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WHITE PAPER

RIDING THE WAVES OF CHANGE IN 2022

The Jencap Insurance Industry Outlook

TABLE OF CONTENTS

Overview - 3

Professional Lines - 4

Casualty - 6

Commercial Property - 7

Commercial Transportation - 8

Workers' Compensation - 10

Personal Lines - 11

What to Watch in 2022 - 12

Conclusion - 12

OVERVIEW

If the insurance industry had posted its relationship status in 2021, it would have been "It's complicated."

For 2022, it's still going to be complicated ... only a little less so.

The insurance industry found itself forced to react (again) to a changing landscape due to pandemic-related factors. Various other anticipated issues and shifts contributed to, and furthered, a hard market. As we embark on a new year, **some of the trends impacting the insurance industry that you'll see mentioned throughout our 2022 outlook include:**

1. Inflation
2. Labor shortages
3. Supply chain issues
4. Gas prices
5. Cybercrime and ransomware
6. Large claims
7. Digital transformation

1. Inflation

The nation is experiencing its fastest rate of inflation in 31 years. From supply chain disruptions, due to pandemic production slow-downs and backlogs at ports across the country, prices are up on products like building materials and anything requiring a computer chip. The record-breaking housing market is the wildest it's ever been, pushing up home and rent prices everywhere. With the global chip shortage, the average used-car price reached a record $26,457 last year, up almost 30% from the beginning of the year.

2. Labor Shortages

Driving through towns across the country, "Help Wanted" signs in windows are now a familiar sight. The Great Resignation left many businesses desperate for help, and others in a constant mode of interviewing and hiring. Over 3 million Americans opted to retire in response to the pandemic, and other workers are choosing to hop to workplaces offering more flexibility and work/life balance. The shortage of workers is contributing to continued supply chain issues and majorly impacting transportation, an industry that was already in need of more drivers before the pandemic.

3. Supply Chain Issues

Many companies are still backlogged after pandemic production slow-downs, and they're not able to increase production without the workers or the infrastructure. Even if they did, there aren't enough drivers to ship more products or enough room at ports to hold the products. And with more store closings and pandemic variants circulating, online purchasing continues to grow. It's the perfect storm!

4. Gas Prices

Gas prices reached their highest point in seven years. Demand is now higher than this time last year as Americans return to the roads thanks to vaccines, and U.S. producing and refining hasn't kept up. Hurricane Ida shut down drilling in late August, and reserves are now low. The U.S. and other countries pushed for an increase in production, but OPEC only agreed to a modest increase.

5. Cybercrime and Ransomware

Cybercrime inflicted damages totaling $6 trillion in 2021, and that number is only going to climb. Since every business is highly reliant on technology and use of "the cloud" is growing with more remote working, every industry is vulnerable and in need of insurance coverage to protect their digital exposures.

6. Large Claims

While claim amounts are increasing across the board, more concerning are nuclear verdicts and the billions of dollars in claims as a result of natural disasters. The average jury award increased over 1000% since 2010, and 2021 was the second costliest year in the industry, thanks to natural disasters.

7. Digital Transformation

While the world is in the midst of transforming digitally, so is the insurance industry. Workers are adapting to being a hybrid workforce, insurers are adapting to the demands of their insureds, and underwriters are making use of the enormous amounts of data now being collected.

According to Adobe's "2022 Digital Trends" report, 87% of senior executives believe the events of 2020 and 2021 rewired customers to be digital-first. For the insurance industry, we expect to see the following in the coming year: legacy modernization of outdated systems, more cloud adoption and migration, and an increase in the use of automation, especially the automation of underwriting and claims workflows.

Let's review the current landscape of each major insurance vertical and the key trends to watch for the coming year. Our brokers are dedicated to ensuring you're always one step ahead of your competition and prepared for what's to come.

PROFESSIONAL LINES

Ransomware is hitting industries that cyber carriers never thought they would hit.

Premiums for professional lines soared to new heights in 2021, in some cases doubling and tripling. Rates will continue to climb in 2022, with the largest increases on Cyber Liability and Tech Professional policies. One factor that is slowing rate increases is additional capacity that new players brought to the market in 2021.

"Amidst rate increases, thorough marketing and robust negotiating will reveal the most competitive pricing, terms and conditions for each particular client. The financial condition, ownership structure, class and claim history characteristics of the insured must be collated with the wide ranging and rapidly changing underwriting guidelines among the various markets," says Michael De Feo, Senior Vice President of Jencap Specialty Insurance Services.

THE DIRE NEED FOR DIRECTORS AND OFFICERS COVERAGE

With pandemic-related backlogs in the court system, many suits involving Directors and Officers insurance, cybersecurity, IPOs involving SPACs (special purpose acquisition companies), and COVID-19 have yet to be litigated. Environmental, social, and governance issues are also increasingly important to shareholders, representing more possible risk of litigation. D&O insurance, covering individual persons as well as the business in the event of lawsuits, will become one of the most important coverages for large companies because of the wide range of risks it covers.

