CBIZ
INSURANCE
SERVICES, INC.

2023 Property & Casualty Market Outlook

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CBIZ INSURANCE SERVICES, INC.

Thriving in a Shifting Market

Businesses and the insurance industry have seen numerous unprecedented challenges since 2019. A multitude of external factors has led insurance companies to reevaluate their market position. The property and casualty insurance market has been fundamentally reshaped by the increased frequency of severe claims, recession uncertainty, social inflation concerns, persisting COVID-19 obstacles, cybercrime trends and catastrophic natural disasters.

Conquering Operational Obstacles

The commercial insurance industry has experienced additional challenges to market cycles and operating procedures. Specifically, 2022 once again accelerated a hardening insurance marketplace that was less friendly to insurance buyers. Many insureds discovered lower capacity, stricter underwriting and rising premiums across most commercial lines.

Staying Positive Through the Hardening Market

Businesses are noticing some positive indicators despite hardened insurance market conditions. The second half of 2022 saw a gradual softening of the insurance market for certain lines. While historically high averages are still projected and insurance companies are applying rate increases, the scale of such escalations has decelerated. Despite these indicators, several lines — cyber liability, fiduciary liability and commercial auto insurance — are still amid hardening markets.

Embracing New Challenges

Now in its third year, the pandemic continues to be an influential factor in workplace adjustments and operational obstacles. Businesses of all sizes and sectors have also faced disruptive supply chain issues and labor shortages.

Record-setting inflation trends, growing recession concerns and international events — namely, the Russia-Ukraine war — have intensified commercial exposures. Cumulatively, these factors are predicted to pose persistent coverage concerns with increasing claims and their related costs.

In 2023, insurance buyers should expect a challenging insurance environment but one that will look better than in 2022. Regardless, your business should take a proactive approach to bolster risk management efforts and secure adequate insurance coverage. Amid an insurance and risk environment with many unknowns, focus on addressing the factors you can influence.

> Your business should take a proactive approach to bolster risk management efforts and secure adequate insurance coverage.

We're Here to Help You to Understand the Market

Our insurance experts understand your unique business risks and the dynamics of the current insurance landscape. They're an essential partner to create targeted loss-control solutions.

During these challenging times, CBIZ Insurance Services, Inc. is primed to provide the insurance guidance and expertise your business needs.

Navigating the Insurance Market Cycle — Hard vs. Soft Markets

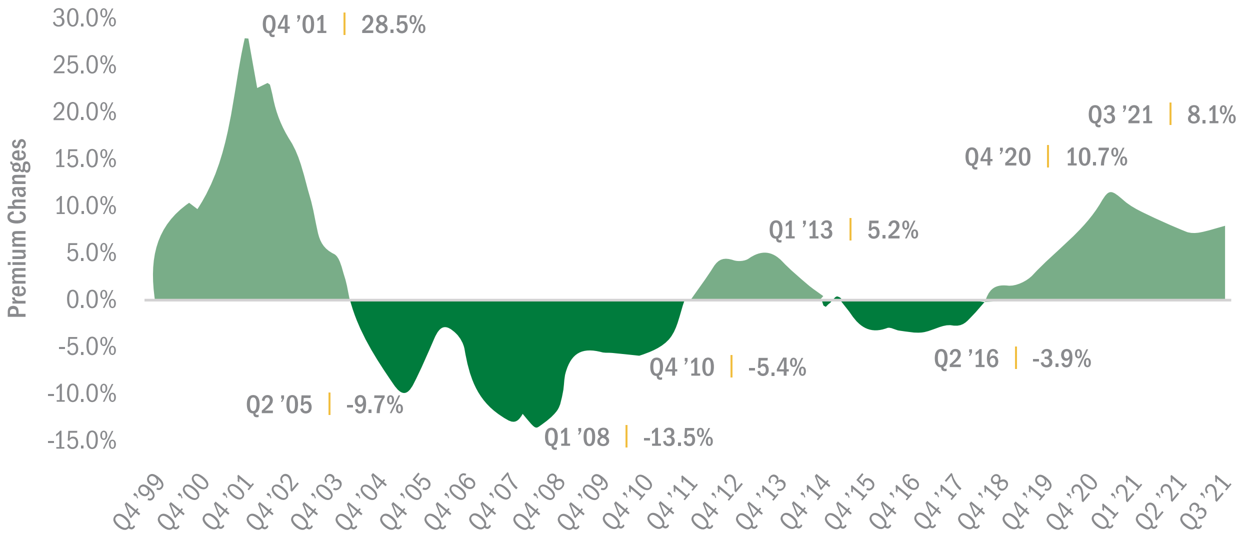
The commercial insurance market is cyclical in nature, fluctuating between hard and soft markets. Understanding the differences and what to expect is important as these cycles affect the availability, terms and price of commercial insurance.

A **soft market** (buyer's market) is characterized by stable or even lowered premiums, broader terms of coverage, increased capacity, higher available limits of liability, easier access to excess layers of liability and competition among insurance carriers for new business.

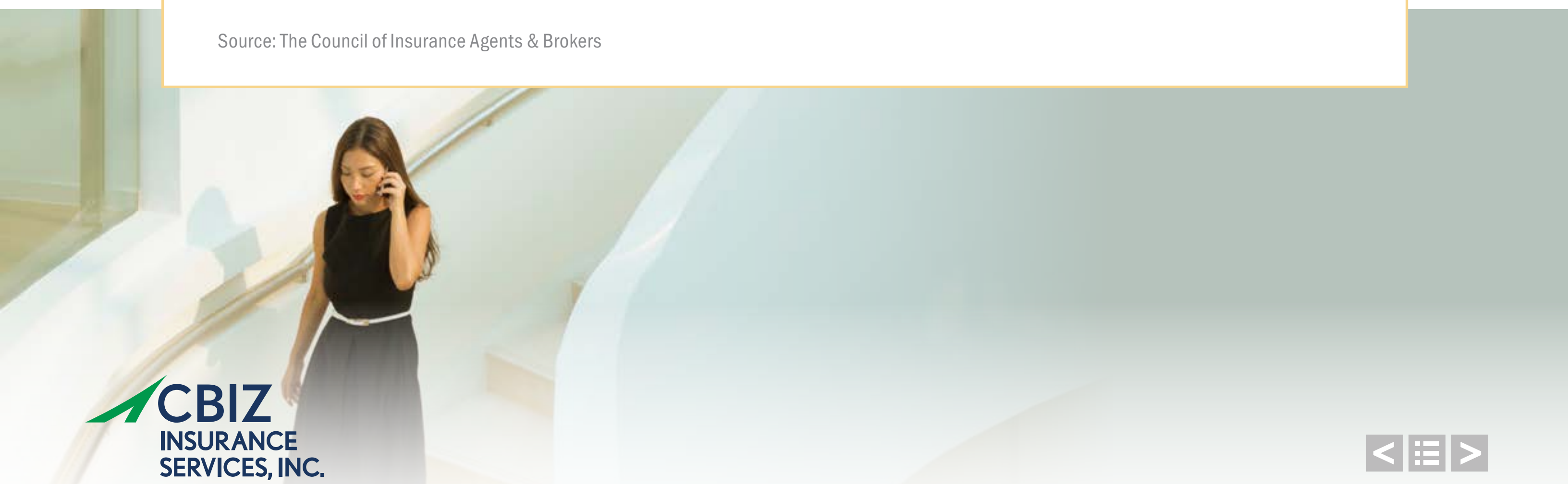
A **hard market** (seller's market) is characterized by increased premium costs for insureds, stricter underwriting criteria, less capacity, restricted terms of coverage and less competition among insurance carriers for new business.

During a hard market, some businesses may receive conditional or nonrenewal notices from their insurance carrier. Further, carriers are more likely to exit certain unprofitable lines of insurance.

AVERAGE PREMIUM CHANGES 1999-2022



Source: The Council of Insurance Agents & Brokers



Factors Driving the Hardening Market

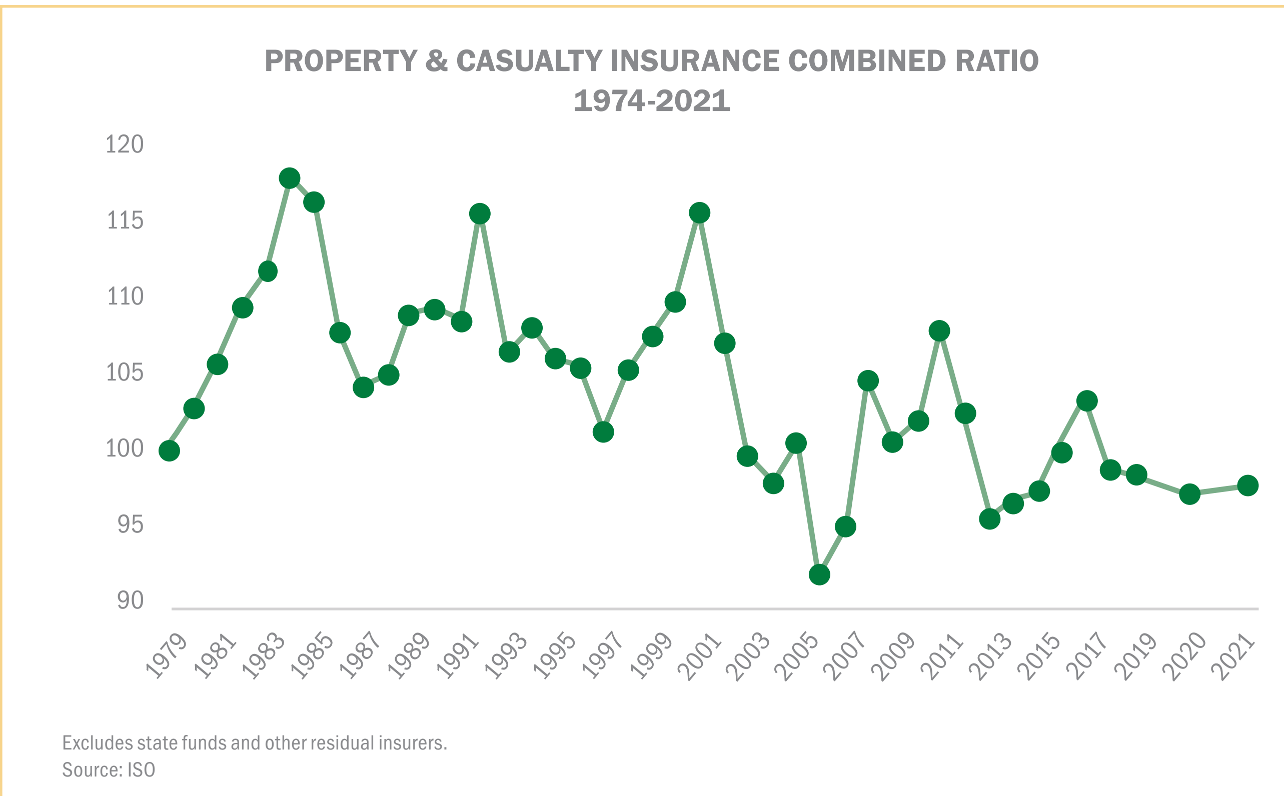
Catastrophic (CAT) Losses

Floods, hurricanes, wildfires and similar disasters are increasingly common and devastating. Continual years of expensive disasters have compounded losses for insurers and driven up the cost of coverage overall, especially commercial property policies.

Inconsistent Underwriting Profits

Underwriting profit refers to the difference between the premiums collected and the fiscal responsibility issued for claims and expenses. This occurs when the insurance company collects more in premiums than it distributes in claims and expenses. Conversely, an insurance company that pays more in premium claims and expenses than it collects will sustain an underwriting loss.

A combined ratio after dividends is a measure of underwriting profitability. This ratio reflects the percentage of each premium dollar an insurance company puts toward spending on claims and expenses. A combined ratio above 100 indicates an underwriting loss. Insurance companies don't generate profits from their underwriting operations. In the past 10 years, the commercial insurance industry has only had a combined ratio under 100 four times.

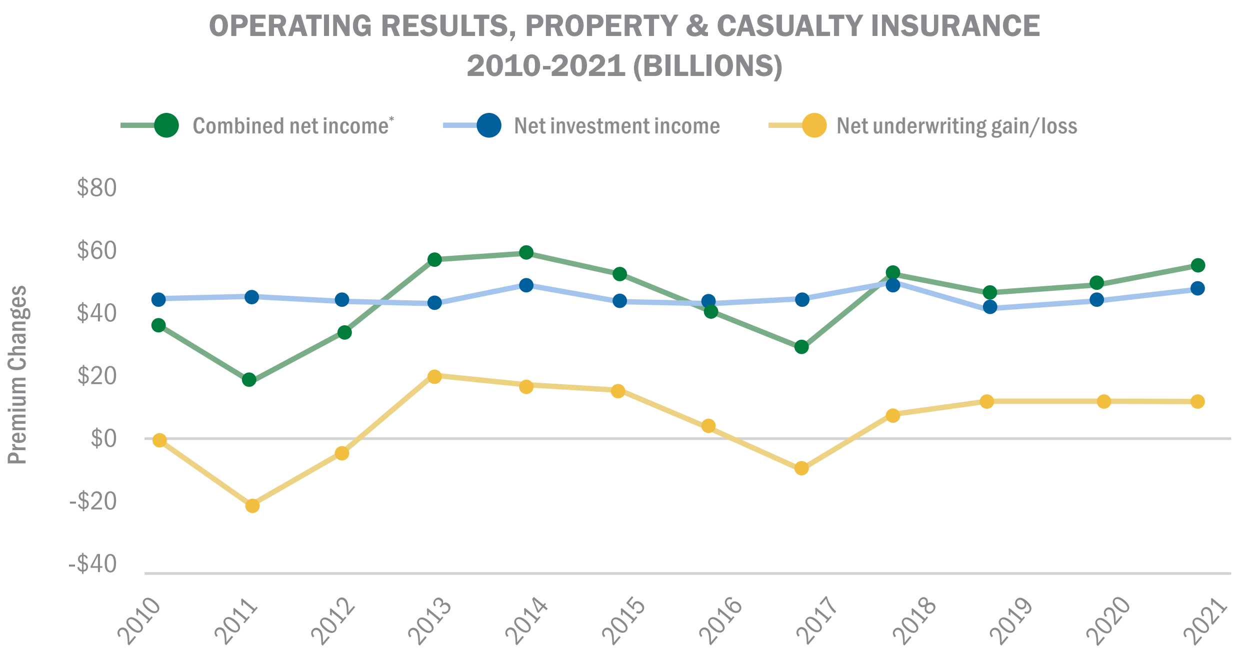


Excludes state funds and other residual insurers.
Source: ISO

Mixed Investment Returns

Insurance companies also generate income through investments. Many invest in various stocks, bonds, mortgages and real estate investments. Due to regulations, insurance companies invest significantly in bonds that provide stability against variances in underwriting results.

