2023 US HIGHER EDUCATION INSURANCE MARKET UPDATE

Gallagher

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Higher Education

Headlines

- **Property rates** continue on an upward trajectory with anticipated renewal outcomes broadly in line with other US industries and sectors. Maintaining up to date valuations and a statement of values can help with achieving better renewal outcomes.
- **Cyber risk pricing** continues to stabilize, benefiting from the last year's big push to mandate a range of cybersecurity controls.
- **Third party litigation funding** has fueled a rise in legal action, resulting in nuclear verdicts and increased harassment and discrimination claims by students and academic professionals.
- **Casualty risk market** is experiencing more moderate increases with rates tracking in the region of 5% to 10% increase at renewal.

The US higher education insurance market continues to be faced with complex issues, encouraging improvements and the continued need for affirmative risk mitigation as the sector continues to transition through a firming market cycle. Nuclear verdicts and reported sexual assault and molestation cases are on the rise, and automotive losses trending higher than industry agnostic peers has created a growing cause for concern. In contrast, stabilizing cyber risk rates may signal the potential for a broader market rebalancing, and moderation of rate increases may start to be seen across other casualty lines longer term.

With traditional liability risk exposure growing, higher educational institutions are facing challenges as they attempt to navigate a rapidly evolving risk landscape. While the higher education sector shifts its focus to meet new market expectations, there remains a pressing need for co-ordinated action between insurance buyers, risk managers and executive teams to drive sustainable change and tackle the highest priority risks.

A RISE VERSUS FALL MARKET DYNAMIC CONTINUES

An evolving insurance market and risk profile continues to impact underwriting capacity and appetite, premium and rate increases, deductible and liability limit setting. This has led to the emergence of some noteworthy trends that are currently informing higher education insurance discussions during Q2.

- **Recovery in the casualty market is forecasted**
  Casualty rates are generally moderating across the board; witnessing only a 5% to 10% renewal terms in the region at this time. This may be early signs of a potential market recovery. However, group insurance programs designed to aggregate risk continue to face capacity related issues and the prospect of inadequate levels of cover being offered at renewal.

- **The cyber insurance market continues to stabilize with mandatory risk management controls**
  Following the 2022 market explosion, rates have continued to stabilize in Q2 2023 and we will most likely see this trend continue in line with capacity growth and ongoing action to mandate risk controls across the board. Ransomware attacks remain the #1 cyber risk vector. Improved risk management practices are contributing to a fall in ransomware attacks which are reported to have declined by 31% year-over-year in the first nine months of 2022[1].

  The big push to implement robust cybersecurity controls during 2021–2022 appears to have paid off, with year-on-year decrease in cyber loss events and improved renewal outcomes being seen for institutions. Continued sector-wide investment in cybersecurity tools and skills will be integral to the current rate environment prevailing over the next 12 months and beyond.

Addressing the ongoing crisis of child sexual abuse and molestation (SAM)

Together with practice leaders in Gallagher's Public Sector, K-12 Education and Higher Education teams and youth serving non-profit organizations, Gallagher convened the **"Transforming the Trend: Working Together to Disrupt the Pattern of Child Sex Abuse"** symposium. Bringing together organizations across multiple industries to tackle the sexual assault crisis, the symposium focused on developing effective strategies to resolve a concerning trend of year-on-year increases.

As the higher education sector continues to struggle to find coverage for sexual assault and misconduct, Gallagher has been instrumental in creating risk prevention programs that aim to drive and sustain meaningful change. Read more here

Risk management guidance for higher education charter bus providers

Comprehensive guidelines and procedures to manage and transfer the risk of charter bus use and help your higher education institution ensure the safe transportation of students, faculty, staff and guests. This process involves pre-qualification, entering a contract for services, and pre-trip checklist and inspection. Read more here

- **Sexual assault and molestation is a rising industry risk**, and a growing concern for liability carriers. In 2023, sexual assault remains one of the most prevalent crimes in the US, occurring every 68 seconds according to RAINN (Rape, Abuse & Incest National Network)[2].

  We are seeing examples of carriers mandating controls including youth protection programs to safeguard students and young adults, and the industry is making great strides in delivering robust risk awareness and education in close partnership with institutions. Ongoing regulatory change is also helping victims to report civil and criminal cases against institutions where the abuse happened, contributing to social inflation and a higher volume of claims being submitted.

- **Third party litigation funding increases and nuclear verdicts on the rise**
  Litigation funding continues to increase as legal service providers target wrongful terminations, harassment and workplace discrimination, and a rising number of claims are being brought against educational institutions. Defense costs are mounting, placing increased pressure on higher education institutions to settle cases before they go to court.

  The total cost of nuclear verdicts (claims >$10 million) reported to exceed $18 billion in 2022[3] (for the year of 2020 it was $5 billion), and reports of rising out-of-court settlement amounts have sparked heightened concern by carriers and educational establishments. A recent $1 billion plus settlement, one of the largest higher education sector settlements in history, has impacted the insurance market, affecting capacity and premium affordability.