Issues we expect to impact D&O in 2022 include:

1. **Increasing Litigation**

   Around 10% of securities class-action suits filed in 2020 were related to the pandemic. Many of them are still working their way through backlogged courts. Lawsuits involving shareholder derivative actions are also increasing in U.S. courts on behalf of foreign companies.

2. **Cyber Risk**

   Companies are more exposed with increased work from home and cloud usage. Directors will be held accountable for making strategic decisions about security in the wake of the onslaught of ransomware attacks.

3. **SPAC Scrutiny**

   SPACs have grown in popularity due to their easier and faster track to access public markets. The number of SPAC mergers doubled in 2021 compared to 2020. These entities that carry a specific set of risks and losses are already flowing into the D&O market, which means they can expect greater scrutiny in 2022.

4. **Mergers & Acquisitions**

   M&A activity is on the rise, creating related exposures and issues. Merger-objection lawsuits are frequent, and some companies must accept significantly higher retentions specific to M&A claims. Target companies that failed to carry D&O leading up to their acquisitions are being compelled to purchase stand-alone runoff. Representations and Warranties and other Transactional Risk insurance products will be used more and more to facilitate deals.

5. **Insolvency Issues**

   Companies dealing with debt are typically a major cause of D&O claims. As government assistance given to businesses in 2020 is weaned and tapers off, the number of lawsuits related to debt will likely increase to normal levels.

6. **Environmental Issues**

   The "super storms" of 2021 have the public concentrating on the effects of climate change, and shareholders will be looking for more transparency around an organization's environmental impact. They'll hold directors more responsible for how businesses impact the environment. Natural disasters in 2022 will also lead to market volatility in the financial services industry.

HOAs AMIDST THE FLORIDA CONDO COLLAPSE

The total losses from the Champlain Towers collapse in South Florida last year is estimated to be at least $1 billion. While engineers are still determining the official cause of the collapse that killed 98 people, which could take years, insurance companies in South Florida are already sending notices to condominium associations older than 40 years, asking them to provide proof of recertification or forgo their policies.

The collapse is yet another example of the need for D&O coverage since, if engineers find the cause is related to bad decision making on the part of condo association board members, those individuals could be held liable. The collapse has also shaken the industry, which will certainly be more highly scrutinizing maintenance logs and repair records in 2022, as well as requiring more frequent inspections.

HACKERS AT THE HELM

Cybercrime is expected to cost the world $10.5 trillion annually by 2025. The average ransomware payment also increased by 82% in 2021 to $570,000. The stats are creating a huge demand, but due to a lack of reinsurance capacity, the supply is low. The theme of 2022, supply and demand, rears its ugly head once again.

With 2021 rate hikes more than doubling in some instances, our eyes are on reinsurers in the next year. We're watching to see if they approve of the rate hikes and increased scrutiny and will respond to those moves by opening up capacity.

Deborah Dioguardi, Vice President of Jencap Specialty Insurance Services, says rates are increasing so severely because of the increased risk to non-essential businesses. "Ransomware is hitting industries that cyber carriers never thought they would hit. It's not just healthcare; it's going after your day-to-day manufacturers, your mom and pop shops and nonprofits. Cyber carriers in the past had rated those classes of business as lower risk so they were priced lower. So at renewal, we are seeing manufacturers' cyber policies go from, let's say, $6,000 to $20,000."