When interest rates are high and returns from other investments are solid, insurance companies can make up underwriting losses through their investment income. The current market's low-interest rates force insurers to closely monitor underwriting standards and other investment returns.



Excludes state funds and other residual insurers.
*Net underwriting gain/loss plus net investment income
Source: NAIC, S&P and Insurance Information Institute

The Economy

The economy as a whole affects an insurance company's ability to write new policies. During periods of economic downturn and uncertainty, some businesses may purchase less coverage or forgo insurance altogether. Premiums are factors against a business' revenue and payroll. Any decline in these areas influences less premium income for insurers.

Historic Inflation

Prolonged periods of inflation can challenge insurance carriers to maintain coverage pricing and keep pace with more volatile loss trends. Unanticipated increases in loss expenses can result in higher incurred loss ratios for insurance carriers, particularly as inflation affects key cost factors (e.g., medical care, litigation, construction expenses). In 2022, rising inflation particularly influenced the commercial property and auto segments by way of higher costs for building materials, auto parts and skilled labor. A looming recession is expected to continue during 2023 and potentially contribute to increased coverage costs.

Cost of Reinsurance

Reinsurance is coverage for insurance companies. Carriers purchase reinsurance for risks they can't or don't want to fully retain. This is especially true for severe weather events, such as hurricanes and wildfires. Reinsurance allows primary insurers to protect against unforeseen or extraordinary losses and helps premiums to stabilize by decreasing the risk for insurance carriers to write a policy. However, reinsurers are exposed to several of the same events and trends that affect insurance companies. For 2023, reinsurance is becoming more expensive to obtain and is reflected in the overall cost of insurance for businesses.

Six Additional Factors That Influence Your Insurance Rates

Coverage Options — The types of insurance needed and the coverage details (e.g., limits of liability, the value of insured property) will affect your insurance pricing.

Size of Business — Generally, the more workers you employ, the larger the revenue and the more you will pay for coverage.

Industry — Certain sectors carry more risk than others. Businesses in high-risk industries (e.g., construction, health care) are more likely to file insurance claims and pay more in insurance premiums.

Geographic Location — If your business is in an area prone to certain natural disasters, insurers may consider your facility at a higher risk for property damage. This increased exposure will translate to higher insurance rates.

Claims (Loss) History — An extensive claims (loss) history predicts a company's likeliness to file future claims. These businesses are considered risky and subject to higher commercial insurance premiums.

Risk Management Practices — A careful assessment of your business' unique exposures and implementation of effective, well-documented risk management practices are attractive to insurance carriers. A robust risk management program reduces the likelihood of expensive claims and minimizes potential unexpected losses.

The current hardened market will force insurance buyers to face complex considerations for their insurance coverages. Thankfully, you aren't without recourse. Businesses that proactively address risk losses and manage exposures will be better able to manage the current market conditions. Leaders who educate themselves on the trends that influence their insurance will better understand what can be done to influence their rates.

7 Trends That Will Shape Your 2023 Policies

Insurance experts often examine how outside influences and trends affect the insurance marketplace. Your business should follow suit to determine the factors that impact insurance coverage. Consider these sweeping market developments in 2023.

1 Risks & Liabilities from Labor Shortages

Widespread labor shortages have become an increasing concern across all industry lines. A recent survey by financial services company Provident Bank reported 75% of businesses are impacted by current worker shortages. While organizations across industry sectors are affected, the U.S. Bureau of Labor Statistics (BLS) confirms transportation, health care and hospitality have sustained the greatest workforce struggles.

Several factors have caused these significant labor shortages. Foremost, lasting implications from the pandemic continue to motivate workers to reevaluate their employment priorities. Arrangements such as work-life balance, compensation, expansive benefits, flexible hours and remote capabilities are highly sought after by workers who desire opportunities to manage personal caregiving responsibilities, boost professional development, prevent burnout and lower continued health and safety risks.

Several workforce movements (e.g., Great Resignation, Great Reshuffle) emerged in 2021 and 2022. The Great Resignation was exemplified by workers reassessing their job arrangements and opting to voluntarily exit the labor market. According to BLS data, the movement influenced four million Americans to resign monthly during the second half of 2021. Prominent in 2022, the Great Reshuffle involved a large share of workers leaving their jobs in search of more fulfilling roles. A Provident Bank survey found over two-thirds (69%) of businesses had job candidates decline opportunities based on better offers.

Placing new demands on employers, workers have permanently altered job expectations and workplace priorities. Economists expect labor shortages to continue throughout 2023 and foreseeably impact businesses.

Shortages can contribute to overworked employees, lowered staff morale, reduced productivity, project delays, widespread skills gaps, project quality concerns, increased workplace accidents and property damage.

Many organizations have adjusted their hiring and retention tactics to combat labor shortages. For example, one-third (33%) of Provident Bank survey respondents revised their job incentives and benefits (e.g., expanded tuition assistance, more paid time off, additional caregiving reimbursements, improved 401k offerings, higher salaries, sign-on bonuses) for employee retention and attraction. More than half (57%) of these businesses also implemented work-from-home or hybrid arrangements. Moving forward, businesses must remain innovative to meet shifts in employee expectations and attract talent.

2 Supply Chain Exposures

The supply chain has become one of the most pressing global concerns. Since the onset of the pandemic, numerous supply chain disruptions have taken place. Most issues originated from pandemic-related closures that forced production slowdowns and a subsequent lack of availability. While businesses have resumed normal operations and increased production levels, consumer demand continues to outweigh inventory. Contributing to additional supply chain bottlenecks, international disruptions (e.g., global port congestion, geopolitical conflict), elevating fuel and energy expenses, catastrophic weather events, and continued warehouse worker and truck driver shortages have hindered shipment and delivery times for high-demand goods.

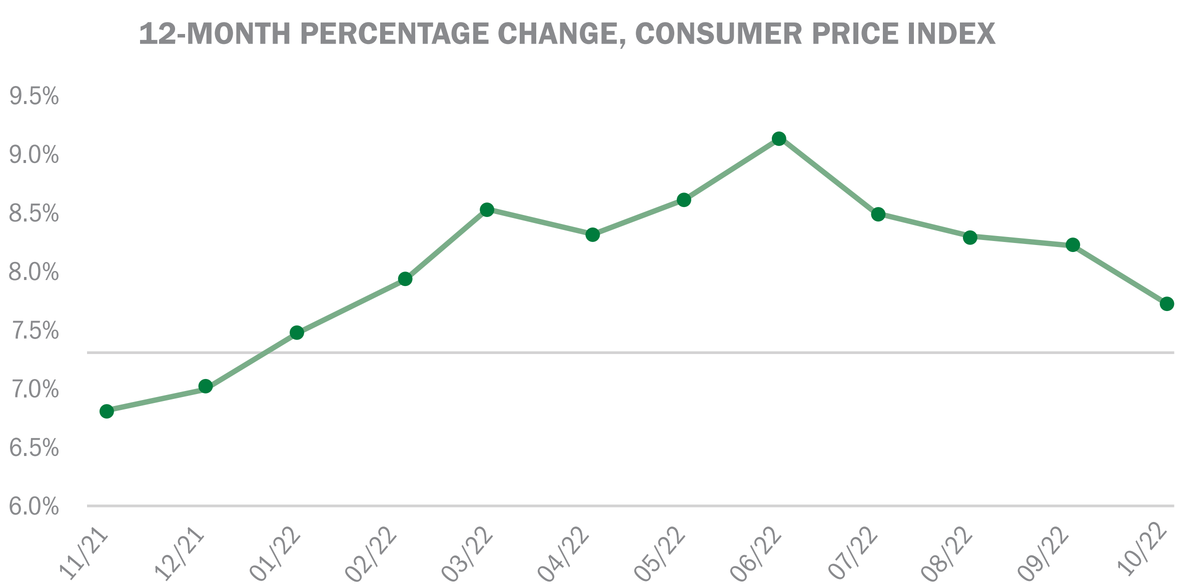
Most industries have been impacted by these supply chain disruptions. According to the U.S. Census Bureau, the greatest challenges were faced by the manufacturing, construction and retail industry sectors. A recent survey from international software company SAP suggests that since the pandemic, half of business leaders have experienced financial impacts from supply chain bottlenecks, such as diminished revenue (58%), necessary leveraged business loans (54%) and insufficient funds to compensate employees (50%). These financial challenges have forced business leaders to implement wage or recruitment freezes (61%), reduce staff (50%) and elevate products or services pricing (41%).

Some economic experts believe these supply chain issues will continue into the summer of 2023 before eventually subsiding. Businesses of all sectors need to prepare for potential supply chain disruptions in the months ahead. According to the SAP survey, some business leaders plan to adopt new supply chain technology (74%), introduce updated contingency plans (67%), prioritize U.S.-based supply chain solutions (60%) and search for more eco-friendly options (58%). Implementing such measures could make all the difference in remaining operational amid disruptions.

3 Inflationary Impacts

Widespread labor shortages and supply chain issues have contributed to rising inflation concerns in the commercial insurance space. Last year was particularly troubling as evidenced by a surging consumer price index (CPI). According to BLS data, the CPI reached a 40-year high for all urban consumers, increasing by 9.1% year over year in June 2022. While the CPI cooled off in the following months, it remained near record-setting levels, sitting at a 7.7% year-over-year increase in October 2022. Altogether, the elevated CPI has driven up claim costs for several lines of commercial coverage, therefore inflating total loss expenses across property and casualty markets.

Within the property insurance space, prompted by increased labor and material expenses, the costs to repair, replace or rebuild structures and their contents after losses have soared. BLS data revealed a substantial year-over-year increase in the CPI for several property-related elements in October 2022, including floor coverings (12.8%), window coverings (3.7%), and furniture and bedding (8.3%). In the auto insurance market, brought on by supply chain disruptions for several critical vehicle parts (and vehicles overall), repair expenses and subsequent accident costs have also surged. These concerns were reflected in an increased year-over-year CPI in October 2022 for new vehicles (8.4%), used cars/trucks (2%) and motor vehicle maintenance (10.3%), according to BLS data.



Source: The Bureau of Labor Statistics

Apart from rising CPI concerns, the workers' compensation and liability insurance segments are also affected by other forms of inflation, namely, medical and wage inflation. Medical inflation refers to elevated prices for health care necessities. These costs are usually determined a year in advance and based on projections by Medicare and private insurance contracts. Since these estimates occurred before the CPI skyrocketed, medical inflation has remained low in comparison to overall inflation trends. As such, you should expect elevated liability claims and coverage costs from medical inflation.

Wage inflation refers to workers' increasing salaries. Amid continued labor challenges, many businesses have responded by boosting their workers' pay and subsequently contributed to wage inflation. This could prompt increased rates as payroll is leveraged as an exposure base to calculate workers' compensation premiums. Further, such inflation may increase the risk of payroll miscalculations and create short-term disconnects between wages, benefits and workers' compensation premiums. While errors are possible, most states have an index for wage inflation to ensure premiums and benefits align.

The Federal Reserve (Fed) has steadily hiked interest rates to help curb overall inflation concerns. Moving into 2023, economic analysts predict that the Fed's efforts will eventually pay off and inflation will slowly subsidize throughout the year. According to investment banking company Goldman Sachs, the core price consumption expenditures index (CPE) — an inflation calculation utilized by the Fed that excludes food and energy prices — is currently at 5.1% but expected to drop to 2.9% by the end of 2023. (For reference, the Fed targets a CPE of 2% in a healthy economy.) In the meantime, insurance carriers will continue to face inflation-related challenges to maintain coverage pricing to keep up with more volatile loss trends. Nevertheless, it's important to note the insurance industry is better positioned to incur losses to its reserves than it was in previous periods of prolonged U.S. inflation (e.g., the 1980s).

4 Potential Recession Risks

Economic experts have forecasted that rising interest rates and prolonged labor market challenges could influence a potential U.S. recession in 2023. A recession appears inevitable as the Federal Reserve continues to raise terminal policy rates — the level at which it will no longer boost interest rates — higher than initially estimated (5-5.5%) to mitigate inflation.

A recessionary period means businesses of all sizes and sectors can expect decreased sales and profits from shifting consumer behaviors. An economic downturn affects customers' capability to pay for products and services and may also restrict an organization's credit capabilities and reduce overall cash. During a recession, businesses without substantial revenues, excess reserves and the capital necessary to offset extended periods of loss are more prone to be forced into difficult financial decisions to avoid problems (e.g., insolvency, bankruptcy). Your company may need to reduce operational costs and consider staff reductions to stay operational.

> **More than 75% of executives confirmed that their businesses have recession-proof measures in place. Preventive actions include solid financial planning, scaling back operations, promoting steady cash flow, proper debt management, strong stakeholder connections and leveraging marketing strategies.**

The U.S. Census Bureau reported that 1.8 million businesses closed their doors during the Great Recession (2007-2009). A 2023 recession is anticipated by 86% of business executives, based on a recent survey from the global professional services network KPMG. Fortunately, 60% of these executives anticipate the recession to be mild and brief. Now is the time for your business to prepare for an economic downturn. According to the KPMG survey, more than 75% of executives confirmed that their businesses have recession-proof measures in place. Preventive actions include solid financial planning in place, scaling back operations, promoting steady cash flow, proper debt management, strong stakeholder connections and leveraging marketing strategies. Commercial risks traditionally increase during a downturn. Your business must maintain sufficient coverage in a recession and secure financial protection against potential losses.

