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Fall/Winter 2021 Senior Living Market Update

Where we were: 2020 through Q3 2021

- Like 2018 and 2019, 2020 was a challenging market overall. Our clients faced significant difficulties trying to find coverage, with capacity issues and significant rate increases—for some clients as much as 50%–100% increases, often multiple years in a row.
- A confluence of factors challenged the industry, including social inflation—the trend of rising insurance costs as a result of increased litigation, plaintiff-friendly judgements and high jury awards—increased storm activity and pandemic losses. Additionally, carriers' ability to offset these results through investment income remained a challenge due to the lower interest rate environment.

Where we are: What we're seeing now

- Rate increases are moderating for some lines. After three years of substantial rate increases, we're reaching a point of rate adequacy in the market, which is leading to more moderate rate increases.
- Three years of carriers raising rates, restricting limits and increasing deductibles have generally made the market more attractive to new business. Carriers' combined ratios have improved through the first half of 2021.

Where we're going: Trends we are watching

- With rate adequacy comes increased carrier competition. There are a number of new entrants to the market and increasing competition as underwriters look to write new business. We expect this to level off rates further into 2022. Exceptions are challenged placements, those with elevated risk profiles, and accounts that have experienced losses.
- Pandemic concerns about how COVID-19 will impact the industry both from a loss and exposure standpoint is starting to ebb, but some uncertainty remains.
- Social inflation remains a concern, with a particular impact on Commercial Auto, General Liability, Directors and Officers (D&O), and Umbrella/Excess insurance. This trend continues to drive rates up, albeit more moderately than in prior years.
- Modest rate reductions may be attainable for clients with an attractive risk profile that have not been out to market in years.

In this report, we will analyze the market conditions for each major line of coverage and offer guidance to help you ensure a successful renewal outcome.

General and Professional Liability

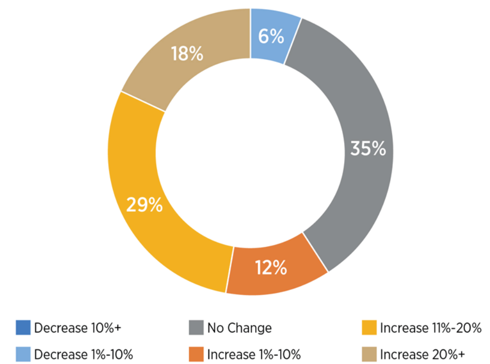
Where we were: Q4 2019 through Q3 2021

- Senior Living organizations have been hit the hardest over the last 18-24 months, compared to other industries, as the compound effect of a firming marketplace coupled with the outbreak of the COVID-19 pandemic and it's negative impact on the entire industry.
- As COVID-19 emerged, carriers took very firm stances on renewals and several carriers issued moratoriums on new business with all of the unknowns around how COVID-19 would impact liability losses moving forward.
- As a result, 2020 saw a series of massive rate increases ranging anywhere from 25%-100% and in some instances even higher and majority of carriers added exclusions around "Communicable Disease", "Pandemic", and "COVID-19" specific related issues.
- Over the first three quarters of 2021 and as the vaccines have become more widely available, rates have stabilized from where they were in 2020 and moved closer to the 10%-15% threshold.
- The majority of carriers moved away from offering occurrence coverage to claims made coverage forms.
- First dollar programs became very rare and a majority of carriers began including some form of deductible typically starting at $25,000, but for mid-large operators seeing starting points of $50,000–$100,000 deductibles.

Where we are: What we're seeing now

- Underwriters are looking at every account on a case-by-case basis, and using conservative actuarial modeling and predictive analytics to develop their pricing/structures. Gone are the days of manual "bed rates" and admitted underwriting processes and carriers are relying heavily on their own data and modeling tools based on each client's losses, levels of acuity, and the venues in which they operate.
- Carriers are evaluating quality/compliance policies and procedures much more closely, along with infection control plans and formal clinical risk management programs.
- There has been an emergence of capacity as new carriers and Risk Retention Groups (RRGs) have entered the space over the last 6–12 months.
- We are continuing to see higher utilization of alternative risk solutions through captives and other self-insured vehicles.

The following chart outlines the average rate variance we saw in the third quarter of 2021.



