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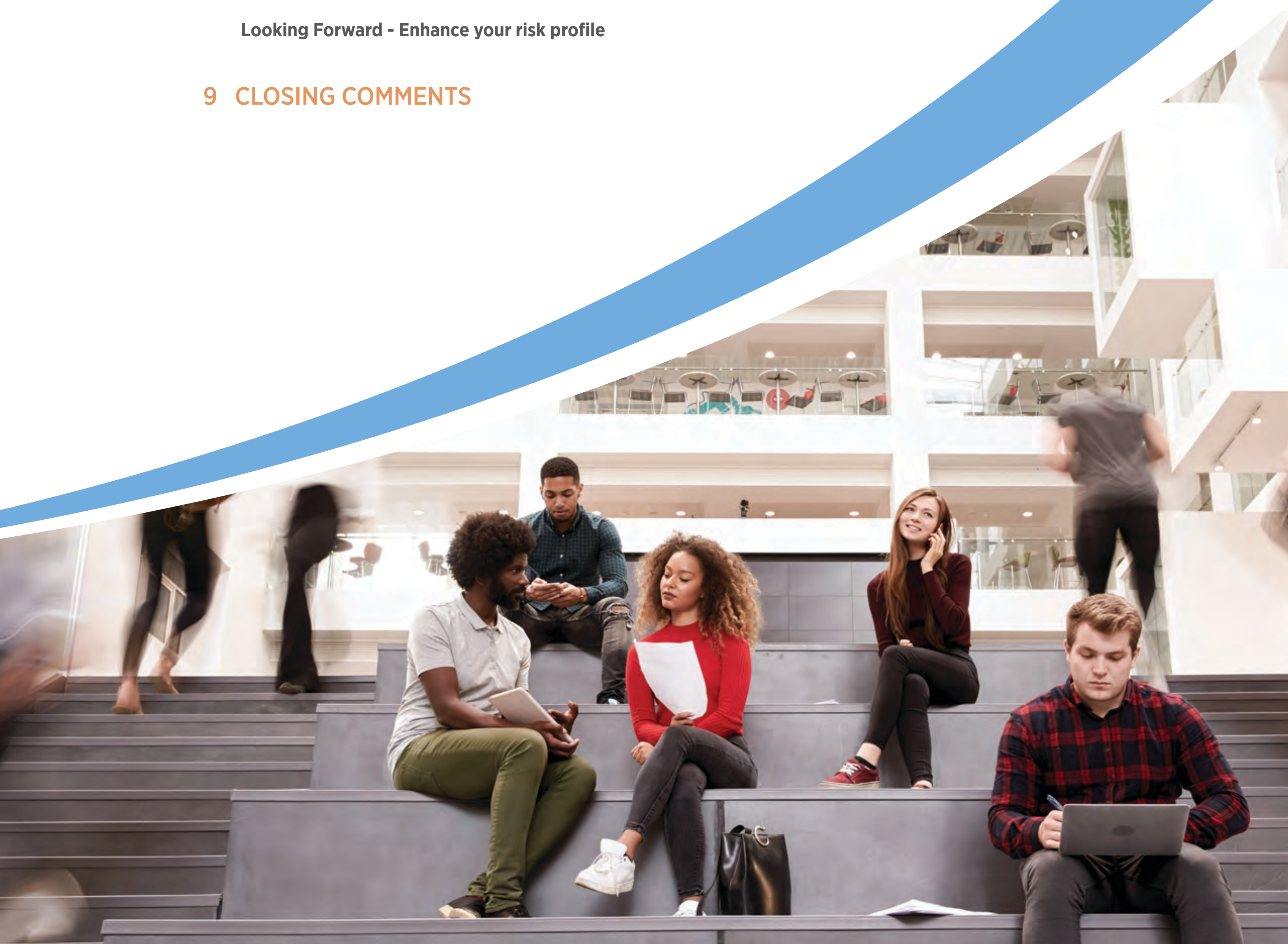
US Higher Education Insurance Market Update

Q3 2024

Contents



The insurance market is having an impact on higher education institutions.

