financial viability of projects. To curb this, carriers are looking for new ways to achieve improved profits without increasing premiums. Retentions are often the easiest lever to accomplish this. Having more skin in the game only emphasizes the need for insureds to have a strategy around third-party technology on the jobsite. Contractors and developers leveraging tech and data to improve their risk are being rewarded with lower retentions and improved pricing.</p> |  | <p>Deductibles will likely continue to increase. Carriers will require insureds retain more risk to help reduce frequency in an attempt to keep overall premiums stable. We anticipate the trend towards project-specific underwriting – by which carriers apply deductibles specific to the project exposures – to continue. As project size, construction methods and weather patterns evolve, carriers will use new deductible classifications to help reduce their exposure. This is perhaps most evident in the implementation of severe convective storm deductibles on projects in an increasing number of states over the past few years.</p> |
|  Coverage |  | <p>The current coverage environment is perhaps the most volatile it's been in nearly a decade. Recent litigation around faulty workmanship (LEG 3), along with the emergency of new loss drivers, are causing carriers to introduce new exclusions and coverage limitations at a furious pace. It's critical to be aware of what endorsements are attached to the policy and what the carrier's intent is with the wording. It's possible to curb some of these coverage limitations by discussing the specific project exposures and controls in place to mitigate the risk.</p> |  | <p>Carriers are continuing to understand more about claims activity in the post-COVID environment. Going forward, this will mean more adjustments to coverage wording that will need to be monitored by brokers and clients. It's critical to engage in a dialogue with carriers to help them understand your needs, as well as project controls that may mitigate exposure. Specifically tailored coverage wording is still available but often requires additional information and project-specific dialogue with the underwriter(s).</p> |
|  Carrier |  | <p>The frame marketplace continues to see new entrants; however, we've also seen the first carrier exit the market in some time. London markets continue to show interest on US projects and seem keen on deploying aggressive capacity on many different risks (infrastructure, stadiums and other large-scale jobs). There is an overall trend towards carrier specialization on a narrow group of project types. That's not to say there isn't broad market appetite for builders risk — but it means matching specific markets to project type is more critical than ever. New market entrance almost always have a niche appetite.</p> |  | <p>Carrier markets are likely to remain consistent in the coming year. There continues to be a major push for carriers to produce an underwriting profit, which is leading to investments in modern risk modeling and technical underwriting resources. Protective safeguard requirements on jobsites are now standard practice, with insurers beginning to combine tech and capacity offerings together. It's likely that to achieve best-in-class pricing, projects of the future will be required to implement multiple risk mitigation tech solutions on jobsites both large and small.</p> |
|  Claims |  | <p>COVID-era shifts in the construction landscape are materializing into claims. The growth of data centers, distribution facilities, onshoring of manufacturing and the development of mega projects have provided insurers with new claims data to assess. Water, fire and severe weather remain the primary drivers of claims activity across the industry. Meanwhile, enhanced risk sharing among insurers has played a key role in maintaining underwriting profits, as many reported in the first quarter of 2024.</p> |  | <p>Expect to see a continued trend towards risk control-driven technology solutions being implemented on jobsites. These technologies are increasingly effective in reducing both the frequency and severity of claims related to water, fire and vandalism. This trend is driven by underwriting requirements and by insurers raising deductibles, compelling customers to take greater responsibility for managing loss-leading perils. It is anticipated that this increased stake in risk mitigation will lead to more favorable insurance terms in the future.</p> |

Surety

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|--|---|---|--|
|  Pricing |  0% | <p>In the US we continue to see stability on the rate front. There has been little change to date in 2024, and outside of significant claim activity, best-in-class accounts will continue to benefit. With that said, accounts that challenge the market may see higher than normal flat/sliding rate structures.</p> <p>With regards to Canada, surety rates have steadily crept up through the first half of the year. There have been some economic cracks starting to form in Canada (lower than expected GDP growth, slightly higher unemployment). However, this uptick in rate has not been universal, and some classes of commercial surety as well as strong credits have actually seen rate decreases.</p> |  0% to 5% | <p>We expect current trends of increasing rates to continue in some sectors. In addition to some economic tightening, surety reinsurance markets have sustained higher losses than the primary surety markets. This loss activity will soon have a more significant effect on traditional surety market rate as claims develop.</p> |
|  Capacity |  | <p>Capacity remains sufficient to meet market needs. Economic headwinds and slightly increased claims activity have not dissuaded sureties from providing adequate support. Even with the increase in infrastructure spend and the amount of “mega-projects,” capacity has remained abundant.</p> |  | <p>We expect little change over the next year in surety capacity. We may see a slight tightening occur if loss severity does increase. But this should be more than offset by new capacity flowing to commercial surety initiatives like green energy bonding, developer surety and hybrid liquidity instruments.</p> |
|  Carrier |  | <p>There is still an abundance of carriers in the surety market. Growth has been concentrated at the top (Canada: top 5 carriers wrote roughly 75% of all surety business in 2023), but there has been a slight uptick in carriers, particularly through MGAs and specialized surety carriers.</p> |  | <p>We do not expect any significant displacement of the top carriers across North America. However, as additional industries in Canada begin to accept bonding for obligations which previously favored other forms of security, we do expect some new carriers to continue entering the surety marketplace.</p> |
|  Claims |  | <p>Claim frequency has gradually increased in both the contract and commercial surety markets. While claim severity has modestly risen as contractors take on larger and more complex projects, the increase in overall claim frequency has been more significant. With the end of pandemic-related subsidies and the rise of inflation, most claim activity has come from small and mid-market contractors. These trends highlight the need for thorough risk assessments before starting a project, strong financial planning, and the potential for construction firms to renegotiate contracts or include price escalator clauses to safeguard against inflationary cost spikes.</p> |  | <p>It is anticipated that the gradual increase in the frequency and severity of surety claims will continue. Economic forecasts do not suggest any significant alleviation of the factors driving the rise in surety claims. Furthermore, new entrants, particularly in commercial and developer surety markets, have demonstrated a more aggressive underwriting appetite than established large carriers. Accordingly, the increasing significance of predictive analytics and contingency planning will be crucial in identifying and mitigating potential risks.</p> |



















Subcontractor Default Insurance

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|---|--|--|--|
|  Pricing |  0% to 5% | <p>Pricing for programs with higher claims activities and weaker operational controls are seeing some pricing increases. Insureds implementing new programs are encountering slightly higher rates compared to insureds with established programs and a clean loss history.</p> |  0% to 5% | <p>The subcontractor default insurance (SDI) market will maintain support from a variety of carriers boasting ample capacity. Competitive rates are expected to persist for both new business and renewals. However, with a noticeable increase in claims activity, the potential for price adjustments exists.</p> |
|  Limits |  | <p>All carriers, except Berkshire, are now offering \$50M single and \$150M aggregate loss minimums. AXA will write \$75M/\$225M, and Liberty will provide up to \$100M/\$300M. The program structure should be tailored to align with the average contract values and expected loss ratios, and additional risk management tools, such as bonding, can be employed to handle outliers as they emerge. Excess of loss limits are now becoming more available, where one carrier will provide excess over another, though each will adjust a loss under their respective policies which may not align. A quota share approach is also being considered by some carriers.</p> |  | <p>The SDI market retains robust capacity, with numerous participants actively involved in writing SDI. The recent introduction of excess SDI and the possibility of quota share shows the carriers are addressing the issue of not providing enough limit capacity to match the large sub exposures that contractors are undertaking.</p> |
|  Retentions |  | <p>Retention and co-payment values remain relatively consistent overall for this low frequency, high catastrophic exposure coverage. The minimum deductible per loss ranges between \$750K and \$1M, sized relative to enrollment, exposures and limits. There is one carrier providing a project-specific SDI solution which replaces the normal retention values with a reduced payment approach.</p> |  | <p>We foresee no significant alterations in retention or co-payment strategies.</p> |
|  Coverage |  | <p>Carrier coverage forms remain stable, with no major changes rolled out to policy forms year to date 2024.</p> |  | <p>AXA XL has expressed intentions to revise its policy form in 2024, aligning it more closely with updates made by other carriers in recent years, which have tended towards becoming more restrictive as they align their policy intent with claims experience. As market participation continues to grow, the possibility of more favorable terms and conditions becoming available remains uncertain currently.</p> |
|  Carrier |  | <p>The landscape for SDI coverage providers remains stable. Presently, the US market features six primary carriers, with Berkshire Hathaway offering select programs as well. In Canada only three carriers currently provide SDI. Vantage also offers their Sub-Select product to new SDI insureds on a project-by-project basis. There is also a developer SDI product being offered by Raise Underwriting for Canada.</p> |  | <p>There are expectations of new participants entering the space in 2024. Vantage is still exploring the possibility of obtaining paper to write in Canada, although this is not expected to happen until at least mid-2024. Hudson has also indicated potential interest. Shepherd is evaluating SDI in the US, but the timeline remains undetermined on whether a product will be offered in 2024.</p> |
|  Claims |  | <p>SDI claim frequency continues to increase. Electrical subcontractors, particularly affected by dynamic material cost escalations over recent years, drove much of this increased frequency. These escalating costs are now impacting their balance sheets, leading to more insolvencies and resulting defaults. General contractors should intensify financial prequalification efforts by focusing on cash flow and other key performance indicators. Any decline in financial health should be considered a potential red flag. Additionally, reducing single and aggregate limits can further minimize exposure, complemented by timely deployment of risk mitigation strategies when necessary.</p> |  | <p>We anticipate ongoing financial strain among less stable subcontractors, which is expected to lead to further insolvencies. This trend is supported by early analyses of 2023 financial statements received during the April-May prequalification period. Labor shortages persist in markets with large-scale mega projects, which is placing a demand on essential resources and continuing to challenge subcontractors to meet their schedules. Quality issues remain a critical concern in these defaults, highlighting the need for general contractors to place a heightened focus on this area.</p> |

Construction Professional

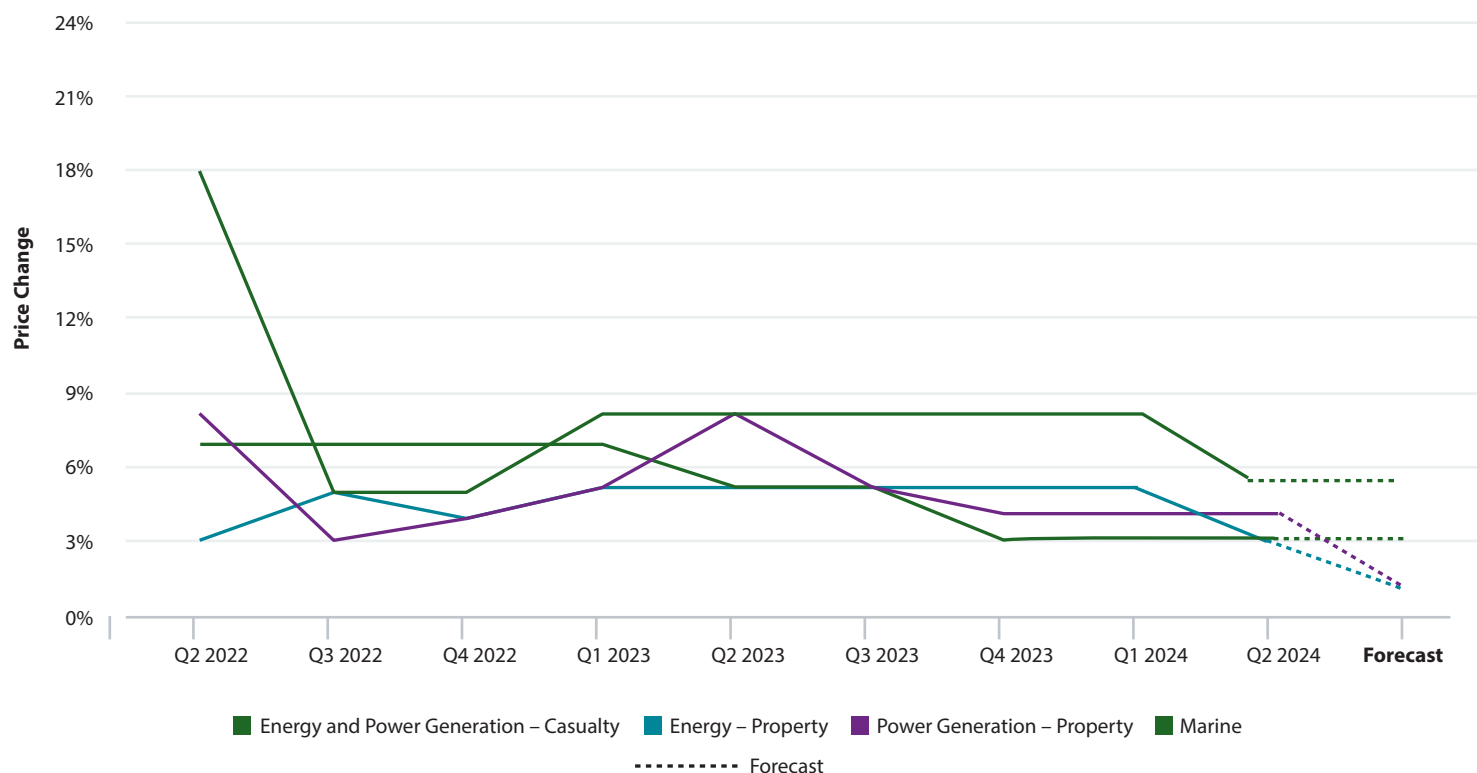
| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|--|---|---|---|
|  Pricing |  0% to 10% | Architects and engineers (A&E) continue to see rate increases in the 2% to 5% range and may be higher for firms with incurred losses and a high percentage of residential projects. Pricing for contractors continues steady with renewal pricing completely dependent upon individual firm risk profiles. |  0% to 10% | The balance of 2024 should see some easing of rate change for A&E firms, particularly those with good loss history and no residential work. Stability in pricing in the contractors professional market will continue over the next 12 months and will continue to be very firm-specific based on individual firm characteristics and risk profile. |
|  Limits |  | Over the past 12 – 18 months we have seen most construction professional markets across all segments A&E, contractors and owners manage their portfolios by managing limit deployment on an individual risk basis. That trend has continued through the first half of 2024. However, through H1 2024, thanks to a robust marketplace virtually any limit capacity need has been available. |  | We anticipate conservative limit deployment on an individual risk basis across the spectrum of the construction professional market to continue over the next 12 months. As new markets continue to enter the market, with the exception of very specific high-hazard segments, overall limit capacity and availability will remain very high over the next 12 – 24 months and beyond, barring any unforeseen catastrophe. |
|  Retentions |  | Retention levels remain consistent through H1 2024 with retention levels required by insurers being based on individual firm risk profiles. |  | We anticipate retention levels to remain consistent over the next 12 months and continue to be based on individual firm risk profiles. |
|  Coverage |  | Coverages remain very broad across all segments of the construction professional market as competition and new entrants seeking market share are looking for ways to differentiate their forms with unique or innovative coverage enhancements. Through H1 2024 we continued to see more A&E markets offering rectification in their practice policies. In the construction professional market new entrants likewise are willing to expand terms and conditions of coverage to gain market share. Project-specific professional liability for design professionals remained challenged through H1 2024. Availability of project-specific contractors professional remained robust through the first half of 2024, with several markets willing to offer project-specific wraps covering the entire design and construction team. |  | We anticipate coverage to remain available and broad in the practice/corporate segment of the market over the next 12 months and beyond. On the project-specific side, we will continue to monitor the coverage availability for design professionals as new entrants come into the market that may impact project-specific capacity. Project-specific coverages for contractors and owners will remain strong over the next 12 months. |
|  Carrier |  | Q2 2024 continued the trend of new market entrants across the spectrum of the construction professional market, with most new entrants focusing on contractors and owners with A&E limited to excess only. |  | Over the next 12 months and beyond, we anticipate a continued increase in the number of carriers offering the entire spectrum of the construction professional products and services, with most growth in the MGA/MGU underwriting capacity. |
|  Claims |  | Professional liability claims activity is very segmented across the various components of the construction industry. Overall, both reported incidents and paid losses continue to remain stable in the second quarter of 2024. The increase in claims involving A&E, especially regarding bodily injury claims, remains consistent with prior quarters. This rise is attributed partly to social inflation and nuclear verdicts, which is a growing concern among insurers. Regarding contractors professional claims, the primary driver of claims activity remains the use of rectification coverage, which indicates a severity claim trend over frequency. Similarly, claims frequency under owners protective remains low, yet it is still characterized as a severity-driven category. |  | We anticipate no meaningful change in claims activity over the next 12 months across the various segments of the construction professional marketplace. We will continue to keep a very close watch on nuclear verdicts in litigation involving the construction industry, particularly in the professional services segment. We will also continue to closely monitor the impact that staffing shortages, inflation and material price escalation has on professional liability claims activity over the next 12 months. |

Wrap-ups (OCIP and CCIP)