Source: Gallagher Drive*

Where we're going: Trends we are watching

- 2022 will be a key year in understanding the true exposure related to COVID-19-related incidents that impacted all providers across the country. To date, there have been very few formal claims made/suits filed related to COVID-19, and as we move closer to the expiration of the statute of limitations, we will have a better understanding of the true magnitude of claims/litigation and how this will impact insurers and inevitably our senior living clients.
- Staffing continues to be a challenge and with the recent increase in class action lawsuits around the concept of "Profits Over People", more carriers may start issuing class action exclusions going forward which will impact the primary and follow form umbrella/excess liability.
- The financial hardships COVID-19 has put on the entire Senior Living industry will also come with a greater concern by underwriters that operators are not cutting corners when it comes to quality of care, staffing, and resident admissions.
- There has been a significant rise in M&A activity as COVID-19 has caused many operators to close their doors and exit the space. Carriers will be evaluating the integration of these new communities into larger operators and the impact on the overall ability to maintain high levels of quality along with potentially increased visibility to plaintiff attorneys.
- Expect to see continued rate stabilization yielding moderate increases in 2022 subject to each individual organizations loss development.

Umbrella/Excess Liability

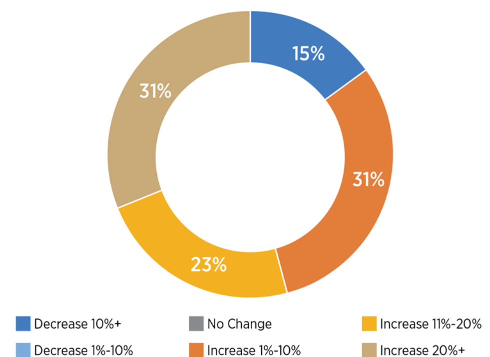
Where we were: Q4 2019 through Q3 2021

- Umbrella/Excess has been a challenging market for the last few years.
- COVID-19 paused some of the impact of social inflation in 2020, but social inflation remains a factor in rate changes.
- In recent years, underwriters have cited an increase in plaintiff activity, with the rate of attorney involvement increasing to justify rate increases and limit reductions.
- Similar to plaintiff activity, underwriters contemplated the recent trend of increased litigation funding into pricing and limit deployment.
- Large judgments and settlements targeted the deep pockets of large corporations, leading to a hefty swing in rate increases for Fortune 500 companies.
- Carriers made significant changes to their capacity being offered and in most cases brought down their available limits considerably. Majority of carriers moved to offering max limits of either $5 million or in some cases $10 million of capacity.

Where we are: What we're seeing now

- The knee-jerk reaction of rate corrections has ended. Rates will still go up but for most clients, they won't be the substantial increases like we saw in the past.
- We're seeing new entrants and additional capacity coming into the market.

The following chart outlines the average rate variance we saw in the third quarter of 2021.



Source: Gallagher Drive*

Where we're going: Trends we are watching

- Carriers have been able to get their portfolios into a more profitable position as a result of significant rate increases for the past few years.
- There is more competition coming into the market because it is now higher priced and hence more attractive.
- We expect rate increases to continue into 2022, yet with more moderate increases than we saw in 2021.
- In the Excess and Surplus (E&S) Casualty markets, most placements with minimal adverse loss history, including renewals, continue to require full marketing efforts and restructuring with varying attachment points.

Workers' Compensation

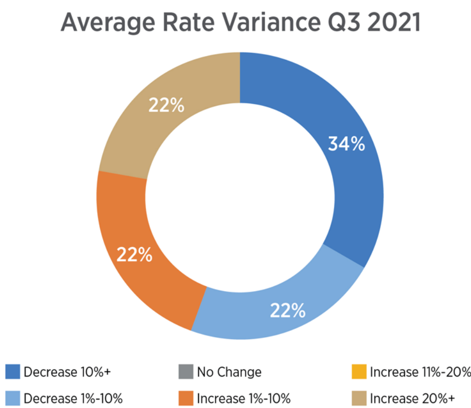
Where we were: Q4 2019 through Q3 2021

- A drop in claim frequency during COVID-19 has positively impacted the industry's results.
- Favorable loss development in prior years (because loss estimates were initially overstated) continues to positively impact most carriers.