Some higher education institutions may have experienced pockets of stabilization in their cost of risk due to various factors such as favorable claims history, strong risk management practices, etc. However, the overall trend in the higher education insurance market remains firm, which means that insurance premiums have been increasing, coverage options have been reduced, and underwriting criteria have become more stringent.

The impact of the insurance market on higher education institutions is twofold. First, the increased premiums can strain the institution's budgets as insurance costs are a significant expense. The rising premiums can lead to financial challenges and potentially force institutions to allocate resources away from other areas such as academic programs, research activities, or student services.

Second, the reduced coverage options and stricter underwriting guidelines are leaving higher education institutions with less comprehensive insurance protection. This can leave them vulnerable to various risks, including property damage, liability claims, or cybersecurity incidents. Institutions may need to reassess their risk management strategies and potentially invest in additional risk mitigation measures to compensate for the reduced coverage.

Overall, the current higher education insurance market is placing additional financial and risk management pressures on higher education institutions. While there may still be pockets of stabilization for some institutions, the broader trend is towards increased premiums, reduced coverage, and stricter underwriting guidelines.

HEADLINES

Property rates stabilize as reinsurance competition grows, leading to lower rate increases and, in some cases, decreases, including accounts with catastrophe exposures. Other accounts continue to experience higher-than-average premium increases.

Cyber insurance expands with stricter underwriting guidelines, and an influx in capacity is making the market more competitive.

Sexual assault and misconduct continue to be a top exposure concern among insurers as states continue to broaden reviver statutes, and Title IX remains in influx.

Civil unrest and protest spark new conversations with insurers as underwriters attempt to understand the exposure and risk managers evaluate when and how coverage can be triggered by campus unrest. Read more in our latest whitepaper.

Public perception of the higher education value proposition continues to be a top concern for institutional leaders, regardless of institutional size or affiliation. The recent downturn in public trust has contributed to an increased frequency and severity of claims activity, thus impacting the market conditions.

Aggregate industry risks such as antitrust litigation are resulting in a restriction of Educators Legal Liability (ELL) capacity.

Higher education insights

The US higher education insurance market is experiencing a dynamic shift as current market conditions continue to exert pressure on institutional budgets. The significant rise in total cost of risk is elevating higher education insurance from a budget line item to board-level discussion, making it imperative for institutions to thoroughly understand their insurance program and institutional risk mitigation processes to minimize losses and address underwriting concerns.

PROPERTY: STABILIZED MARKET DRIVES COMPETITIVE RATES, FOCUSING ON ACCURATE VALUATIONS

Property: Insurance carriers are pursuing growth and offering additional capacity for both CAT and non-CAT business. Some new capacity has also entered the market, introducing fresh competition. More favorable premium pricing (flat or rate decrease) is available for some catastrophe-exposed accounts, while other accounts continue to experience higher-than-average premium increases. While inflationary pressures are easing, there is continued pressure to maintain up-to-date valuations and detailed renewal submissions.

Secondary perils: Clients based in historically non-CAT-exposed areas with severe convective storm exposure are seeing above-average rate increases due to adverse claim experience. According to Gallagher Re, SCS accounted for 61% of all global insured losses in the first half of 2024.[1]

Deductibles and risk financing structures: Institutions are opting for higher flat or percentage deductibles for secondary perils to manage rising premiums. Additionally, they are exploring alternative risk financing mechanisms to manage rising premiums and fill potential gaps in coverage.

Property valuation: As inflation declines, market pressures on building and content values are beginning to ease for institutions that have performed independent third-party appraisals to validate their schedule of values. Institutions that have not addressed the valuation issue over the last few years will continue to receive pressure to perform physical and desk appraisals to ensure that property values continue to reflect current market conditions, upgrades, and any changes in occupancy or use. Underwriters are increasingly adding margin clauses to insurance programs if they are not comfortable with the level of year-over-year valuation adjustments.

Business income (BI) values: We have seen an increase in underwriting attention to business income values. Institutions are encouraged to conduct a comprehensive business interruption exercise to quantify the time element exposure across the enterprise.