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|---|--|--|---|
|  Pricing |  0% to 5% | GL rates for commercial-grade projects remain stable for preferred risks, with about an average 3% increase during H1 2024. Carriers are increasingly encouraging the use of technology solutions by developers and contractors to take a more proactive role in risk mitigation. Those employing these tech solutions enjoy more favorable underwriting of their projects and programs. As for WC rates, we continue to see favorable trends across most states, especially for those risks accepting higher retentions. Challenges continue for residential for-sale or rental properties, with minimum rate variances of +/-10% among less favorable or construction defect states such as Florida, Texas, California and Colorado. |  0% to 5% | We expect market pricing to remain steady, but with ongoing hardening of rates of for-sale residential projects in Florida, Colorado and Texas. There is potential for stress on commercial capacity in certain locales (e.g., New York,) due to large infrastructure projects and an increase in residential construction because of migration from high tax jurisdictions to Florida and Texas. Moreover, there could be future uncertainty in current government-sponsored projects pending the results of elections in November 2024. Early planning and adoption of all potential risk mitigation techniques should be stressed for any upcoming wrap-up project to ensure potential efficiencies in pricing and coverage. |
|  Limits |  | Limit capacity in both primary and excess liability layers on commercial projects remain steady nationwide. However, there are certain exceptions in specific locations such as New York primary/lead excess carriers becoming even more selective in deploying capacity, and Florida has limited GL wrap-up options due to an unfavorable environment for construction defect claims. Certain residential projects, such as build-to-rent single-family home developments, are still contending with smaller lead and higher excess layer limits until attaining market-preferred attachment points. |  | Excess capacity is projected to hold firm and consistent throughout the next year, but there may be a slight uptick in capacity for preferred risks in favorable states over the next 12 months. Efforts in procuring both primary and lead excess from the same carrier in certain jurisdictions such as New York City may not be easily available, but is dependent upon project scope, size and general contractor selection. |
|  Retentions |  | Retention options ranging from \$25,000 – \$100,000 for most GL-only programs and +\$250,000 for two-line programs (GL and WC). In New York, we continue to see extremely large retentions requirements \$750,000 – \$1,000,000 for WC and typically full-fronting of \$5M for GL (i.e., no risk transfer within the primary layer) unless program sponsor is an experienced buyer. |  | In general, retentions are projected to stay consistent at recent levels. Larger projects could begin to see pressure from markets for higher standard retentions (\$500,000 – \$750,000 for 2-line programs) due to social inflation, nuclear verdicts, etc. and could eventually lead more experienced insureds to consider alternative risk arrangements, including captive usage. On GL-only programs, construction defect states will continue to see pressure on higher retention levels, particularly those involving for-sale residential. |
|  Coverage |  | The states of Florida, California, Colorado and Texas continue to experience challenges, especially for wood-framed and habitational construction risks. Owner/general contractor programs tend to be unavailable in Florida, typically only leaving traditional or limited wrap-up methods for coverage options. Markets are focusing on projects with experienced general contractors/construction managers with comprehensive QA/QC and safety programs. Carriers are now including PFAS exclusions on their policies, but some are willing to remove them based on individual project underwriting. Finally, when reviewing the construction timeline of the project, consideration should be given to adding to the term in the event of delays, etc. It may be more cost effective to do this at project binding rather than wait until it's needed at the end of the project. |  | Coverage options should remain constant for the next 12 months. The Florida statute of repose reduction from ten to seven years has yet to create any impact in terms of improved pricing. Markets continue to require lead time and comprehensive submissions to consider offering optimal terms and conditions. There is some concern over the predicted severe 2024 hurricane season and how that could impact projects from a delay perspective. Consideration of adding time to the anticipated completion term should also be a factor for the wrap-up or other liability approach for a project. |
|  Carrier |  | There is a downward trend in carrier interest, particularly for smaller and for-sale residential projects. The for-sale residential market in Florida and Colorado is a particular challenge. Direct markets avoid Florida for-sale residential projects for GL wrap-ups but will consider WC only, and the excess and surplus (E&S) markets will consider them on a single-project basis, but carrier options are limited. In New York, markets are actively managing and limiting their exposure, with Zurich and Liberty looking to be selective in how they position liability capacity in the city. On the commercial side, there are carriers ramping up pursuit of project risk business, including both direct and E&S markets. |  | Reduction of markets for smaller projects could create potential issues with competition. Carriers continue to shy away from Florida and Colorado and that looks to continue for the foreseeable future. For larger projects where higher excess limits are desirable, we are seeing more capacity and competitive rates from overseas carriers, particularly in London. |
|  Claims |  | In New York, projects utilizing alternative dispute resolution (ADR) are continuing to perform competitively from a claim perspective compared to non-ADR projects. Generally around the country, the trend of increased claim occurrences is still prevalent and being influenced by nuclear and thermonuclear verdicts (+\$100M), social inflation, shortages in workforce, escalating medical expenses and project delays. The judicial system remains bogged down with a backlog of lawsuits. However, there is a glimmer of hope regarding the adverse construction claims litigation environment in New York with a recent lawsuit brought by Roosevelt Road Re, Ltd. and Tradesmen Program Managers, LLC. |  | Nuclear verdicts will continue to exert significant pressure on claim exposures, rendering accurate predictions increasingly difficult. With 2023 marking a year of record-breaking claim verdicts, with 23 cases exceeding \$100M, this trend is expected to escalate through the next 12 months. In response, both owners and contractors are advised to critically assess and potentially increase their coverage limits as circumstances warrant. There has been growth in firms that finance litigation which only serves to drive up settlements and increase the volume of litigation. |

Energy and Marine

Energy, Power Generation and Marine



Energy – H1 2024 Summary

Property

Energy markets continue to stabilize in 2024, but 2023 reinsurance renewals increased deductibles for many insurers. As attritional losses continue, many carriers are seeing this impact their bottom line. Carriers are staying in the space and remain profitable. They have a clear edict to insure better-than-average clients, which tends to drive competition for those in this defined parameter. Inflation and the adequacy of value have reached their peak, prompting carriers to accept indexing from clients who have demonstrated accurate valuation.

Carriers must protect their book from not only those risks that are expected and perceived but must now also contemplate risks rising from weather-related events or ongoing aging infrastructure. The weather events were once rare but have now become a common loss experience, and every sector is at

risk. Physical damage deductibles may see pressure as carriers seek to adjust for increased attritional losses. Many were profitable in 2023 and are looking to repeat these results in 2024. Retentions that were previously capped with a maximum amount are seeing those caps being challenged, which leaves insureds to absorb more of their losses.

Capacity is abundant but many are still disciplined in this space. Rates may see pressure which will work in the favor of insureds with desirable risks. Midstream insureds continue to experience mergers and acquisition activity which depletes premium in this space as many insurers have pressure to increase their premium income targets in 2024. These combinations could lead us into a softening cycle. This softening could be impacted by the hurricane season that has officially arrived, as it has been predicted to be an above-normal season.

Casualty

Inflation, large jury verdicts and auto liability continue to be major concerns for casualty underwriters. While 2024 first-

quarter results for the property and casualty industry improved with a combined ratio of 94.2, underwriters continue to seek single-digit increases. Environmental, social and governance (ESG) policies and ratings that were forcing a re-underwriting of the book of business are no longer in the forefront. Maintaining the current book of business on a profitable basis is key. With no new insuring capacity entering the casualty space, there is no competition to drive pricing downward.

Underwriting discipline continues to be the focus for insurers since there are no new competitors in the marketplace with whom they must contend. Health, safety and environmental policy and procedures, along with insurer loss control on-site visits or loss control teleconferences are as important as the renewal data itself. Telematics for auto fleets continue to increase in usage and be a source for premium credits.

Reinsurance treaty renewals for January 1 of this year were stable with flat to low single-digit increases. The basis for the positive renewals was an increased supply that was strategically allocated. Being able to allocate capital more efficiently among treaty, facultative and catastrophic placements gave the provided underwriters an opportunity to target desired business and pass on undesirable business. This improvement in the market should transfer to the day-to-day market for policyholders.

There continues to be personnel movement in the casualty marketplace both in the underwriting and broking ranks.

Upstream

Over the past several years, the upstream sector has experienced a gradual progression of rate increases. However, with a few significant claims in 2023, there is a keen observation for a potential ripple effect across the market, indicating a possible steadier rise in rates. While it remains too early to predict the next six to 12 months accurately, underwriters have initiated discussions about narrowing coverage and shifting away from bespoke wordings — a potential sign of a hard market.

Insureds are currently under intense underwriting scrutiny, with underwriters seeking integrated loss prevention measures and increasingly relying on modeling to establish limits. The issuance of quotes, once a prompt process, now takes weeks and is often accompanied by multiple requests for information, site visits and comprehensive valuations.

Despite no recent major departures from the upstream market, capacity remains available, and some carriers are actively looking to grow their presence in the upstream business. Concurrently, the casualty space sees new managing general agents entering, adding an element of dynamism to the market.

Midstream & Downstream

The midstream industry continues to experience increasing claims costs and verdict awards. Pipeline and Hazardous Materials Safety Administration data shows the most recent three-year average being 21 serious incidents per year, with an average of 10 fatalities per year and an average 30 injuries per year. The current 2024 report has 7 serious incidents with 5 fatalities and 2 injuries. The industry also continues to experience additional governmental regulation. The effects of increased claims and regulation creates more uncertainty for underwriters as they try to establish a profitable way to insure this class of business.

Contracting procedures (master service agreements) between operators and service providers are crucial in handling risk and who is assuming the risk. These risk transferring approaches have a direct impact on premiums.

The lead excess space is still difficult with a limited number of insurers. Mid-level excess space has experienced some shrinkage as markets attempt to hold price through reduced supply.

Downstream industry is stable due to the limited number of insureds and the limited number of insurers.

Oilfield Services

Oilfield services continue to face heightened challenges, driven by the surge in general liability/excess liability claims. There is an increase in severity of judgments and settlements related to workplace injury lawsuits. Auto liability claims coming from the oilfield services segment continue to be a problem for insurers.

Lead umbrellas are now capped at \$10M to \$15M. The need to fill the capacity in is driving program costs upward as the new capacity is looking for the same premiums as the lead.

Policyholders must demonstrate that they are a better risk than the average risk in their class. They need to show that their workplace and auto safety practices, along with stringent hiring criteria, have produced measurable results.

Power Generation – H1 2024 Summary

Property

Markets have been seeing improvement in their profitability but are aware that this trend is not a reflection of future trends. There are several pieces to the underwriting process that will help continue to ensure profitability.

There are several losses globally in 2023 that have impacted the power markets; the current estimate sits around \$1.8B. Large losses in excess of \$100M have increased in frequency in the past years. Many believe this is due to aging infrastructure and increased loads, which are straining units that may be well out of their life cycle. Coupled with weather-related losses, carriers are looking for ways to protect their books. Given the increase in attritional losses, many are looking to increase physical damage (PD) retentions. It should be noted that many PD retentions have remained unchanged even with the past focus on inflation. Certain classes may see harder pushes as those continue to show deteriorating results: landfill gas, biomass, etc. Natural catastrophe (nat cat) retentions are under additional scrutiny along with severe convective storms (SCS). The unpredictability, along with increased in loss quantum, has forced carriers to remove deductible caps. Insureds must ensure they have adequate funds set aside in the event of a SCS/nat cat event, as they are self-insuring the first layer.

2023 was the highest in record for SCS events in the US at \$60B. Each year, these secondary perils are increasingly responsible for a larger percentage of losses to insurers. 2023 could have been worse if the hurricane season was not benign. In 2024, NOAA is predicting an 85% chance of an above-normal season and forecasting 17 to 25 named storms. 2024 will be an anxious year for those on the brink of ending the year with a profitable book.

At the inception of 2024, energy property was still striving to obtain rate rises, but given the influx of capacity in the London market, the competition created has helped curtail those increases. This is not to say that the market is in a proper soft cycle but expect to see pressure on those looking to impose double-digit increases on well engineered, loss free, minimal nat-cat-exposed accounts. The treaty renewals were stable which did not impact insureds, but the expectation is that carriers deliver a profitable underwriting year and achieve their premium goals.

Casualty

The power generation market continues to seek increase in the 5% range. The push for rate and premium increases are being driven by inflation, global events and larger-than-expected jury verdicts. The tort reform that has been enacted in various states is still uncertain as to its impact on reducing nuclear verdicts. Since litigation funding continues and nuclear verdicts are still be handed down, underwriters will continue to price for the rising uncertainty that accompanies these drivers.

Energy – H2 2024 Outlook

Property

As many carriers seek to achieve their premium targets, many will have to sharpen their pencils in the second half of 2024. Underwriting discipline will not be completely disregarded, but rate rises will become harder to obtain when new markets look to encroach on opportunities. As ESG no longer remains a top focus for many carriers, energy insureds may be able to capitalize on markets who are able to see them through different lenses.

We should expect further concurrent terms along with small rate rises and even rate decreases as the year progresses. The likelihood that this sector will see a sharp decrease in rates is unlikely, but carriers met rate changes with much resistance in the early parts of 2024, and we won't expect the same resistance for the second half. Business interruption/time element-related coverages will continue to receive additional scrutiny, as carriers suffered large losses especially after the Canadian wildfires in 2023.

As carriers look to expand their line size, they will inevitably push out the more expensive capacity which will mean premium savings for insureds. 2024 will see an increase in submission activity as brokers look to correct problematic slips or ensure that rates have been tested during this changing cycle.

Casualty

The primary liability capacity has maintained stability. Insurers are valuing underwriting profitability and are willing to forgo new written premium goals. Policyholders with clean loss records continue to experience favorable results compared to peers with losses. Going into the market early is still producing the best outcomes. Auto liability rates are experiencing mid-to-high single-digit increases due to the continued deterioration of the automobile line of business for insurers. Workers' compensation rates remain flat, as this book of business has been profitable for insurers. General liability rates for most segments are within the single-digit range.

Excess liability capacity has remained stable in 2024. Although concerns about loss development from prior years and loss severity persist, pricing is now stable. We anticipate pricing trends to continue similarly to 2023, with most buyers encountering single-digit rate increases.

Power Generation – H2 2024 Outlook

Property

Energy transition is still a focus for many carriers seeking to abide by ESG guidelines. This has continued to increase market capacity in the renewable space. Thermal power is still reliable and necessary to meet increased demand. Carriers are challenged by providing coverage for these assets with an understanding that their lifespan is finite. There are several factors that they will continue to focus on going forward. Lead times for transformers continue to plague this sector, along with lack of spares. Clients should have vetted their contingency plans to maintain broad coverage with minimal rate impact.

Assets that will be decommissioned or shut down in the event of a catastrophic loss should have direct conversations with their carriers to determine the best path forward for all parties. Carriers have a responsibility to ensure their coverage offerings are meeting regulatory compliance. The shift to renewable energy will continue well past 2024, but many clients are still developing or bridging the gap from thermal energy to renewable. Carriers must work through these scenarios jointly to ensure these clients have solutions for their evolving risk profile.

Thermal generation continues to be seen as proven and low risk, but the ESG component lends itself as non-desirable. Rate rises have stabilized with this occupancy and will continue to remain stable in 2024. While coal and biomass occupancies are tougher to insure, which leads to less competition, renewables have attracted more capacity coupled with improved technology and will see healthy competition in non-cat-prone areas.

Casualty

We expect underwriters to continue their disciplined approach and expect rates to increase by 3% to 8%, generally speaking. On individual casualty lines, accounts with large auto exposures will continue to see pricing pressures and should expect increases in the 5% to 15% range. The workers' compensation market will continue to be competitive. The general liability market will see increases in the 2% to 5% range. The excess liability market will be seeking increases on a basis similar to the general liability market in the lead and mid-level excess. The upper excess liability pricing will trend in the 0% to 5% range.

Marine – H1 2024 Summary and H2 2024 Outlook

Flat to slight rise as it relates to inflation.

Tensions continue to rise in the Eastern Mediterranean, Red Sea and Persian Gulf with war rates increasing for the Red Sea and surrounding area. Numerous cargo vessels have been attacked in the Red Sea and Persian Gulf, with several sinking or becoming total losses. Black Sea shipping is still restrictive; however, there is a Ukraine London-backed war-risk program available for shipments to and from Ukraine and countries bordering the western Black Sea.

The Taiwan Strait and South China Sea are potential flash points for war coverage adjustments, with continued sable rattling and maneuvers by China and the US-led coalition.

In traditional hull and machinery, rates are stabilizing, with rises in line with inflation.

Protection and indemnity rates continue to rise above inflation levels. Protection and indemnity (P&I) clubs have seen their reinsurance rates rise, which have been passed along to their members. Fixed P&I placements are tracking with the clubs in premium rises following inflation.

Shoreside property rates are still rising higher than inflation with severe capacity restrictions. Catastrophe (cat)-exposed property along shorelines are seeing rates increase dramatically, with capacity being reduced.

Marine liability rates have stabilized on the primary layers; however, excess placement rates are rising above inflation, with capability being reduced and more carriers needed to cover the higher limits.





Cat-exposed marine property will continue to be a challenge, with limited market capacity and appetite.

The Baltimore Bridge incident will start impacting reinsurance renewal in the 3rd and 4th quarter, with rate adjustments as losses are reported.



