Strength. Knowledge. Direction.®

2022 MID-YEAR MARKET UPDATE

MARKET INSIGHTS FROM KAPNICK INSURANCE

Kapnick

BUSINESS INSURANCE | RISK SOLUTIONS | EMPLOYEE BENEFITS | WORKSITE WELL-BEING | PERSONAL INSURANCE | GLOBAL SOLUTIONS

OVERALL TRENDS

The business insurance marketplace in 2022 continues to face challenges, though there is good news on the horizon—the rate of increases has slowed across almost all lines and we hope to see rates softening as we move into 2023. The cause of the hard market that businesses continue to face is multi-faceted, including:

- **A shortage of goods**
- **Inflation on the cost of goods and services**
- **Economic uncertainty**
- **Catastrophic events leading to increased frequency or severity of claims**
- **Global events such as the COVID-19 pandemic and the war in Ukraine**

Overall, we expect rates to continue to increase through the end of the year but at a lower percentage than what has been experienced over the previous 18 months. Capacity will slowly begin to increase in some coverage lines but remain challenging in the excess/umbrella liability space.

In employee benefits, a lack of skilled labor as well as the Great Reshuffling—also known as the Great Resignation, where employees are leaving their jobs in record numbers for other roles, have created difficulties for employers. Proactive organizations are evaluating their employee benefits offerings in order to attract and retain top talent. While salary, job security, and health benefits are essential components, some of the most valuable employee benefits include annual leave, a positive culture, and flexibility.

KAPNICK CAN HELP

In order to develop the best program for your unique risks—whether commercial, employee benefits, or both—it is more essential than ever to for leaders to work with an experienced broker with established relationships, such as Kapnick. We provide access to available capacity, a thorough understanding of the market, and expertise in preparing quality submissions.

In 2022 and beyond, we expect our carrier partners to continue to request more information regarding valuation, construction, exposures, and business continuity planning. We can help identifying the steps to ensure better placement, including:

- **COMPLETE RISK RECOMMENDATIONS**
- **HAVE RISK MITIGATION PROGRAMS IN PLACE**
- **PROVIDE UP-TO-DATE LOSS CONTROL REPORTS**
- **CLEAR AND CONCISE SUBMISSION FROM BROKERS WITH INFLUENCE**

In an era of uncertainty, one thing that is certain for organizations of all sizes for the rest of 2022 and beyond: employers who work to understand their risks and their employees' needs, and then prioritize proactive approaches to meeting challenges, will have a more engaged and effective workforce, and ultimately a more successful organization.

Kapnick SpecialtyRisk

SPECIALTY RISK

Market conditions for management liability coverage lines are generally challenging and in line with larger commercial risk trends. As always, much depends on the line of coverage plus an organization's industry and risk profile.

PUBLIC COMPANY D&O
Public Company D&O market conditions in Q2 2022 are improving but remain challenging. The post-COVID dramatic firming trend has recently dissipated and there are some positive signs of deceleration of increases. Market capacity has increased—mostly on an excess basis. Still, rates continue to rise with average year-over-year pricing now trending +15%. The vast majority of renewals are currently in the +8% to +35% range.

PRIVATE COMPANY D&O
Assuming our carrier partners are comfortable with the financial outlook of the organization, they are generally increasing rates based on actual changes in exposure such as financial size or condition, employee count, claims. Most renewals are now trending in the 7.5-15% increase range assuming a neutral risk profile.

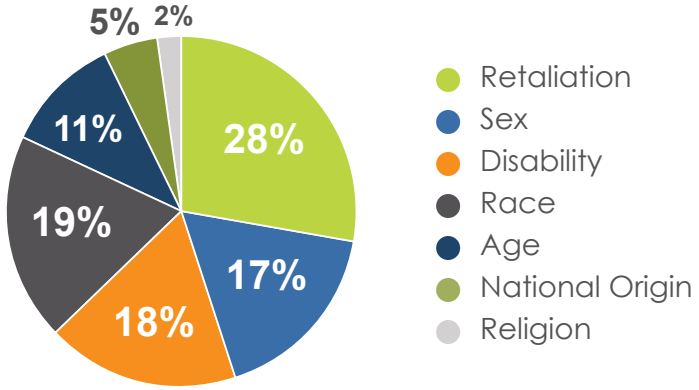
5 TO 15% RENEWAL RATES FOR EMPLOYMENT PRACTICES LIABILITY INCREASED IN Q2 2022

7.5-15% D&O PRIVATE RENEWAL INCREASE

D&O PUBLIC PRICING INCREASED **15%**

EMPLOYMENT PRACTICES LIABILITY
The Employment Practices marketplace remains challenging due to the increased the inventory of EPL litigation coming out of COVID and enhanced EEOC enforcement. Overall renewal rates for Q2 2022 are trending in the 5-15% increase range for a neutral risk profile. Average settlements were up in all categories in 2021. Increased governmental EEO enforcement activity coupled with increasing aggressiveness of the private plaintiff's bar during a tight labor market will likely exacerbate market conditions over the next twelve months.