Where we are: What we're seeing now

- Workers' Compensation continues to be a profitable line of insurance for most carriers.
- Claim activity and frequency have declined recently due to more employees working from home. This trend will likely change as many employees return to the workplace.

The following chart outlines the average rate variance we saw in the third quarter of 2021.



Source: Gallagher Drive*

Where we're going: Trends we are watching

- Rate decreases may be moderating, after several quarters of rate drops for many companies. We have seen signs that the Workers' Compensation market may be hardening.
- The long-term impact of COVID-19 on Workers' Compensation remains to be seen.
- As the labor market tightens, claim frequency will likely rise as less experienced workers enter the workforce.
- We will likely see an increase in severity as rising medical costs will negatively impact Workers' Compensation claims.
- Wage inflation may result in increased premiums in Workers' Compensation. The rise in wages (and corresponding rise in premiums) could help offset the likely increase in claim frequency and severity.

Property

Where we were: Q4 2019 through Q3 2021

- Between wildfires, civil commotion and major freeze events, carriers responded to 2020 and 2021 events with increased deductibles, reduced capacity, and changes in coverage. For the third straight year, carriers obtained significant rate increases across their Property portfolios.
- Less-modeled and unmodeled risks continued to plague the Property marketplace, such as wildfires, flood and convective storms.
- Carriers scrutinized their clients' statements of value, demanding in many cases that values be raised.
- Carriers required clients to address existing engineering recommendations. In many cases, particularly for clients going to market, carriers required or strongly recommended third-party engineering.
- Historically, it was uncommon to see property rates as low as $0.05–$0.075/$100 of values on senior living portfolios consisting of a blend of frame/noncombustible construction types.

Where we are: What we're seeing now

- There is rising carrier competition in the marketplace, with carriers looking to write new business now that rates have risen for three consecutive years.
- There are still challenging renewals out there, especially challenging occupancies, lack of third-party engineering reports, and catastrophe-exposed businesses.
- This year has already been very active in climate-driven claims, including winter storm Uri in February, which many meteorologists claim was a one-in-1,000-year event.
- Hurricane Ida, which made landfall in August, caused significant damage in the Southeast and Northeastern United States. Carriers are now looking at $25 to $35 billion in insured losses in Louisiana and other affected areas.
- For stand-alone property placements, the starting point for frame construction has increased to closer to $0.20/$100.

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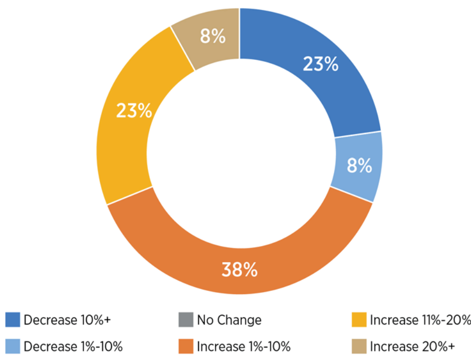


Source: Gallagher Drive*

Where we're going: Trends we are watching

- Companies with challenging occupancies, loss activity and/or CAT-exposed can expect to see rate increases in the higher quartile (20%+ increase).
- There are continued changes globally in the frequency and severity of perils such as tropical storms, wildfires and floods. In addition, we continue to watch some of the less well-modeled and non-modeled causes of loss, such as COVID-19.
- Third-party valuations are increasingly useful. Huge discrepancies between current insured values and the actual replacement cost at time of loss may exist for companies that have not had a third-party valuation of their buildings and contents, such as machinery, equipment or stock in a few years—or sometimes ever. Insured values, without an updated valuation, typically roll over year to year, with an arbitrary inflation factor applied to them.
- We're expecting rates to continue to climb and underwriters are pushing for higher deductibles for all other perils, along with percentage deductibles for wind/hail and increased water damage deductibles.