Marine

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|---|--|--|---|
|  Pricing |  0% to 5% | <p>Pricing on hull and machinery rates are trending with inflation (flat to +5%). Protection and indemnity and excess limit pricing are seeing rate increases in the +5% range.</p> <p>Cargo premiums are flat. Marine property rates are flat to +5%.</p> <p>Cat-exposed marine property, especially along the coast, is experiencing a 5% rise in pricing. Coastal properties still a challenge, with reduced capacity and pricing above inflationary trends.</p> |  0% to 5% | <p>Less pressure on rates due to increased capacity and increases in rates over the past three years. Cat-exposed coastal property is still an issue. Reduced capacity in this space is still impacting pricing.</p> |
|  Limits |  | <p>Overall, excess limits have leveled off because of pricing costs of excess limits. Pricing is rising in line with inflation.</p> |  | <p>We expect to see limits become static due to the pricing of the excess limits. Additional carrier capacity is now required to complete programs as carriers reduce capacity, with increases in pricing to continue for the same excess limits.</p> |
|  Retentions |  | <p>Increasing retentions as a mechanism to offset premiums has been the model in the marine market for the past five years. This trend is still on the uptick, as the market continues to offer higher retentions with minimal changes in premium.</p> |  | <p>Increased retentions going forward is still having a minimal change in premiums.</p> |
|  Coverage |  | <p>Terms and conditions are remaining stable for hull and machinery, as well as protection and indemnity. Quota share policies for hull and machinery are now common.</p> <p>Excess liability carriers are reducing their exposures by reducing limits, which is requiring additional carriers to complete programs.</p> <p>Cargo is seeing restrictions and tighter coverage on strikes, riots and civil commotion due to the ongoing Russia-Ukraine war. War risk in the Eastern Mediterranean, Red Sea and Persian Gulf is seeing a significant rise in premiums.</p> |  | <p>Terms and conditions should remain stable for marine coverages, with ongoing cargo sanctions and restrictions as the overseas conflict continues.</p> <p>War rates have increased significantly along with losses.</p> |
|  Carrier |  | <p>Capacity is beginning to increase with the entrance of new insurance carriers into the marketplace. This added capacity has not had its intended effect on reducing premiums.</p> |  | <p>We see capacity increase throughout the marketplace.</p> <p>Cargo carriers will also review year-end losses and claims activity and will adjust their preferred risk appetites accordingly. Valuation of product is being looked at with increased scrutiny.</p> <p>SRCC carriers for US risk has been reduced with 3 major carrier withdrawing for US risk.</p> |
|  Claims |  | <p>Hull and machinery frequency has remained steady, but severity has increased due to the size and complexity of vessels. Protection and indemnity claims are increasing in severity.</p> <p>Cargo claims are being impacted by mis-declared bills of lading and battery-related claims, causing high-impact claims. Lithium battery losses are mounting with several major car carrier losses.</p> |  | <p>Claims are likely to continue to increase in frequency and severity due to inflation of cargo and complexity of losses. Lithium battery losses are increasing significantly and impacting rates on certain commodities.</p> |

Energy and Power Generation – Property

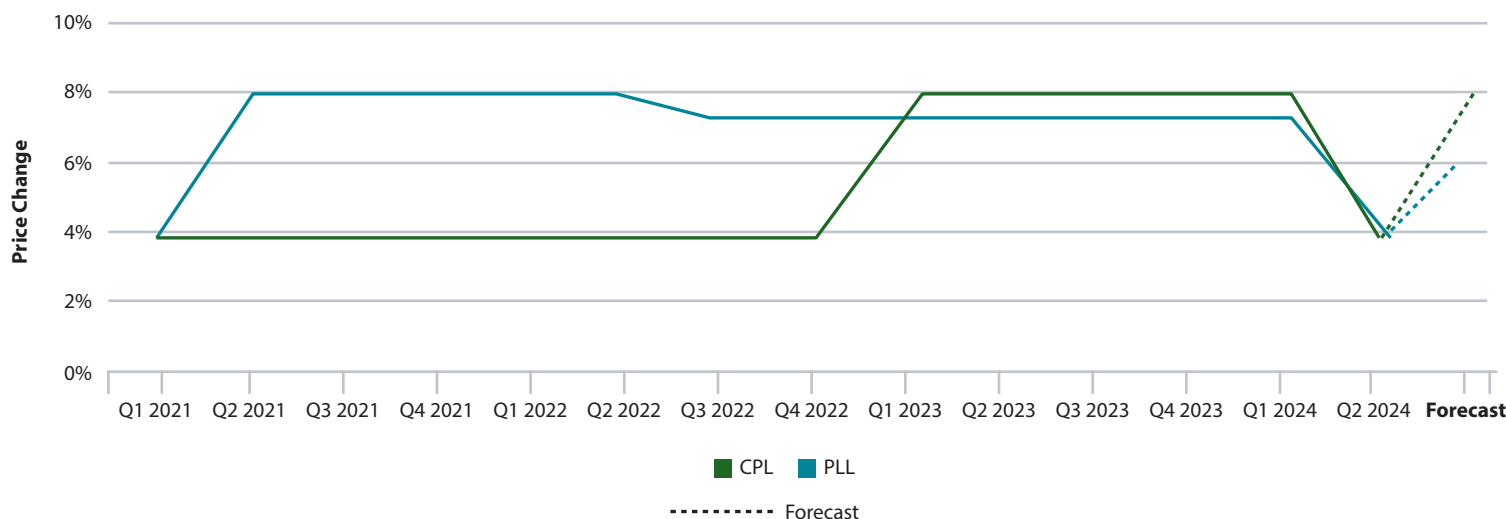
| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|---|---|---|--|
|  Pricing |  0% to 5% | Increased capacity will help keep rates stable. |  -5% to 7.5% | Rate stabilization is expected to continue, with top-tiered insureds receiving rate decreases. |
|  Limits |  | Reinsurance treaties didn't impose major changes. Concurrent terms will be achievable as carriers are looking to increase their line share. Time element limits will remain under scrutiny as many losses have been driven by this coverage. |  | Time element, nat cat and secondary convective storms are still volatile, and we do not expect improvement on these limits. Concurrent terms on other extension of coverages should be achievable. |
|  Retentions |  | Physical damage retentions are being tested, but given the abundance of capacity the likelihood these will see an uptick is unlikely. Maximum deductibles may start to see pressure to be removed as losses due to weather-related events continue to increase in severity and frequency. |  | Carriers will continue to focus on profitability, retentions may continue to get tested on accounts with claim activity. |
|  Coverage |  | As carriers fight for line share, many will look to agree to increased limits on certain extensions of coverages. Time element and nat cat will continue to be underwritten with discipline. |  | Underwriter discipline will prevail, so volatile extensions of coverages will remain as is or even further scrutinized. All other limits may see improvement based on excess capacity. |
|  Carrier |  | Capacity has continued to increase, and technical talent has shifted to new underwriting facilities, which is leading to competition. |  | As talent shifts into new facilities expect experienced underwriters to create waves during renewal seasons. |
|  Claims |  | 2023 was a benign year, but losses were frequent and more severe. Many reported a profitable underwriting year in 2023, but if premium pools continue to shrink this ratio will be impacted. |  | Hurricane season has just begun. Underwriters had a profitable year because the 2023 hurricane season was benign. If 2024 is an active year and the frequency/severity losses are similar to 2023, this could alter the course for many carriers who are currently working with a profitable book of business. |

Energy and Power Generation – Casualty

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|--|--|--|---|
|  Pricing |  2% to 5% | Underwriters continue to push for single-digit increases, citing inflationary pressure on claims and underwriting expenses. |  2% to 5% | The liability market will continue to see increases in the 5% to 10% range, depending on the industry segment. Excess liability pricing for limits above \$100M will trend in the 0% to 5% range, assuming no large losses. Auto liability continues to be a problem, with some underwriters declining risks with more than 200 power units. Accounts with large auto exposures should expect pricing pressures to continue and expect increases in the 10% to 15% range. |
|  Limits |  | No material change in market capacity. |  | Capacity is expected to be stable through 2024. |
|  Retentions |   | Upward pressure to increase retentions continues, particularly for auto fleets. |   | Inflation and large jury verdicts continue to be the main factors for increasing retentions. |
|  Coverage |  | Underwriters continue to focus on climate and other long-tailed exposures with the goal of avoiding exposures that will duplicate the problems of asbestos, lead and pollution. PFAS exclusions are the market norm. |  | Markets will continue the focus started last year, evaluating the potential of perceived long-tail coverage. |
|  Carrier |  | Market is stable with only slight changes in target industry classes. |  | The market is stable and should continue. Field underwriters are starting to comment on protecting their book. This could be an indicator that pricing could become flat at the end of the year. |
|  Claims |   | Claims and claim expenses continue to be impacted by inflation and large jury verdicts. |   | The insurers will continue to push for rate and premium increases to remain profitable. |

Environmental

Contractors Pollution Liability, Site Pollution Liability



Environmental – H1 2024 Summary

While challenging market conditions remain, the deal flow is beginning to increase for a variety of reasons. New business opportunities are up over last year. While some of this is tied to greater acceptance of the market conditions, much of this is a result of heightened awareness to environmental issues and how they may potentially impact client operations.

On May 8, 2024, EPA published in the Federal Register its final rule designating perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS) as hazardous substances under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). The designation of these two PFAS chemicals took effect on July 8, 2024. For property acquisitions closing on or after July 8, environmental due diligence to meet CERCLA's "all appropriate inquiries" standard for liability protection, which is typically performed via Environmental Site Assessments, will need to include consideration of PFOA and PFOS. As a result of the change under CERCLA, these chemicals will now be regulated under state programs and will cause many brownfield cases to be re-opened because they were not addressed at the time of regulatory closure. If you own a site with regulatory closure we strongly recommend reaching out to see if coverage is available.

Premium increases are **holding steady** at anywhere from **3% to 5%**, depending on the type of environmental insurance coverage.

We are seeing carriers get more restrictive on coverage for emerging contaminants; however, it is still being handled on a case-by-case basis. Otherwise, the available coverage in the marketplace remains fairly broad.

Environmental – H2 2024 Outlook





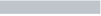
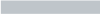

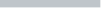










We anticipate an increase in interest for environmental coverage as more people become aware of how environmental issues can impact their transactions and day-to-day operations. This is largely in part to the awareness we have seen around emerging contaminants and the greater emphasis being placed on environmental issues by commercial lenders. We do expect the commercial lending market to push the need for environmental insurance as a method of risk transfer.

For the remainder of 2024, we anticipate that carriers will continue to gravitate towards shorter policy terms. We expect rates to remain competitive as many carriers fell short of their new business goals for the first half of the year.

Contractors Pollution Liability (CPL)

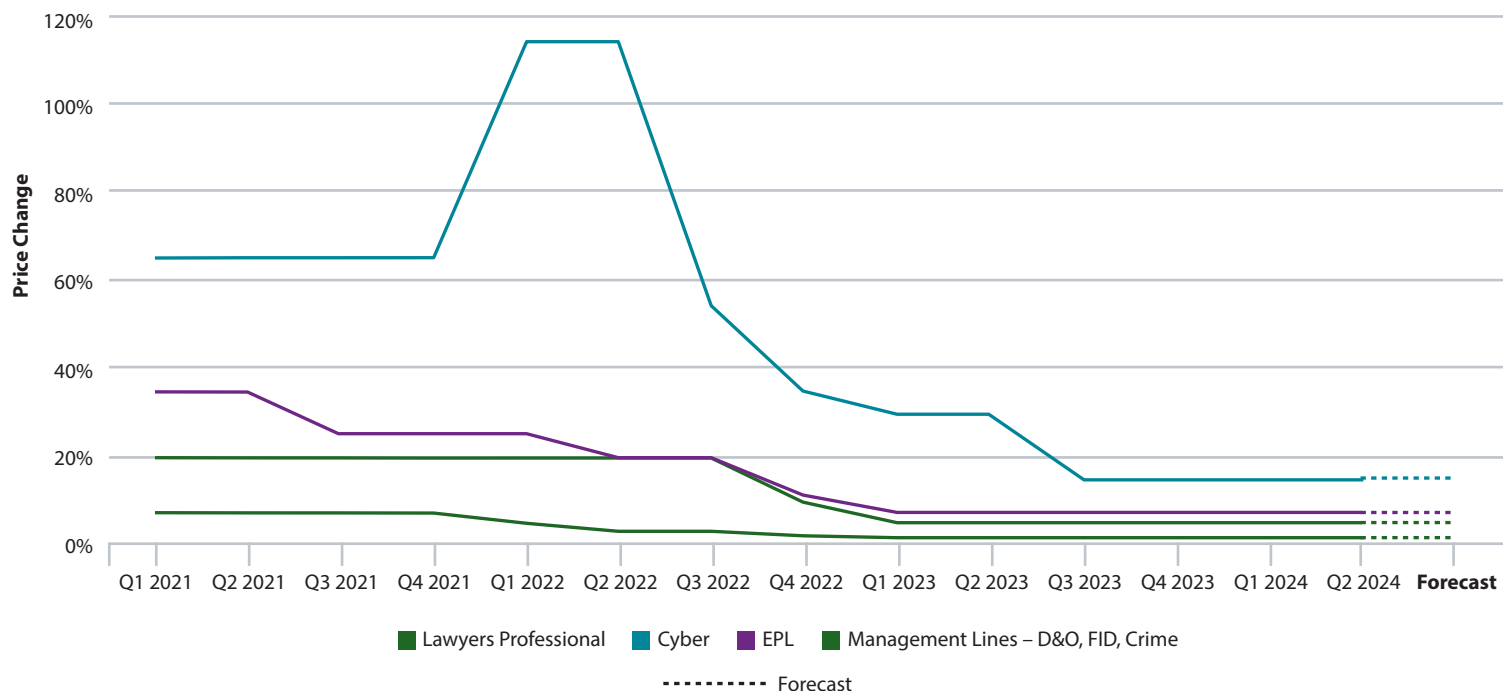
| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|---|---|---|--|
|  Pricing |  3% to 5% | Abundant capacity continues to pressure rates downward. Practice policies are experiencing slight increases, ranging from 3% to 5% on average. |  5% to 10% | We expect the rate on CPL to increase anywhere between 5% to 10% over the next 12 months. |
|  Limits |  | Limits remain abundant, with most carriers offering up to \$25M in the aggregate. |  | We expect limit and capacity to remain strong, as this product is desirable for carriers. |
|  Retentions |  | A wide range of retention levels are available. Lower retentions are available through online portals for practice policies. |  | Retentions remain stable for practice policies. We are beginning to see a slight uptick in retention levels for project-specific policies. |
|  Coverage |  | Coverage remains broad for CPL. Exclusive coverages remain available to NFP, including delay expense, which results from work stoppage caused by known or unknown pollution events. |  | There is greater likelihood of carriers pulling back coverage associated with emerging contaminants. |
|  Carrier |  | No new entrants into the marketplace; however, CPL coverage remains a desirable product for carriers given the favorable loss ratios. |  | We do not foresee any markets exiting the CPL space, as it remains very profitable. |
|  Claims |  | Claim frequency has leveled off for the time being. |  | We expect that claim frequency will increase over the next 12 months with project restarts and more contractor activity. |

Site Pollution Liability (PLL)

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|---|--|--|--|
|  Pricing |  3% to 5% | Renewal policies continue to see modest increases in pricing. Transactional placements are experiencing an uptick in pricing when meaningful coverage is provided. |  5% to 7% | Markets will continue to approach business selectively and will actively pursue low-risk/low-premium placements, which will have a downward pressure on renewals. Market interest for long-term transaction placement is decreasing, causing upward pricing pressure. |
|  Limits |  | Ample limits are available for most risks. There is abundant capacity in the marketplace with new carrier entrants. Heavily contaminated sites posed for redevelopment have ample but smaller market interest. Quota share arrangements and layered approaches provide most limits for complex or less desirable placements. |  | Availability of limits is expected to increase for shorter-term placements — five years or less, for example. Arranging higher limits for long-term placements will become increasingly difficult. |
|  Retentions |  | Retentions have remained generally static. Less challenging risks have smaller retentions of \$25,000. More complex remediation and redevelopment risks are north of \$100,000 per pollution event. |  | Less environmentally exposed risks are not seeing changes in retentions. Other, more complex risks, such as redevelopments, are being challenged by carriers to accept higher retentions. |
|  Coverage |  | Restrictions associated with PFAS will remain an issue for the foreseeable future. Underwriters are still applying them as needed and are becoming more widespread among carriers. Clients should also pay close attention to 1,4-Dioxane and microplastics as we anticipate potential coverage issues. |  | Handling remediation coverage knowns versus unknowns and crafting coverage accordingly is becoming increasingly difficult. We continue to see increasing focus on excluding all expenses within the boundaries of remedial action work plans. Broader coverage remains for purchasers of brownfields. Greater restrictions around mold and other indoor air quality-related claims are likely. |
|  Carrier |  | No new entrants to the market. |  | No significant changes expected in the next 12 months. |
|  Claims |  | Claims activity associated with emerging contaminants continues. Damages to the environment and environmental justice initiatives continue to trend upward. We have seen an uptick in the number of Legionella cases and encourage clients in the hospitality and habitational sector to consider the coverage. |  | The EPA is set to add PFAS/PFOA to the Resource Conservation and Recovery Act Hazardous Materials List this year without established federal cleanup criteria. This move has the potential to open the floodgates on claims associated with re-opener events as well as other issues. |

Legal Practice

Lawyers Professional Liability (E&O), Cyber for Law Firms, Employment Practices for Law Firms, Management Lines for Law Firms (D&O, Fiduciary and Crime)



Legal Practice – H1 2024 Summary

Lawyers Professional Liability (E&O)

Key Trends:

- One of the main story lines during the first half of 2024 continued to be the acceleration of law firm mergers in the midsize and large law firm segment.
- Artificial intelligence (AI) and how it is potentially being adopted and utilized by law firms remains a hot topic in the underwriting community. While there is not currently any exclusionary language in lawyers professional liability (LPL) insurance policies, carriers will continue to monitor trends and how AI is affecting law firms from a risk perspective.
- From a claims perspective, the severity of claims made against law firms continues to increase to levels not seen before. While the frequency of reported claims has remained relatively flat, the size of malpractice claims continues to garner the attention of insurers.