- **Property market remains challenging**
  Higher education property risks, including cat exposed geographies such as California, Louisiana and Florida, continue to be challenged with rates anticipated to continue on an upward trajectory in 2023 due to a confluence of factors including catastrophe-exposed and loss hit accounts and capacity squeezing[4].

  The aftermath of Hurricane Ian, the current wave of wildfires, floods and other catastrophe losses along with claims inflation have led to capacity tightening across the board, broadly in line with the prevailing trend seen across other US industries and sectors at time of writing. Well managed accounts with zero claims history, property valuations and statement of values are likely to achieve better renewal outcomes from insurers in the year ahead compared to accounts with a more challenging history.

- **M&A activity is on the rise**
  Amidst growing insolvency and funding concerns, higher education establishments are seeking merger opportunities with other universities to pool resources, reduce costs and enhance educational opportunities for students.

  Alongside this, underwriter concerns have grown for institutions experiencing financial hardship, where M&A is viewed as an option to mitigate risk and shore up the balance sheet. This is leading to revised terms and conditions being placed to offset undue risk exposure pre and post-acquisition.

- **Workers compensation** continues to be the most stable line of coverage within the casualty space, partly due to the anticipated scope of COVID-19 claims not eventuating as originally expected. However, this has been partly offset by rising medical costs, wage growth and the transition of the workforce back into the workplace that is likely to place heightened pressure on workers' compensation rate adequacy in the closing half of 2023.

- **Automotive**
  We have seen a trend of auto liability risks rising again as carriers place increased scrutiny on transportation providers following a series of bus related accidents (use of mobile phones being one of the principal causes) resulting in high severity claims with inflation continuing to impact repair and replacement part costs. We may see the increased use of telematics as one of a range of avoidable accident claims reduction measures.

LOOKING AHEAD

H2 2023–Q1 2024

As the sector continues to travel through a firming market cycle with pockets of rate stabilization and early signs of rebalancing, there is a growing consensus that coordinated action and continued effort to implement robust risk management will pay dividends longer term. Over the next quarter and in to the closing months of the year, we expect the following trends to play out:

- » **Property insurance renewals** will remain challenging, and capacity remains a point of concern. Undertaking a thorough review of coverage limits, deductibles and policy terms to ensure they align with the institution's current needs and risk profile will support proactive collaboration and discussion with carriers.
- » **Continued emphasis on cybersecurity controls** to enhance the scope and effectiveness of cyberattack prevention (rather than solely response) measures.
- » **Group insurance programs** involving property and casualty (P&C) risks may continue to be disrupted due to a reduced capacity for pooling and aggregated risk.
- » **Risk awareness and education** remains a priority, and institutions are coordinating action with the help of insurance companies to embed a sector-wide risk management culture.
- » **Stricter underwriting criteria and expectations that risk mitigation recommendations are implemented** will continue to be central to risk management practices and improved renewal outcomes.
- » **Smoother renewal outcomes** can be expected in the higher education sector as the market continues to stabilize from prioritizing insurer concerns and maintaining regular communication with insurers & brokers.

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From a risk awareness perspective, we understand the need to prioritize risk mitigation efforts and respond to carrier concerns. Whether it be sexual assault and molestation or implementing cyber controls, being able to demonstrate the measures you are taking to control your risk will deliver a positive message to insurers in a more challenging insurance market.

There is also a heightened importance at this time of having regular communication with your insurance carrier. Insurance program reviews, undertaking property risk surveys and maintaining a statement of values all contribute to presenting the right story during renewal discussions. Recent cyber risk rate improvements are encouraging and signal early signs of a potential market rebalancing longer term.

Implementing robust risk management and following the recommendations set out by your insurance adviser. This enables Gallagher to advocate for the best available renewal outcomes for the higher education sector."

Stacie Kroll
Managing Director, Higher Education

CLOSING COMMENTS

The US higher education sector has associated risks, challenges and untapped opportunities. Risks for insurers include rising claims expenses, litigation, on-campus safety and changing methods of education delivery to a diverse student population.

Gallagher, as a trusted insurance and risk management adviser to higher education establishments across the US and internationally, is well positioned to develop strategic insurance programs and tools to support risk management practices tailored to meet a specific set of needs. Working closely with our insurance carrier partners, Gallagher is committed to the sustainability of higher education institutions while they continue to adapt to evolving needs over time.

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CITATIONS

[1]Ransomware down this year – but there's a catch. The Register (October 2022)

[2]Every 68 seconds, an American is sexually assaulted – Rainn rain.org (2023) Rainn (Rape, Abuse & Incest National Network). Note: Statistic sourced from the Department of Justice, Office of Justice Programs, Bureau of Justice Statistics, National Crime Victimization Survey, 2019 (2020).

[3]Corporate Verdicts Go Thermonuclear: New Report Reveals Supersized Verdicts Against Companies Ballooned After Pandemic (prnewswire.com) Source: Analysis from Marathon Strategies Finds Nuclear Verdicts Surged 95% in 2022

[4]Property insurance rates to keep surging in 2023. Business Insurance online. Claire Wilkinson (January 2023)