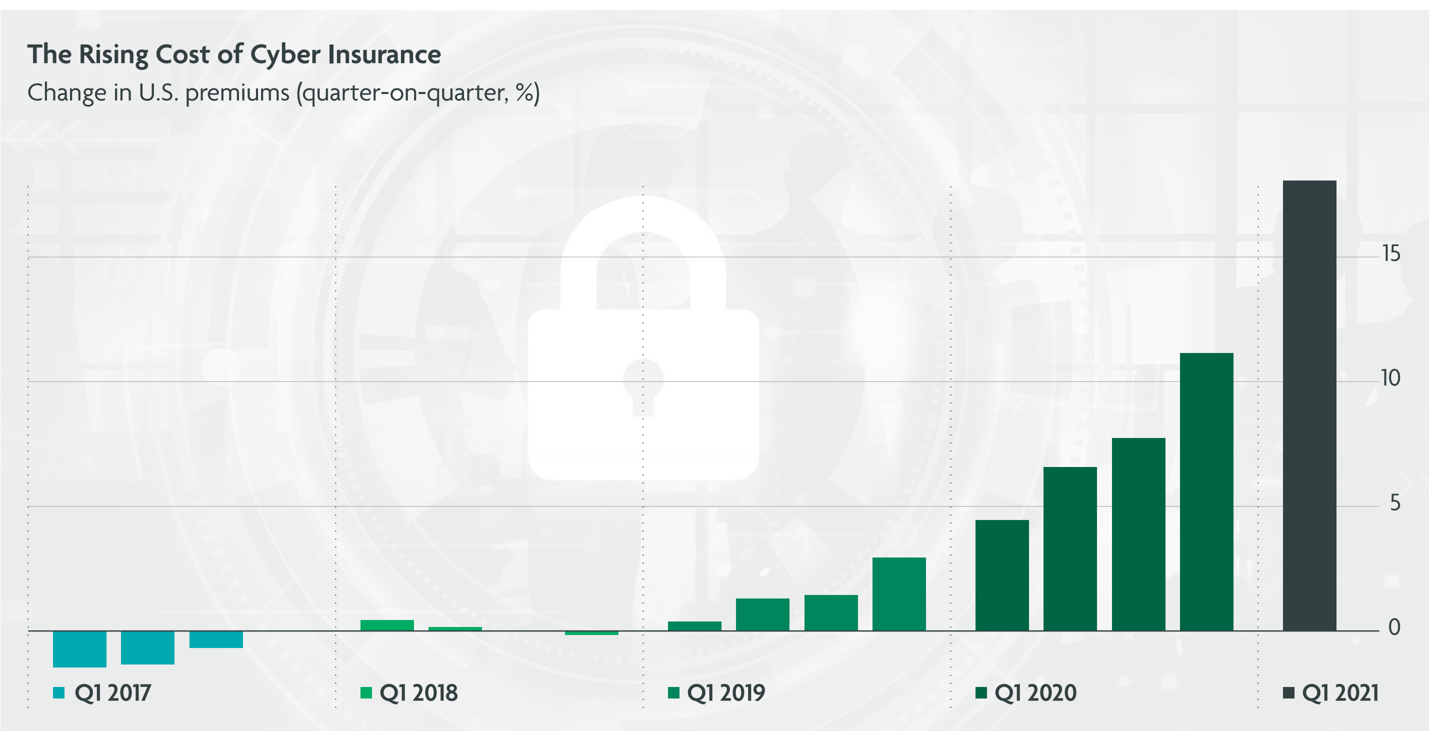
Because these days it seems it's not a matter of "if" someone gets hit by a cyber attack but "when," the industry is doing its best to keep up and mitigate their own exposures. Some clients may see rate increases more than double their previous premium, which seems outrageous, but it's necessary to keep the market stable.

When Professional Lines renewals come around in 2022, brokers and agents should expect to see:

- Rate increases
- Reduced capacity
- Ransomware sub-limits
- Coinsurance
- Higher deductibles
- Supplemental applications

"In 2022, you're also going to see carriers limiting certain areas of the cyber policy that they've never sub-limited previously—for example, cyber extortion. It's never been more important to work with a wholesaler who truly specializes in Professional Lines insurance," says Dioguardi.

In expectation of the above, agents should engage their clients four to six months ahead of their renewal dates. That will give them time to put risk mitigation measures in place that could help make rates more reasonable. Insurers will be looking to see if businesses enforce multi-factor authentication across the network, conduct regular employee cybersecurity training, secure remote desktop protocol, complete software patches and updates on schedule, and use detection and response tools to detect cyber threats.



Source: Council of Insurance Agents and Brokers ©FT

CASUALTY

The average size of jury awards jumped almost 1000% from 2010 to 2018, reaching $22 million, and 2019 saw a 300% increase of verdicts of $20 million or higher.

Nuclear jury verdicts and claims litigation costs have long ruled the casualty market, and that won't end in 2022. What will help the casualty industry stabilize this year is Excess Liability as new players enter the market.

Overall, underwriting and pricing will be fluid. Carriers will be continuously reacting to the changing conditions in this industry, and they may be open to changing their positions over the course of renewal discussions. **The key for attaining the most competitive and accurate rates will be for insureds and agents to paint a comprehensive picture of the risks involved.**

"You really can't get away with the minimum amount of information anymore. It will get you a quote, but it might not get you the best quote that could be obtained if you spend a little bit more time detailing the risk," says Managing Director of Jencap Specialty Insurance Services, Joe Hayes. "Since we have to build excess capacity with more players, and it takes time to build more capacity, you have to ensure that your accounts get to the top of the underwriting stack. That means laying your risk out in a format that the carrier can look at and know, after they look through a few sentences on exposures and operations and look at a loss summary, if they want to fish or cut bait."