5 Social Inflation Concerns

The insurance industry uses the term social inflation to explain social factors that drive up the cost of insurance. In general, social inflation refers to trends that influence the ever-rising costs of insurance claims and lawsuits.

Third-Party Litigation Funding

A considerable influence on social inflation involves increased litigation or, more specifically, third-party litigation funding (TPLF). This occurs when a third party finances a lawsuit in exchange for a portion of the settlement. Historically, exorbitant attorney fees would often intimidate plaintiffs from taking a lawsuit to trial. However, through TPLF, the third party covers most, if not all, of the associated litigation expenses and, therefore, increases the volume of cases. Additionally, defendants' cost of litigation has increased to seven figures at times, as plaintiffs can take cases further and seek larger settlements.

Tort Reform

Laws that are designed to reduce litigation are called tort reform. Specifically, tort reforms are used to prevent frivolous lawsuits and preserve laws that hinder abusive practices against businesses. Many states have enacted tort reforms over the last several decades, influencing fewer claims and punitive damage caps. However, in recent years, several states have modified tort reforms or challenged them as unconstitutional. Opponents believe tort reforms lower settlements to the point where attorneys are less likely to take on new cases and help victims get justice for injuries or other damages.

Tort reform is subject to uncertainty as it's tied to political leanings and the interests of individual states. Additional erosion of tort reform could lead to fewer restrictions on punitive and noneconomic damages, statutes of limitations and contingency fees that drive up the cost of claims and exacerbate social inflation.

Plaintiff-Friendly Legal Decisions & Large Jury Rewards

Anti-corporate culture is more prevalent than ever. Public sentiment toward large businesses and corporations has deteriorated. Several factors have contributed to this increasing distrust, including highly publicized issues related to the mishandling of personal data and social campaigns. This has placed a considerable impact on how businesses are perceived by a jury. Organizations are being held to a higher standard for how they conduct their business. Juries are increasingly likely to sympathize with plaintiffs, especially if a business' reputation has been tarnished.

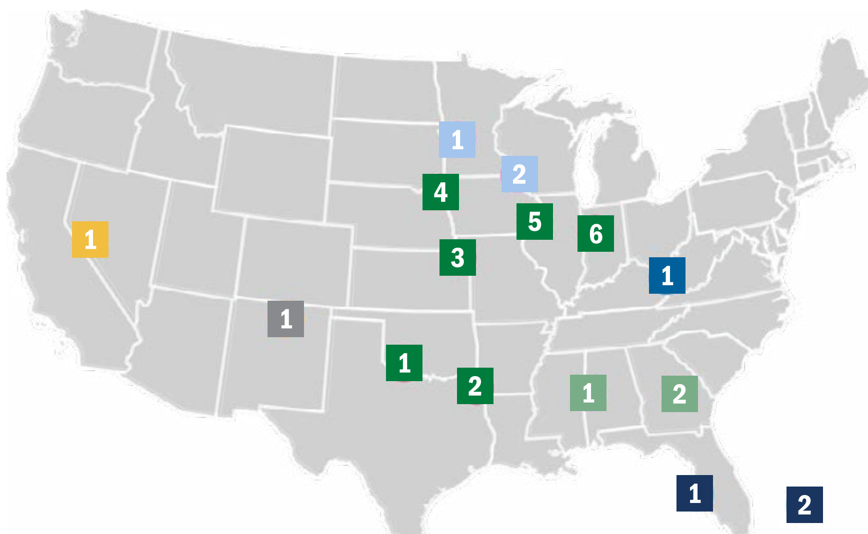
Compounding this issue, the public's perception is that businesses, particularly large ones, can afford the cost of damages. As a result, juries are likely to have fewer reservations when it comes to awarding damages. In the current environment, nuclear verdicts (awards of $10 million or more) have become more common.

6 Historic Extreme Weather Events

Extreme weather events (e.g., hurricanes, tornadoes, hailstorms, wildfires) continue to become increasingly devastating and costly. Making matters worse, these events are not limited to one geographic area or weather event; they can impact businesses and residents across the U.S.

The West Coast once again was plagued by severe events as the National Oceanic and Atmospheric Administration (NOAA) recorded 61,300 wildfires and 7.25 million acres burned. Widespread droughts and heat waves throughout the Western and Central U.S. contributed to the depletion of multiple large reservoirs and caused over 100 fatalities and $9 billion in damages. High winds and hundreds of tornadoes wreaked havoc across various Central, Southern and Eastern states and resulted in more than $10 billion in damages. A series of large-scale hailstorms and a powerful derecho impacted states across the Midwest and contributed to over $5 billion in damages. On the East Coast, the 2022 hurricane season recorded 14 storms, caused 200 fatalities and $110 billion in damages, and affected multiple states along the Atlantic Ocean.

U.S. 2022 BILLION-DOLLAR WEATHER & CLIMATE DISASTERS



Severe Weather
1 Southern & Central | May 1-3
2 Southern | Apr. 11-13
3 Central | June 7-8
4 North Central | May 11-12
5 North Central & Eastern | July 22-24
6 Central Derecho | June 13

Tornadoes
1 Southern | Mar. 30
2 Southeastern | April 4-6

Wildfires
1 Western | Spring-Fall

Droughts
1 Drought & Heatwave | Jan. 1-Sept. 30

Hailstorms
1 North Central | May 9
2 North Central | May 19

Flooding
1 Kentucky & Missouri | July 26-28

Hurricanes
Hurricane Ian | Sept. 28-30
Hurricane Fiona | Sept. 17-18

Source: NOAA

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Hurricane Ian was one of the most devastating 2022 weather events. Cumulatively, the storm caused severe property damage and widespread flooding throughout Florida, with 10 to 20 inches of rainfall. In the following days, the storm reemerged and made landfall as a Category 1 hurricane, producing significant coastal flood damage and destroying several large piers. Altogether, Hurricane Ian caused 131 fatalities and projected damages of $100 billion.

Also notable in 2022, historical inland flooding devastated parts of Kentucky and Missouri. According to NOAA, major flooding from a stalled frontal system in late July damaged thousands of residential and commercial properties, vehicles and other infrastructure across both states. Some communities recorded 10 to 12 inches of total rainfall, which set flash-flood records and required over 600 helicopter rescues to evacuate trapped individuals. Overall, the flooding event caused 42 fatalities and over $1 billion in damages.

Many weather experts believe catastrophic storms, extreme temperatures, wildfires and flooding are the new norm. As these disasters become more frequent, the insurance industry will need to adopt solutions to keep up with weather-related losses. Your businesses should expect to encounter additional emphasis on weather readiness from insurers.

7 Geopolitical Conflicts

The Russia-Ukraine war led to a year of severe international disruptions with far-reaching impacts, such as new tariffs, export restrictions, economic sanctions, and surging fuel and energy costs. International conflicts have intensified inventory backlogs, material shortages and supply chain issues. The impacts are being felt as recent industry research discovered 21% of businesses indicated war and terror as their top risk. Your organization should prepare for potential disruptions and reduce transportation costs. This can be performed by prioritizing fleet fuel efficiency, monitoring international trade policies and considering domestic production solutions (e.g., switching to domestic vendors) to remain fully operational.

These conflicts have heightened security concerns, especially regarding nation-state cyber threats. Many businesses have secured insurance coverages to protect against potential cyberwarfare losses. The process can be challenging as war exclusions are commonly found in both commercial property and cyber insurance policies. Exclusions often vary between policies and insurers, and coverage is denied for damages from "hostile or warlike actions" by a nation-state or its agents. Such omissions were designed to protect insurers against potentially systemic losses amid attacks by governments, their militaries or associated groups.

Some court cases have favored policyholders pursuing coverage under their commercial property or cyber insurance policies for cyberwarfare damages. These judgments are centered on the insurer's failure to clearly define digital warfare within their war exclusions. In response, carriers have initiated various adjustments to protect themselves from cyberwarfare claims and subsequent losses. Specifically, they are more selective in accepting policyholders, utilizing extensive application processes and requesting detailed cybersecurity documentation. Carriers are also ensuring their policy language — namely, war-exclusion wording — provides clear and consistent coverage, especially regarding digital warfare. Insurers and insureds must openly communicate about policy definitions and specific coverage capabilities (e.g., digital warfare protection) to ensure both parties are

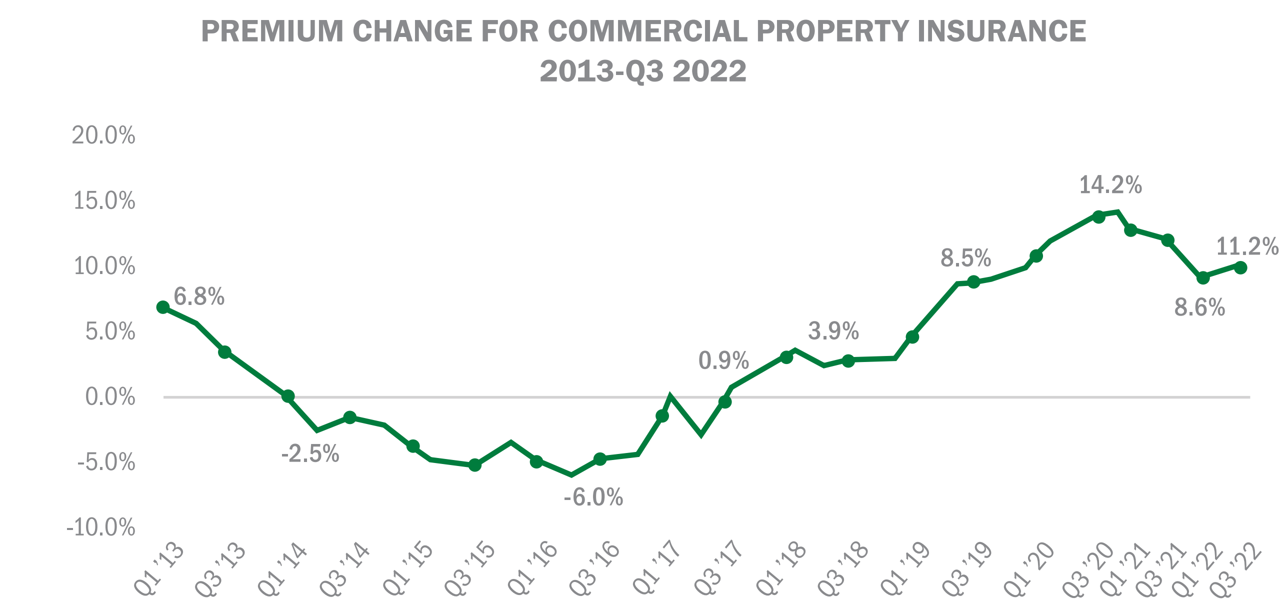
Forecasted Trends for the 2023 Market

Line of Coverage	Price Forecast
Commercial Property	**CAT-Free:** +10 to +15% **CAT-Exposed:** +15 to +25%
General Liability	**Overall:** 0 to +10%
Commercial Auto	**Overall:** +3 to +15%
Workers' Compensation	**Overall:** -5 to +5%
Cyber Liability	**Overall:** +25 to +100%
Directors & Officers Liability	**Private/Not-for-Profit Entities:** -10 to +7.5% **Public Companies:** -15 to +2.5%
Employment Practices Liability	**Overall:** +10 to +15%

Price projections are based on industry reports for individual lines of insurance. Forecasts are subject to change and not a guarantee of premium rates. Insurance premiums are determined by a multitude of factors and differ between businesses. These estimates should be viewed as general information, not insurance or legal advice.

Commercial Property Insurance

As evidenced by consistent rate increases since Q3 2017, the previous five years have seen the commercial property insurance market progressively harden. These rate hurdles showed stagnate indications in early 2022, as average increases remained within single digits. Regardless, rates are still climbing in 2023. An intense season of natural disasters, supply chain struggles and substantial inflation concerns have created unfavorable market conditions. Losses related to these trends have compelled commercial property insurance carriers to continue elevating policyholders' premium costs and applying more restrictive coverage terms.



Source: The Council of Insurance Agents & Brokers

Some insureds are experiencing above-average rate increases and lowered capacity — particularly those exposed to CAT perils (e.g., hurricanes, wildfires). Looking ahead, policyholders who conduct high-risk operations with poor loss control practices or are in natural disaster-prone areas may encounter more severe rate changes, higher retentions and decreased coverage limits.

2023 PRICE PREDICTION

Commercial Property Insurance

CAT-Free: +10 to +15%

CAT-Exposed: +15 to +25%

Developments & Trends to Watch

Natural Disasters

Extreme weather events have become more devastating and caused the commercial property market to experience substantial property losses. During 2022, natural disasters cost the global economy $227 billion; less than half of those expenses ($99 billion) were covered by insurers. This marks the third consecutive year that natural disaster losses exceeded $100 billion. Last year, the National Centers for Environmental Information recorded 15 separate U.S. weather and climate events with losses above $100 billion. Historic disasters, including summer inland flooding (Missouri, Kentucky) and Hurricane Ian's landfall (Florida, South Carolina), were destructive. Additionally, representing a ten-year high, the National Interagency Fire Center reported that 61,300 wildfires burned 7.25 million acres throughout the West Coast. Unfortunately, climate experts estimate these natural disaster trends will continue to exacerbate property losses.

Supply Chain Struggles

Pandemic-related production and delivery bottlenecks, widespread labor deficits, extreme weather events and geopolitical conflicts have triggered supply chain challenges. These factors have inflicted significant project delays and driven up overall property construction costs. For example, the National Association of Home Builders (NAHB) reported that most builders (90%) experienced material shortages in 2022.