Cyber for Law Firms

Law firms continue to get hit with claims resulting from business email compromise (BEC), ransomware and more. Due to the continued rise in claims activity, law firms are experiencing a 5% to 10% increase come renewal. Higher price increases should be expected in firms that handle higher-than-average amounts of personally identifiable information or information protected by HIPAA, as well as firms that have had breaches or ransomware claims in the past. Increased ransomware claims and breaches have placed law firms in a high-hazard class. Underwriting has become stricter, as most carriers are requiring multifactor authentication and offline backup systems with limited personnel access. Increased retentions and lower available limits are also common.

Employment Practices for Law Firms

Law firms continue to see increasing rates in the employment practices liability market due to claims activity, with rate increases from 5% to 10%. Reduced limits on primary, particularly in historically problematic states such as California, New York and New Jersey, are common. Increased retentions are often common in these states as well.

Other Management Lines for Law Firms (D&O, Fiduciary and Crime)

Limits and retention structures are being closely monitored to ensure sharing of the risk. Social engineering and business email compromise are also generating claims activity in these segments. Pricing increases continue to range from 0% to 10%.

Legal Practice – H2 2024 Outlook

Lawyers Professional Liability (E&O)

The LPL market remains competitive heading into the second half of 2024. The addition of new capacity over the past few years has helped lead to a more robust market environment. Carriers will continue to focus on limits management for their perspective portfolios while also looking to push for higher. While rates are relatively stable for firms with clean loss histories, the case may not be the same for firms that have adverse track records. Firms with significant claims will see rates that could extend well north of 20%. A recent study of LPL insurers showed that 11 out of 13 carriers reported participating in a claim over \$100M in the last two years, while five said they have paid a claim between \$150M and \$300M.

Cyber for Law Firms

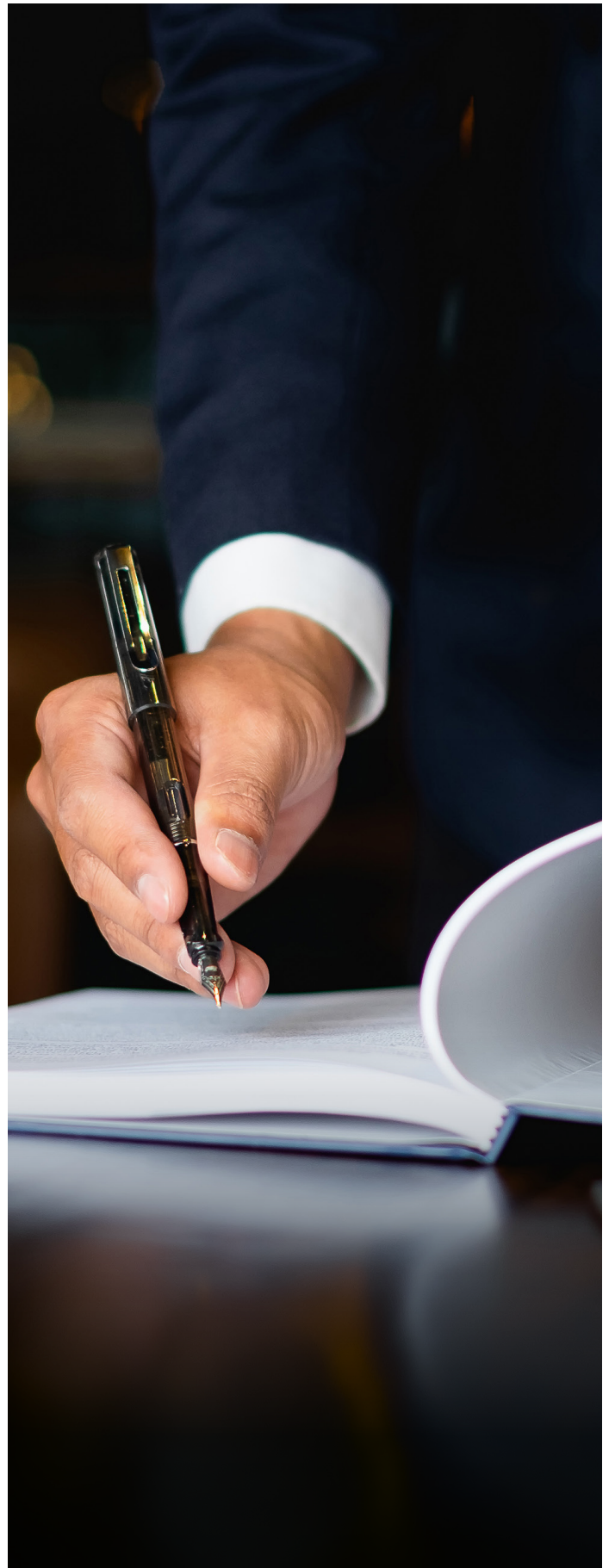
The cyber market for law firms will continue to be difficult during the second half of 2024. With the continued increase in claims activity (ransomware, business email compromise, etc.), law firms can expect pricing to increase by 5% to 10% at renewal. Underwriting will remain stringent, as most carriers are requiring multifactor authentication and offline backup systems with limited personnel access. Endpoint detection and response is highly encouraged and will impact the number of carriers willing to consider offering terms. Increased retentions and lower available limits will also persist.

Employment Practices for Law Firms

Rates in the employment practices liability market will continue in the 5% to 10% range. Reduced limits on primary, particularly in historically problematic states such as California, New York and New Jersey, will remain, as will increased retentions.

Other Management Lines for Law Firms (D&O, Fiduciary and Crime)

Carriers will remain focused on limit and retention strategies heading into the second half of 2024. Pricing is expected to remain in the 0% to 10% range.



Lawyers Professional Liability (E&O)

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|---|--|--|--|
|  Pricing |  0% to 3% | <p>The market remains competitive with rates nearly flat heading in the second half of 2024. Law firms with a clean loss history will see favorable rates, while firms with substantial losses could see their rates impacted more adversely.</p> |  0% to 3% | <p>Pricing is expected to continue to remain stable for the remainder of 2024. Increased capacity has helped lead to a healthy market environment.</p> |
|  Limits |  | <p>Most carriers are capping primary limits at \$5M, with a few still willing to offer \$10M. Quota share options continue to rise in popularity. Excess limits are still widely available up to \$10M in capacity, depending on attachment point.</p> |  | <p>A conservative approach to primary limits is expected to continue, as is the increased utilization of quota shares to manage carrier risk.</p> |
|  Retentions |  | <p>Carriers have increasingly focused on matching the size of the retention with revenues and size of firm, particularly in the middle market to large firm space.</p> |  | <p>More carriers are expected to shift their focus to revenue and attorney count to determine adequate retention for firms.</p> |
|  Coverage |  | <p>Coverages for this line of insurance have remained relatively stable. Some carriers continue to increase add-in coverages, with low sublimits (subpoena, crisis management) becoming standard.</p> |  | <p>Artificial intelligence is becoming an extremely hot topic as carriers are beginning to wrap their arms around this technology and how it relates to their policies issued. We will be monitoring this trend throughout 2024.</p> |
|  Carrier |  | <p>Market capacity continues to increase within the LPL space, with new carriers entering the space.</p> |  | <p>We expect the addition of new capital and capacity in the market to slow down for the remainder of 2024 compared to the significant growth in the prior few years.</p> |
|  Claims |  | <p>Severity of claims continues to rise, driven by higher defense costs and larger deals with more sophisticated clients. Frequency has stabilized or decreased due to the slowdown in litigation and related areas.</p> |  | <p>Carriers are still uncertain if they will see claims if an economic downturn takes place. Severity of claims is expected to continue to increase.</p> |

Cyber for Law Firms

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|--|--|---|---|
|  Pricing |  5% to 10% | Law firms continue to get hit with claims resulting from business email compromise (BEC), ransomware, malware, etc. However, due to improved controls from insureds, pricing has softened slightly. Law firms can expect a 5% to 10% increase at renewal. |  5% to 10% | Law firms continue to be classified as a high-risk industry. The frequency and severity of claims will continue to rise and affect rate in 2024. Carriers will continue to increase pricing by 5% to 10%. |
|  Limits |  | Many carriers decreased limits available on primary or refused to increase limits to meet law firm demands. This resulted in the need for more participants to meet client demand for limits. |  | We expect carriers to continue to manage limit capacity, particularly on primary. |
|  Retentions |  | Upward pressure on retentions continues, particularly when firms lack requisite controls or have experienced claims activity. |  | Retentions will remain stable for firms that have the proper controls in place. New entrants in the market are driving down retentions to gain market share. |
|  Coverage |  | Ransomware coverage is closely scrutinized and often sublimated or eliminated. Multifactor authentication is a standard requirement for coverage, and firms unwilling or unable to implement this requirement will see reduced coverage. Endpoint detection and response (EDR) is a more common requirement. |  | Continued mandatory requirements for multifactor authentication, backups, encryption and more is expected for all size firms. EDR is highly encouraged for adequate coverage. |
|  Carrier |  | Underwriting guidelines are tightening, and a reduced carrier appetite for the class of business was common as activity targeting law firms increased. |  | Expect continued emphasis on minimum requirements for data security and cyber controls. Law firms continue to be a less desirable class of business as cyber carriers continue to tighten underwriting guidelines and requirements. |
|  Claims |  | Increased ransomware and BEC claims against law firms continue to become public. Several hacking incidents involving large firms heightened concerns about increased claims. |  | Claims activity is expected to continue to increase, and the cost of investigation and remediation is expected to continue to rise. |

Employment Practices for Law Firms

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|--|--|---|--|
|  Pricing |  5% to 10% | Rates have stabilized, but claims activity (discrimination, wage disparagement, deprivation of career opportunities, etc.) and firm growth still warrant rate increases. |  5% to 10% | Carriers will continue to issue increases based on claims activity and firm growth. |
|  Limits |  | Carrier requirements for limits have not changed. |  | Carrier requirements for limits will continue to stay consistent. |
|  Retentions |  | Retentions are increasing, particularly in difficult geographical areas (California, New York and New Jersey). |  | Retentions are likely to continue to increase in certain geographical areas (California, New York and New Jersey). |
|  Coverage |  | Carriers without specific law firm-targeted forms are pulling back on coverages, such as failure to make partner. Other restrictions in coverage, including sublimits for wage and hour claims, are becoming more prevalent. |  | Continued focus on reducing or eliminating coverage for trending loss leaders. |
|  Carrier |  | There is still a limited number of carriers that will write employment practices liability coverage for law firms. |  | The same limited number of carriers will continue to offer employment practices liability coverage for law firms. |
|  Claims |  | Claims frequency and severity are still on the rise due to discrimination, wage disparagement, deprivation of carrier opportunities, etc. |  | Law firms will continue to experience claims relating to discrimination, disparagement, wage and more. |

Management Lines for Law Firms (D&O, Fiduciary and Crime)

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|--|---|---|--|
|  Pricing |  0% to 10% | Pricing increases in these lines of business have begun to stabilize, but concerns remain due to cybercrime issues. |  0% to 10% | Primary rates should continue to stabilize, as adjustments were previously made. Economic conditions could push rates further upward. |
|  Limits |  | Carriers have focused on managing limits capacity and ventilating exposures in the large law firm segment, which is where we see most of the demand for these coverages. |  | No change in limits expected after previous adjustments, though we may see more sublimits implemented in certain areas. |
|  Retentions |  | Carriers continue to monitor retention adequacy and take corrective action where needed, particularly where employee count is high and policies/procedures are not fully implemented. |  | Retentions will continue to be monitored, particularly where there are past claims or where policies/processes are inadequate. |
|  Coverage |  | D&O liability for law firms remains stable, and adjustments that were made following Dewey failure are common. Still, some adjustments are being made in fiduciary and crime where sublimits and exclusions are being implemented to address increase in claims related to cybercrime and excessive fee litigation (fiduciary). |  | Coverage expansion is not anticipated. |
|  Carrier |  | The market has continued to stabilize with no real shifts in participants or appetites. |  | Market is expected to remain relatively stable, with no real shifts in participants or appetites. |
|  Claims |  | Cybercrime (social engineering, funds transfer fraud, etc.) has resulted in increased claims counts and severity in these lines. |  | Severity is expected to increase in these lines, as projected settlements and related defense costs are expected to rise. Cybercrime claims will continue to be prevalent. |

Life Sciences

Product Liability



Life Sciences – H1 2024 Summary

While the effects of the pandemic have subsided, geopolitical tensions persist and are influencing market stability in 2024. Inflationary pressures continue, impacting underwriting practices and risk assessments. However, insurers are adapting with increased flexibility and innovative solutions to maintain capacity.

Artificial Intelligence and Machine Learning: Artificial intelligence (AI) and machine learning (ML) applications continue to advance, driving optimism for innovation in life sciences. Insurers are increasingly leveraging these technologies for underwriting, claims processing and risk management. However, there's a growing emphasis on ethical AI usage and data privacy regulations, requiring careful consideration by directors and officers.

Social Inflation: Social inflation remains a significant concern, with litigation costs continuing to outpace general economic inflation. The healthcare and life sciences sector continues to experience substantial increases in claims costs, further exacerbated by evolving legal and regulatory landscapes.

Volatile Business Environment: Geopolitical volatility persists, impacting global trade and supply chains. Cybersecurity threats are on the rise, fueled by geopolitical tensions and increased digitization. Insurers are responding with tailored coverage solutions and risk mitigation strategies, although challenges in certain segments persist.

Labor Costs and Staffing Shortages: Labor costs remain elevated, particularly in healthcare, as organizations grapple with staffing shortages exacerbated by the pandemic's aftermath. While some stabilization is observed, pressures on wages and recruitment persist, influencing insurance rates and coverage considerations.

Evolution of Care: The shift towards alternative care models and healthcare information sources accelerates, driven by consumer preferences and technological advancements. Value-based care models continue to gain traction, emphasizing quality outcomes over volume. However, heightened competition among care providers underscores the need for differentiation and collaboration to address evolving patient needs effectively.

In summary, while certain challenges persist from previous years, insurers and healthcare organizations are adapting to the evolving landscape with increased emphasis on technology, risk management and customer-centric solutions. Adapting to these trends will be crucial for maintaining resilience and competitiveness in the dynamic insurance market.

Life Sciences – H2 2024 Outlook

In 2024, the insurance landscape in the life sciences sector is expected to show signs of softening, with capacity and competitive pricing contributing to rate stabilization. Renewals are anticipated to remain flat, with minimal increases ranging from 1% to 5% in certain segments. However, less favorable segments such as long-term care and senior living facilities may experience significant rate hikes due to pandemic-related losses.

Property insurance rates are projected to continue their upward trajectory, particularly in regions prone to natural disasters like Southeast Florida and California.

Cybersecurity remains paramount across all industries, including life sciences, given the increasing sophistication of cyber threats fueled by AI technology and deep fakes. Protecting intellectual property and patient privacy rights is critical for organizations in this sector.

External factors such as geopolitical instability, natural catastrophes and inflation will continue to influence rate changes. Additionally, the evolving nature of the life sciences industry, characterized by advancements in biotechnology, pharmaceuticals and medical devices, will drive increased demand for specialized insurance coverage tailored to address the unique risks associated with these sectors.

Overall, insurers will need to remain vigilant and adaptive to effectively address emerging risks while providing comprehensive coverage solutions to meet the evolving needs of the life sciences marketplace.