NUCLEAR VERDICTS

This past year, the courts upheld a premises liability verdict against CVS totaling $43 million, ruling that the company failed to take security measures to prevent the shooting of a patron. This verdict came a year after juries forced Kroger to award $70 million to a man shot in their parking lot, and that same year gave $52 million to a man shot outside a convenience store. According to Verisk, **the average size of jury awards jumped almost 1000% from 2010 to 2018, reaching $22 million, and 2019 saw a 300% increase of verdicts of $20 million or higher**.

"We have seen several nuclear verdicts across the U.S. on premises liability cases involving criminal acts, and inadequate security is a common thread that juries have cited," said Mark Friedlander, Director of Communications for the Insurance Information Institute. "As a result, some commercial insurers have refined their underwriting standards to ensure their retail business insureds have adequate security measures in place."

In addition to skyrocketing awards, the pandemic closed courtrooms in 2020, backlogging the system across the country. It could take as long as three years for the backlog to be relieved in some areas. **The cases that drove the market are still there, and thanks to inflation, the cost of litigation will continue to grow.** One bright spot is the fact that the backlog could benefit insurers in the long run since some plaintiffs, tired of waiting on the courts, may decide to accept settlement offers. Overall, expect more rate increases in Casualty in 2022.

EXCESS LIABILITY

A lack of capacity caused Excess to be completely unpredictable last year. Total global capacity declined from $2.2 billion in 2018 to $1.4 billion in 2021, causing underwriters to become insurance MacGyvers in order to build Excess towers.

Hayes says, "Two or three years ago, we would build a $100-million Excess tower with four carriers, five at the most. Now you have to build that same tower with a minimum of six carriers in the E&S world, and sometimes up to 12. You also have to know your markets' appetite perfectly so you can maximize their capacity line at the most competitive cost."

PFAS AND POLLUTION LIABILITY

The insurance industry is expecting to see Pollution Liability majorly impacted in the coming year. Litigation for PFAS (per and polyfluoroalkyl substances) is looming in the marketplace, but stalled due to the lack of EPA guidelines determining what levels

are considered "toxic." Federal regulators will soon release these guidelines, estimated in the next 12 to 18 months.

"Once those regulations are propagated, there will be a tsunami of litigation," says Canaan Crouch, Managing Director of Jencap Specialty Insurance Services. "In terms of toxicity, the proposed regulation model is around 70 parts per trillion. To give you an idea, that's like one drop of PFAS in an olympic-sized swimming pool."

While new policies are being written with PFAS exclusions, long-term policies written years ago don't have those exclusions. With the longest policy terms being 10 years, there could be many without exclusions who have years left on their policies. Those policies are the ones that may be subject to large claims involving PFAS exposure and clean-up.

"Once the regulations are in place, it'll take some time for lawyers to start building cases and for litigation to begin and then build. We're not too concerned about it impacting the overall health of the environmental side right now because the industry is getting ahead of the curve," says Crouch.

The estimated litigation costs to chemical companies alone is at least $2 billion, which doesn't include potential liability for companies who used PFAS in the manufacturing of their products or companies that sold or used products made with PFAS. Businesses who'll be most subject to PFAS claims will be those that have used fire retardants—fire departments, airports, landfills, and cities/municipalities.

COMMERCIAL PROPERTY

When it comes to insuring property, 2022 will be about having the right underwriter.

Since the pandemic began, 69% of American businesses have closed some or all of their office space, opting for remote or hybrid work. Microsoft recently announced it'll allow more employees to work from home permanently and forego individual offices for an open office space with available workspaces for hybrid workers. **Underwriting of property exposures has taken on a new set of challenges with changes in operations, reduction in business interruption values, and increased vacancies on property portfolios.**

Despite the massive change in workplaces, **A.M. Best & Co. revised its 2022 outlook for the commercial property market from negative to stable**, mostly because of continued underwriting disciplines and ongoing rate increases.

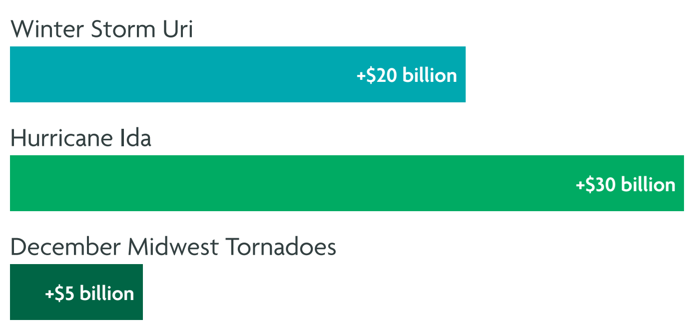
Additional capacity continues to enter this sector of the market, however, underwriting remains disciplined. With more capacity, insurance programs are able to backfill reductions in capacity that may have evolved on their program due to ongoing efforts by incumbent insurers to manage their underwriting portfolio. Clients' risk mitigation efforts over the past few years are also making a positive impact, and incumbent carriers are now in positions to expand capacity and offer more favorable conditions. Supply chain issues may continue to push rates up through 2022, however rate increases are decelerating.