Industry experts anticipate that Russia-Ukraine shipment barriers and elevated flood-related property damages could influence copper and drywall shortages. These complications may cause businesses to face increased claims severity should losses require structure rebuild or replacement. While these obstacles are expected to lessen by 2024, they could still delay recovery efforts and raise claims costs in the months ahead.

Inflation Issues

Ongoing commercial property inflation issues are attributed to building expenses and valuations. These difficulties derive from a combination of fluctuating building material demand, construction attraction and retention challenges, employee wage increases and overall worsening economic conditions.

Motivated by building material price increases, Associated Builders and Contractors recently reported that construction input prices in July 2022 were up 17.4% from the same 2021 period. Specifically, the cost of gypsum soared by 20% while exterior paint, steel products and softwood lumber

prices rose by 10%. Additionally, NAHB research shows that construction workers' average hourly earnings increased by 12% (2019-2021) and an additional 5% in 2022. Real estate company Coldwell Banker Richard Ellis (CBRE) suggests rising material and labor expenses in 2022 influenced an overall 14.1% increase in construction costs – the largest increase since CBRE began inflation calculations in 2007.

Inflation concerns are expected to continue in 2023, and your company should anticipate higher claims costs following property losses and underinsurance concerns from inaccurate property valuations. Companies that neglect to align their property values with current inflationary trends could experience reduced payouts, coinsurance penalties amid property losses and potentially increased out-of-pocket expenses.

Insurance-to-Value (ITV) Considerations

A staggering 75% of commercial properties are underinsured by over 40%. Insurance experts encourage businesses to perform correct ITV calculations and maintain sufficient commercial property coverage as inflation continues to impact building expenses and valuations.

To ensure adequate protection after a property loss, an accurate ITV calculation represents as close to an equal ratio as possible between the amount of insurance a business obtains and the estimated value of its commercial building or structure. Insurance experts recommend using the replacement value, an estimate of the current cost to replace or rebuild a property to conduct correct ITV calculations. The replacement value of a property depends on characteristics such as material and labor expenses, architectural services, debris removal needs and building permit requirements. Common approaches to accurately estimate this value include third-party property appraisals, leveraged fixed-asset records adjusted for inflation and reliance on a basic benchmarking tool (e.g., dollars per square foot). While appraisals often require more time and resources, they are deemed the most thorough and accurate.

Reinsurance Capacity Concerns

Current natural disasters and inflationary trends have made navigating the commercial property reinsurance space difficult. Reinsurers face a rise in claims, larger investment losses, diminished profitability and reduced capital, as extreme weather events become more frequent and severe and inflation reaches record-setting levels. Cumulatively, these trends generate a degree of market uncertainty and earnings volatility that motivates reinsurers to reevaluate their methods for pricing property CAT risks. Consequently, some reinsurers have limited the capacity for CAT exposures or eliminated capacity. Although demand for reinsurance protection remains high, capacity will become further constrained in 2023. This will impact overall commercial property insurance rates, especially for policyholders with CAT exposures. For example, CAT-free insureds with a favorable loss history can face a 10% or less rate increase, while CAT insureds with an unfavorable loss record could see rate hikes of 25% or higher.

TIPS FOR INSURANCE BUYERS

- Thoroughly inspect your commercial property and its surrounding area for risk management concerns. Implement any needed mitigation measures.
- Start the renewal process early. Commercial property insurers are experiencing an increased submission volume. Your broker can help to create timely, complete and quality submissions to ensure your application will be reviewed by underwriters.
- Assemble all data regarding your current risk management techniques. Brokers can present these loss control measures to provide a scope of your preventive practices.
- Evaluate your organization's natural disaster exposures. If your commercial properties are in catastrophe-prone areas, implement mitigation and response measures (e.g., install storm shutters, utilize fire-resistant roofing) to protect your property should an event occur.
- Conduct accurate ITV calculations to remain fully protected when covered events occur and avoid potential coinsurance penalties.
- Create a documented business continuity plan to help your organization remain operational and minimize damages.
- Work with your broker to address insurance carrier recommendations. Underwriters will review your loss control initiatives. Initiate appropriate steps to reduce your risks and make your business more attractive to underwriters.

A staggering 75% of commercial properties are underinsured by over 40%. Insurance experts encourage businesses to perform correct ITV calculations and maintain sufficient commercial property coverage as inflation continues to impact building expenses and valuations.

General Liability Insurance

The general liability insurance market has progressively underperformed over the past few years, and a rise in the frequency and severity of claims has minimized underwriting profitability. Carriers have responded with tightened underwriting standards, reduced capacity and continued rate increases. Carriers did experience slightly improved market results in 2022 that paved the way for rate deceleration. Rates are predicted to continue to increase throughout 2023 but at a slower pace than years previous.

Across the segment, concerning trends (e.g., social inflation, assailant exposures, rising medical expenses) are potential threats to claim costs and can negatively impact overall market performance. Policyholders should expect yet another year of modest rate increases in 2023. Renewal results will depend on your exposures, class and loss history. Policyholders who operate in sectors with elevated general liability exposure sectors (e.g., real estate, construction, manufacturing, retail, hospitality) may be more prone to double-digit rate increases and restrictive underwriting standards, as well as difficulties to securing or maintaining higher coverage limits.

2023 PRICE PREDICTION

General Liability Insurance

0 to +10%

Developments & Trends to Watch

Social Inflation Issues

An increasingly litigious society, the U.S. is seeing more businesses face a higher frequency of liability-incident lawsuits (actual or alleged) and higher penalties. Increases in attorney advertising, tort reform challenges, third-party litigation funding (TPLF) and deteriorated public sentiment have contributed to social inflation within the liability market. Specifically, legal advertising has become widespread across most mediums (e.g., television, print, social media) to highlight legal opportunities. According to the American Tort Reform Association, since 2017, attorneys have spent $6.8 billion on 77 million national and local advertisements.

Presenting more litigation opportunities, the media conglomerate Bloomberg estimates that the global TPLF industry is currently worth $39 billion. A top TPLF industry contributor has funded more than 200 lawsuits since 2016. These factors have all contributed to a rise in nuclear verdicts and a 300% increase in the median value of major U.S. verdicts since 2014.

Together, increased litigation and social inflation have added to elevated liability insurance claim costs. In some cases, such litigation has posed underinsurance concerns for businesses and left them with coverage gaps and substantial out-of-pocket expenses.

Active Assailant Exposures

These incidents involve an individual or group entering a populated area with the intent to kill or murder their victims. Also identified as active shooter incidents or mass shootings, these events have skyrocketed in the U.S. The FBI reports that active shooter incidents increased by 96.8% between 2017 (31 incidents) and 2021 (61 incidents). Growing in severity, three of the five deadliest mass shootings in U.S. history occurred in the past decade. Active assailant incidents bring numerous consequences, including fatalities, serious injuries and prolonged emotional trauma.

Commercial properties can suffer lasting impacts from active assailant events, such as substantial recovery expenses, regulatory penalties and liability concerns. Your business can prevent unnecessary risks with active assailant measures (e.g., exposure assessments, risk management measures, incident response plans).

Medical Expense Increases

A key element of general liability insurance is coverage for medical costs that derive from third-party injuries. Inflationary medical expenses have exacerbated claim costs with no relief in sight. Research from the Peterson Center on Healthcare and Kaiser Family Foundation found U.S. health spending surged by more than 31-fold per capita and increased from $350 per person in 1970 to over $11,500 per person in 2022. The drastic increase is related to heightened prescription drug expenses, elevated treatment costs and expansive health care worker wages.

As evidenced by record-breaking CPI data, widespread inflation anxieties will continue to influence medical costs. Between October 2021 and October 2022, the BLS found CPI's medical care commodities and medical care services subcategories increased by 3.1% and 5.4%, respectively, while the average price of health care increased by 5% in the same period. These expenses are expected to progressively surge throughout 2023 as there is traditionally a lag between overall inflationary trends and medical costs. Continued supply chain struggles for medical equipment, health care employee wage demands and labor market challenges will fuel these concerns. Your company should expect surging medical expenses to continue to play a significant role in general liability insurance claim costs.

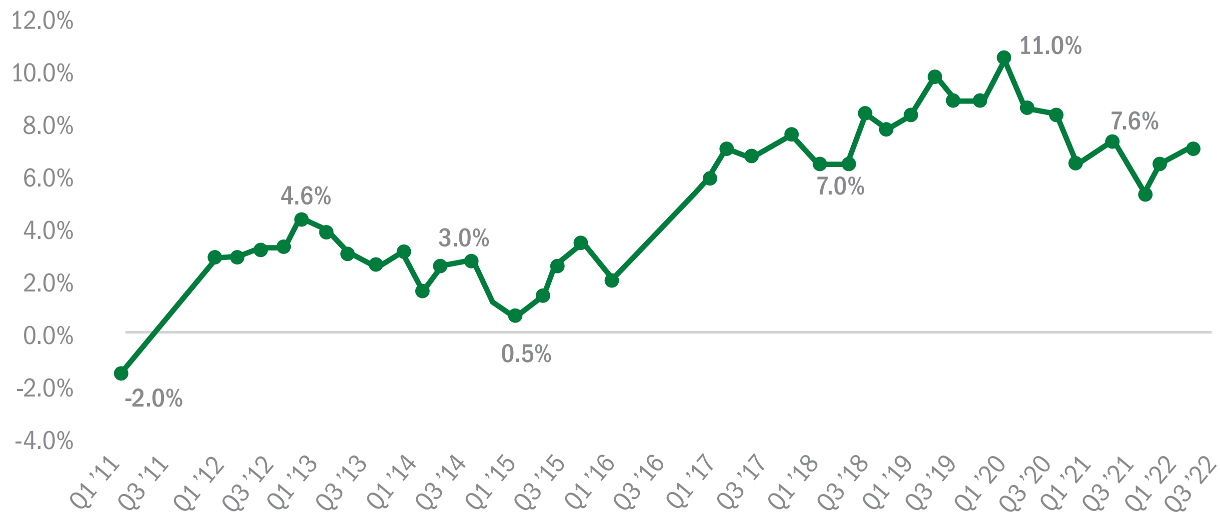
TIPS FOR INSURANCE BUYERS

- Partner with your insurance broker to learn about key market challenges that will affect your rates. They can also help you respond with appropriate loss control measures.
- Ensure limits match up with your insurance needs.
- Verify your establishment has implemented measures to reduce customer or visitor injuries (e.g., safe walking surfaces, proper housekeeping).
- Identify and address any completed operations liability exposures. If your organization makes or sells products, mitigate any product liability exposures.
- Design workplace policies and procedures to remove active assailant exposures and establish effective response protocols.

Commercial Auto Insurance

Substantial underwriting losses and diminished profitability have plagued the commercial auto insurance market for over a decade. The credit rating agency AM Best recently revealed that the segment has suffered more than $20 billion in total underwriting losses since 2011. This is despite underwriters raising commercial auto premiums for 45 consecutive quarters, dating back to Q3 2011.

PREMIUM CHANGE FOR COMMERCIAL AUTO, 2011-Q3 2022



Source: The Council of Insurance Agents & Brokers

The weak underwriting performance can be attributed to numerous factors, including social inflation, nuclear verdict concerns, accident frequency and severity, road safety challenges and a widespread driver shortage. AM Best reported that rate increases have begun to lessen amid strengthened reserves and a combined ratio falling below 100 after 2021 — the lowest in a decade. Rate increases throughout 2022 remained in the single digits and demonstrated signs of stagnation when compared to previous double-digital rate jumps. The deceleration can be credited to a re-emergence of insurers that had previously been inactive and vehicular technology (e.g., telematics) among usage-based insurers to accumulate driving data and ensure more accurate premium pricing.

Several cost-driving trends continue to press segment concerns, force claims frequency to pre-pandemic levels and increase overall loss severity. Policyholders across industries and vehicle classes can still expect rate increases throughout 2023. Further, insureds with larger fleets or poor loss history may be more vulnerable to ongoing rate hikes, lowered capacity and potential coverage limitations.

2023 PRICE PREDICTION

Commercial Auto Insurance

+3 to +15%

Developments & Trends to Watch

Social Inflation & Nuclear Verdict Concerns

The auto insurance market has been significantly impacted by social inflation due to trucking industry trends, including a surge in costly lawsuits and associated settlements. Specifically, nuclear verdicts have become more prevalent, especially as they pertain to bodily injury claims. According to recent Advisen loss data, the percentage of trucking awards exceeding $10 million jumped by 15% since 2017. Some nuclear verdicts since 2021 have even generated billion-dollar commercial auto liability losses. An analysis by the Insurance Information Institute and the Casualty Actuarial Society attributed nuclear verdicts and subsequent social inflation concerns as driving up commercial auto insurance claim costs by $20 billion throughout the last decade.

More attorneys are inclined to go to trial due to the rise in nuclear verdicts. Further, this surge has contributed to many commercial auto insurance carriers' decreased risk appetites, restrictive coverage offerings or exit of the market. As a result, insureds impacted by nuclear verdicts are less likely to have sufficient coverage for these events, which can potentially lead to financial devastation.

