Insurance Buyers' News

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How to Survive the Insurance "Hard Market"

Several extraordinary events have taken place in the past few years that will influence the role of insurance for many years to come.

Boston-based Risk Strategies Co. has identified these events in their latest "State of the Market Report" They are:

- The COVID-19 global pandemic, impacting businesses across every sector.
- The rise in frequency and severity of natural catastrophes, "challenging long-hold underwriting models, methodology, pricing and insurance capacity."
- Skyrocketing ransomware attacks, which have increased claims, driven sharp price increases, and reduced underwriting capacity across all lines of insurance.
- The growing influence of environmental, social and governance issues in consumer and shareholder class action suits, nuclear verdicts and supply chain problems.

As a result of these developments, according to the report, business insurance buyers can look forward to premium increases, hard markets and more stringent underwriting.

Premium increases and Hard Markets

Rates increased throughout 2021, most notably in cyber, property, excess liability, director & officers and auto insurance. Property rates increased 25 percent and more for businesses in catastrophic areas or with poor loss histories. The range of cyber insurance increases was 30-300 percent, averaging 50 percent or more.

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This Just In…

One of the newest loss prevention applications to emerge from the Internet of Things (IoT) is a hockey-puck sized sensor that detects leaky faucets and temperature changes.

It's one of the products invented by StreamLabs Water which specializes in IoT products for water monitoring, leak detection and water shut-off.

Providence College in Rhode Island recently installed 180 of StreamLabs' leak detectors and 20 of its temperature sensors. While students, faculty and others were home because of COVID-19, a washing machine supply line in a residence hall began leaking. The StreamLabs water detector detected the leak immediately so that maintenance could quickly pinpoint it and avert further damage.

"The potential damage could

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More Stringent Underwriting

"With the surge in frequency and severity of catastrophes, and other high risk market conditions, carriers have scrutinized the adequacy of premium levels and the level or risk they are willing to take." This has resulted in tighter underwriting and less willingness to write higher insurance limits. Some carriers have left the market entirely, adding further stress on pricing and reducing options even more.

Recommendations

The Report offers specific recommendations for several industries and types of exposures, though most recommendations apply broadly to all of them. Some areas specifically mentioned include:

Casualty

Firms should collaborate with their brokers and others to start the underwriting and renewal process early. Collaborating with a broker that understands your company's specific industry, and takes an analytical approach, will ensure that your business is matched with insurance companies that fit you best in terms of price, service and coverage.

Property

Replacement costs and values for buildings, machinery, equipment and personal property have been increasing rapidly lately. The average cost of completed buildings in the U.S. has gone up by approximately 15-19 percent from a year ago. Businesses should expect insurers to ask for updated information on these valuations. Work closely with your broker to provide information on:

- Type of construction and age of buildings
- Types and ages of roofs and reroofing
- Square footages and type of building operations
- Fire protection and other property loss prevention equipment
- Catastrophic exposures and modeling results for earthquake, flood, tornado, convective storms, storm surge, wildfire and terrorism.

This Just In

have been significant, maybe hundreds of thousands, depending on when we would have discovered it," said Andy Sullivan, assistant vice president for physical plant at Providence College. Sullivan noted how nearby elevator components and sensitive and expensive electrical computer networks panels could have been damaged.

Providence spent approximately $12,000 on the sensors and related equipment, or roughly $600 -$700 per dorm building. However, Providence was able to get premium credits from its insurer for installing the sensors.

StreamLabs Water was recently acquired by Chubb Insurance. "The evolution of insurance from a model of 'repair and replace' to 'predict and prevent' is changing the relationship between insurers and their customers," said Sean Ringsted, Executive Vice President, Chubb Group and Chief Digital Officer and Chief Risk Officer.

StreamLabs products are currently sold to consumers through plumbers, big box retailers, ecommerce sites and insurance agencies.