"While the rate environment has decelerated over the past couple of quarters on a macro level, the individual characteristics of each risk and the go-forward business plan of the insurance carrier(s) can change the outcome," says Joel Troisi, Southeast President of Jencap Insurance Services. "We encourage clients to speak with their representatives about the specific aspects of their risk transfer program and how they correlate with the overall market environment."

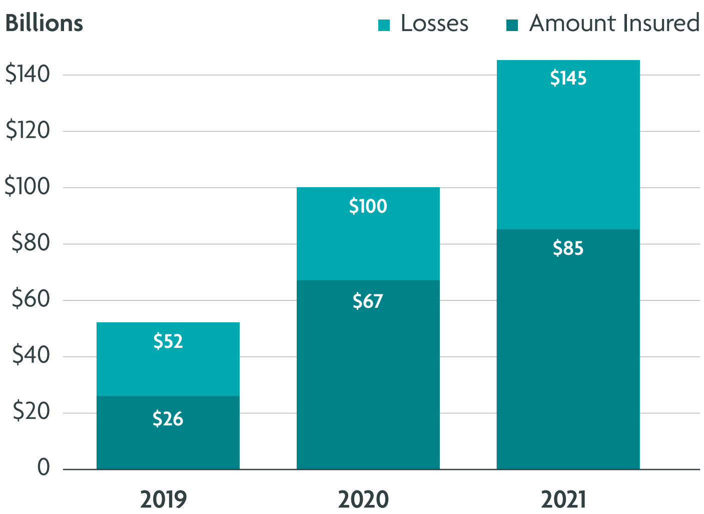
CATASTROPHE ACTIVITY

Above-average catastrophe activity keeps contributing to rising property rates. **2021 was the second costliest year on record for the insurance industry thanks to natural disasters ($145 billion), and overall losses were the fourth highest on record.** At $146 billion in inflation-adjusted losses, 2017 is the only year ahead of it.

Major Catastrophic Insured Losses in 2021



U.S. Losses to Natural Disasters



Source: www.businessinsurance.com

Inflation, supply chain issues, labor shortages, and gas prices all contributed to increased construction costs last year, impacting repair and replacement costs of all the property lost or damaged. **The cost of a commercial project increased by 6% in 2021 and is expected to increase by approximately the same amount in 2022.**

With so much price fluctuation, underwriters remain vigilant in their analysis of valuations, which directly links to underwriting and modeling a risk. Carriers are also honing in on those valuations and forcing increases on undervalued properties.

Greater underwriting scrutiny as a result of tornado/hail, winter storms, and wildfire exposures will continue this year. Insurers anticipated the weather catastrophes and increased prices last year, so they proactively applied rate and capacity actions and continued efforts to ensure properties were evaluated adequately. This has put them in a better position going into 2022.

According to Bruce Norris, Director of Jencap Specialty Insurance Services, underwriters are doing a better job of gathering information about the secondary characteristics of properties, which is helping them better assess risks. “If you have a 1940’s wood-frame apartment building, it may not be bolted to the foundation, which the model will assume is the case. When updating properties, they can go in there and secure the foundation to the frame. Figuring out if that’s been done can help improve the results given by the model,” says Norris.

While insurers have learned to rely on CAT modeling for earthquakes and hurricanes to price premiums, **insurers will increase their use of modeling for wildfires and floods in 2022**. With more and more data on both phenomena now accumulated, the modeling processes have improved and are continuing to do so, becoming more helpful to underwriters.

Norris says, “When it comes to insuring property, 2022 will be about having the right underwriter. The experienced underwriter will know if a risk is a good one, and if a model doesn’t agree, they’ll use a different model, look at the secondary characteristics, see what precautions the insured can put in place, and do what they need to do to work within the system. You can’t be blinded by the model. The art is still in the old-fashioned underwriting of a risk.”

COMMERCIAL TRANSPORTATION

Last Mile Delivery industry was valued at $18.7 billion in 2020 and is expected to grow to $62.7 billion in 2027.

Transportation is an industry where rate increases haven’t been able to catch up to loss costs, making profitability a challenge. In addition to inflation and labor shortages, auto repair and medical treatment price tags continue to increase and impact loss costs further.

“If you break a hip in an accident, the cost today is much higher, which means the loss costs are going to be higher. The same claim today costs substantially more than it did five years ago,” says John Ware, Vice President of Jencap Insurance Services. According to PwC’s Health Research Institute, medical costs have increased by an average of 5.9% every year for the last 10 years and will rise another 6% this year.