PERCENTAGE OF FISCAL 2021 CHARGES BY TYPE



CRIME
Crime premiums in 2022 are trending in the 5-10% increase range and depend mostly on loss history and exposure changes (employee count and/or location count increases, financial growth). Capacity has remained unchanged for many years, however, some carriers are restricting limit deployment and increasing retentions specifically for social engineering/false pretenses coverage.

NETWORK SECURITY & PRIVACY LIABILITY (CYBER)
Current cyber market conditions remain challenging. Please see the Business Insurance spread on the next page to learn more about cyber trends and solutions.

BUSINESS INSURANCE

Product Line	Pricing	Capacity	Coverages	Rate Trends
PROPERTY				
Challenged Exposures	↑	↔	↓	10% - >10%
Non-Challenged Exposures	↔	↔	↓	FLAT - 10%
CASUALTY				
General Liability	↑	↔	↓	5% - 15%
Automobile Liability	↑	↓	↔	5% - 25%
Workers' Compensation	↔	↔	↔	FLAT - 5%
Umbrella Liability	↑	↓	↔	10% - <20%
MANAGEMENT & PROFESSIONAL				
Cyber	↑	↓	↓	20% - 200%

Arrow Key

What direction are pricing, capacity, limits, deductibles, and coverage moving?

Increasing ⇧
Stabilizing / No Change ⇔
Decreasing ⇩

Color Key

As a buyer, is that movement positive, neutral, or something that could present a challenge during my renewal?

Positive Change
Neutral / No Change
Potential Challenge

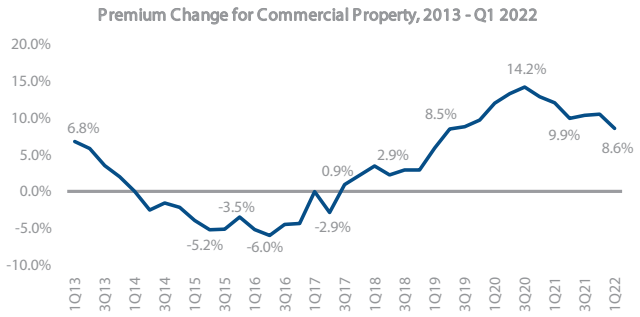
Commercial insurance premiums rose for the 18th straight quarter to start off 2022. However, the increases moderated compared to the final few months of 2021, increasing an average of 5.7% across the five major lines (i.e., commercial property, commercial auto, umbrella, general liability and workers' compensation)—down from 8.1% the prior quarter.

Across the board for all account sizes, the rate at which premiums increased was either the same or lower than in Q4 2021. Medium-sized accounts saw the largest average increase in premium pricing at 7.3%, compared to a 6.4% average for small accounts and 6.2% for large accounts.

COMMERCIAL INSURANCE PREMIUMS

PROPERTY

Premium prices for commercial property rose an average of 8.6%, the third highest of all lines after cyber and umbrella. Price hikes slowed from an average of 9.9% the prior quarter, with some organizations in desirable industry classes with lower exposures and good risk profiles seeing the occasional rate decrease thanks to an abundance of capacity. This capacity is being carefully managed, however, and organizations with significant loss history or secondary CAT exposures are experiencing much higher rate increases.



Source: THE COUNCIL Commercial Property/Casualty Market Index-Q1-2022

GENERAL LIABILITY

Capacity in general liability remains constrained for difficult risks, however with carriers focused on growth in 2022, we're hoping to see capacity open up. Increases on rates are primarily driven by loss severity and are in the 5-15% range on average.

AUTO

Auto rate increases are around 5-25% depending on exposures. This remains a difficult line of coverage for many clients and we're seeing continued rate pressure and limited capacity.