Commercial Auto Liability

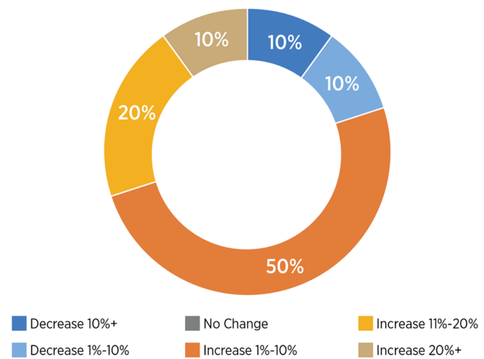
Where we were: Q4 2019 through Q3 2021

- Frequency of claims associated with the economic shutdown were down in 2020, with the biggest reduction in Commercial Auto.
- While the reduction was primarily driven by employees no longer commuting to their workplace/office, it was partially offset by an uptick in home delivery transportation during the pandemic.

Where we are: What we're seeing now

- Commercial Auto claim frequency is almost back to pre-pandemic levels.
- Large jury awards in Commercial Auto insurance, with penalties in excess of $10 million, are becoming increasingly prevalent.
- Social inflation is leading to larger and catastrophic claims, particularly affecting companies with large fleets.
- There are very limited options to find stand–alone Auto Liability coverage and currently the best approach is paring this line of coverage with the carrier insuring either the General & Professional Liability, Property or Workers' Compensation.

The following chart outlines the average rate variance we saw in the third quarter of 2021.



Source: Gallagher Drive*

Where we're going: Trends we are watching

- Companies with large fleets or poor loss history may experience more significant rate increases.
- Carriers insuring large fleets are looking to attach excess layers above $1 million.
- If a carrier will not increase their primary limit, clients may have to find an additional carrier to put up a buffer layer, adding frictional costs.
- Continuing to work with carrier partners to expand their product offering to pair the Auto Liability with another line of coverage will be critical moving forward as there are no signs of increased appetite for monoline Auto Liability coverage in the senior living industry.

Management Liability

Where we were: Q4 2019 through Q3 2021

- A record number of companies went public in 2020. Directors' & Officers' (D&O) pricing for IPOs increased dramatically, with many fearing that fewer litigation cases would be dismissed, discovery costs would not be stayed in state court, and companies could face litigation in multiple states.
- Most carriers cut capacity in 2019 and 2020, especially for IPOs, and client segments with higher risks.
- Retentions went up in 2020, as did premium pricing, particularly for public companies.
- Carriers tightened D&O terms and conditions to limit spiraling claims.
- Frequency of securities class actions increased, and core filings have been on the rise since 2015.
- Emerging plaintiff attorneys have entered the securities litigation arena, bringing what some have suggested are lower-quality cases and targeting smaller companies, including smaller market cap drops.
- The shift from state court to federal court for merger objection cases has also contributed to the increase.
- Event-driven securities claims have increased, such as cyber breaches, COVID-19, the #MeToo movement and others.

Where we are: What we're seeing now

- Premium price increases continue to take effect across the board and remain in the low double-digits for most accounts but a few companies will do even better.
- The market for privately held companies is as challenging as the publicly traded D&O market, although larger private companies are continuing to see double-digit increases.
- After large rate increases in 2019 and 2020, as well as in the first three quarters of 2021, most carriers have repaired their books and are looking to write new business. Moreover, there's new competition in the marketplace.

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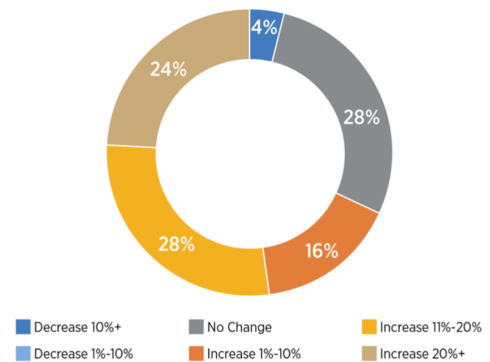

Source: Gallagher Drive*

Where we're going: Trends we are watching

- There is still some uncertainty surrounding COVID-19 but carriers are no longer hovering over the panic button like they were a year ago, which is helping to moderate pricing.
- D&O claims related to COVID-19 did not turn out to be particularly significant, and bankruptcies related to COVID-19 leading to D&O claims, likewise, largely did not result in significant claims.
- We expect pricing to decline slightly in this space, moving from 10%–25% a year ago to single-digit rate increases by the beginning of next year.
- We expect fewer increases in retentions in 2022, absent large growth in exposures, which may continue to drive some rate increases.