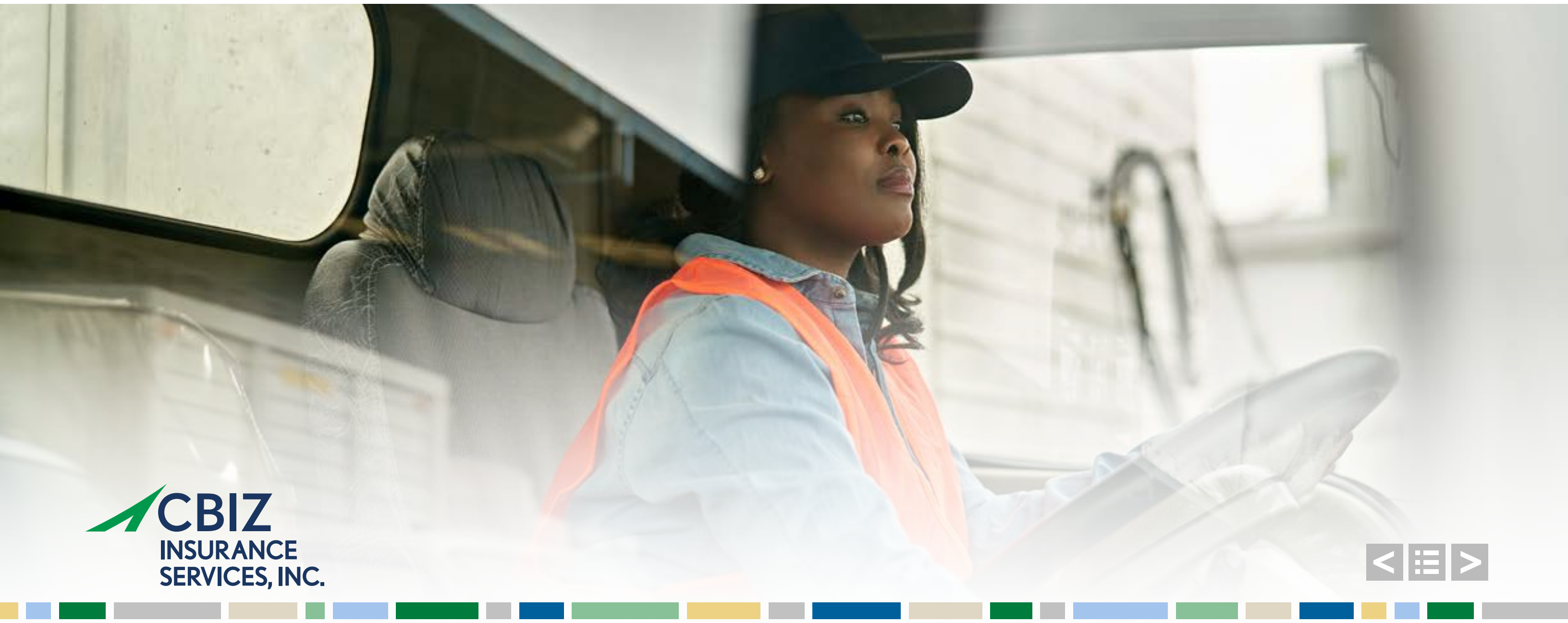
Increased Accident Frequency & Severity

Worsened crash severity is the primary culprit for surged accident costs and subsequent commercial auto claims. The National Highway Traffic Safety Administration confirmed a higher rate of road deaths since the start of the pandemic, with 2020 documented as the highest number of driver fatalities since 2007. Casualties jumped by an additional 10.5% in 2021 and another 0.5% in the first half of 2022. Such crashes have been linked to a rise in unsafe behaviors behind the wheel (e.g., speeding, not wearing a seat belt). Severe road incident injuries have also contributed to elevated accident expenses (e.g., multiple doctor visits, complex procedures, advanced treatment plans).

Also driving up claims costs, technological advancements have made vehicle repairs increasingly expensive. Highlighting vehicle repair and replacement concerns, industry research shows electronics are associated with over 40% of new vehicle costs. Making matters worse, supply chain challenges from fluctuated demand and global disruptions have made vehicle parts more expensive and difficult to obtain. Vehicle component and equipment prices soared by 22.8% from June 2021 to June 2022, as reported by management consulting firm McKinsey & Company. Combined with raised labor expenses and inflated vehicle prices, these issues have prolonged vehicle repair times and overall surging claim costs. Since 2021, supply chain disruptions and inflation have contributed to $9 billion in loss costs for auto physical damage.

Considerations About Evolving Technology

Vehicles continue to become more advanced and integrated with innovative technology (e.g., blind-spot cameras, backup alarms, GPS devices, telematics software) that provides opportunities for commercial fleet driver safety and operational efficiency. Automatic braking technology and advanced driver-assistance systems (ADAS) have also risen in popularity with features such as lane departure warnings, blind spot detection, and front and rear crash prevention. A recent Highway Data Loss Institute study



found ADAS-equipped fleets are rewarded with 9% property damage claims decreases, 3.1% declines in collision claims, 7.4% reductions in bodily injury claims and 19.6% declines in medical payment claims. Hands-free features, driving mode options and safety driving applications have made smartphones influential to push road safety.

It is imperative to remember that vehicle and driver safety technology can also carry potential risks. It can increase driver distractions and result in more accidents and increased costs. Distracted driving is a concern for all fleet owners. According to the NHTSA, more than 1,000 people are injured daily in distracted-driver crashes while drivers who text are 23 times more likely to be involved in an accident. Vehicle technology must be leveraged effectively for your business and fleets to be rewarded with the benefits of these advancements.

Driver Shortage Challenges

Between the Great Resignation and the Great Reshuffle, employees have opted to either leave the workforce or their positions in search of roles that better suit shifted priorities (e.g., greater work-life balance, higher pay, additional benefits, increased flexibility). These labor trends have been particularly difficult for the trucking and transportation sectors to manage and pose hiring and retention obstacles amid an ongoing driver shortage.

According to the American Trucking Associations (ATA), the nation's driver shortage reached a historic high of more than 80,000 open positions in 2021. While this shortage remained stagnant in 2022, there were still 78,000 open positions. The ATA says driver demographic imbalances contributed to the shortage. For example, while women comprise 47% of the overall labor market, female drivers only make up 8% of commercial drivers. As 57% of experienced drivers are over the age of 45 and 23% are older than 55, many current drivers are near retirement age. This has influenced many organizations to lower their driver applicant standards to fill open positions. These drivers often have fewer years of experience and shorter driving records. Such factors can make these new employees more likely to be involved in an accident. Making matters worse, the ATA estimates 160,000 commercial driver positions could be unfilled by 2030. The trucking industry will have to recruit one million drivers within the coming decade to replace retiring drivers and fuel sector growth.

TIPS FOR INSURANCE BUYERS

- Examine loss control practices relative to your fleet and drivers. Enhance driver safety programs by implementing or modifying safe and distracted driving policies.
- Design driver training programs to fit your needs and the exposures facing your business. Regularly retrain drivers on safe driving techniques. Create adequate driving schedules to prevent driver fatigue. Educate employees on driver exhaustion and encourage breaks when they experience symptoms.
- Businesses just beginning to offer delivery services or recently hiring inexperienced drivers should fully assess these changes' associated risks and implement measures to minimize potential damages (e.g., driver training programs, safe delivery protocols).
- Utilize motor vehicle records (MVRs) to ensure you are hiring qualified drivers by vetting drivers' experience and moving violations. Unacceptable driving records should immediately disqualify applicants. Regularly review MVRs to ensure drivers maintain appropriate driving records. Establish driver limitations for the amount and types of violations a driver can have before their driving privileges are revoked.
- Consider technology solutions, such as telematics, where appropriate, to strengthen and supplement other loss control measures.
- Retain experienced drivers with an employee retention program.
- Implement accident prevention initiatives and establish effective post-accident investigation protocols to prevent future road collisions.
- Review, if applicable, your Federal Motor Carrier Safety Administration BASIC scores to identify gaps in your fleet management programs.
- Partner with your broker to determine whether you should make structural changes to your commercial auto policies.

Workers' Compensation Insurance

For the past decade, the workers' compensation insurance market has remained stable across states and industries and performed with profitable underwriting results. According to the National Council on Compensation Insurance (NCCI), the segment has been profitable for eight consecutive years, with the combined ratio falling under 100 every year since 2014. However, the ratio bottomed out at 79 (2016) and has been slowly increasing since. In 2021, the ratio reached 87 — a slight jump from 85 in 2019. Furthermore, midyear 2022 findings revealed a ratio of 112 that posed the potential for market challenges and a potential lack of profitability.

Elevated ratios in the workers' compensation segment can be attributed to various trends. While workplace safety and telemedicine advancements helped to mitigate employee injuries and illnesses, other challenges (e.g., remote worker musculoskeletal disorders, health care worker post-traumatic stress disorder, comorbidities, labor shortages, inflation) have contributed to new ailments and associated claims. Industry experts still predict that the market's past profitability will allow for some stability in 2023. Policyholders should anticipate minimal rate increases, while insureds with higher experience modification factors will encounter greater rate jumps.

2023 PRICE PREDICTION
Workers' Compensation Insurance
-5 to +5%

Developments & Trends to Watch

Employee Wellbeing Concerns

While the overall state of workers' physical, mental and emotional health is considered an HR-related matter, it directly correlates with workplace safety. An effective employee wellbeing program can reward employers with 30% fewer workers' compensation claims. Many businesses attempt to boost employee health through workplace solutions aimed at physical health (e.g., nutrition, smoking prevention, gym memberships). While healthier lifestyles can reduce chronic illness and workplace injury risks, wellbeing support requires initiatives that address all aspects of employee overall health and happiness.

Particularly, the mental health (e.g., emotional, psychological, social) of employees must be in consideration. Individuals may suffer from poor mental health during times of distress. Emotions associated with poor mental health include grief, stress, depression and anxiety. The Centers for Disease Control and Prevention suggests mental health concerns are on the rise, as 71% of U.S. adults experience adverse symptoms of stress (e.g., overwhelmed, anxious) each year. The National Safety Council has confirmed that instances of both moderate and severe mental health distress are connected to a higher risk of workplace accidents. The relation stems from the fact that employees who face mental health concerns are often less focused, engaged and aware of potential safety hazards, which results in poor decision-making and unnecessary risk-taking. These accidents influence employee injuries and higher workers' compensation costs. It has become increasingly critical for businesses to adopt supportive workplace cultures and incorporate mental health initiatives in their employee wellbeing efforts.

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Remote Work & Musculoskeletal Disorders

When the COVID-19 pandemic first emerged in 2020, businesses across industry lines transitioned to remote operations and required employees to work from home. Some workers eventually returned to their workplaces after stay-at-home orders expired, but others continued to work remotely or sought hybrid arrangements that created a large-scale shift in the overall proportion of remote employees.

Initially, it seemed that remote employees would be less prone to occupational injuries at their home workstations. Yet, some remote work setups contribute to musculoskeletal disorders and cause workers' compensation concerns. Remote employees with poorly designed workstations — namely, those lacking effective ergonomic measures — are more likely to experience ailments such as carpal tunnel syndrome, back pain, neck and shoulder sprains, headaches and digital eyestrain. Since 2020, more than 40% of all workers have reported an increase in back, shoulder and wrist pain. Studies show that remote employees work more hours per day than their onsite counterparts, oftentimes from nonergonomic areas (e.g., bedrooms, dining tables, couches) that add opportunities for occupational injuries. Remote employees can technically work at any given time, and some industry experts have asserted that these employees pose 24-hour workers' compensation exposures.

These types of exposures show no signs of going away as over one-fifth (22%) of the workforce is predicted to be remote by 2025. In response, many businesses have implemented measures including telecommuting policies, fixed work hours and rest periods, home workstation guidelines, remote work safety training and regular checkups to identify and prevent potential occupational hazards.

> **Remote employees can technically work at any given time, and some industry experts have asserted that these employees pose 24-hour workers' compensation exposures.**

Health Care Worker & First Responder Stress

The mental health condition post-traumatic stress disorder (PTSD) afflicts individuals who have experienced an incredibly stressful, scary or distressing event. An official diagnosis requires symptoms that last for more than a month and are severe enough to interfere with relationships, work or other components of daily life. Common PTSD symptoms include flashbacks, avoidance of places or objects that are event reminders, being easily startled, angry outbursts, negative thoughts and loss of enjoyable interest.

First responders and emergency medical technicians (EMTs) have traditionally experienced PTSD as an occupational hazard. The pandemic elevated the concern for health care workers to contract PTSD. Recent data from the National Center for Biotechnical Information discovered the predominance of PTSD among EMTs (20%) is significantly higher than the general population average (7-8%).

Job-related PTSD may influence more employees to file workers' compensation claims to cover associated medical bills and lost wages. However, PTSD eligibility for workers' compensation benefits varies between states. Many state legislatures, in response to the pandemic, have considered establishing or expanding the benefit eligibility for workers inflicted with job-related PTSD. This benefit battle is challenging as it can be difficult to objectively measure mental health conditions or prove an employer's liability. Eligibility requirements for PTSD-related benefits will expand as health care workers continue to carry the heavy burden of the pandemic. This could impact some businesses and certain sectors for overall workers' compensation costs.

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Inflation's Impact

Economic concerns have affected both individuals and businesses across the globe; the commercial insurance market is no exception. As inflation has escalated the price of goods and services, it can also elevate the cost of insurance. The greatest economic influences on workers' compensation are medical and wage inflation.

- **Medical Inflation** – This recognizes the impact of rising prices for health care essentials (e.g., medical devices, supplies, pharmaceuticals). Medicare and private insurance contracts normally determine these prices a year in advance. As current projections were established before current inflation trends, medical inflation has yet to catch up.

  Fortunately, from years of profitability, the segment is better equipped to manage inflation issues compared to other commercial lines. In addition, many states have established fee schedules for workers' compensation coverage that predetermine medical service expenses. Established to prevent inflation concerns, these fee schedules maintain reasonable treatment costs for injured or ill employees and associated claim expenses. You should note that elevated claim and coverage costs from medical inflation are expected in 2023.

- **Wage Inflation** – Escalated cost-of-living expenses and continued labor challenges have forced many businesses to increase workers' salaries to supplement attraction and retention efforts. Payroll is leveraged as an exposure base to calculate workers' compensation premiums and wage inflation could prompt increased rates. Simplified, higher wages are bound to greater benefits. Premiums and benefits must remain balanced to ensure injured or ill workers are reimbursed for lost income. The NCCI has warned that wage surges could elevate payroll miscalculation risks and generate short-term disconnects between wages, benefits and workers' compensation premiums. While most states have a wage inflation index to ensure premiums and benefits are aligned, errors are still possible.