WORKERS' COMPENSATION

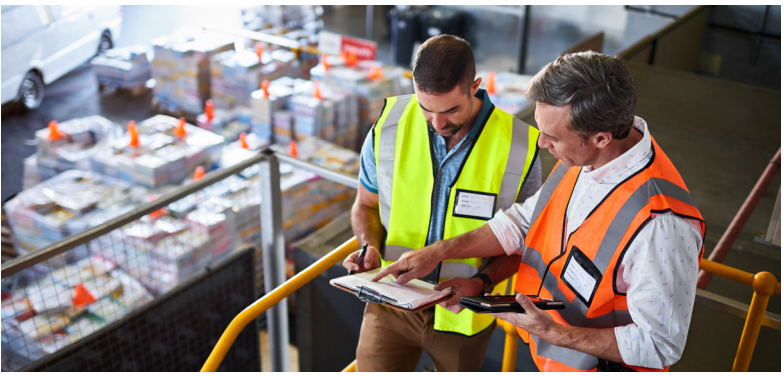
The workers' compensation sector of the commercial insurance industry is generally stable, with some concerns over severity on the rise. While the frequency of claims has declined, several factors contribute to increasing claim expenses, including:

- the changing workforce
- rising medical costs resulting from medical inflation, treatment innovations and hospital consolidations
- a steady rise in lost-time claims for most states

Despite concerns over claims' severity, workers' compensation showed a slight decrease of 0.5% on average.

EXCESS/UMBRELLA LIABILITY

In casualty coverages, the highest average increase in premiums came from excess and umbrella liability at 10.5%. Retentions have remained consistent, though attachment points continue to shift.

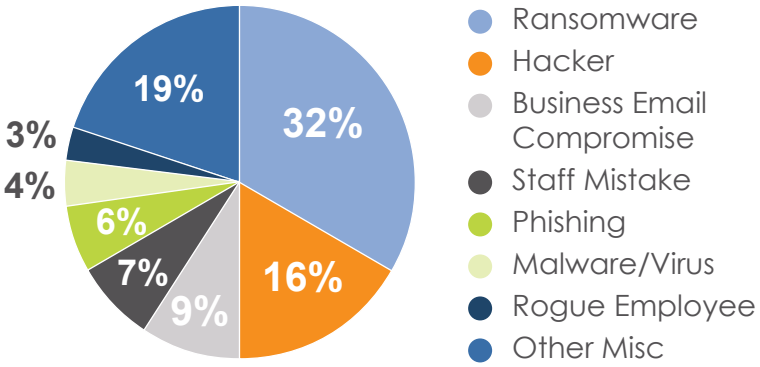


NETWORK SECURITY & PRIVACY LIABILITY (CYBER)

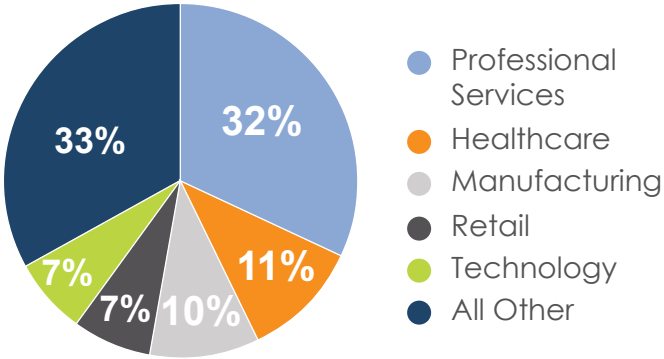
Current market conditions are very challenging in cyber lines of coverage. Although there is ample capacity ($3.5+ billion US market with over 150 insurers participating), pricing is generally increasing across the board at an accelerating pace. Due to low initial base pricing, Q1 2022 small and middle-market accounts are now easily experiencing 25% -125% increases or more, while larger organizations may see rate increases of 15% - 75%.

While cyber insurance is often grouped within general business insurance conversations, ensuring you have the right coverage for your exposures can be complicated. At Kapnick, we have specialty risk experts to ensure our clients have the right protection for their unique needs and goals.

CYBER CAUSES OF LOSS



INDUSTRY TARGET OF CYBER LOSS



Source: NetDiligence 2021 Cyber Claims Study (2015-2020)

EMPLOYEE BENEFITS

Today, over 75% of employers reported they consider attraction and retention a top-five business challenge for their organization, with over 80% expecting this problem to continue through 2022. In addition to being a pressing HR issue, the difficulty of finding and keeping workers is an obstacle with a wide-ranging impact on an organization's ability to succeed.

The U.S. Bureau of Labor Statistics shows that total employment continues to trend up. However, there were still 11.5 million open jobs as of the last business day of March 2022, exceeding the number of available workers by 5.6 million. In today's competitive labor environment, employers are worried about meeting workers' demands and losing employees to other organizations that may offer the employment opportunities they desire.