Use of Unbundled Property Engineering to Improve Your Renewal Results

"Underwriters evaluate property risks based on COPE and secondary data. Also, the "attitude" of the insured is a primary consideration in providing coverage and favorable rates. It's imperative for an institution to demonstrate its commitment to industry-accepted property conservation practices such as loss prevention surveys, plan reviews, and sound management programs. There's no better way to demonstrate commitment than to unbundle and take control of the property engineering process. Taking control of the property engineering process rather than relying on the carrier allows the institution to target its most critical property risks, which should result in an overall financial benefit in the form of reduced expenditures on insurance premiums and claims."

Paul Pousson — *Managing Director, Higher Education Practice, Gallagher*

Delving Deep Into The Data

"Understanding your property data and modeling is essential to presenting your organization effectively and standing out to potential insurers. Institutions that opt for independent valuations instead of solely relying on their insurer's assessments can present a more comprehensive picture of their property and improve their market positioning."

Stacie Kroll — *Managing Director, Higher Education Practice, Gallagher*

CASUALTY: JURY VERDICTS AND REPAIR COSTS SURGE; WORKERS' COMPENSATION REMAINS STEADY

Workers' compensation: Claims remain stable and predictable, with the majority of claims made for slips, falls, strains, and sprains. Concerns grow over increasing reserves and rising prescription and medical costs. There are several trends that are currently being observed in workers' compensation risks and claims:

Mental Health Claims

There has been a significant increase in workers' compensation claims related to mental health issues, such as stress, anxiety, and depression.

Aging Workforce

The academic workforce is aging, and this demographic shift has implications for workers' compensation. Older workers may be more prone to certain types of injuries, such as musculoskeletal disorders, and may require longer recovery periods.

Opioid Epidemic

The opioid epidemic continues to impact workers' compensation claims. Injuries that require pain management can lead to opioid prescriptions, which can result in addiction and prolonged disability. Institutional efforts are being made to address this issue through stricter prescribing guidelines and alternative pain management strategies.

Telecommuting and Remote Work

Telecommuting and remote work arrangements continue to create challenges in determining compensability for injuries that occur outside the traditional workplace. Institutions need to establish and/or evaluate guidelines and policies to address work-related injuries and illnesses in remote work settings.

Technology and Automation

The increasing use of technology and automation in the workplace has the potential to reduce certain types of injuries. However, it also introduces new risks, such as ergonomic issues related to prolonged computer use and the potential for accidents involving robots or automated machinery.

Auto liability: Large jury verdicts and rising physical damage costs continue to impact the auto market, affecting repair expenses. Securing coverage remains challenging, particularly on a monoline basis, for auto physical damage and auto liability.