Labor Shortage Exposures

Recent employment shortages have raised employee safety concerns and subsequent workers' compensation exposures. Numerous factors have contributed to these shortages. Workforce movements (e.g., Great Resignation, Great Reshuffle) created labor market challenges in 2022. An influx of employees either completely exited the workforce or resigned in search of roles that better aligned with altered priorities. This transition forced employers to hire inexperienced workers. Recent NCCI data found that short-tenured employees (12 months or less) significantly increased across multiple sectors (e.g., hospitality, retail trade, transportation, warehousing) last year. This is a concern as short-tenured employees are more likely to get injured on the job and therefore increase workers' compensation risks. According to the BLS, 40% of workplace injuries involve workers employed less than a year and 13% of injuries happen within an employee's first days. Short-tenured employee injuries contribute to over six million lost working days annually and represent more than one-third (37%) of overall lost days.

The workforce is rapidly aging. The BLS estimates that the workforce participation rate among older employees (aged 65-74) will reach 30.2% by 2026. This number is double from 17.5% in 1996. Several impacts will be felt by this trend. Initially, as the workforce approaches retirement age at a higher rate, employers will experience an additional risk of labor shortages. Secondly, older employees are more prone to occupational injuries and slower to recover. This has the potential to drive up workers' compensation claims and costs. In perspective, NCCI data shows that employees over the age of 55 account for 21% of workers' compensation claims and contribute to 31% of total claim expenses. Your organization can ward off these impacts with effective retention strategies and in-depth safety training.

Comorbidities

An individual's simultaneous presence of two or more medical diagnoses is defined as a comorbidity. These conditions are typically long-term health complications that can elevate the severity of other injuries or illnesses an affected individual experiences and makes recovery more difficult. Common comorbid conditions include obesity, diabetes, hypertension, depression, anxiety and substance abuse. A recent NCCI study found that workers' compensation claims that involve comorbidities have nearly tripled since 2000. The average workers' compensation claim's cost connected to a comorbid condition is twice as much as comparable non-comorbidity claims. These concerns have emphasized the importance of workplace wellness initiatives to promote your employees' overall health and limit their risk of developing long-term complications.

Wearable Safety Technology

Wearable safety technology promotes a safer work environment, mitigates injuries and lowers workers' compensation costs. These devices help monitor workplace employee behaviors, alert to hazardous situations and offer real-time safety instructions. Although some businesses are concerned with initial implementation costs and privacy concerns, a recent study from Auburn University found that over 75% of safety professionals favor wearable safety technology to protect employees from workplace injuries. In addition, businesses can experience a 250% return on their investment from fewer workplace accidents, injuries and associated workers' compensation claims. Many organizations have already implemented wearable safety technology, including Walmart, which recently reported a 65% decrease in ergonomic-related occupational injuries in the first year with participating store locations. Advancements in this technology could propel other businesses to experience similar, if not better, results.

> **Over 75% of safety professionals favor wearable safety technology to protect employees from workplace injuries. In addition, businesses can experience a 250% return on their investment from fewer workplace accidents, injuries and associated workers' compensation claims.**

Telemedicine

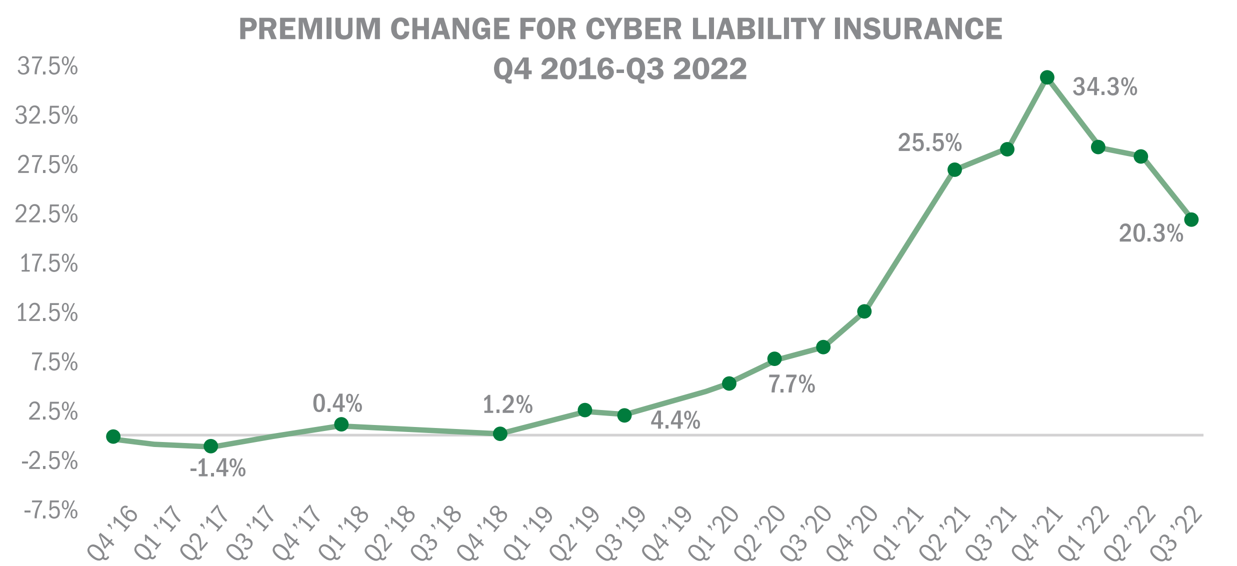
Digital capabilities can be leveraged to help employees treat ailments. The innovative health practice has improved recovery outcomes and lowered associated workers' compensation costs. Telemedicine, which allows employees to receive virtual medical services for workplace injuries, has continued to rise in popularity. This treatment option offers many benefits, such as simplified access to medical specialists, lessened treatment delays and reduced transportation expenses. According to the Workers' Compensation Research Institute (WCRI), 28 states either added or expanded telemedicine opportunities to treat occupational injuries in response to the pandemic. The WCRI data found that telemedicine usage peaked between March and June 2020, particularly for the treatment of minor injuries (e.g., sprains, strains). Although telemedicine usage remains above pre-pandemic levels, it leveled off between 2021 and 2022.

TIPS FOR INSURANCE BUYERS

- Address common risks, especially when using a loss-sensitive workers' compensation program with your safety and health programs.
- Routinely administer safety training for your employees of all ages and experience levels.
- Consider implementing various digital solutions (e.g., wearable safety technology, telemedicine) to help prevent and treat injuries.
- Establish workplace wellbeing initiatives aimed at preventing or treating chronic health conditions and improving overall employee wellbeing. These initiatives can help reduce the risk of your workforce developing comorbidities.
- Incorporate mental health resources and support options into employee wellness offerings.
- Develop an effective return-to-work program that properly supports employees in the process of healing from a work-related illness or injury and resuming job duties following recovery.
- Guide your remote employees to make their workspaces more ergonomic to prevent injuries at home.
- Ensure accurate payroll projections. Correct wage information is critical for conducting accurate premium calculations, especially amid rising inflation concerns. Errors in payroll estimates could present profound consequences including inadequate rates, insufficient benefits or a lack of ample coverage following costly claims.
- Pay close attention to applicable state-regulated and carrier-negotiated fee schedules for your workers' compensation coverage. Through fee schedules, employees can receive much-needed health care for work-related illnesses and injuries without significantly driving up claim costs.
- Have clear processes to manage your workers' compensation claims diligently and efficiently. Effective claim management protocols can often help mitigate claim severity and prevent future losses.

Cyber Liability Insurance

Attacker sophistication and evolved technology continue to elevate the frequency and severity of cyber incidents. This has influenced a continued increase in cyber insurance claims and subsequent underwriting losses. Policyholders experienced higher cyber insurance rates in 2022 amid these market conditions. Some insureds with unique digital exposures or poor loss control measures were hit with 50 to 100% rate increases. Policyholders have also experienced coverage restrictions, underwriting scrutiny of cybersecurity practices and exclusions for certain cyber incidents (e.g., cyberwarfare, ransomware).



Source: The Council of Insurance Agents & Brokers

Looking into 2023, industry experts anticipate difficult market conditions along with new segment entrants will create an increasingly volatile and unpredictable cyber insurance space. Policyholders who fail to adopt proper cybersecurity protocols or experience cyber losses should foresee continued rate increases and coverage limitations.

> **Policyholders who fail to adopt proper cybersecurity protocols or experience cyber losses should foresee continued rate increases and coverage limitations.**

2023 PRICE PREDICTION

Cyber Liability Insurance

+25 to +100%

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Developments & Trends to Watch

Nation-State & Supply Chain Threats

As the Russia-Ukraine war continues to influence global cyberwarfare, nation-state cyberattacks remain a major concern. Organizations have been forced to address supply chain vulnerabilities as nation-state attacks often arise from third-party exposures. Trends that have emerged amid rising cyberwarfare threats include:

- **Bolstered Cybersecurity Practices** – Based on Russian attacks in March 2022, the White House issued a formal statement that warned organizations of a heightened potential for nation-state cybersecurity exposures. The federal government also introduced initiatives designed to harden the nation's cyber defenses against foreign threats. Over 52% of businesses increased their oversight of IT vendor management to address those geopolitical conflict concerns. One-third of companies took additional steps to manage supply chain worries through activities to identify critical suppliers (38%) and assess network connectivity with vendors (36%).

- **Additional Coverage Challenges** – Some insureds have sought extra coverage to help protect against cyberwarfare risks. Policyholders have encountered challenges to obtain additional coverage due to war exclusions. These exceptions deny coverage for damages that derive from "hostile or warlike actions" by a nation-state. As cyber policies are susceptible to war exclusions, recent court cases and insurance industry shifts have blurred the scope of these omissions as cyberwarfare has created confusion and posed potential coverage gaps. The global insurance market Lloyd's of London recently revealed to carriers that, as of March 31, 2023, all new or renewed cyber policies must exclude coverage for losses from nation-state attacks. The probability is high that additional carriers may follow suit or adjust their policies to explicitly outline coverage capabilities (or lack thereof) for cyberwarfare damages.

Tightened Underwriting Standards

Cyber insurance carriers continue to adjust their underwriting practices to offset the risk of costly payouts. Specifically, the heightened severity of cyber incidents has prompted carriers to be more discriminatory of the organizations they will insure and coverable losses. For example, a business' cybersecurity documentation is being leveraged for new policy and renewal coverage acceptance. Requested documentation may include detailed information on essential cyber hygiene practices, such as incident response planning, employee training, data storage, recovery processes, email safeguards, multifactor authentication protocols and patch management procedures. Many carriers also scan applicant technology as part of their underwriting processes to assess digital hygiene.

Evolved Regulations

Businesses are being held more accountable for cybersecurity weaknesses. The federal government and numerous states have implemented and enforced stricter data privacy and breach notification laws. In 2021, Virginia and Colorado introduced tightened legislation that emulates the California Consumer Privacy Act and Europe's General Data Protection Regulation. Additionally, states such as Connecticut, Nevada, Texas and Mississippi established personally identifiable information (PII) laws that widened the definition and increased exposure penalties.

In 2022, the federal government launched multiple new cybersecurity regulations. The legislation includes a U.S. Securities and Exchange Commission (SEC) proposal for additional cybersecurity disclosure standards for publicly traded companies. In addition, the Strengthening American Cybersecurity Act of 2022 requires businesses to report large-scale cyber incidents within 72 hours and ransomware payments made within 24 hours of their occurrence. Your company should adjust cybersecurity procedures to remain compliant and limit associated insurance claims as data privacy and breach laws become more expansive.

> Your company should adjust cybersecurity procedures to remain compliant and limit associated insurance claims as data privacy and breach laws become more expansive.

Elevated Ransomware & Extortion Concerns

Ransomware attacks entail cybercriminals who compromise a device or server and demand a large payment before they restore the technology and stored data. While organizations of all sizes and industries are impacted, small- and medium-sized establishments are most vulnerable. These attacks often carry costly losses for substantial payment demands and recovery efforts. International software company Acronis's latest Cyberthreat Report predicts that global ransomware damages will exceed $30 billion in 2023. As cybercriminals grow more sophisticated, your company should expect additional attack methods and extortion methods. Emerging ransomware techniques include:

- **Ransomware-as-a-Service (RaaS)** — This dark web business model allows sophisticated cybercriminals to sell ransomware software to willing buyers (usually less skilled cybercriminals) who then launch an attack that compromises a device(s) and demand a significant payment to restore the victim's technology. RaaS buyers are provided with access to ransomware software and some form of a product portal. The gateway may include detailed software implementation instructions, user reviews, support forums and exclusive discounts or offers for future purchases. It poses a serious increased threat to organizations, regardless of size, as it allows less skilled cybercriminals to execute ransomware attacks with a simple purchase. Cybersecurity company Fortinet reported the number of ransomware variants circulating worldwide nearly doubled between 2021 and 2022, which suggests a substantial increase in cybercriminals' use of the RaaS model.