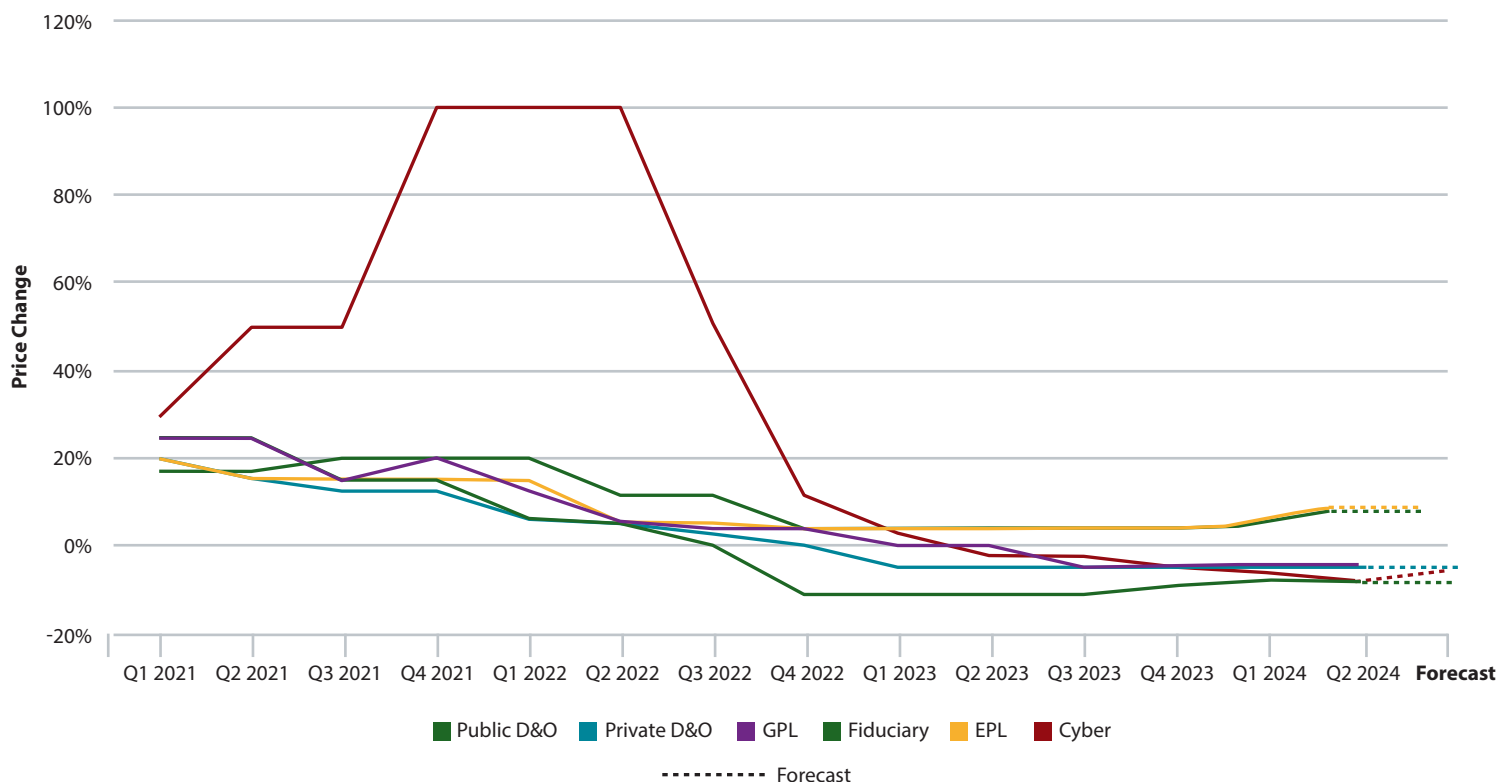


Product Liability

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|--|--|---|--|
|  Pricing |  -5% to 5% | Rates and pricing have stabilized. New participants and variable carrier appetites are primary contributors to the shift. |  -5% to 0% | Continued favorable pricing in some markets and industries, with potential for further reductions in rates. Indicative of a positive outlook. |
|  Limits |  | Most risks within this market can be effectively managed by leveraging strategic limits alongside suitable insurance partners. Moreover, the ongoing prominence of carrier specialization underscores the importance of aligning with insurers possessing expertise in specific areas. |  | We expect a rise in both limit and capacity as clients enhance their ability to secure additional limits. The anticipated specialization among carriers and the introduction of new products will additionally facilitate the expansion of limits. |
|  Retentions |  | Retention levels continue to mirror claims trends, with specific subsegments witnessing rises due to increased losses and exposures. |  | Our modeling forecasts retentions to remain stable, with current trends expected to be consistent over the next 12 months. |
|  Coverage |  | Policies are undergoing updates with strategic exclusions and provisions, emphasizing the implementation of restrictions on services and specified operations to bolster risk management efforts. |  | Access to comprehensive coverage is expected to remain available over the next 12 months. We anticipate specific enhancements to coverage to provide further clarification on coverage intent. |
|  Carrier |  | The recent tightening of carrier appetite is being counteracted by the emergence of new carriers and their specialized offerings. Managing general agents and programs are pivotal in bolstering market expansion and catering to emerging segments. |  | We expect the market to continue expanding and competition to intensify over the next 12 months. |
|  Claims |  | Claims activity remains primarily case-specific, particularly notable in the life sciences sector where there's ongoing monitoring of class action lawsuits and severity claims. |  | Life science companies are encountering stringent regulations and heightened scrutiny from regulatory bodies, which directly affect their product liability risks. Expectations include increasing claim complexity and higher settlement values as persistent trends. |

Management, Cyber and Professional Liability

Public Company D&O, Private and Not for Profit Company D&O, General Partnership, Fiduciary, Employment Practices, Cyber



Management, Cyber and Professional Liability – H1 2024 Summary

Key trends we saw in H1 2024 in the MCPL lines of business are as follows:

Directors & Officers Liability

The availability of abundant capacity continues to influence competitive market dynamics. However, insureds who previously enjoyed significant premium reductions during renewal cycles may start to see these decreases tapering off.

Employment Practices Liability

Increased competition is keeping the employment practices liability (EPL) market stable. However, an increase in claims and employee-friendly regulations can lead to higher rate increases for those with significant loss histories, specifically in California, Texas and New Jersey.

Fiduciary Liability

Despite conflicting positive and negative risk developments and some carriers remaining cautious, a few carriers with increased appetites are creating improved market conditions for this line of coverage.

Fidelity/Crime

Pricing remains stable and competitive, primarily due to the profitability of this product line.

Cyber

Premium decreases continued into 2024, with increases mainly affecting organizations lacking strong cyber hygiene, or those that had experienced recent claims. Insurance underwriting and evaluation depends on how strong a company's security measures are. Competition among markets is strong, leading to multiple quotes for certain risks. Incumbents are trying to retain their business given the competitive market. Excess increased limit factors are decreasing due to the abundant

amount of capital and competition. Some policyholders are opting for additional limits or lower retentions when renewal premiums decrease. While this market stabilization has persisted into 2024, conditions may shift to a firming market later in the year due to the increasing frequency of ransomware attacks and social engineering schemes.

Management, Cyber and Professional Liability – H2 2024 Outlook

| Management, Cyber and Professional Lines (MCPL) H2 2024 Outlook | |
|---|--------------|
| Directors and Officers – Public Company (Primary) | -15% to Flat |
| Directors and Officers – Private/Not-For-Profit (Overall) | -10% to Flat |
| Side A/DIC | -15% to Flat |
| Employment Practices Liability (Primary) | Flat to +5% |
| Fiduciary Liability | Flat to +5% |
| Crime | -5% to +5% |
| Cyber | -10% to +5% |
| General Partnership Liability | Flat |



Public Company Directors and Officers Liability

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|---|---|--|--|
|  Pricing |  -15% to 0% | Rates continue to fall from prior year and prior quarter given the abundance of capacity in the marketplace for publicly traded D&O. Rate decreases peaked in Q4 and have begun to level off, but we are still seeing larger decreases for companies coming off year one and two of IPO or de-special purpose acquisition company (SPAC) transactions. |  -15% to 0% | We expect the rate of decreases to level off in 2024, with continued pressure on pricing given the abundant capacity that still exists. For 2023 we did see an increase in federal securities class actions along with an increase in settlement amounts. The reemergence of the transactional liability market and, notably, IPOs in 2024 may offset the supply and demand pressure we have seen in the past 18 months. |
|  Limits |  | Similar to our expectations at the beginning of the year, insurance carriers have been maintaining their average limits deployed for over two years. Throughout 2023, we did see incremental limit tranches increase, with expiring tranches of \$2.5M moving to \$5M and some \$5M moving to \$10M after major reductions in limit during the hard market cycle. Carriers are still limiting capacity in certain industries, especially on difficult risk profiles such as digital assets, cannabis, IPOs and SPACs. |  | Like we saw in 2023, we expect carriers to maintain and, in some cases, increase their capacity over the next 12 months, using the “more limit, potentially more premium” philosophy. |
|  Retentions |  | We are starting to see more decreases on retentions given the competitive marketplace. |  | We expect to see potential reductions in retentions as the competition continues to increase and intensify like we saw in 2023. Certain risk exposures and industry classes will still see higher retention levels, such as IPOs, SPACs, digital assets and cannabis. |
|  Coverage |  | Breadth of coverage is stable in comparison to prior year and quarters. |  | Barring any unexpected event-driven occurrences, we expect the breadth and scope of coverage to remain largely unchanged, with a renewed focus on expanded entity investigation coverage options. |
|  Carrier |  | Capacity continues to be abundant in the public D&O market, which continues to put downward pressure on pricing and retentions. New entrants chasing deals is driving this trend. |  | Insurer capacity peaked in 2023 and is expected to remain stable in 2024 with limited new entrants. |
|  Claims |  | Securities class action filings were up slightly in 2023. In 2023 there were 215 securities class action filings, up from 208 in 2022. |  | We expect claims volume to increase in connection with increased SEC scrutiny, new regulations in the Insider Trading Prohibition Act, cyber disclosures and continued focus on environmental, social and governance. Uncertainty in the economy has the potential to lead to increased stock market volatility and bankruptcies. |









Private and Not for Profit Company Directors and Officers Liability

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|---|--|--|--|
|  Pricing |  -10% to 0% | <p>The private and nonprofit company sectors continued to improve through the start of 2024. Pricing adjustments continue to be made directly in response to events related to industry sector, loss history, financial position and regulatory factors. The length of the hard market and increased competition is having an impact on the overall market. We have also seen new entrants in the market and a renewed interest from legacy insurers that want to grow this portfolio to help offset the impact of the public D&O marketplace. However, for financially distressed risks and risks in certain industries (such as cannabis, digital assets, etc.), above-average rate increases and higher retentions still exist.</p> |  -10% to 0% | <p>Pricing is expected to remain stable and continue to improve in certain areas for the remainder of the year given the amount of capacity in the marketplace for clients with good risk profiles. We do expect to see a rise in bankruptcies and restructurings, causing underwriters to scrutinize financial metrics in greater detail than they have historically.</p> |
|  Limits |  | <p>Carriers continue to maintain limit capacity. We are seeing stabilization due to corrective action taken over the last 24 months during the hard market. The more challenged the risk profile, the less limit that client will be offered.</p> |  | <p>Similar to the publicly traded segment, we do expect carriers to increase limits (e.g., \$5M to \$10M) for those companies with strong risk profiles given the pricing economics we are seeing in this space.</p> |
|  Retentions |  | <p>We saw carriers generally maintain their retention levels, but in some cases there were some decreases throughout the quarter given the increased competition in the market.</p> |  | <p>We expect to see retentions remain the same and, in some cases, decrease given new capacity interested in writing more business.</p> |
|  Coverage |  | <p>The retraction of coverage terms is trending towards leveling. Portfolio corrections appear to be plateauing for preferred risks. High-risk industries and emerging industries are still seeing more restrictions and exclusions being put on their programs.</p> |  | <p>Trend continues toward maintaining the status quo. We expect appetite for coverage expansion, considering the new capacity trying to get market share.</p> |
|  Carrier |  | <p>We continue to see the emergence of new market capacity in the private company sector. The post-pandemic appetite for established business with less than \$100M in revenues is becoming a carrier focus.</p> |  | <p>The emergence of new capital will be driven by technology and application programming interface enablement. We will begin to see significant efficiencies and increased competition as carriers strive to be first-to-market with technology.</p> |
|  Claims |  | <p>Claims volume remains flat, while defense costs and other claims elements are in an upward trajectory, which is increasing overall claims activity and expense trends.</p> |  | <p>Claims volume remains flat, while defense costs and other claims elements are in an upward trajectory, which is increasing overall claims activity and expense trends. Given the current and expected macro environment, we do expect more claims as a result of bankruptcies.</p> |

General Partnership Liability




















| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|---|---|--|--|
|  Pricing |  -10% to 0% | <p>The general partner liability (GPL) market for insureds with no losses or significant fundraising has stabilized, with most insureds seeing flat to moderate rate decreases as the lull in deal volume has translated into a similar lull in claims. Excess layers continue to show diminished rate pressure due in part to an increase in excess-only market capacity.</p> |  Flat | <p>We expect rates to level off but continue to see reductions over the first half of the year as the market adjusts to new levels of competition.</p> |
|  Limits |  | <p>Capacity still remains strong within the GPL marketplace. The market of insurers willing to write primary is still limited but broad enough to generate steady competition, and a few traditionally excess carriers have begun taking on more primary capacity. Insurers continue to push to maintain strict capacity management and are generally unwilling to offer more than \$5M on new programs. Existing towers are able to maintain \$10M tranches.</p> |  | <p>We have not seen a reason to believe that limits profiles are increasing for carriers.</p> |
|  Retentions |  | <p>Retentions have generally remained stable year over year, with some general partnerships seeing material increases in response to significant fundraising or claims activity. Employment practices liability (EPL) retentions are being raised by some carriers to be in line with GPL retentions in response to an increase in material EPL litigation at the general partnership level.</p> |  | <p>We have not seen a reason to believe that retentions will increase materially.</p> |
|  Coverage |  | <p>Breadth of coverage is stable, with a focus on broadening regulatory and investigations coverage. Carriers are looking to address their employment practices-related exposure by increasing retentions.</p> |  | <p>Subject to unexpected event-driven occurrences, we expect the breadth and scope of coverage to remain unchanged.</p> |
|  Carrier |  | <p>The market of primary insurers in the US remains stable. New excess capacity has entered the market but has not materially impacted pricing.</p> |  | <p>New capacity is expected to enter the excess market, which will result in the introduction or reshuffling of carriers onto multilayered programs.</p> |
|  Claims |  | <p>The SEC implemented the majority of the rule changes it proposed in 2022, many of which require advisers to provide greater disclosure of market practices to the SEC. However, recent court decisions have both substantively hindered implementation (Fifth Circuit, SCOTUS) and blunted enforcement mechanisms through the dismantling of administrative courts within the regulatory agency itself (SCOTUS).</p> |  | <p>We anticipate that the SEC will be vigilant in its efforts to enforce these new rules and still expect investigations and related litigation to increase.</p> |

Fiduciary Liability

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|---|--|--|--|
|  Pricing |  0% to 5% | <p>Fiduciary liability rates continued to stabilize as we went through the anniversary (renewals) of the larger correction taken to address excessive fee litigation. Insurance carriers are focused on plans with assets greater than \$100M, where previously the threshold was much higher. Employee stock ownership plans will see even greater rate increases along with those that have challenged risk profiles.</p> |  0% to 5% | <p>Markets will continue to monitor developments and trends with excessive fee litigation and other exposures that are challenging their profitability. Size of plan assets is a key factor that will impact pricing. Employee stock ownership plans and those companies with challenged risk profiles will continue to see even greater rate increases.</p> |
|  Limits |  | <p>Given the reduction in limits during the hard market, we're starting to see a stabilization, particularly on programs that have seen structure changes over the past year. We are still seeing carriers reduce capacity on programs that still have higher limits (\$10M+), even in historically consistent and solid client relationships given the claims environment (especially excessive fee litigation) for this line of coverage.</p> |  | <p>We expect limit deployment for fiduciary liability will remain stable.</p> |
|  Retentions |  | <p>Carriers are, for the most part, maintaining their retentions substantially due to the claims environment mostly being driven by excessive fee litigation. In the first quarter we did see some modest increases on the excessive fee/class action retentions.</p> |  | <p>We expect retention levels to remain stable for the remainder of the year.</p> |
|  Coverage |  | <p>Carriers are trying to reduce their potential exposure to these excessive fee and expense claims. This is usually attempted or achieved by adding a sublimit, a separate retention or coinsurance, and by using exclusionary wording for these claims.</p> |  | <p>We expect this trend to continue toward more restrictive policy wording and coverage based on all the recent claims activity.</p> |
|  Carrier |  | <p>There is no expectation of a shift in market leadership among the carriers.</p> |  | <p>There is no expectation of a shift in market leadership among the carriers.</p> |
|  Claims |  | <p>Courts have begun to push back against conclusory allegations in the aforementioned excessive fee cases and have rejected suits that compare administrative fees without also comparing the services rendered for those fees. Although this a positive development, there has been no letup in case filings, and plaintiffs continue to present theories of liability. Also, evolving plan-related cyber exposures and new Department of Labor enforcement initiatives keep us concerned.</p> |  | <p>We expect more of the same for the rest of 2024. Given the push for higher retentions to address the excessive fee litigation trend, we feel this has helped the industry mitigate their claim exposure, and we expect that trend to continue.</p> |