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Cyber

The state of the cyber insurance marketing is more consultative than ever before due to the unprecedented risks of the last several years. As a consequence, it's important to use analytical tools to assess deficiencies to prevent and/or reduce the cost and complexity of an incident.

Also, the underwriting process has become more protracted and comprehensive in recent years. Business should work in partnership with brokers and trusted vendor partners to improve risk management controls in advance of cyber renewals. This is essential for reducing risk and the cost of insurance.

Cyber and Professional Liability

As with cyber liability, professionals also need to emphasize quality assurance, and utilize quality control and risk management protocols. Prepare renewal information early and focus on appropriate insurance companies. Some of the basic controls insurance companies are looking for include:

- Multi-factor authentication
- Endpoint detection monitoring and response
- Secure and regular backups
- Security awareness training
- Password access management tool.

In General

In the coming years, all businesses should expect greater underwriting scrutiny, do their due diligence and be prepared to present insurers with more details and data than previously required. In many situations, it has become critical to begin the underwriting process earlier — at least 90 days in advance to market a risk. Please call us if you have questions about your upcoming renewals.

National Roadway Safety Strategy Announced

The National Roadway Safety Strategy (NRSS) is "a roadmap for addressing the national crisis in roadway fatalities and serious injuries."

We cannot tolerate the continuing crisis of roadway deaths in America. These deaths are preventable, and that's why we're launching the National Roadway Safety Strategy today — a bold, comprehensive plan, with significant new funding from President Biden's Bipartisan Infrastructure Law," said U.S. Transportation Secretary Pete Buttigieg. "We will work with every level of government and industry to deliver results, because every driver, passenger, and pedestrian should be certain that they're going to arrive at their destination safely, every time."

A few of the key actions in the NRSS include:

- Working with states and local road owners to build and maintain safer roadways through efforts, including updates to the Manual on Uniform Traffic Control Devices and developing a Complete Streets Initiative to provide technical assistance to communities of all sizes.
- Leveraging technology to improve the safety of motor vehicles on our roadways, including rulemaking on automatic emergency braking and pedestrian automatic emergency braking as well as updates to the New Car Assessment Program.
- Investing in road safety through funding in the Bipartisan Infrastructure Law, including a

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new $6 billion Safe Streets and Roads for All program and $4 billion in additional funding for the Highway Safety Improvement Program.

"Almost 95 percent of the nation's transportation deaths occur on its streets, roads, and highways," according to a news release from the U.S. Department of Transportation. (The report did not say where the other 5 percent occur.)

While the number of annual roadway fatalities has declined for many years, progress plateaued over the last decade and now alarmingly fatalities have risen during the pandemic, according to the news release.

Zero Fatalities Is the Goal

Its long-term goal, says the Department of Transportation's National Highway Safety Administration (NHSA) and its Federal Motor Carrier Safety Administration, is "zero roadway fatalities."

A few days after the NRSS was announced, the U.S. Department of Transportation projected that "an estimated 31,720 people died in motor vehicle traffic crashes from January through September 2021, an increase of approximately 12% from the 28,325 fatalities projected for the first nine months of 2020. The projection is the highest number of fatalities during the first nine months of any year since 2006 and the highest percentage increase during the first nine months in the Fatality Analysis Reporting System's history."

Referring to the situation as a "national crisis," Buttigieg said, "We cannot and must not accept these deaths as an inevitable part of everyday life … The good news is we now have a strategy, as well as the resources and programs to deliver it, thanks to the President's Bipartisan Infrastructure Law. The National Roadway Safety Strategy is America's first-ever national, comprehensive plan to significantly reduce deaths and injuries on our roads."

Critics Question Whether There's Really a "Crisis"

However, later in the report, the NHSAT data also reveals that while crashes increased 12%, the number of miles driven over the same period also increased 11.7%, making the difference in the fatality rate virtually unchanged. This, among other aspects of the NRSS, left critics of the administration scratching their heads about the purported "crisis."