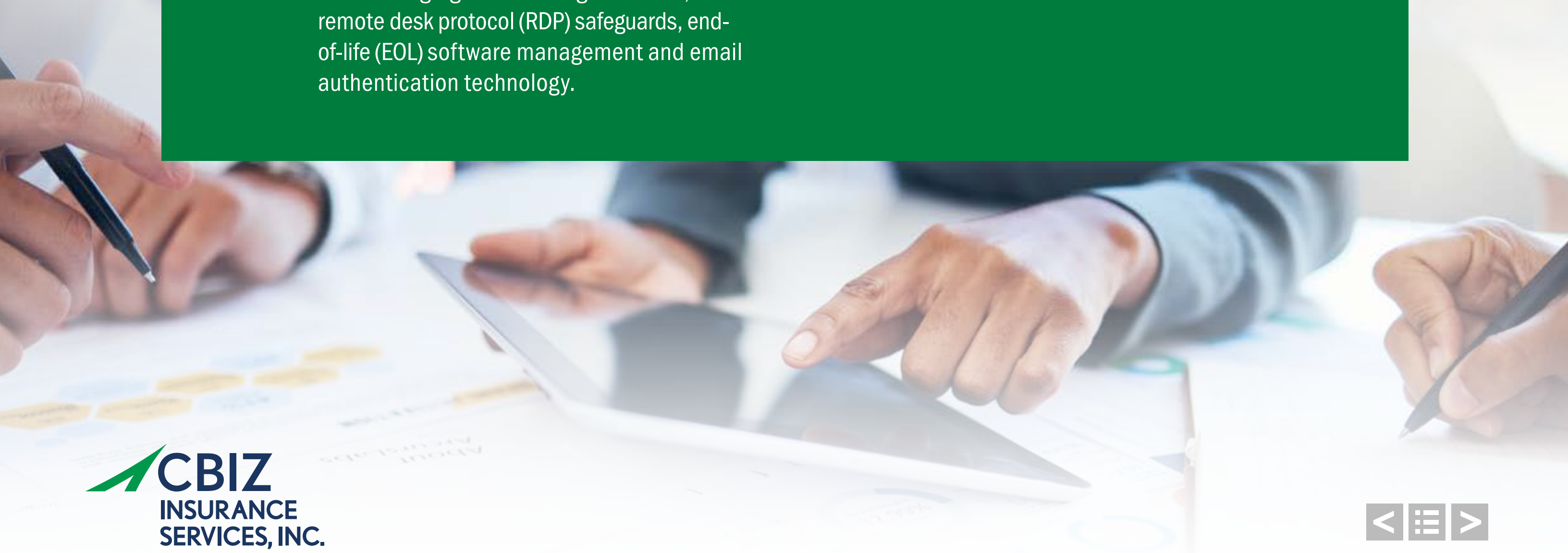
- **Double & Triple Extortion** — A double extortion attack follows a similar protocol to that of a ransomware attack but comes with an extra threat; the victim must not only pay a ransom to regain access to their technology and data but also keep that data from being uploaded publicly online. Triple extortion takes this threat one step further. Cybercriminals utilize stolen data to seek out the victims' third-party associates (e.g., customers, suppliers, business partners) and demand additional ransoms to prevent information exposure. Media company HealthITSecurity reported that double and triple extortion practices are on the rise as over two-thirds (70%) of ransomware attacks now involve some form of data exfiltration. Affected organizations find these attacks significantly more detrimental in comparison to average ransomware incidents. Even organizations that have protocols in place to recover compromised information without a ransom payment may still be pressured to keep their data, or their associates' information, from going public.

Heightened Business Email Compromise (BEC) Risks

A business email compromise (BEC) scam entails a cybercriminal who impersonates a legitimate source (e.g., senior-level employee, supplier, vendor, business partner) through email. The cybercriminal convinces the target to wire money, share sensitive information (e.g., customer and employee data, proprietary knowledge, trade secrets) or engage in other compromised activities. A major threat to businesses across all industry lines, these scams are among the most expensive forms of social engineering losses. According to the Federal Bureau of Investigation (FBI), BEC scams have increased by 39% since 2020, contributed to $2.4 billion in annual losses across the U.S. and cost an average of $120,000 per incident.

TIPS FOR INSURANCE BUYERS

- Partner with your broker to understand available cyber coverages and secure a policy that suits your unique needs. Initiate early renewal conversations.
- Strengthen your cybersecurity measures with loss control services provided by insurance carriers.
- Offer adequate resources, support and software to remote employees to help avoid cybersecurity concerns amid work-from-home or hybrid arrangements.
- Conduct routine employee training to prevent cybercrime from affecting your operations. Educate employees about the latest cyber threats and preventive tactics.
- Utilize a virtual private network (VPN), install antivirus software, implement a firewall, restrict administrative controls and encrypt sensitive data to keep your organizational technology secure.
- Consider implementing cybersecurity controls, such as multifactor authentication (MFA), endpoint detection and response (EDR) solutions, network segregation and segmentation, remote desk protocol (RDP) safeguards, end-of-life (EOL) software management and email authentication technology.
- Store backups of critical data in a secure, offline location to minimize losses.
- Regularly update workplace software to ensure its effectiveness. Keep employees on a strict software update schedule and consider using a patch management system to assist with updates.
- Institute an effective, documented cyber incident response plan to remain operational and minimize damages in the event of a data breach or cyberattack. Assess this plan regularly by running through various scenarios with staff. Make updates to the plan as needed.
- Develop workplace guidelines that prioritize cybersecurity, including an internet usage policy, a remote work policy, a bring-your-own-device policy and a data breach response policy.
- Consider potential nation-state threats and supply chain exposures when creating your organization's cybersecurity policies and protocols.



Directors & Officers Liability Insurance

While the directors and officers liability (D&O) insurance market has experienced double-digit rate increases and lower capacity since 2019, market conditions improved in 2022. Many factors are attributed to this shift, including new market entrants, fewer litigation concerns from initial public offerings (IPOs) and special purpose acquisition companies (SPACs). Rate increases and retentions were substantially moderate for publicly traded companies, with some policyholders seeing rate decreases. In 2022, more than two-thirds (69%) of insureds experienced reduced renewal premiums and 15% saw flat rates. These trends are more favorable than 2021's results when 70% of policyholders encountered increased renewal premiums. Renewal pricing for primary and lower excess layers of D&O coverage mostly ranged from flat to single-digit increases during 2022, whereas pricing for mid- and high-excess layers decreased. Further, the capacity for higher excess layers has been on the rise and resulted in more competitive market dynamics.

> **Industry experts anticipate favorable 2023 market conditions that will pave the way for stationary premiums and potential rate decreases. Nonetheless, some trends could cause trouble for insureds, including cybersecurity concerns, global and economic uncertainty, and environmental, social and governance (ESG) issues.**

The D&O segment appears to stabilize for private and not-for-profit organizations but is still seen as a higher risk by insurers compared to their publicly traded counterparts. Policyholders' rates continued to increase in 2022, although at a slower pace than 2021. Industry experts anticipate favorable 2023 market conditions that will pave the way for stationary premiums and potential rate decreases. Nonetheless, some trends could cause trouble for insureds, including cybersecurity concerns, global and economic uncertainty, and environmental, social and governance (ESG) issues. Even as market conditions evolve, policyholders that operate in challenged industries, possess poor loss history or utilize insufficient risk management measures could face ongoing rate jumps and coverage difficulties.

2023 PRICE PREDICTION

Directors & Officers Liability Insurance

Private/Not-for-Profit Entities:

-10 to +7.5%

Public Companies:

-15 to +2.5%

CBIZ INSURANCE SERVICES, INC.

Developments & Trends to Watch

New Market Entrants & Increased Competition

Increased capacity and decelerated rates indicate that insurers' overall sentiment toward the D&O market has shifted. Evidenced by new market entrants and increased competition, insurers are poised to fuel segment growth. Twenty new entrants made their way into the 2022 D&O market. This resulted in the average publicly traded company receiving up to eight different renewal quotes, compared to only three the previous year. While many new entrants expected the previous rapid increase in publicly traded companies would continue, 2022 was met with fewer IPOs and SPAC deals and prompted more renewal space competition. Some D&O insurers, to secure market shares, broadened their underwriting appetites to quote additional coverage layers, offer higher limits and undercut competitors to attract new business. This has created market conditions that significantly benefit policyholders.

ESG Issues

The D&O market has been noticeably impacted by ESG activism. Senior leaders are increasingly being held accountable to uphold company commitment to environmental and social initiatives by stakeholders, regulators and the public. This has promoted a significant increase in litigation against such leaders and subsequent D&O claims. Some of this litigation has centered around senior leaders misrepresenting, failing to disclose or neglecting to effectively address topics such as board diversity, equal pay and human rights abuse within supply chains.

Natural disasters, deforestation, climate change, and water and biodiversity degradation have been the primary focus of ESG-related litigation. These cases allege that senior leaders have neglected to disclose the material risks of climate change or to promote eco-friendly operations. The Grantham Research Institute reported that global climate change litigation has more than doubled since 2015 and contributed to more than 2,000 lawsuits. Nearly 25% of these cases occurred within the past two years alone. In March 2022, the SEC proposed changes to its climate change disclosure rules for publicly traded companies. Anticipated modifications include requirements to disclose further climate-related risks, associated mitigation measures and greenhouse gas emissions. These changes, if adopted, could cause increased climate change litigation and D&O claims for non-compliant companies.

As companies prioritize eco-friendly operations, be sure to avoid greenwashing. Greenwashing refers to a deceptive marketing practice in which companies produce misleading information to trick the public into thinking that their products, services or mission have more of a positive impact on the environment than is accurate. This practice undermines companies that implement sustainability efforts and makes it difficult for consumers and investors to make eco-friendly decisions. As stakeholders take more legal action in this area, unrealistic ESG targets could lead to additional litigation and D&O claims.

Global & Economic Uncertainty

Companies and their senior leaders are challenged with uncertain operations from widespread supply chain issues and continued international conflicts. Record-setting inflation, a volatile stock market and elevated interest rates all implicated economic troubles throughout 2022. Some economic experts suggest these trends could impact a potential recession. Senior leaders have struggled to create effective business strategies and ensure proper financial decisions because of deficient global and economic stability.

Even amid unpredictable conditions, leaders could still encounter litigation from stakeholders for poor decisions that are influential to monetary loss (e.g., misplaced earnings guidance, inaccurate economic projections, inadequate risk disclosures). These factors would contribute to D&O claims. Underwriters are also challenged by uncertain conditions that prove more difficult to determine a company's D&O exposures. It has been essential for businesses and their senior leaders to regularly monitor economic shifts and the global landscape. In response, your company must adjust its practices to demonstrate to insurers and stakeholders a capability to manage these exposures.

Cybersecurity Concerns

Increased in both cost and frequency, cyberattacks can inflict businesses with litigation against senior leaders and related D&O claims. Potential D&O loss allegations can include senior leadership's failure to protect stakeholders' personal or financial information, neglect to implement cyberattack detection and prevention controls, and missteps to report incidents or notify the appropriate parties. For example, the board of directors at telecommunication company T-Mobile encountered a shareholder derivative lawsuit in November 2021 for alleged failure to protect customers' information in a large-scale data breach. By November 2022, the lawsuit resulted in a $350 million settlement. Ransomware has become a prominent concern for businesses, and senior leaders are pressed to make complex decisions about network security measures and extortion response protocols. According to a recent survey from industry experts, more than half (59%) of business directors and executives consider cyber extortion as their primary risk.

In March 2022, the SEC proposed amendments to its current cybersecurity disclosure requirements for publicly traded companies. These modifications include enhanced and standardized rules of cybersecurity governance, strategy, risk management and incident reporting. The adoption of these amendments could result in further litigation and associated D&O losses for non-compliant companies.

Litigation Shifts

Increases in litigation and related D&O claims have plagued publicly traded companies and their senior leaders in recent years. In 2022, shifts in litigation trends reduced associated claims and costs, such as:

- **Fewer Securities Class Action Lawsuits** — This legal action by a shareholder group claims financial losses from investments with a publicly traded company and/or senior leadership that violated securities laws (e.g., SEC regulations that ensure accurate financial statements and disclosures). The Stanford Securities Class Action Clearinghouse and Cornerstone reported that after a peak between 2019 and 2020, these lawsuits recently leveled off. Down from 211 in 2021 and 318 in 2020, there were slightly more than 150 such lawsuits in 2022. This reduction has helped drive down D&O claims.

- **Fewer IPOs & SPAC Deals** — SPACs are corporations developed with the sole intention to raise investment capital through an IPO. Secured funds are then utilized to acquire an unspecified business (or target company), which is later identified following the IPO. SPACs have surged in popularity as many companies view these transactions as an efficient approach to going public. In 2021, 613 SPAC deals were struck and generated over $160 billion in IPO proceeds. In response, the SEC has focused to hold senior leaders increasingly accountable. The agency watches for failures to perform due diligence on a target company's finances or shareholders supplied with misleading information. As a result, there has been a significant increase in SPAC-related litigation and associated D&O losses. Fewer companies opted to go public in 2022, and these deals declined. Specifically, the first six months of 2022 saw the number of publicly traded companies drop to its lowest level since 2016 (under 100). Reduced activity lowered avenues for potential litigation and kept related D&O claims at bay.

  Note the de-SPAC process, which entails a SPAC finalization with the target company, can take several months (or even years). This will create potential lags between these transactions and related litigation. In consideration, the abundance of SPAC deals in 2021 could prompt litigation and D&O losses for months and years ahead. Further, proposed SEC disclosure rules and investment protections for IPOs and SPAC transactions could pave the way for increased litigation in this space and fuel future D&O claims.

TIPS FOR INSURANCE BUYERS

- A qualified broker can help to analyze your D&O program structure and limits to ensure they are appropriate and take market conditions and trends into account.
- Partner with insurance brokers, loss control experts and underwriters to better understand your D&O exposures and market cost drivers.
- Make sure your senior leadership team carefully assesses potential exposures and maintains compliant, honest practices amid IPOs and SPAC transactions. Pay close attention to SEC requirements.
- Safeguard your senior leaders with recommended safe financial practices (e.g., timely payments, educated investments, accurate documentation, reasonable reimbursement procedures). Be transparent with stakeholders about your organization's economic state to avoid misrepresentation.
- Verify the senior leadership team actively monitors your organization's unique cyber risks and implements proper cybersecurity practices to prevent potential attacks, ensures compliance with data security standards and establishes a cyber incident response plan to lessen damages.
- Prioritize eco-friendly initiatives among your senior leadership team. Ensure that these programs remain realistic to avoid greenwashing concerns. Ensure your senior leadership team conducts their due diligence and provides proper climate change reports.

Employment Practices Liability Insurance

Comparable to other commercial insurance lines, the employment practices liability (EPL) segment has faced hardened market conditions from the claim- and cost-driving trends, such as nuclear verdicts, social inflation, greater regulatory scrutiny and evolved employment concerns. Most policyholders combatted rate increases throughout 2022. The severity of policyholders' rake hikes was influenced by the sector, location, potential exposures and prior losses. Insureds with a positive claims history encountered moderate rate jumps (5-15%). Retention increases were common across the segment, with further pressure on primary retention.