However, the industry is in a better position coming into 2022 compared to the last several years, thanks to improved pricing and clients working to gain improved risk management and loss control. Rate increases will continue, but more slowly. The increases are necessary for insurers to move the transportation market toward being more profitable. The ability to push rates, particularly in an inflationary economy, will be an important task over the next 12 to 18 months.

THE BOOM OF LAST MILE DELIVERY

Thanks to the pandemic fueling online shopping and local delivery, the last mile delivery industry is fast growing. Last mile delivery refers to the very last step in the process of delivering goods, when a package goes from a transportation hub to its final destination (usually a home, business, or retail store). **This industry was valued at $18.7 billion in 2020 and is expected to grow to $62.7 billion in 2027**.

Despite the enormous demand and growth, insurers have been reluctant to quote this line of business because of its lack of profitability and the many independent contractors who use their own vehicles. When employers don't own or manage the trucks, it becomes much harder to put safety and maintenance measures into place to mitigate risk and collect data from onboard transportation technology. Low capacity, the labor shortage, higher gas prices, and a supply shortage of new vehicles are all factors contributing to slowing the growth of this booming industry.

Ware says **the key to more last mile delivery businesses entering the market or growing their current fleets is for them to be proactive with their drivers and with their equipment** in order to get coverage for a manageable rate. Proactive businesses that can secure coverage for significantly less than their competitors will be profitable in a tough economy.

"We'll continue to see a migration towards transportation data and analytics to understand driver habits and proactively deal with driver or maintenance issues with equipment. Transportation tech that provides direct communication from the equipment to provide service alerts can prevent loss from equipment failure or breakdowns," says Ware.

Electronic logging devices, or telematics, have been required for long-haul drivers since 2017. It's possible insurers may start requiring this tech in last-mile delivery vehicles in 2022, or businesses will begin using it on their own in order to mitigate risk and secure better rates.

The businesses to keep an eye on in 2022 are the smaller operations. As larger fleets with more available capital purchase and integrate new technology into their fleets, they'll have the tech tools to manage and take advantage of the data they capture from their trucks. That data will help them continue to mitigate risk and give insurers a better picture of their operations, allowing for better rates. **Smaller operations without the ability to capitalize on new technology may start to pay higher rates that will impact their bottom lines.**

OUT WITH THE NEW, IN WITH THE OLD

The global chip shortage and pandemic-related production shutdowns have made new vehicles scarce and expensive, pushing the demand for pre-owned vehicles up significantly. The average cost of a used car increased 30% since the beginning of last year.

Higher price tags on used and new autos means fleet owners will be paying higher premiums. It's going to cost more to repair and replace fleet vehicles until production returns to pre-pandemic levels. Insureds will be looking for ways to offset higher costs with safety and mitigation measures.

THE IMPACT OF NEW LEGISLATION

With the trucking industry facing a shortage of qualified drivers, the U.S. government is setting up an apprenticeship program for young truckers. The new program will allow people as young as 18 to drive big interstate semi-trucks. But with insurers already reluctant to take on young drivers without experience, it remains to be seen if businesses will have anywhere to go for insurance coverage.

Many insurers will consider these young drivers too great a risk to take, or accept the risk at a substantial premium many transportation businesses won't be able to afford. The government may loosen regulations this year, but that doesn't mean the insurance industry will do the same. The government could put a self-insurance vehicle in place to fill the void in the private market.

A FLEET WITH NO DRIVERS?

Don't go thinking we'll see driverless 18-wheelers in 2022—the public and the industry are far off from accepting that risk. But with improving driver-assistance technology, we can expect to see more of this technology being used by fleet vehicles and their drivers in 2022. The immediate future of transportation looks to include a combination of experienced operators and innovative technology implementation.

Blind-spot alerts when changing lanes, brake assist, controlling speed, vehicles that alert drivers when they're veering out of a lane, and even vehicles that sense when a driver may be nodding off and alert them in response—all of these features can help mitigate risk in the last-mile sector. That's a win-win for insurers and employees.

WORKERS' COMPENSATION

If there's one bright jewel in the crown of insurance profitability today, it would be Workers' Compensation with surprisingly low claims in 2021. Having a significant amount of remote and hybrid work, as well as a worker shortage due to many choosing not to return to work, are some key factors contributing to the lower claims threshold.

These factors put the market in a great position going into 2022, and rates will remain flat or even decrease throughout most of the country. Right now, medical inflation is persistent and may impact the cost of claims, but the industry is strong enough to absorb the impact.

PANDEMIC IMPACT IN 2022

Workers' Compensation continues to be the line with the most pandemic-related claims, although approximately 95% of claims totaled less than $10,000. Through August 2021, healthcare workers and first responders accounted for over three-fourths of all COVID claims.