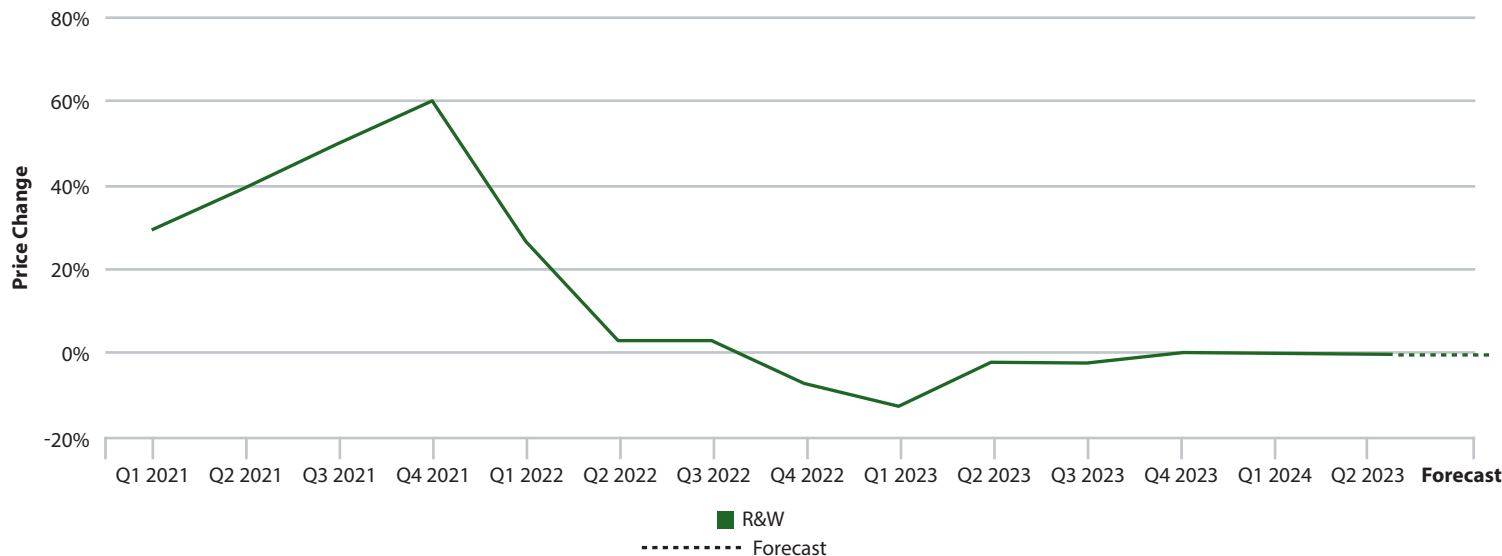
Employment Practices Liability

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|---|---|--|---|
|  Pricing |  0% to 5% | <p>Employment practices liability (EPL) has remained relatively stable in the first half of 2024. Concerns over reductions in force from current economic conditions have not yet materialized like we initially thought might happen. Carriers are closely watching return-to-office policies and the state of the economy that could potentially lead to future claims. California exposure continues to be a challenge for the industry, with much higher retentions and pricing than any other state.</p> |  0% to 5% | <p>Markets will continue to monitor the news and economic trends and will adjust accordingly.</p> |
|  Limits |  | <p>Limits remained stable in the first half of 2024.</p> |  | <p>We expect limit deployment for EPL will remain stable for the remainder of the year.</p> |
|  Retentions |  | <p>Carriers are and will continue to make adjustments on a state-by-state (New York, New Jersey and California) and risk-specific basis, primarily influenced by legislation and loss trends.</p> |  | <p>We continue to expect a consistent monitoring of regulatory trends resulting in retention adjustment to persist throughout the year, especially if claim activity picks up in the next 12 months.</p> |
|  Coverage |  | <p>We continued to see event-driven restrictions being introduced (Biometric Information Privacy Act, or BIPA) in response to COVID-19 (in Illinois). Carriers are beginning to present uniformity in approach as well as restricting the scope of coverage countrywide.</p> |  | <p>We expect the breadth and scope of coverage to remain largely unchanged.</p> |
|  Carrier |  | <p>There is no expectation of a shift in market leadership among the carriers. We do, however, expect to see a slight uptick in capacity, especially with carriers that offer EPL insurance as a blended product with the D&O liability.</p> |  | <p>Some developing appetites are likely to emerge as carriers see opportunity to gain market share and utilize efficient technology in the SME space.</p> |
|  Claims |  | <p>There has been increased volume in connection with employee claims and third-party discrimination claims. Defense costs and other elements are in an upward trajectory, which is increasing overall claims activity and expense trends.</p> |  | <p>Return-to-work endeavors may clash with a workforce that has quickly become accustomed to work-from-home arrangements, and accommodations to work remotely may spawn more claims. We expect claims volume under the Fair Labor Standards Act and wage and hour statutes to continue to increase.</p> |

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|---|--|--|--|
|  Pricing |  -10% to 0% | <p>Despite the increase in ransomware and business email compromise claims seen by the market, pricing remains stable, with most clients experiencing reduced costs. The increase in carrier capacity, coupled with better client cyber hygiene across the market, continue to be the driving factors in the pricing market. Clients that have not made proper investment to cyber hygiene will see higher retentions and limited coverage.</p> |   -10% to 5% | <p>Ransomware, privacy regulation and systemic or catastrophic cyber risk continue to be at the forefront of claims and actuary concerns. While premiums have decreased due to market competition, ransomware-related claims remain frequent. The increase in claims frequency is a reminder that even with premium reduction opportunities, the cyber soft market may not carry out into next year.</p> |
|  Limits |  | <p>More carriers deployed \$10M in capacity for clients willing to take on higher retentions and implemented strong cyber security controls (with limited circumstances up to \$15M). Most clients, however, maintain maximum capacity of \$5M per carrier. Coinsurance clauses are relatively eliminated. Rather, carriers offer sublimited first-party loss coverage for ransom/malware events when clients lack strong cyber controls. Some carriers will offer the opportunity to increase sublimits midterm with demonstrated betterment to cybersecurity posture.</p> |  | <p>Carriers will continue to strategically deploy capacity for accounts that maintain favorable cyber hygiene. First-party cyber insuring agreements will be limited or unavailable when cyber controls are not optimal. Clients who want to mitigate decreases to dependent business interruption should prepare to demonstrate strategic initiatives to mitigate vendor dependency and risk.</p> |
|  Retentions |  | <p>The market has stabilized, leaving retentions secure. Clients that can showcase more investments to cyber hygiene may be able to take advantage of reduced retentions and waiting periods.</p> |  | <p>Given increased competition and capacity, we expect retentions to remain in line with previous quarter.</p> |
|  Coverage |  | <p>Carriers continue to reduce or exclude ransomware coverage when controls are not favorable. Many carriers look to address aggregation concerns by amending policy language. Notable market changes include affirmative cyber war, web tracking, biometric and wrongful collection exclusions. Reduced coverage for contingent business interruption is also common.</p> |  | <p>Trend continues toward more restrictive policy wordings and coverages, especially around wrongful collection and systemic events. Clients will need to focus more on cyber hygiene controls (particularly multifactor authentication, endpoint detection and response, email filtering, secured/tested backups and privileged access management solutions), as well as media and biometric information handling to gain coverage. We expect continued focus on war exclusion language and other trending litigation, particularly around privacy law.</p> |
|  Carrier |  | <p>Carriers continue to make cybersecurity hygiene a key component to offering coverage. However, increased players in the market have provided clients with optimal controls more opportunities to reduce premium. Coverage will be paired down when controls are lacking. Multifactor authentication, endpoint detection and response, and backups are critical components in the underwriting process. More carriers have made investments to offering clients assistance on implementing key controls and rectifying vulnerabilities to drive better risks across their portfolio.</p> |  | <p>Carriers will emphasize the requirement for quality ransomware and cybersecurity controls. Use of noninvasive scans (Bitsight, SecurityScorecard and Cyence) during the underwriting process will continue, and questions about findings and potential issues (e.g., open ports) will need to be remediated. Additional questions around vendor management, business continuity plans and employee training will continue to be part of the underwriting process. We expect to see an increase in capacity due to additional carriers entering the market.</p> |
|  Claims |  | <p>Q1 of 2024 witnessed jaw-dropping claims scenarios. The Change Healthcare breach served as a painful reminder of the realities of ransomware. The breach allegedly resulted in a \$22M paid ransom demand, along with significant patient data exposures that triggered regulatory scrutiny and class action litigation. More, the event has had significant downstream effects to prescription facilities and hospitals. Further, the advancements of AI-assisted bad actors in Hong Kong to accomplish an unprecedented social engineering attack resulted in a loss of approximately \$25M USD via deepfake technology (see NFP Insights page for full story). Lastly, a 2023 research study found 98% of organizations have at least one third-party vendor that experienced a cyber event.</p> |  | <p>Cyber claims activity is expected to continue to remain frequent as bad actors become more creative at ways to trick employees into complying with rogue tasks or into mistakenly clicking on links or downloading information. With the fast past of transactions and the help of AI, it has become harder to detect many phishing schemes. Further, D&O-like claims may continue to make their way further into the cyber world. We have already seen the SEC make its first move with new legislation requiring public companies to disclose details of a cyber breach. Further, we have seen the SEC initiate litigation against organizations for misleading users around their cybersecurity posture. More regulatory bodies and states are focused on data privacy, and we expect to see more lawsuits in this area.</p> |

Private Equity

R&W Insurance



Private Equity – H1 2024 Summary

Representations and warranties (R&W) submission flow slowed considerably in 2023, and that trend continued through the first half of 2024. Those volumes are more reflective of those prior to 2021. While submissions still remain high from an overall historical basis, 2024 has seen a continued moderation in submission flow. Both premiums and retentions have come down to be more reflective of the first half of 2021 as well.

Premiums have continued to moderate and have even decreased somewhat in 2024 with an ~2.5% to 3.0% primary rate online as an average. Larger deals of over \$1B will see primary rates closer to 4.0%, but with excess layers; blended rates are closer to the 2.5% to 3.25% range. Claims frequency and severity have increased over the past few years and have continued to do so in 2024. This seems to support rate increases over time; however, we have not seen that materialize in 2024. Appetite across industries is broad, and smaller transactions (under \$50M in enterprise value), in particular, have become a sweet spot for many insurers. There was another new market that opened in early 2024 that is trying to focus on smaller limit deals (under \$50M in enterprise value), which will continue to help drive this trend.

There has not been an uptick in demand as hoped for in 2024, with the current debt and interest rate environment continuing to depress overall deal flow. In fact, 2024 has not seen activity grow, even in comparison to early 2021. Many insurers have added staff to meet anticipated capacity and that growth has not materialized in 2024.

It will be interesting to see if activity increases for the remainder of 2024 or if a potentially fluctuating interest rate environment will continue to dampen activity.

Private Equity – H2 2024 Outlook

If the trends we have seen in early 2024 continue, the outlook for R&W insurance for the remainder of 2024 will likely continue to be tempered by a potentially fluctuating interest rate environment. The current debt financing market is pushing firms to do smaller transactions. Until there is more certainty in interest rates, we do not see this trend changing considerably in 2024. With the reduction of overall deal activity, there will be competitive pressure on the insurers to write enough business to support their internal cost structures.

With these competitive pressures, and absent an improved debt and interest rate environment, we do not see premiums and retentions increasing in 2024. At the current historically low premium rates and retentions, we will likely see them remain fairly consistent until the overall economic market improves. While some markets have and will continue to try to hold the line on rates and retentions, there are a number of markets willing to continue to drive pricing and retentions down as they try to gain market share.

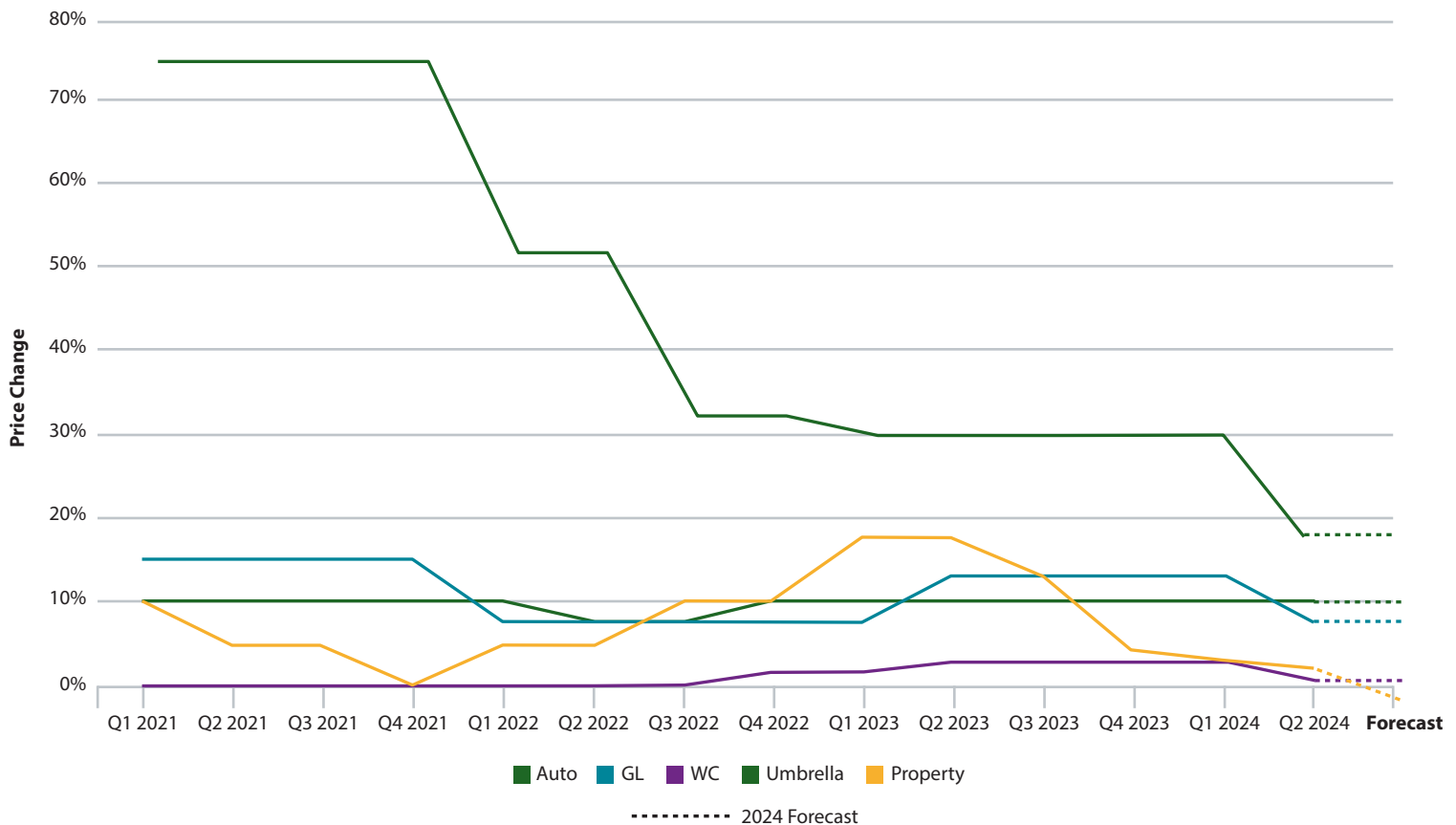
There was one new R&W insurer that opened in early 2024, and it would not surprise us to see a similar trend for the second half of 2024. While not close to the peak pace of Q4 2022, there remains a considerable market for those looking to establish a new line of insurance for their portfolio.

R&W Insurance

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|---|--|--|---|
|  Pricing |  0% | <p>The R&W insurance market remained soft in H1 2024. While pricing varied from market to market, overall pricing for a customary policy remained flat to H2 2023. Rates remain as low as they have been in several years.</p> |  0% | <p>Pricing over the next 12 months will depend on the health and level of activity of the broader economy and mergers and acquisitions market. We expect premiums to remain somewhat flat through 2024.</p> |
|  Limits |  | <p>Insurance carriers have been more cautious on the primary limit offerings, and there has been no significant change to the limits being offered by most carriers. Most primary R&W carriers can offer a \$30M limit policy for any particular transaction.</p> |  | <p>We do not have reason to believe that carrier limit profiles will change.</p> |
|  Retentions |  | <p>Initial retentions on R&W policies have remained soft in 2024. We are seeing ones as low as .4% on larger ones (over \$200M in enterprise value). Smaller transactions are seeing moderation as well, with .5% seen on one under \$100M in enterprise value.</p> |  | <p>We do not have reason to believe that policy retentions will change materially. Policy retentions have remained stable on R&W insurance in recent years.</p> |
|  Coverage |  | <p>As a general matter, breadth of coverage has been stable so far in 2024. One coverage area that came into focus in 2023 and remains in focus in 2024 is the specific "fraud" remedy language in the policy. Many insurers are not willing to negotiate on this point, and it has become a factor in deciding who to use as the insurer on a particular transaction.</p> |  | <p>We do not have reason to believe that policy coverage will change materially over the next 12 months.</p> |
|  Carrier |  | <p>The Sands Point facility was up and running in early 2024. Sands Point opened in Q1 2024. As of Q1 2024, there are now 28 domestic carriers.</p> |  | <p>Volante opened in 2023 and Sands Point opened in 2024. We find it likely that there could be additional entrants during the remainder of 2024.</p> |
|  Claims |  | <p>Over the past several years, R&W insurance claim severity and frequency has increased steadily. Some markets report a slight increase in claim frequency, while others report that frequency has not changed materially. However, severity has continued to increase for most insurers.</p> |  | <p>We do not have reason to believe that claims volume or severity will change significantly over the next several months.</p> |

Real Estate

Auto Liability, General Liability, Workers' Compensation, Umbrella Liability, Property



Casualty – H1 2024 Summary

H1 2024 market conditions continued in a relatively consistent direction, with all casualty lines other than workers' compensation still generally taking at least minor increases. General liability rates have stabilized at nearly flat to single-digit rate increases for favorable accounts, with consistent coverage terms and conditions. Auto continues to take regular rate increases (7% to 10%) as has been the case for the last 8 to 10 years. The umbrella/excess market remains the most challenging casualty line, with regular increases of 10% to 15% for even well-performing accounts, which continues to significantly dampen an otherwise relatively positive renewal outcome.