"Calling traffic fatalities a 'crisis' suggests there's something unusual going on," pointed out Dominic Pinto of *National Review*. "The government has been tracking motor vehicle fatalities since 1899, and the number of traffic deaths peaked in 1972 at 54,589. It has been below 40,000 every year since 2008…. Instead of trying to reach an unattainable goal through repeated incantations ["zero fatalities"], it would be more useful to give an accurate picture of the progress that has already been made." Then "think about ways to make improvements," rather than fund grandiose schemes "so DOT bureaucrats can pursue an unattainable goal through increased rulemaking and oversight." ■

Why Do Insurers Need to Think Like Cybercriminals?

The short answer is, To protect insureds from cybersecurity risks.

Cybersecurity is no longer the emerging risk it was just a few years ago. Rather, it is a clear and present risk for organizations of all sizes, said panelists at the Insurance Information Institute's (Triple-I) Joint Industry Forum (JIF). This is in large part because cybercriminals are increasingly thinking and behaving like businesspeople.

"We've seen a large increase in ransomware attacks for the sensible economic reason that they are lucrative," said Milliman managing director Chris Beck. Cybercriminals also are becoming more sophisticated, adapting their techniques to anticipate every move made by insurers, insureds, and regulators to repel their attacks. "Because this is a lucrative area for cyber bad actors to be in, specialization is happening. The people behind these attacks are becoming better at their jobs."

The challenges facing insurers and their customers are increasing and becoming more complex and costly. Cyber insurance purchase rates reflect the growing awareness of this risk, with one global insurance broker noting that the number of its client who purchase this coverage has increased from 26 percent in 2016 to 47 percent in 2020.

Are Cyber Risks Still Insurable?

One panelist asked whether the rapid growth of cyber risks has made it practically uninsurable now. Panelist Paul Miskovich of the Pango Group pointed out that so

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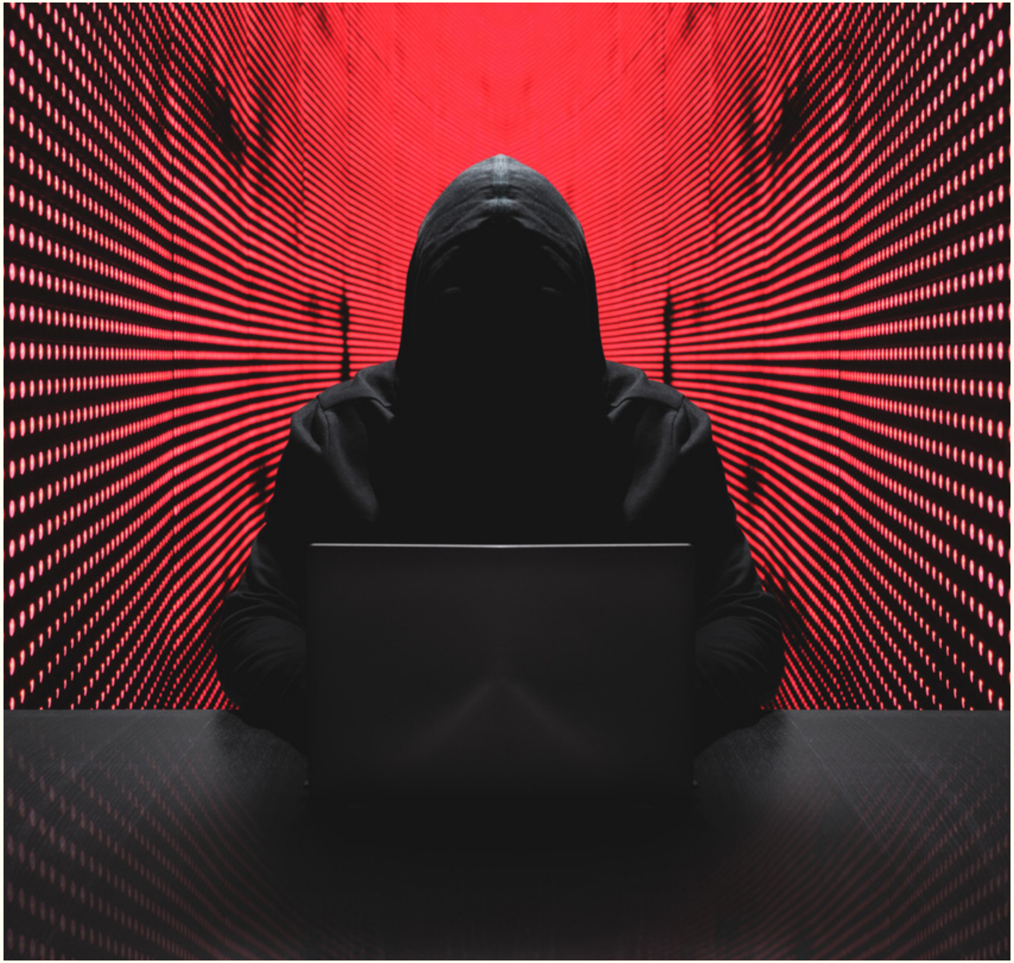