New insurers have emerged for excess layers of EPL coverage and influenced more stabilization for market capacity. However, limited competition among primary and lower-excess layers, especially for uncertain industries (e.g., health care, retail, hospitality) and states (e.g., California, Illinois, Florida, New York, Texas), has created ongoing capacity challenges for some insureds. First-time EPL policyholders may experience additional capacity difficulties in 2023 as insurers focus to maintain profitability among current customers. Rate increases and coverage limitations will persist for high-risk insureds.

2023 PRICE PREDICTION

Employment Practices Liability Insurance

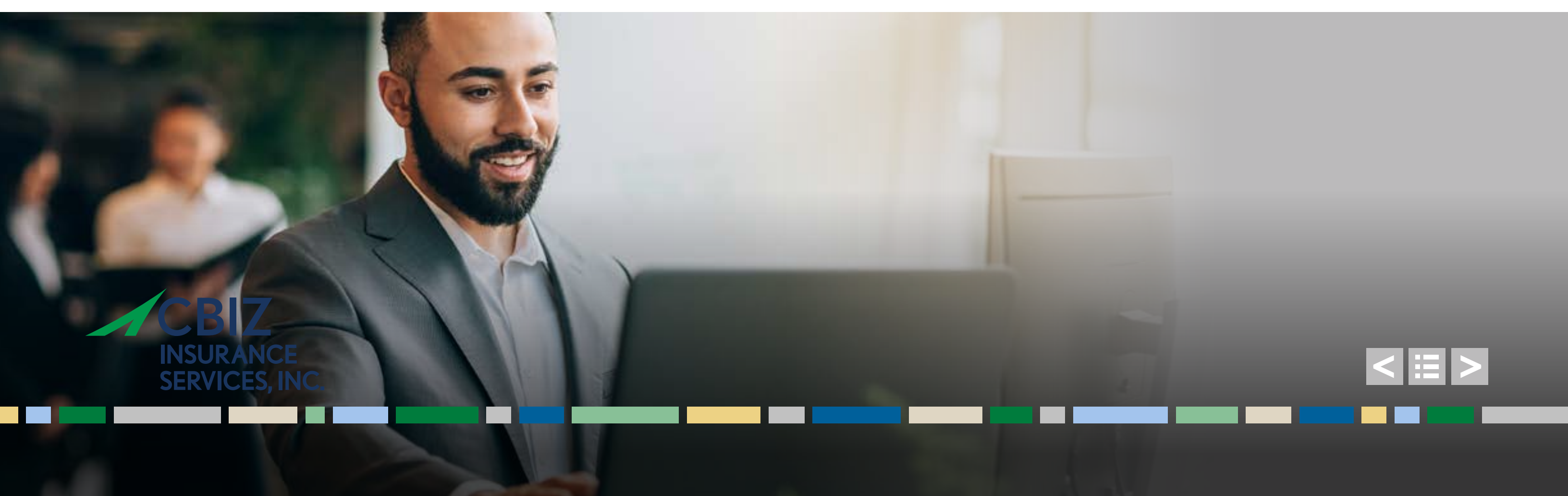
+10 to +15%

Industry experts anticipate that pandemic-related employment charges could extend for the near future and influence delayed settlements and elevated claim costs.

Developments & Trends to Watch

Rising Claim Severity

The U.S. Equal Employment Opportunity Commission (EEOC) reports that overall employment charges and related EPL claims have been on the decline since 2016. The decrease is attributed to labor market conditions that allowed dissatisfied employees to readily leave their positions and discover other job opportunities. While changes trended downward, their associated costs have done the opposite and elevated total EPL losses. Raised claim severity is credited to several varied factors. Primarily, nuclear verdicts and subsequent social inflation issues have been on a recent upswing, driven by a deteriorated public sentiment toward large corporations and demands for wrongdoing accountability. While prevalent before the pandemic, corporate mistrust and animosity have been exacerbated as certain companies became extensively profitable during the public health emergency. This offered further motivation for large-scale jury awards and associated EPL losses. In addition, some businesses encountered allegations of failure to make reasonable pandemic-related accommodations and adjustments for workers. Employment law firm Littler Mendelson reported these claims have influenced over 5,400 lawsuits since March 2020. Industry experts anticipate that pandemic-related employment charges could extend for the near future and influence delayed settlements and elevated claim costs.



Increased Regulatory Scrutiny

The Biden administration and EEOC have collaborated on regulatory initiatives to combat systemic discrimination in the employment landscape. This form of discrimination references workplace policies and procedures that potentially place underserved groups at a disadvantage (e.g., racial injustices, gender pay disparities). The EEOC recently shared a priority to leverage enforcement capabilities along with education and outreach efforts to lessen discriminatory patterns in employment settings across industry lines and geographic areas. The fiscal 2021 report highlighted that the EEOC resolved 342 investigations and obtained over $24.4 million in monetary benefits for those impacted by systemic discrimination. During this time, the EEOC also resolved 26 systemic discrimination lawsuits and filed another 13 proceedings. Among these employment charges, retaliation – a company taking inappropriate actions against an employee who exercises their workplace rights – reigned as the top contributor and accounted for more than half (56%) of such litigation. In 2022, the EEOC filed over 40 lawsuits in September alone, which further emphasized its enforcement efforts.

The White House also announced plans to expand the EEOC's workforce to 2,300 employees by 2023. This employment growth could provide even greater enforcement capabilities, litigation and subsequent EPL claims. Evolved regulatory scrutiny means it's imperative businesses maintain documented workplace policies and procedures. A culture of equality and inclusivity helps to mitigate the risk of systemic discrimination concerns and associated EPL losses.

Social Justice Developments

Various social justice developments could play a part in employment litigation and subsequent EPL claims.

- **The #MeToo & Black Lives Matter Movements** – Since 2017 the #MeToo movement (anti-sexual harassment) has empowered employees to call out inappropriate workplace conduct and contributed to a substantial rise in sexual assault and sexual harassment lawsuits against employers. In response, the Ending Forced Arbitration of Sexual Assault and Sexual Harassment Act was signed into law in March 2022. This legislation permits employees who allege sexual assault or sexual harassment to file lawsuits regardless of previous agreements to arbitrate these disputes. Such legislation has the potential to prompt further employment litigation and related EPL claims. Additionally, the Black Lives Matter movement (racial justice) could prompt employees to speak out against workplace racial inequities and influence future race-related workplace discrimination and harassment lawsuits.

- **Equal Pay Efforts** – The Biden administration has shown greater interest in gender pay inequalities, especially regarding the Paycheck Fairness Act. If the proposed law is passed, it would explicitly address sex-based wage discrimination and introduce further procedural protections to current federal pay equity legislation (e.g., Equal Pay Act of 1963, Fair Labor Standards Act). Your business should be prepared for potential wage equality requirements and take steps to reduce any related litigation and EPL claims.

- **LGBTQ+ Protections** – In 2020, the U.S. Supreme Court clearly stated that Title VII protects gay and transgender employees from workplace discrimination and harassment based on sexual orientation, gender identity and gender expression. The EEOC leveraged this decision to provide additional guidance permitting workplace policy exceptions regarding bathrooms and dress codes for LGBTQ+ employees in 2021. A Texas federal judge ruled this guidance unlawful in 2022. Regardless of the Supreme Court's decision, subsequent EEOC guidance or other legal developments could influence additional discrimination-based EPL claims as LGBTQ+ employees are more confident to hold businesses accountable. A recent report from the Williams Institute at the University of California, Los Angeles, School of Law revealed that nearly half (46%) of LGBTQ+ employees have professionally experienced unfair treatment due to their sexual orientation or gender identity.

Marijuana Legalization Considerations

States have transitioned toward marijuana legalization for a decade. Currently, 21 states permit the use of recreational marijuana among adults aged 21 and older. Additionally, 37 states have legalized the utilization of marijuana for medicinal purposes. Although illegal at the federal level, it is evident most Americans have access to this substance. Several states also have legislation in progress that could further propel marijuana support. Evolved legislation creates numerous challenges and EPL exposures. For example, some state-enacted statutes restrict an employer's capability to conduct marijuana drug tests while others have introduced laws that prohibit employers from refusing to hire or adverse actions against workers who use marijuana recreationally while off-duty. In total, 22 states currently have employment protections for workers who partake in legal marijuana usage, which increases the potential for litigation against non-compliant businesses and subsequent EPL losses. Employers with outdated marijuana policies and procedures could face an increased risk of EPL claims.

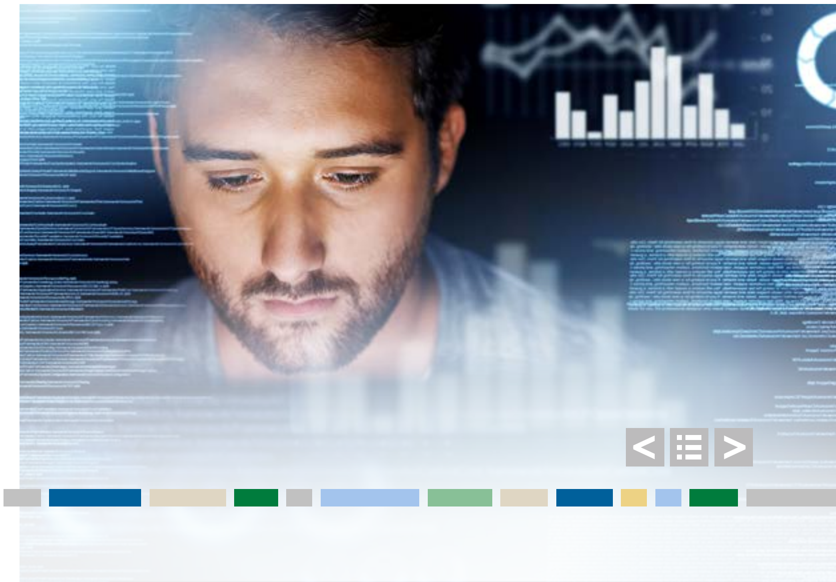
Artificial Intelligence (AI) Concerns

More than one-third (35%) of businesses have employed AI systems to streamline recruitment and hiring processes. Via removal of human interaction these systems leverage programmed algorithms and data sets to assess job candidates and deliver automated employment decisions. Artificial intelligence can promote open positions, scrutinize resumes, assess applicants throughout the hiring process and identify top-performing prospects.

AI may also present EPL exposures. Although intended to provide impartial results, algorithms and data within these systems can be biased toward specific groups and contribute to discriminatory employment decisions. On a larger scale, AI systems could present numerous opportunities for discrimination-based litigation and associated EPL claims. Recently, several major companies (e.g., Google, Amazon) were held responsible for AI system weaknesses that revealed gender biases. In 2022, both the White House and EEOC released guidance for businesses that highlighted practices to prevent discrimination from AI systems. This advisement primarily focused to eliminate algorithms that removed candidates based on their disabilities or medical conditions, as these would fall under the Americans with Disabilities Act (ADA). Carefully review your AI systems for biases to mitigate litigation risks and EPL losses.

TIPS FOR INSURANCE BUYERS

- Review your employee handbook and related policies. Verify all appropriate policies are in place, including language on discrimination, harassment and retaliation.
- Introduce effective sexual harassment prevention measures (e.g., a zero-tolerance policy, sexual harassment awareness program), reporting methods and response protocols.
- Encourage workplace diversity, acceptance and inclusion through staff education and training. Seriously address all accusations or reports of discrimination.
- Document all evaluations, employee complaints and situations that result in employee termination.
- Consult your legal counsel for state-specific employee wage and hour guidance. Pay close attention to workplace issues that could influence wage and hour complaints.
- Evaluate any state-specific legislation related to marijuana legalization. Consider revising your workplace drug testing for marijuana procedures and employment decisions based on employee marijuana usage as these practices could potentially contribute to EPL claims.
- Assess the algorithms and data sets for any AI systems utilized within recruitment and hiring processes to prevent discriminatory employment decisions and ensure compliance with applicable federal and EEOC guidance.



Moving Forward

Despite what you may believe, many of the forces that determine your insurance rates are within your control. As an insurance buyer, it's valuable to understand how your premiums are calculated, influential market trends and how to get favorable pricing.

Your claims history, which has an enormous impact on the rate, is controllable. A solid risk management plan will help steer pricing in a more advantageous direction.

FIVE KEY COMPONENTS OF A SUCCESSFUL RISK MANAGEMENT STRATEGY

1. Identify your unique exposures & cost drivers.
2. Determine loss control opportunities that address your unique exposures.
3. Develop a business continuity plan that addresses disasters & other unpredictable risks.
4. Build a safety-focused company culture.
5. Control costs with efficient claims management.

Working with an experienced insurance broker can help to implement these risk management strategies. A qualified insurance broker will support your business to evaluate your operations, comprehending unique exposures and creating a suite of customized insurance policies to defend against claims. Insurance brokers offer a systematic explanation of your policies and advisement of any additional coverage considerations or concerns.

The insurance landscape is complex. The predictions in this report are based on expert research and are subject to change. Fortunately, at CBIZ Insurance Services, Inc., we thoroughly monitor the market and communicate with our clients about changes that might affect their business. To learn more, connect with a member of our risk advisory team today.

About CBIZ Insurance Services, Inc.

At CBIZ Insurance Services, Inc., we're passionate about providing strategic solutions tailored to cover your particular exposures and protect your assets. This isn't cookie-cutter consulting. Our team of forward-thinking risk control professionals supports and collaborates with you to develop an actionable plan designed to supplement your risk management strategy. We go beyond the obvious risks and identify the exposures with the highest impact on your bottom line. You can count on us, with more than 31,000 clients and 340 associates nationwide, as your trusted advisors committed to your success.

To learn more, visit us at cbiz.com/insurance.

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