Cyber Liability

Where we were: Q4 2019 through Q3 2021

- With the rise in ransomware attacks across the U.S. and increases in carriers reported losses, the Cyber insurance market hit an inflection point in 2020.
- Carriers became pressured due to the increasing frequency and severity of cyber claims and a more stringent regulatory environment at the state, federal and international levels.
- 2020 began with the first real signs of a hardening market as the larger, more sophisticated risks in specific industry sectors became subject to greater underwriting scrutiny and ultimately increased premiums. In fact, in 2021, even those clients with optimal data security controls were seeing rate increases in the 25%–50% range. Less attractive risks saw 75% and greater increases, if they were offered terms at all.
- Ransomware attacks are a significant contributing factor to the hardening of the Cyber market.
- Carriers are responding with higher rates, higher retentions and coinsurance requirements.
- Social engineering losses also continued to mount. According to the FBI IC3 2020 Internet Crime Report, 2020 saw a record 69% increase in cybercrime from the prior year's report, with business email compromise losses accounting for half of all losses.

Where we are: What we're seeing now

- The ransomware and cybersecurity risk trends we saw in 2020 continued to plague the Cyber insurance market throughout the first three quarters of 2021.
- Cyber claim frequency and severity continued spiraling upward, which led to a swift response from the Cyber insurance market. Carriers imposed significant limitations of capacity, narrowed the scope of coverage terms, heightened underwriting scrutiny and significantly increased rates.
- Nearly all carriers now require attestation of at least some preventive controls, which likely include multifactor authentication, remote desktop protocol, data backup practices, segregation of networks, encryption, patch management, privileged account management, employee training and a host of others.
- Rate increases were experienced across most industry sectors, with larger companies subject to greater increases and higher underwriting scrutiny.
- Companies without best-in-class data security are likely to see rate increases in the 100%–200% range, and in some cases as high as 300%. Even those that comply with all underwriting required security controls are seeing increases in the excess of 75%.
- Most Cyber insurance buyers are feeling the impact through time consuming and complex renewals, with many obtaining less coverage at a higher cost.

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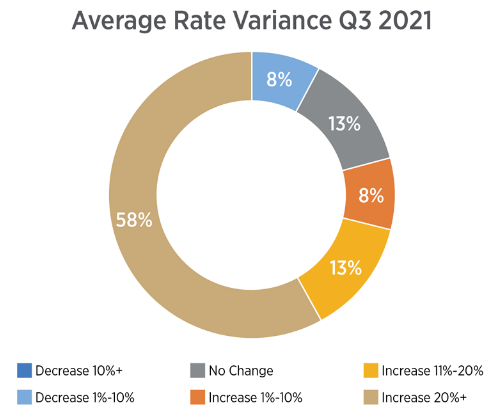

Source: Gallagher Drive*

Where we're going: Trends we are watching

- The Cyber underwriting community has responded to 2020 and 2021 loss data and Cyber claim trends with a laser focus on data security controls when evaluating risks.
- We expect even greater underwriting scrutiny of cybersecurity controls in the Cyber insurance market throughout the remainder of 2021, with capacity continuing to shrink.
- Insurance products will reflect decreasing carrier appetites to fully cover ransomware costs, as they push for cost-sharing in the form of ransomware coinsurance and sublimits.
- Rate hikes show no real signs of leveling–off in the near term.
- This will likely force insureds to offset these costs by assuming greater self-insured retentions and taking an even greater role in actively managing cyber risk.

Conclusion

While market conditions have begun to stabilize, make no mistake: this remains a challenging marketplace overall. We expect to see rates continue to moderate in many lines throughout 2022 with the exception of Cyber insurance, which remains the most troubled line we have seen in recent memory, and while not as volatile, the Property, General & Professional Liability, and Umbrella/Excess Liability lines of coverage will continue to be a challenge as well. Gallagher's Senior Living practice and coverage experts are positioned to provide solutions for our clients in this difficult and changing marketplace.

Sources: *The data for all charts within this document were pulled utilizing Gallagher Drive®, our proprietary data and analytics platform. U.S. Client Data, July-September 2021. Due to the variability that we're seeing in this market and specific account characteristics, individual rates may vary.

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