Before 2020, Workers' Compensation presumption laws focused mostly on first responders, but government leaders temporarily expanded them to include essential workers. While many of these laws will expire in 2022, the expansions will set a precedent for covering all essential workers and more infectious diseases in the future. A workplace outbreak will be more likely to be covered by Workers' Compensation if:

- There is presumptive legislation creating a pathway for claims.
- There is an elevated risk of contracting a communicable disease because of the line of work.
- There is appropriate contact tracing and it's easy to determine the time and place of transmission.
- There are state statutes and precedents in favor of Workers' Compensation claimants.

The focus on COVID-19-related claims and vaccination mandates observed in late 2021 will continue this year; particularly for the states that pre-filed Workers' Compensation related COVID-19 vaccination legislation for the 2022 legislative session (Alabama, Kentucky, New Hampshire and South Carolina).

In terms of remote and hybrid work, the pandemic has created more uncertainty in defining "employment." Many employers may have to modify class codes, add additional states to their policies to account for all remote workers, and establish guidelines for working from home. More claims from ergonomic issues are expected in 2022 due to workers conducting business in remote spaces that aren't designed for work.

There are states considering legislation to reverse the ability for employers to direct care in the event of a claim. The legislation would majorly impact Workers' Compensation insureds in California and Colorado.

WORKERS' COMPENSATION AND CANNABIS

Congress is getting serious about descheduling marijuana, and federal legalization of cannabis could come in 2022. With this move, Workers' Compensation will need to tackle issues concerning the use and reimbursement of marijuana for medical purposes.

According to a recent report published by the National Council on Compensation Insurance, legislation to legalize marijuana will be considered by several states in 2022, including Iowa, Kansas, Maryland, Nebraska and Rhode Island, and potentially others where efforts to consider ballot measures to legalize marijuana during the November 2022 elections have been observed.

The industry will also be keeping an eye on states like New York and New Jersey—both are considering laws to require Workers' Compensation and auto insurance insurers to reimburse for medical marijuana, especially in the wake of recent litigation. Five states currently allow reimbursement for medical marijuana through Workers' Comp, recently down from six. In a recent state Supreme Court decision, Minnesota reversed its stance since marijuana is still considered a Schedule 1 controlled substance at the Federal level. If U.S. legislators deschedule cannabis in 2022, it'll give courts the leeway to quickly reverse decisions like these.

There are many issues to consider when it comes to covering medicinal use of marijuana in Workers' Compensation claims, such as abiding by drug-free workplace requirements, but there are also recent studies claiming that use of medical marijuana decreases claims costs. More research and time will tell if covering cannabis will have a positive or negative effect on the insurance industry.

PERSONAL LINES

Looking at last year's losses, over half were associated with secondary perils.

The Personal Lines sector experienced a small underwriting loss in 2021, driven by wildfires and major storms. However, the outlook is stable, according to A.M. Best, mostly due to smart investments, more underwriting scrutiny, and the use of technology in the post-pandemic environment. New technology and data analytics strengthened underwriting, claims handling, and rate establishment.

The recent tornadoes that tore through Kentucky and the Midwest in December pushed claims over the $105 billion mark that experts estimated for 2021, which will certainly impact premiums in 2022. "We're seeing more expensive catastrophic events across the U.S. this year, including 18 weather disasters with losses that each exceed $1 billion," says Mark Friedlander of the Insurance Information Institute. With reinsurance costs still high, carriers will struggle to pass on the costs to clients due to regulations in certain states or for fear of decreased retention.

Thankfully, insureds shouldn't see homeowners rates increase by 20-30% like they did in 2021. While most will avoid double-digit hikes, those with previous losses or with cat-exposed properties won't be so lucky. Insurance agents will rely more and more on the Excess and Surplus Lines marketplace to secure coverage for those risks.

... AND THEN THERE'S FLORIDA

After years of fraudulent claims and abusive lawsuits, homeowners' rates soared last year with hikes in the double digits, putting property insurance in a state of crisis in Florida. Since 2013, insurers paid out $15 billion in claims in the state, and homeowners' lawsuits made up more than 76% of litigation against insurers nationwide.

In response to the fraud, the state passed significant property insurance claims legislation last year. For many dealing with the rate hikes on both sides, the new laws are too little too late. Two important measures were left out of the bill: elimination of the state's attorney fee multiplier and a provision allowing insurers to implement language that would mitigate roof replacement costs.

"In my view, the most important provisions are the ones that didn't get in it," says Joseph Petrelli, president and founder of ratings analysis firm Demotech, which rates more than 40 Florida domestic insurers. Petrelli warned that it'll be harder for insurers to become financially stable and sustain "A" ratings without those provisions.