far, insurers have been able to managed the risk using greater underwriting controls, improved cybersecurity tools and better IT maintenance for employees. He also noted that cyber insurance has been profitable every year for most insurers.

Projections indicate that by 2026 insurers will be writing $28 million in gross written premium for cyber insurance, according to Miskovich. He said he believes all the pieces are in place for insurers to adapt to the challenges presented by cyber.

He also noted that part of the industry's evolution will rely on recruiting new talent.

"I think the first step is bringing more young people into the industry who are more facile with technology," he said. "Where insurance companies can't move fast enough, we need partnerships with managing general agents, with technology and data analytics, who are going to bring in data and new information."

"Reinsurers are in the game," said Catherine Mulligan, Aon's global head of cyber, stressing that reinsurers have been doing a lot of work to advance their understanding of cyber issues. "The attack vectors have largely remained unchanged over the last few years, and that's good news because underwriters can pay more attention to those particular exposures and can close that gap in cybersecurity."

Mulligan said reinsurers are committed to writing reinsurance for cyber risks and believe they are insurable. "Let's just keep refining our understanding of the risk," she said.

It's Time for Insurers to Think Like Criminals

When thinking about the future, Milliman's Beck stressed the importance of understanding the business-driven logic of the cybercriminals.

If, for example, "insurance contracts will not pay if the insured pays the ransom, the logic for the bad actor is, 'I need to come up with a ransom schema where I'm still making money'," but the insured can pay without using the insurance contract.

This could lead to a scenario in which the ransom demands become smaller, but the frequency of attacks increases. Under such circumstances, insurers might have to respond to demand for a new kind of product.

Seven Tips for Reducing Cyber Risk

1. Understand your cyber risks. Businesses are vulnerable to cyberattacks through hacking, phishing, malware, and other methods.

2. Train Staff. Those engaged in cyberattacks find a point of entry into a business' systems and network. A business' exposure can be reduced by having and enforcing a computer password policy for its employees.

3. Keep Software Updated. Businesses should routinely check and upgrade the major software they use.

4. Create back-up files and store off-site. A business' files should be backed up either as an external hard drive or on a separate cloud account. Taking these steps are vital to data recovery and the prevention of ransomware. Ransomware is when a cyberattack results in a situation where a business is asked to pay a fee to regain access to its own data.

5. Ensure systems have appropriate firewall and antivirus technology. A business should evaluate the security settings on its software, browser and email programs.

6. Establish a Data Breach Plan. A business should remind its employees to review periodically the data breach detection tools installed onto their computers. If a data breach occurs, employees must notify the business immediately to prevent further loss.

7. Protect your business with insurance coverage designed to address cyber risks. Cyber insurance coverage typically provides protection for costs associated with data breaches and ransomware.

Source: Insurance Information Institute.

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