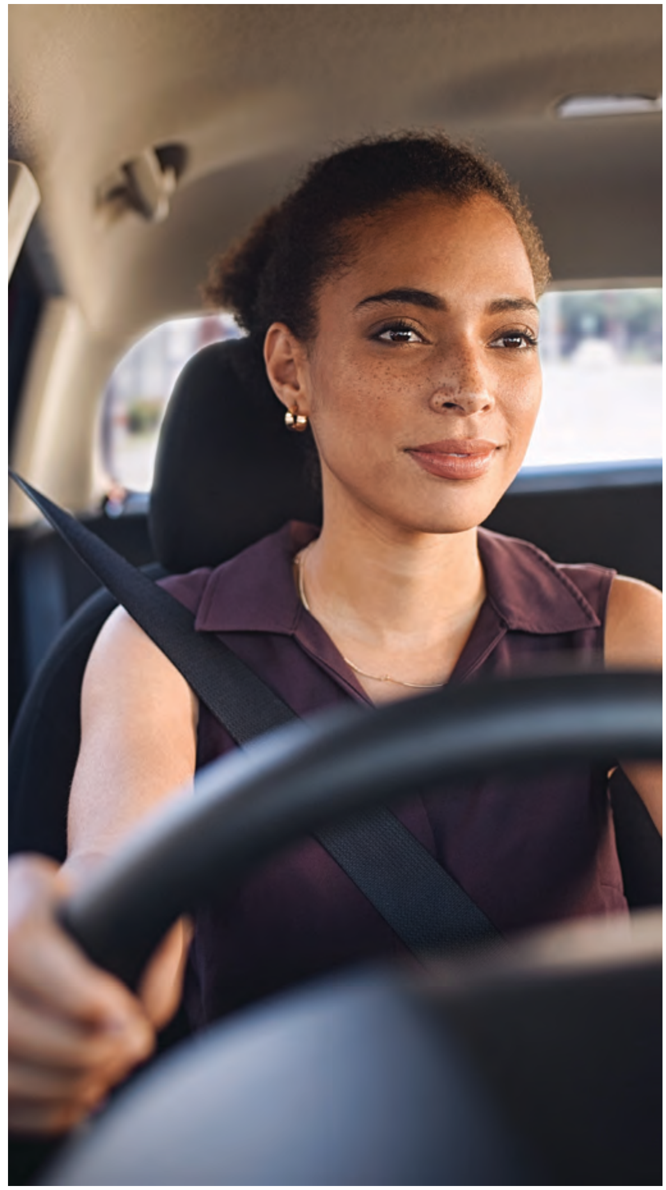
Auto physical damage: The ongoing increases in auto physical damage rates continue to be a concern and are the result of higher repair costs, repair vs. total loss decisions, and claims frequency, and severity.

Controlling physical damage claims and their costs continues to be a significant challenge for risk managers in higher education. Some of the key challenges institutions encounter include:

- Diverse Vehicle Fleet
- High Vehicle Utilization
- Student Drivers
- Limited Control Over Drivers
- Budget Constraints

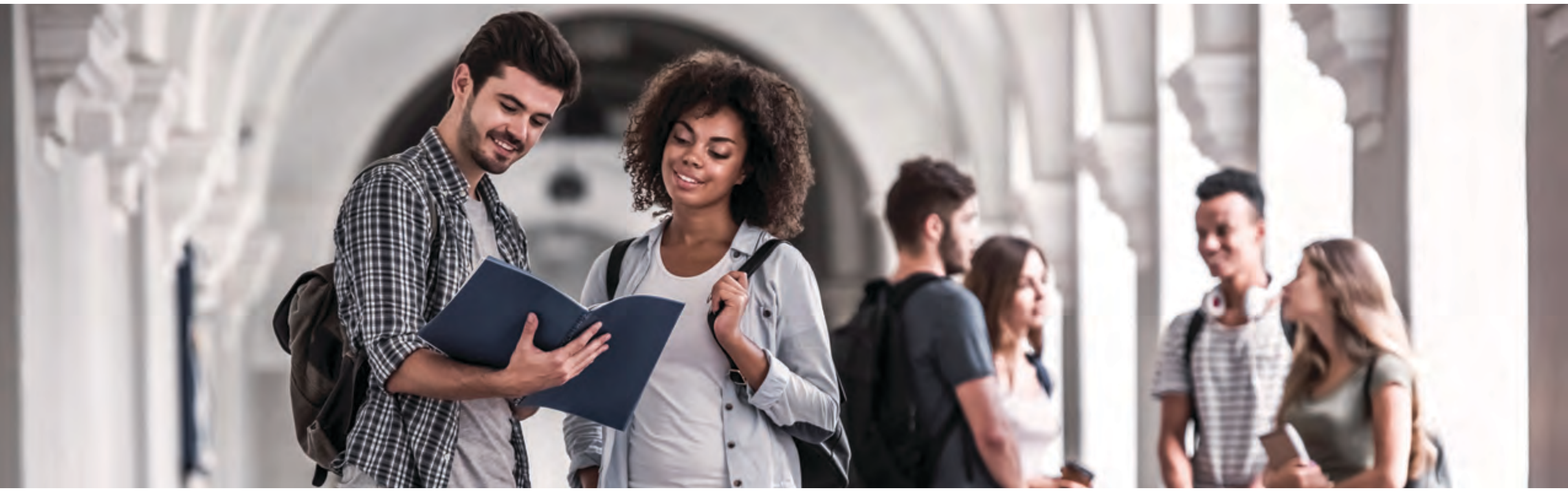
To address these challenges, higher education risk managers should consider implementing the following strategies:

1. **Driver authorization, training, and safety programs:** Develop and enforce comprehensive driver training programs to promote safe driving practices among all drivers, including students, faculty, and staff. This can help reduce the frequency of accidents and associated claims.
2. **Fleet maintenance and inspection:** Implement regular maintenance and inspection programs to ensure vehicles are in good condition and meet safety standards. Proactive maintenance can help prevent accidents caused by mechanical failures.
3. **Data analysis and monitoring:** Utilize data analysis and monitoring tools to identify trends, track accident rates, and identify areas for improvement. This data-driven approach can help risk managers make informed decisions and implement targeted risk mitigation strategies.
4. **Collaboration and communication:** Foster collaboration and communication among different departments and stakeholders within the institution. This can help create a culture of safety and ensure that everyone is aware of their roles and responsibilities in managing physical damage claims.



Sexual assault and molestation, harassment, and misconduct (SAM): Broadening reviver statutes for adult survivors, nuclear jury verdicts, a high volume of under 18 year olds participating in institutional activities, and the continued discovery of historical bad actors all contribute to challenging market conditions for the industry.

Civil unrest, protest, and institutional safety: While on-campus crime has long been an issue, violent incidents (including active shooters) on campuses are growing. Significant security challenges arise for institutions offering traditional openness, such as community learning hubs. Read more in our latest whitepaper.



D&O EDUCATORS LEGAL LIABILITY: MODEST INCREASES, REDUCED CARRIER OPTIONS, AND RISING REPUTATIONAL RISKS

Capacity restriction: There has been a significant primary capacity restriction, with only a few carriers willing to underwrite primary D&O coverage in the higher education space. Restrictive coverages and expansive exclusions also raise concerns, particularly in the excess market.

Public perception of higher education: Institutional boards and executive leaders face challenges in safeguarding and protecting institutions' brand and reputation. Negative publicity and large verdicts amplify reputational risk, leading to potential enrollment declines and donor concerns.

Civil unrest and protests: America's right to protest calls for directors to be aware of civil unrest triggers that may impact their insurance programs and be prepared to mitigate property and reputational loss.

Compensation for student athletes: The National Collegiate Athletic Association is facing rejection in its claim of student athletes being amateurs and cannot be paid as employees.[2] A recent case has resulted in a $2.8 billion settlement[3] raising concern for the budgetary impact on universities of such settlements.

Antitrust admission claims: Focus remains on antitrust law following student athletes filing a lawsuit against the Ivy League's ban on athletic scholarships. Allegations of illegal price fixing or anticompetitive restraint of trade continue to give rise to antitrust claims against colleges.

Title IX: The 2024 revision of Title IX is facing a volatile regulatory environment with many institutions unclear of their compliance requirements.

Educators Legal Liability

"Higher education institutions are often large and complex organizations that go beyond just providing education for tuition. They have robust balance sheets, and they often have significant healthcare exposures embedded in their organization. Recognizing these institutions are much more complex than what meets the eye is essential. As such, a comprehensive understanding of their operations is required to navigate higher education intuitions' legal implications and insurance needs."

John Ergastolo — *Area Executive Vice President, GGB US, GSP Management Liability, Gallagher*

CYBER: ENHANCED RISK CONTROLS, INCREASED COMPETITION, AND AI IMPACT ON STUDENTS

Market stability: Increasing risk controls leads to market steadiness and stability as more carriers start offering cyber coverage. The entry of new and returning insurers, along with the infusion of fresh capital, is fostering more competition and price benefits.

Claim frequency and costs remain moderate: Insurance carriers mandate safeguards like multifactor authentication, compelling schools to enhance tech security to obtain coverage.

Cyber insurance: Stricter underwriting guidelines are informing changes in risk management controls regarding cyber insurance. The influx in capacity is making the market more competitive, offering more options for institutions.