OVER **200%** more jobs than available workers

The graph below shows workers deeply care about benefits offerings; the COVID-19 pandemic highlighted the importance of benefits such as health care and resources such as telemedicine and mental health support. Other top desires of employees when seeking new opportunities, include workplaces with:

- career development opportunities
- strong cultures
- flexible work arrangements

Elements that can help with attracting and retaining employees include workplace well-being, voluntary benefit options, and diversity, equity, and inclusion goals.

WHEN SEARCHING FOR EMPLOYMENT, EMPLOYEES VALUE:

COMPETITIVE COMPENSATION: 83%

COMPETITIVE BENEFITS: 58%

FLEXIBLE SCHEDULES: 40%

CAREER DEVELOPMENT OPPORTUNITIES: 29%

STRONG COMPANY CULTURES: 24%

Source: ZYWAVE Attraction and Retention Benchmarking Overvview - 2022

Organizations identified the following main objectives of diversity, equity, and inclusion programs:

43%	20%	19%	10%	8%
ATTRACT AND RETAIN TALENT	ACHIEVE BUSINESS RESULTS	COMPLY WITH LEGAL REQUIREMENTS	ENHANCE EXTERNAL REPUTATION	RESPOND TO CUSTOMER EXPECTATIONS

Source:HR Toolkit, Diversity and Inclusion - 2022

DIVERSITY, EQUITY, & INCLUSION

Many employers that cultivate an inclusive work environment have noticed a positive impact on employee morale, productivity, and the company's bottom line. Diversity, equity, and inclusion initiatives and approaches taken by one employer may not be the right option for others, which is where targeted goal-setting and programs can help, such as those offered by Kapnick's DEI consultants.

72% of organizations state diversity and inclusion as a value or priority

33% of respondents feel their individual diversity is a barrier to progression

WELL-BEING

The most robust 2022 employee wellness offerings and programs are employee-centered, focusing on how to provide the most comprehensive, attainable, and affordable benefits. Some key trends we're seeing include a focus on financial wellness and mental health.

Expanded Financial Wellness Resources

Money is a top stressor for employees, and the pandemic has reinforced that fact. Since many organizations employ a multigenerational workforce, their employees often face unique financial stressors. To provide relief, some employers offer financial wellness programs that vary in complexity but can include virtual personal financial planning meetings, tuition reimbursement, and seminars.

Expanded Mental Health Resources

Employers who are invested in their employees' mental health often yield healthy employees who take fewer days off, contribute to positive workplace culture and are more productive. Employers who provide diverse health care resources that deliver behavioral, emotional, and social services are in a great position to improve their workforce's overall well-being.

VOLUNTARY BENEFITS

Dental and vision care continue to be standard voluntary benefits. However, as the pandemic continues to impact workplaces and personal lives, nontraditional offerings like critical illness, hospital indemnity, pet insurance, identity theft, and group legal are becoming more popular. One of the best perks of voluntary benefits is that employees can opt for the coverage that matters most to them. While more employees are looking to protect their health, safety, and finances—but might need some help or guidance to get started on their goals.

HOW KAPNICK CAN HELP

The good news is there are impactful strategies for employers to attract new talent and retain their employees. At Kapnick, we can help you determine the best strategies for your unique workplace. Contact us today for resources on attraction and retention, benefits, workplace flexibility or any topics discussed in this mid-year market update.

PERSONAL LINES

Personal insurance policies are designed to protect you from personal catastrophic financial loss, but did you know keeping multiple lines of coverage with the same provider can have benefits? These advantages can include:

DISCOUNTS

Many insurance carriers offer discounts for bundled policies. The exact discount will vary between different insurers, but generally range between 5% and 25%.

CONVENIENCE

Bundling policies together cuts down on paperwork and makes your coverage easier to manage. And because you only have to work with a single insurance carrier, you can save time by viewing your premiums, renewal dates and other information all in one place.

SINGLE DEDUCTIBLES

If a loss applies to more than a single policy, the deductible you pay may apply to all of your coverage. For example, if a severe storm damages your vehicle and your home and you carry both policies with the same provider, you may only have to pay a single deductible.

LESS CHANCE OF DROPPED COVERAGE

Carriers regularly drop coverage if a policyholder makes a large amount of claims. But, if your policies are bundled together, providers will be less likely to drop you.

Bundling has a number of benefits, but in some situations, it's best to keep your policies separate. As always, working with a knowledgeable insurance advisor, such as Kapnick, is your best first step to ensure you're getting the best balance between your insurance rate and the coverage you need.

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