What did make it into the legislation was a change to the one-way attorney fee statute and a way to fine roofing contractors who solicit homeowners resulting in claims. The Band-Aid may make a small impact in 2022, but we don't anticipate there being major changes to Florida's homeowners insurance outlook anytime soon.

IT'S NOT JUST MAJOR STORMS

In the next year, keeping an eye on secondary perils will be just as important as monitoring catastrophic losses. Secondary perils include smaller storms that bring hail, high winds, tornadoes and disasters like floods and mudslides (which now have an increased probability thanks to hillsides lacking trees after major wildfires).

Due to the challenges associated with climate change, secondary perils are becoming just as problematic, and insurers are bracing for more of those claims in 2022. The December tornadoes that tore through the Midwest cost insurers $5 billion alone. **Looking at last year's losses, over half were associated with secondary perils,** most notably December's tornadoes and Winter Storm Uri.

NEW HOMES AND AUTOS

The U.S. Census found that 12.3 million American households were formed from January 2012 to June 2021, but just seven million new single-family homes were built during that time. The nation is short five million homes. In addition, **the cost of building a home increased by almost 30% in 2021**. The issues impacting the price of materials mentioned above won't alleviate much in 2022, contributing to a slow-down in home construction. Automobile insurance continues to lack profitability, especially with driver frequency returning to pre-COVID levels and inflation driving medical costs and the dollar amount of claims.

WHAT TO WATCH IN 2022

Backlogged Cases in Casualty

Since those with lawsuits may get tired of waiting for their day in court with all the backlogged cases, they may be more willing to settle with insurance carriers. Keep an eye on settlements in 2022, as well as escalating court costs.

EPA Regulations

The minute the EPA puts a PFAS threshold regulation into place, the lawyers will begin putting their suits together. We're watching EPA announcements, expecting the first PFAS lawsuit to come in the months following new regulations.

Self-Regulation in Transportation

Now that the U.S. government is officially setting up an apprenticeship program for truck drivers as young as 18, we're expecting to see self-regulation by businesses and insurers. Businesses concerned about high rates will probably require their drivers to be at least 21 despite the allowance, and insurers may not be willing to insure drivers as young as 18 at all. We're also keeping an eye on telematics and how they will be used to mitigate risk and secure better rates.

Secondary Perils

Hurricanes are easier to prepare for, as we typically have days of advanced notice that one is approaching. However, secondary perils are completely unpredictable. Insurers need to keep an eye on the frequency of these disasters and their locations to better determine areas more prone to these events.

Mergers & Acquisitions

The corporate world made $2.9 trillion worth of M&A transactions in 2021, up from $1.9 trillion in 2020. Experts expect the number of mergers will continue to be high in 2022, but might be limited by high valuations and inflation. The industry needs to keep an eye on the D&O claims that roll in as a result of these mergers to make sure this professional coverage remains profitable.

Cyber Policy Changes

With the massive influx of cyber attacks countrywide, no industry is safe. Cyber insurance carriers, in an effort to remain profitable, are beginning to sub-limit critically important coverages that used to be standard in the policy—for example, cyber extortion. Pay attention to other areas where carriers might limit cyber coverage in the coming year.

Presumption Law Expansions

With new COVID variants infecting even the vaccinated, we can expect more pandemic-related Workers' Compensation claims in 2022. Because of the new variants, we could see presumption law expansions extended, or expired expansion laws still upheld for non-first responders due to precedent. We're keeping an eye on state law-makers, especially in key states like New York and California.

Legalization of Marijuana

The cannabis industry is one to watch as more states across the country (six specifically) plan to expand legal use of medicinal and/or recreational marijuana this year. Legislators and lawmakers looking to deschedule marijuana at the Federal level began efforts to legalize marijuana in 25 states, getting official measures on the books for 2022. Cannabis sales should surpass $26 billion for 2021, and the market is **expected to grow 20-30% every year, reaching $50 billion by 2026**.

CONCLUSION

After two years of unprecedented pandemic-related disruption, combined with extreme weather events, the evolution of the workplace, a rise in cybercrime, inflation, supply and labor shortages, and new virus variants, the insurance industry will continue to navigate "our new normal" in 2022. Things were certainly complicated in 2021, leading to more complex, nuanced insurance claims, a trend that will continue into the new year. Independent agents across the country will continue relying on Jencap's specialty brokers and underwriters to oversee their most complex and important accounts in 2022. Jencap's specialized divisions and affiliate companies will, as always, offer niche expertise, unparalleled market access, and national influence. Our talented team will provide exceptional knowledge, counsel, and service. In addition, Jencap's subject matter experts continue to stay informed about the latest trends and forecasts, examining how these changes will impact the insurance industry and our clients. Jencap's experts are ready for what's ahead, and will help protect our clients from whatever the future brings.

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