Cyber liability: Online education continues to increase cyber liability as virtual networks remain vulnerable to cybersecurity risks and breaches. The increase in ransomware attacks has been a particular problem for schools.

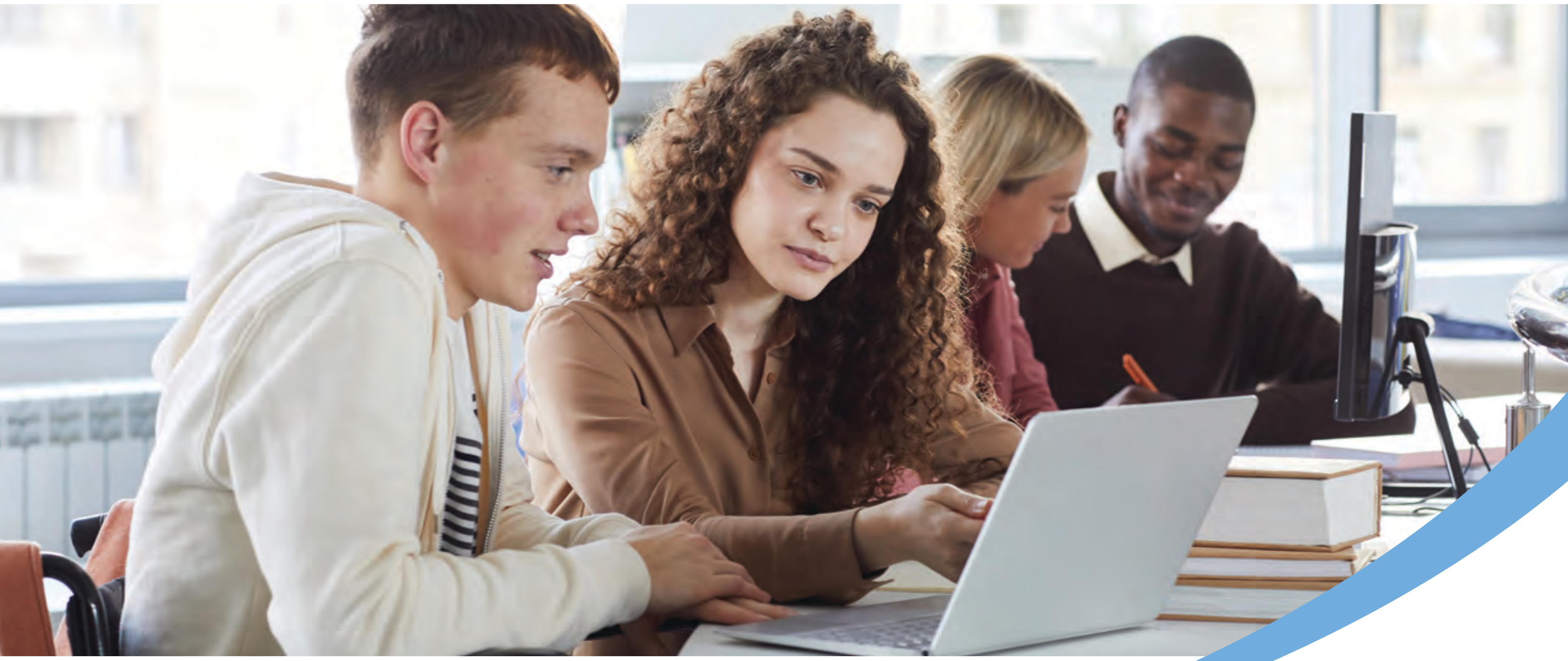
Impact of AI: Incorporating AI into business processes and learning environments is unavoidable. Risk management in the industry has been evaluating AI risk extensively, particularly about student use of AI. Strategic risk assessment of AI adoption remains crucial.