Underwriters continue to draw firm and usually nonnegotiable boundaries about what type of risks will be considered and parameters to which quotes will be offered.

Advantageous criteria in the marketplace:

- Office occupancy, followed by retail and industrial.
- No alternative use or outside door (motel) exposures for hospitality.
- Mixed portfolios – determinate of how much (if any) habitational exposure is included.
- Limited or no locations in problematic jurisdictions such as New York, Georgia, Florida or Texas.
- Favorable loss history.
- Newer construction (1990s or newer).
- Solid relationship and renewal intentions from incumbent insurers.
- Credible and engaged management:
 - Strong third-party contracts favoring insured and backed up with certificates of insurance.

- Consistent and demonstrable capital improvements and resolution of any risk management concerns.
- Proactive engagement on claims and sound safety/maintenance practices.

Critical or no-go criteria for admitted marketplace:

- Heavy or 100% habitational – very few to no admitted markets are writing new habitational accounts of any size. An incumbent insurer offering reasonable renewal terms is nearly always the most competitive option for an insured. Nonrenewals by admitted markets usually result in nonadmitted-only solutions.
- New York City exposure, even non-habitational occupancies, due to labor law and sidewalk liability claims. Georgia is also becoming very problematic:
 - Punitive gang act/laws assign liability to building owners for injuries in high crime areas.
 - Commonly used precedent to award treble damages and express track to a jury determination.
- Florida follows behind the above two states for difficult jurisdictional environment.
- Hotels being utilized to serve nontraditional populations such as homeless or newly arrived immigrants.
- Adverse loss history, particularly crime-related, such as assault/battery, weapons, etc.
- Significant percentage of subsidized or student housing.
- Use of armed security.

Keen underwriting continues, especially for risks falling somewhere in between the most advantageous and automatic declinations, as underwriters seek only very well-qualified new business. Heavy workloads result in underwriters struggling to evaluate risks under tight deadlines. Providing the most thorough and well-organized information up front is critical:

- Timely, thorough and quality submission, including supplemental applications, are especially critical to allow enough time for loss-control visits if needed.
- Executed third-party contracts demonstrating strong indemnification obligations and insurance requirements in favor of building owner/property manager.
- Loss summaries with details on larger and/or open claims as heavy scrutiny of loss history continues.
- Use of analytics to understand risk retention versus premium trade-offs up front.
- Clear and realistic guidance on pricing/coverage goals.
- In-person underwriting meetings where appropriate and/or useful if client has a compelling or unusual presentation or circumstances.

The nonadmitted market continues to perform erratically:

- Last-minute nonrenewals or refusal to write certain portions of a risk still occur, leading to urgent scrambles for less-than-favorable solutions.
- Difficult risks may find only one or two renewal options, usually with several adverse exclusions.
- Obtaining primary quotes and building entire excess tower is now nearly always within days of expiration or even post-expiration with backdating required.

Exclusions continue to be the preferred method of dealing with the potential of any catastrophic loss potential or uncontrolled exposure, generally without much negotiation. The more information that can be provided about an insured's internal training, policies and protocol around high-profile risk areas such as abuse/molestation, human trafficking and more, the more leverage for potential softening or removal of certain exclusions.

Adverse coverage restrictions, depending on occupancy and/or risk profile:

- Assault/battery
- Cannabis or controlled substances
- Habitability
- Animals/pets
- Firearms/weapons
- Sexual molestation/misconduct
- Human trafficking
- Discrimination
- Contractor-related, particularly New York
- Sidewalk liability (New York)
- Vermin

Umbrella/Excess Liability: Umbrella/lead excess placements in H1 2024 continued to be challenging as the traditional working layer of primary auto and general liability has now expanded to \$2M – \$3M, due to social inflation and claims severity/frequency.

- The layer immediately excess the primary liability continues to be the most critical and volatile:
 - For insureds in the admitted market, supported lead umbrella offerings remain by far the most competitive and a critical advantage. Admitted unsupported lead umbrellas are offered by only a few insurers, all of which require a minimum attachment of \$2M/\$4M, adding to the overall cost.

- Close tracking with primary rate increases. There is little competitive leverage in the first excess position.
- Very few insurers are offering as much as \$15M in lead capacity. A \$5M – \$10M lead umbrella is now the norm in the admitted marketplace.
- Home office review for difficult risks is more prevalent, with last-minute repositioning or withdrawal of support.
- Nonrenewed lead umbrellas present a problematic situation for all insureds due to scarcity of stand-alone lead umbrella markets. Nonrenewed habitational-dominated risks very often must use three insurers to achieve the first \$10M of excess coverage at very steep and opportunistic pricing, often with adverse exclusions.
- The \$15Mx\$10M layer continues to draw competitive attention in most occupancies other than habitational.
- High excess capacity remains abundant, although not consistent, until the \$25M attachment point.

Workers' Compensation: There is a general sense that rates are not as pliable as in the past. However, the market overall has remained stable and, in some cases, offered reduced pricing, especially for well-performing accounts that can provide added premium to round out other casualty lines.

Automobile: Liability rates continued to increase year over year, although generally no more than 10% to 15%. As well, physical damage premiums and deductibles continue to increase due to escalating costs of car repair/replacement. Insureds in real estate tend to own a few private passenger vehicles and/or light trucks used locally for general maintenance, and well-performing accounts do not constitute a large portion of overall premium spend. Hospitality shuttle van exposure continues to be carefully underwritten, due to the catastrophic potential of multiple passengers.

Property – H1 2024 Summary

As forecast, property rate increases have continued to temper throughout H1 2024, particularly for those accounts deemed desirable from an occupancy and/or loss profitability perspective. The clear market outlier is Florida where rates, capacity, pricing and deductibles remain heavily scrutinized and, in some cases, prohibitive despite a benign 2023 North Atlantic windstorm season. Geographical areas exposed to severe convective storm (SCS), such as Tornado Alley/Valley, also continue to experience a challenging marketplace, albeit to a slightly lesser extent than Florida.

Based upon more favorable and predictive market conditions, we saw the below high-level rate variables with renewal and new business placement:

- -5% to +5% rate change for desirable accounts/occupancies (including those with natural-catastrophe (nat-cat) exposure, excluding Florida)
- Flat to +5% rate change for historically loss-challenged or less desirable occupancies
- +10%+ rate change for Florida-only accounts and/or those accounts with significant nat-cat Florida exposure and/or those accounts recently loss-challenged

The above rate trends have been buoyed through greater accessibility and competition amongst incumbent/new carriers offering additional and/or new capacity at modest pricing. London continues to be aggressive with deploying significant and competitively priced capacity (both non-nat-cat/nat-cat), often resulting in expansion/replacement of incumbents at renewal. However, geographical areas exposed to Florida windstorm, SCS and wildfire continue to be distressed.

Due to corrective measures taken over recent renewal cycles, deductibles/retentions typically remain unchanged, although carriers continue to push upwards those deemed “market abnormal” (e.g., \$10,000 all other perils). Pressure continues on percentage deductibles or higher flat deductibles for SCS and/or wildfire-exposed accounts as well as water damage deductibles (this is often more driven from an industry attritional/frequency loss perspective rather than specific individual account).

Across the board, the majority of renewals experienced either no change or minimal adjustments to coverage terms and conditions. However, some carriers looked to cut back or exclude coverage related to strikes, riots and civil commotion. This was mostly due to domestic unrest related to the October 7, 2023, attack by Hamas and subsequent Israel-Hamas war.

Valuations continue to be analyzed by carriers. Reporting flat values used for the expiring policy period at renewal will almost certainly raise a red flag to underwriters, often resulting in value-reported limitations, margin or occurrence limit clauses if not already in effect. Insured's need to understand that such subjectivities could result in noncompliance of applicable lender insurance compliance. Despite seemingly more favorable market conditions continuing, insureds should be prepared to explain their values and the methodology used to calculate the values across criteria (buildings/contents/business income or rental income).

Casualty – H2 2024 Outlook

Significant positive changes in the market are not anticipated for H2 at this point:

- Stability for well-performing, favored real estate classes of business is anticipated to continue, with mild rate increases and consistent terms/conditions.
- Nonrenewals will continue from regional insurers as legacy losses develop and impact these incumbent insurers that otherwise would have stayed on the risk historically.
- The latest trend of insurers carving out problematic jurisdictions or exposures from master programs at renewal will continue, particularly for New York and Georgia locations. Stand-alone placements with less favorable premium, higher deductibles and more adverse exclusions will follow.
- Specialized programs or risk purchasing groups are still writing new business, but appetite remains exceedingly narrow, demanding and particular in terms of acceptable risk profile and increased number of insurer-specific applications and required data.
- While favorable occupancy/well-performing insureds can anticipate at least reasonably predictable renewals, other complex, habitational or budget hospitality real estate risks will remain in jeopardy of +15% rate increases or nonrenewals of primary or lead umbrellas.
- Labor shortages compounded with greater-than-normal marketing activity will continue. Underwriters and staff now routinely handle accounts strictly on a calendar time frame with little ability to provide quotes well in advance of expiration. Renewal pricing is often released no more than two weeks or less before the expiration date, often without optionality due to lack of time. Post-binding activities (making last-minute changes, obtaining binders, invoices, etc.) are taking 7 to 10 days to complete, creating further backlog and frustration.

Setting clear and uncompromising expectations for clients, well ahead of the renewal, is imperative as the market conditions (especially for habitational risks) continue to shift. For insureds with incumbents willing to offer terms, the renewal process will continue to be relatively smooth. However, it unfortunately does not seem as though customary or reliable rate reductions or significant broadening of coverages will be the norm in the next six to nine months.

Property – H2 2024 Outlook

With rates moderating over the past two quarters, we expect this trend will continue through Q3 and potentially beyond with flat or better rate results at renewal predicted for accounts with desirable occupancy, favorable loss history and for those with predominate nat-cat exposure (excluding Florida).

- -10% to flat rate change for desirable accounts/occupancies (including those with nat-cat exposure, excluding Florida)
- Flat to +5% rate change for historically loss-challenged or less desirable occupancies
- +10%+ rate change for Florida-only accounts and/or those accounts with significant nat-cat Florida exposure and/or those accounts recently loss-challenged

With more accessible capacity available, we're expecting opportunistic carriers may seek to deliver rate decreases to stay on programs as incumbents. This is particularly evident in the California earthquake market, with more options from the wholesale markets and retail carriers.


Accounts with heavily exposed nat-cat risks may see aggressive competition from carriers, potentially replacing opportunistic incumbent capacity.

The London market has witnessed a stabilization in rate, with low single-digit rate decreases on shared and layered programs and flat to small rate increase on the more quota share vertical placements. Nat-cat capacity is increasing with underwriters willing to deploy more capacity at pricing deemed to be favorable to insureds.

While core inflation has moderated over the recent period and eased impacts on valuations, insureds should still scrutinize values as a means of potentially attracting more favorable rates and decreasing any incidence of margin clause and coinsurance subjectivities by carriers. Reporting the same values from the previous renewal will almost certainly continue to raise a red flag to underwriters, particularly with incumbents.

We're expecting moderate pressure to remain on nat-cat deductibles.









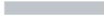
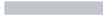

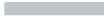
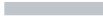

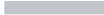

Auto

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|--|---|---|---|
|  Pricing |  5% to 15% | Other than hospitality accounts, which often utilize shuttle vans for guest transportation, most real estate owner/operator auto fleets are small, consisting of private passenger vehicles and light trucks used for local maintenance purposes. Renewal rates have stabilized between 5% to 15% for well-performing accounts. |  5% to 15% | Moderate rate increases will continue over the next 12 months. Hotel shuttle van exposures will be carefully underwritten, particularly regarding staffing and experience of drivers, due to the significant risk for potentially catastrophic claims. Shuttle routes providing 24/7 service and/or that transport guests to nearby attractions other than the airport are also subject to in-depth underwriting. |
|  Limits |  | The combined single limit of \$1M remains standard for automobile liability. Umbrella markets requiring an attachment point of \$2M/\$4M/\$4M may be problematic for some auto liability carriers and necessitate the placement of a buffer layer for umbrella/excess liability placement. |  | Trend of requiring \$2M/\$4M/\$4M attachment points from the umbrella market is still not widespread, although a useful tool in providing ventilation for otherwise interested carriers. Significant fleet exposure will limit the number of carriers willing to provide lead umbrella or low excess layers. |
|  Retentions |  | Physical damage deductibles and premiums continue to steadily increase as the cost of repair/replacing automobiles continues to rise. Some insurance carriers routinely are quoting with \$5,000 deductibles. Retentions for automobile liability are not common for real estate clients due to light fleet exposure and limited vehicle usage. |  | No widespread change expected in the next 12 months. |
|  Coverage |  | Automobile coverages are largely statutorily driven, but there are extensive broadening endorsements available which vary from carrier to carrier. Since most serious claims arise from third-party bodily injury scenarios, coverage enhancement endorsements are not generally difficult to obtain. |  | Availability of reasonably broad automobile liability and physical damage coverages are anticipated to continue over the next 12 months. |
|  Carrier |  | Insurers are still offering automobile coverage in conjunction with other casualty lines without issue. Monoline automobile coverage, especially for clients with adverse loss experience, is difficult as stand-alone markets for these risks are severely restricted. Small regional carriers may still provide options through nonadmitted markets and/or traditional direct writers such as Progressive and State Farm. |  | Monoline auto markets will continue to be scarce due to the lack of additional casualty premium needed to balance the potential for severe losses. |
|  Claims |  | The automobile liability claims continue to present very significant exposure to carriers, as severe claims can result from a single occurrence, both from owned and nonowned auto exposure. Distracted and/or stressed driving continue to contribute considerably to accidents, and hospitality risks with guest shuttle vans carry the risk of multiple passenger injuries. |  | Flat to reduced rates are not anticipated in the foreseeable future, given the inherent danger and potential for severe losses that driving presents overall across industries. |

General Liability

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|--|---|---|--|
|  Pricing |  0% to 15% | <p>Insureds with well-performing office/retail/industrial portfolios are renewing with 0% to 10% increases. Hospitality accounts with favorable loss history are also experiencing stable rates, depending on the class of hotel. Well-performing habitational accounts are taking higher percentage increases, up to 15%, with poorly performing risks continuing to experience 30%+ increases. Nonrenewed habitational accounts are subject to significant increases of 30% to 50% and higher due to lack of admitted markets.</p> |  0% to 15% | <p>Well-performing non-habitational/hospitality accounts should have reasonably stable renewals due to market competition for this sector. Incumbents still retain considerable advantage and occasionally will seek to negotiate a renewal well in advance to keep the risk out of market. More difficult risks such as alternative-use hospitality and nonrenewed habitational accounts will continue to struggle to find feasible market options.</p> |
|  Limits |  | <p>\$1M/\$2M/\$2M remained the standard limit offering. Per-location aggregate limits have stabilized, usually with policy caps. Sublimiting assault/battery and/or sexual abuse/molestation (as opposed to remaining silent) or including defense within the limits has become more common, particularly for habitational/hospitality risks.</p> |  | <p>Umbrella carriers requiring a \$2M/\$4M/\$4M attachment are the norm only for admitted insurers writing unsupported lead umbrellas. Nonadmitted excess liability insurers still are not providing attractive credits for attaching at a \$2M/\$4M/\$4M general liability limit — instead simply providing very short layers excess in the traditional \$1M/\$2M/\$2M.</p> |
|  Retentions |  | <p>Significant casualty retentions for real estate are still utilized mainly by larger accounts with the financial ability and risk management wherewithal to manage risk or cases of poor loss performance. Higher retentions regardless of loss experience are being deployed for habitational risks and/or alternative use in hospitality.</p> |  | <p>Retentions are expected to remain heavily dependent on class of business and/or loss history although, in general, first-dollar coverage options continue to diminish as insurance carriers struggle to stabilize healthy profitability margins. Small retentions of \$10,000 to \$15,000 are becoming more common tools to engage insured participation in managing risk.</p> |
|  Coverage |  | <p>Adverse exclusions (communicable disease, abuse/molestation, assault/battery, New York labor law, human trafficking, habitability, etc.) remain widespread, particularly for habitational and hospitality risks. Negotiation to remove certain exclusions is possible only in highly competitive situations and/or for an increase in premium. Removal of geographically driven exclusions in some classes of business (e.g., New York City) are nearly impossible to achieve.</p> |  | <p>Reducing coverage via exclusions, driven primarily by class of business, crime score or specific loss profiles, is expected to be a continuing trend with little negotiating ability, particularly for those real estate occupancy classes that continue to suffer such type losses, mainly habitational and/or hospitality.</p> |
|  Carrier |  | <p>Carriers have not significantly changed appetite, seeking new business opportunities mainly in favorable office/retail/mixed-use occupancies. Best-in-class hospitality operations are also of interest for many carriers, but Class B establishments are not favored. Neither are any hotels with alternative use. Carriers for habitational risks continue to constrict, especially for the larger middle market size portfolios and older garden-style/frame construction. At this point, nonrenewed habitational accounts are nearly universally finding replacement coverage only in the nonadmitted marketplace.</p> |  | <p>While there has been some new carrier capacity entering the market, these tend to be very specific in appetite. Overall, primary market options have not significantly expanded and are not anticipated to do so soon, especially for the more difficult occupancies.</p> |
|  Claims |  | <p>General liability claims and carrier-combined ratios are continuing to be driven by adverse litigation trends exacerbated by long-term inadequate pricing. Concern over potential high payouts for violent crimes or catastrophic “deep-pockets” losses for which the insured is tapped to participate continue to drive underwriting focus.</p> |  | <p>While carriers continue to deploy capital for well-performing, favorable classes of real estate business, generating limited competition for some insureds, claim frequency and severity of settlements continue to increase, dampening robust recovery overall.</p> |