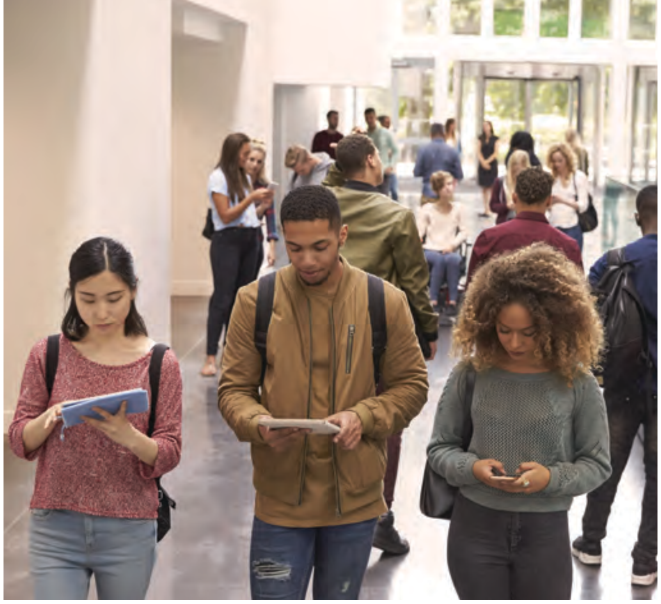
Social engineering: Fraudsters are using AI to perpetrate more sophisticated social engineering attacks. This includes the use of deepfakes, whereby the voice or image of an individual can be replicated in order to perpetrate wire fraud, also known as "CEO fraud."

The Rising Concern of Deepfakes

"Employee training has to evolve to help employees understand what a deepfake is and how to recognize one. It is important to do it now rather than wait for the claims to occur because that is typically how industries look into the matter. They pay a lot of losses, then realize that certain goals need to be implemented to prevent or mitigate those losses."

John Farley — *Managing Director, Cyber Liability Practice, Gallagher*





LOOKING FORWARD — ENHANCE YOUR RISK PROFILE

The bottom line is that the higher education insurance market remains challenging and firm on multiple fronts. To obtain better than average results in this environment, institutions will need to take a proactive approach towards their insurance portfolio, actively communicating the efforts institutions take to address insurer concerns.

As we prepare for the next renewal cycle, institutions should consider the following to improve their risk profile and illustrate that they are a favorable risk for an insurer.

- **Emphasizing property conservation and risk control is paramount for institutions willing to take more risk.** Properties that incurred severe weather loss must conduct property appraisals, considering inflationary trends and accounting for any upgrades affecting property value.
- **For sexual assault and harassment incidents, institutions should adopt robust reporting mechanisms**, ensuring thorough documentation, assessment, and timely resolution to protect the victim.
- **Regarding workers' compensation, employers can support the physical wellbeing of the remote workforce** by providing ergonomic equipment and mitigating isolation by promoting virtual check-ins and fostering open communication on mental health problems.
- To cater to the growing complexities of student-athlete compensation, **higher education institutions must assess the risk and financial implications of defending against antitrust claims** when considering insurance and other financing requirements.
- **Implementing changes in risk management controls can help mitigate cybersecurity threats.** Strategic risk assessment of AI adoption and assessing its potential socioeconomic impact is imperative.

Closing comments

The US higher education insurance market is undergoing significant changes, driven by evolving risks and economic pressures. Institutions face increased scrutiny from underwriters in cybersecurity, property valuation, and regulatory compliance. There is a heightened attention to BI values, deductibles, and drivers of litigation, making proactive risk management strategies and leveraging broker expertise vital.

Collaborating with Gallagher, institutions can adapt to the dynamic market conditions by enhancing renewal discussions, reviewing insurance programs, and remedying potential coverage gaps. Our insurance carrier partners ensure that institutions remain resilient and well-protected against emerging threats, safeguarding financial stability and institutional reputation.

[1]Bowen, Steven et al. "Gallagher Re Natural Catastrophe and Climate Report: First Half 2024," *Gallagher Re*, 17 Jul. 2024.
[2]Couch, Noël, "NCAA student-athletes may be employees under the FLSA," *Freeman Mathis & Gary*, 23 Jul. 2024.
[3]Fuller, Jason, et al. "NCAA President Charlie Baker Talks 2.8B settlement and State of College Sports a year into the job," *NPR*, 30 May 2024.