Workers' Compensation

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|--|--|---|--|
|  Pricing |  -5% to 5% | <p>The workers' compensation market has remained stable over the past few years, subject to state of operation, industry and loss experience. There have been signs of slight market cooling recently, but not to the point of establishing a trend just yet.</p> |  -5% to 5% | <p>Rates should continue to be relatively stable, although with mild increases due to uptick in claims driven by labor shortages, particularly in the hospitality sector. Continuing inadequate staffing with less-skilled employees will lead, over time, to increased workers' compensation losses and premiums.</p> |
|  Limits |  | <p>Workers' compensation limits are statutory, so not defined by the broker or carrier. The standard limit of \$1M for the employer's liability component of coverage has remained available without issue.</p> |  | <p>No changes foreseen.</p> |
|  Retentions |  | <p>Guaranteed-cost workers' compensation policies remain common in the real estate sector and widely accessible. Larger and more sophisticated clients with the interest and ability to control claims costs by utilizing strong risk management practices continue to pursue large retention programs. Hybrid or structured programs (Sompo, Strategic Comp) are also attractive options that provide certainty in ultimate cost while providing potential for return premium during well-performing years.</p> |  | <p>No changes foreseen.</p> |
|  Coverage |  | <p>Workers' compensation coverages are standard regardless of carrier, with few broadening endorsements (e.g., blanket waiver of subrogation and voluntary compensation). Coverages for workplace-related injuries and loss of income are set by state statute, and exclusions are common across the marketplace. There have been no significant coverage changes or trends developing over the last 12 months.</p> |  | <p>No changes foreseen.</p> |
|  Carrier |  | <p>Insurer interest in workers' compensation remains strong, with some carriers looking to lead with sizeable workers' compensation exposures/premiums in the real estate sector to bolster the often more-challenging general liability performance.</p> |  | <p>Workers' compensation remains largely a profitable line of business, and we anticipate continued strong carrier support for the foreseeable future despite a potential increase in claims activity over the next 12 months.</p> |
|  Claims |  | <p>Retail and business/leisure travel have long recovered and/or continue to increase post-pandemic, with claims activity by now approaching prior normal claims levels for these occupancies. Increased claims may result from labor shortages and lack of training in many service-related occupancies.</p> |  | <p>Labor shortages of experienced hospitality workers may contribute to an increase in claims. Lingering questions around working remotely and safe return to work will continue, creating potential for increased claims activity.</p> |

Umbrella Liability

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|--|---|--|---|---|
|  Pricing |  10% to 25% | <p>For incumbent markets willing to renew, lead umbrella placements have settled into relatively stable pricing, with normal increases of 5% to 15%. Commercial risks (retail, office and light industrial) have the lowest increases and most stability. Nonrenewed lead umbrella placements (unsupported habitational and/or poorly performing risks) lead to severe pricing correction. Flat lead umbrella pricing is not yet occurring; the best renewal result might be a 5% to 7% rate increase. Carriers often disregard underlying pricing as a benchmark of what its own capacity should cost and price accordingly. For stable renewals, 10% increases are the norm; for nonrenewed accounts, 40%+ is typical.</p> |  10% to 25%+ | <p>Competition for lead umbrella options of all classes will remain limited as this layer is perceived as a working layer and underwritten conservatively. Insurer options for habitational risks are anticipated to remain extremely limited, with corresponding opportunistically high premiums. Increasing competition excess of \$10M or \$15M will contribute to continuing competition and to providing some pricing relief in upper excess layers.</p> |
|  Limits |  | <p>Primary carriers that also provide lead umbrella coverage hold considerable advantage in the marketplace. \$10M lead umbrellas are most common in the admitted space for favorable occupancies. Habitational and poorly performing risks are experiencing splintering of once-intact lead \$10M umbrella layers into two or three carriers, which drives up the cost of the overall excess tower considerably. Insurers are still reducing total capacity offered, with \$25M layers offered only for the most favorable of insureds and usually only at a \$25M attachment point. Purchasing additional limits is still price prohibitive.</p> |  | <p>We expect current trends to continue for the next 12 months, with increased capacity and competition occurring in the higher excess layers (excess of \$15M).</p> |
|  Retentions |  | <p>Minimal standard retentions still apply. Carrier pricing not impacted heavily with primary retention increases.</p> |  | <p>We expect current trends to continue for the next 12 months.</p> |
|  Coverage |  | <p>Most adverse exclusions are being driven by occupancy, insured-specific loss history, crime scores, etc. Assault/ battery and sexual abuse/ molestation exclusions are widespread for habitational risks, and we are seeing more exclusions for firearms, discrimination, animals and habitability. Human trafficking remains a significant concern for hospitality risks, but the exclusion can be negotiated with evidence of robust training and prevention programs.</p> |  | <p>Coverage restrictions will persist throughout the next year. Formal safety and risk management plans around assault, sexual abuse and human trafficking are key in negotiating exclusion removal. Account-specific claims, including violence and bodily injury, will drive introduction of new exclusions.</p> |
|  Carrier |  | <p>Lead umbrella limits for new business opportunities are deployed very cautiously, and usually only in conjunction with primary placements. Supported lead umbrella placements are nearly universally more competitive than unsupported carrier pricing. Risk purchasing groups continue to be exceedingly selective with renewals and new business; however, they continue to offer very competitive options when interested in an account. Reliance on crime scores as an underwriting tool and guideline is becoming frequent. Insurers offering unsupported lead umbrellas require underlying general liability limits of \$2M/\$4M/\$2M and underlying automobile limits of \$2M combined single limit.</p> |  | <p>Carrier appetites are reactive to loss trends. With no sign of slowing claim frequency and severity, we expect the current course to persist through the year. In areas where appetite is static, we anticipate capacity to fluctuate.</p> |
|  Claims |  | <p>Three major claim trends continue to contribute to current market pressures:</p> <ol style="list-style-type: none"> 1) Social inflation drives rising claim payouts, loss ratios and insurance costs. 2) Significant increase in claim severity, settlement awards and nuclear verdicts. 3) Litigation financing. |  | <p>Claim trends will continue through the next 12 months, especially with the use of litigation financing.</p> |

Property

| METRICS | H1 2024 YOY CHANGE | H1 2024 COMMENTARY | 12 MONTH FORECAST | 12 MONTH FORECAST COMMENTARY |
|---|--|--|--|--|
|  Pricing |  -5% to 5% | <p>Based upon more favorable and predictive market conditions, property rate increases continued to moderate throughout H1 2024.</p> <ul style="list-style-type: none"> -5% to +5% rate change for desirable accounts/occupancies including those with nat-cat exposure, excluding Florida) Flat to +5% rate change for historically loss-challenged or less desirable occupancies +10% rate change for Florida-only accounts and/or those accounts with significant nat-cat Florida exposure and/or those accounts recently loss-challenged <p>Renewal rates for sabotage and terrorism are still increasing, but at a slightly lower rate. Insureds typically saw increases from +5% to +15% at renewal, subject to location, occupancy and loss activity. More readily available capacity for California earthquake also helped to stem steep price hikes.</p> |  -10% to Flat | <p>With rates moderating over the past two quarters, we expect this trend will continue through Q3 and potentially beyond with flat or better rate results at renewal predicted for accounts with desirable occupancy, favorable loss history and those with predominate nat-cat exposure (excluding Florida):</p> <ul style="list-style-type: none"> -10% to flat rate change for desirable accounts/occupancies (including those with nat-cat exposure, excluding Florida) Flat to +5% rate change for historically loss-challenged or less desirable occupancies +10% rate change for Florida-only accounts and/or those accounts with significant nat-cat Florida exposure and/or those accounts recently loss-challenged <p>Insureds should continue to expect +5% to +15% for sabotage and terrorism, subject to location occupancy and loss activity. California earthquake should expect continuing moderation of pricing, helped by more wholesale and retail options.</p> |
|  Limits |  | <p>More favorable pricing allowed some insureds to use savings/concessions to help fund increasing loss limits that were reduced in previous renewal cycles as a cost-cutting/cost-saving measure to offset excessive rate increases.</p> <p>Insureds with locations situated in geographical areas exposed to Florida windstorm, SCS and/or wildfire continued to see challenges with incumbent/new capacity offerings needed to maintain expiring coverage.</p> |  | <p>Insureds should continue to evaluate limits to ensure coverage adequacy. Contingent business interruption concerns over extended and vulnerable supply chains continue to be closely monitored by carriers.</p> <p>Distressed geographical areas exposed to Florida windstorm, SCS and/or wildfire will continue to be difficult.</p> |
|  Retentions |  | <p>Due to corrective measures taken over recent renewal cycles, deductibles/retentions typically remain unchanged, although carriers continue to push upwards those deemed "market abnormal" (e.g., \$10,000 all other perils). Pressure continues on percentage deductibles or higher flat deductibles for SCS and/or wildfire-exposed accounts and water damage deductibles (this is more driven from an industry attritional/frequency loss perspective rather than specific individual accounts).</p> |  | <p>We expect moderate pressure to remain on nat-cat deductibles.</p> |
|  Coverage |  | <p>Across the board, the majority of renewals have experienced either no change or minimal adjustments to coverage terms and conditions. However, some carriers looked to cut-back/exclude coverage related to strikes, riots and civil commotion. This was mostly due to domestic unrest related to the October 7, 2023, attack by Hamas and subsequent Israel-Hamas war.</p> |  | <p>We expect pressure to remain on excluding/cutting back certain business interruption coverage extensions and contingent business interruption.</p> |
|  Carrier |  | <p>Given current stabilization of market conditions, many carriers pivoted to become more competitive with capacity and pricing. Also noticed an increase in insureds using London capacity. Carriers continued to look to maintain quality risks and less challenging occupancies.</p> <p>Capacity for Florida windstorm, SCS and wildfire continued to be challenged.</p> <p>Capacity continued to be more readily available for the California earthquake market, which helped moderate pricing.</p> <p>Difference in conditions capacity became more available as select carriers offered expanded capacity and new carriers in the market were looking to deploy capacity. Select wholesalers continued to move into growth mode, which also supported capacity and helped ease pricing.</p> |  | <p>Accounts with heavily exposed nat-cat risks may see aggressive competition from carriers, thereby potentially replacing opportunistic incumbent capacity. This is particularly evident in the California earthquake market, with more options from the wholesale markets and retail carriers.</p> <p>London nat-cat capacity is increasing, with underwriters willing to deploy more capacity at pricing deemed favorable to insureds.</p> |
|  Claims |  | <p>Advocacy for carrier claims still faces ongoing challenges, largely due to rising loss estimates and reported losses stemming from prior events.</p> |  | <p>Anticipated to persist, this pattern underscores why underwriters are intensively focusing on specific accounts and occupancy classes with notable undervaluation or poor valuation.</p> |

Meet the Experts

Contacts



Contacts

Construction and Infrastructure

Adrian Pellen

*Managing Director
Construction Specialty Division*
Phone: 872.817.1533
Email: adrian.pellen@nfp.com

Chris Smith

*Senior Vice President
Wrap-ups*
Phone: 860.788.5490
Email: chris.t.smith@nfp.com

Energy and Marine

Vilma Vanegas

*Senior Vice President
Practice Leader*
Phone: 214.744.3220
Email: vilma.vanegas@nfp.com

James Debenport

*Vice President
Energy & Marine Practice*
Phone: 832.678.2656
Email: james.debenport@nfp.com

Cran Fraser

*Vice President
Energy*
Phone: 504.453.5566
Email: cran.fraser@nfp.com

Environmental

Chris Alviggi

*Senior Vice President
Environmental*
Phone: 212.301.1186
Email: chris.alviggi@nfp.com

Jared Dubrowsky

*Senior Vice President
Account Management*
Phone: 212.301.1178
Email: jared.dubrowsky@nfp.com

Financial Institutions

Lauren Kim

*Managing Director
Financial Institutions Group*
Phone: 224.649.5223
Email: lauren.kim@nfp.com

Patrick O'Neill

*Senior Vice President
Financial Institutions Group*
Phone: 516.327.2795
Email: patrick.oneill@nfp.com

Nima Seirafipour

*Senior Vice President
Financial Institutions Group*
Phone: 443.280.6550
Email: nima.seirafipour@nfp.com

Justin Corey

*Senior Vice President
Financial Institutions Group*
Phone: 480.874.4542
Email: justin.corey@nfp.com

Marc Tauber

*Senior Vice President
Financial Institutions Group*
Phone: 203.793.1333
Email: marc.tauber@nfp.com

Legal Practice

Casey Stalter

*Managing Director
Legal Practice*
Phone: 312.239.2806
Email: cstalter@thompsonflanagan.com

Life Sciences

Scott Foster

*Senior Vice President
Life Sciences*
Phone: 408.792.5453
Email: scott.foster@nfp.com

Contacts

Management, Cyber and Professional Liability

Matthew Schott

*Managing Director
Head of Management, Cyber & Professional Liability*
Phone: 856.287.1496
Email: matthew.schott@nfp.com

Kevin Smith

*Senior Vice President
Management & Professional Liability*
Phone: 201.314.0801
Email: kevin.m.smith@nfp.com

Courtney Mauge

*Senior Vice President
Cyber Leader*
Phone: 470.681.7596
Email: courtney.mauge@nfp.com

Jon Franznick

*Senior Vice President
Head of Claims Advocacy*
Phone: 212.301.1096
Email: jonathan.franznick@nfp.com

Moiré Morón

*Vice President
Management & Prof. Liability, Claims Advocacy*
Phone: 404.504.3819
Email: moire.moron@nfp.com

Chris Krako

*Vice President
Management & Prof. Liability, Claims Advocacy*
Phone: 516.327.2819
Email: chris.krako@nfp.com

Matthew Plotkin

*Assistant Vice President
Management & Prof. Liability, Claims Advocacy*
Phone: 516.327.2848
Email: matthew.plotkin@nfp.com

Private Equity

Brian Flanagan

*Managing Director
Head of Private Equity*
Phone: 312.239.2810
Email: bflanagan@thompsonflanagan.com

Andrew J. Pendergast

*Senior Vice President
SPAC & GPL Practice Leader*
Phone: 201.376.6763
Email: andrew.pendergast@nfp.com

Vipul Kumar

*Senior Vice President
Transactional Risk*
Phone: 510.501.5001
Email: vipul.kumar@nfp.com

Curtis Young

*Senior Vice President
Sales Operations*
Phone: 312.239.2891
Email: cyoung@thompsonflanagan.com

Real Estate

Josh Forbes

*Managing Director
Property Broker in Property & Casualty*
Phone: 212.786.5692
Email: josh.forbes@nfp.com

Linden Mackey

*Senior Vice President
Real Estate Casualty Leader*
Phone: 415.321.3644
Email: linden.mackey@nfp.com

The information contained herein is provided for informational purposes only, with the understanding that NFP is not rendering financial, legal, accounting or other professional advice on specific matters. The information is based on sources we believe reliable, but NFP makes no representation or warranty as to its current or future accuracy. NFP shall not be liable for any actions taken on such information and recommend that you consult your professional advisors with respect to your individual situation.



Copyright © 2024 NFP Corp. All rights reserved.

Insurance services provided by NFP Property & Casualty Services, Inc. (NFP P&C), a subsidiary of NFP Corp.
In California, NFP P&C does business as NFP Property & Casualty Insurance Services, Inc. (License # 0F15715).