THE MAHONEY GROUP®

2022

Market Report and Forecast

Understanding the Trends Driving Rates in Commercial Insurance

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Stabilizing Market

A Stabilizing Market

The past few years have been challenging for the insurance industry and the businesses it serves. We've borne witness to an increased frequency and severity of claims, runaway jury awards, the COVID-19 pandemic, an explosion in cybercrime, and a string of billion-dollar-plus natural disasters attributed to a warmer planet. All have fueled record increases in insurance rates.

The result in 2021 was a further hardening of those rates, a trend now entering its fourth year. Higher prices weren't the only challenge. Businesses large and small also faced fewer choices as some carriers pulled back, if not entirely out, of certain lines of coverage and underwriting got stricter, much stricter in some cases.

And while some businesses are now operating at pre-pandemic levels, other businesses continue to struggle to regain their footing amid ongoing supply chain issues and labor shortages.

The second half of 2021 did see a softening in rates for certain lines, a stabilization to be sure. Yet the deceleration was in no way universal. In particular, cyber liability and commercial auto insurance were and are all still in the midst of hardening.

Going into 2022, we expect less drama but overall, a still-challenging insurance environment, especially with new uncertainty created by the latest COVID variant and rising inflation. Rates may be stabilizing but now, more than ever, it's essential for businesses to take a proactive approach to bolster their risk management efforts.

Of course, you're not in this alone. To help you navigate the insurance market, you need an insurance professional who understands your business, helps you plan for unique risks and advocates on your behalf.

You also need a team of insurance professionals that can tell your story to insurance carriers in a way that will best position your business at renewal. You need to work with an insurance professional who understands the dynamics of the current insurance market cycle and how to navigate a hard market successfully. Lastly, you need an insurance professional who fully understands your industry and how to provide targeted loss control solutions.

Remember, in these challenging times, The Mahoney Group is here to provide the insurance guidance and expertise your business needs.

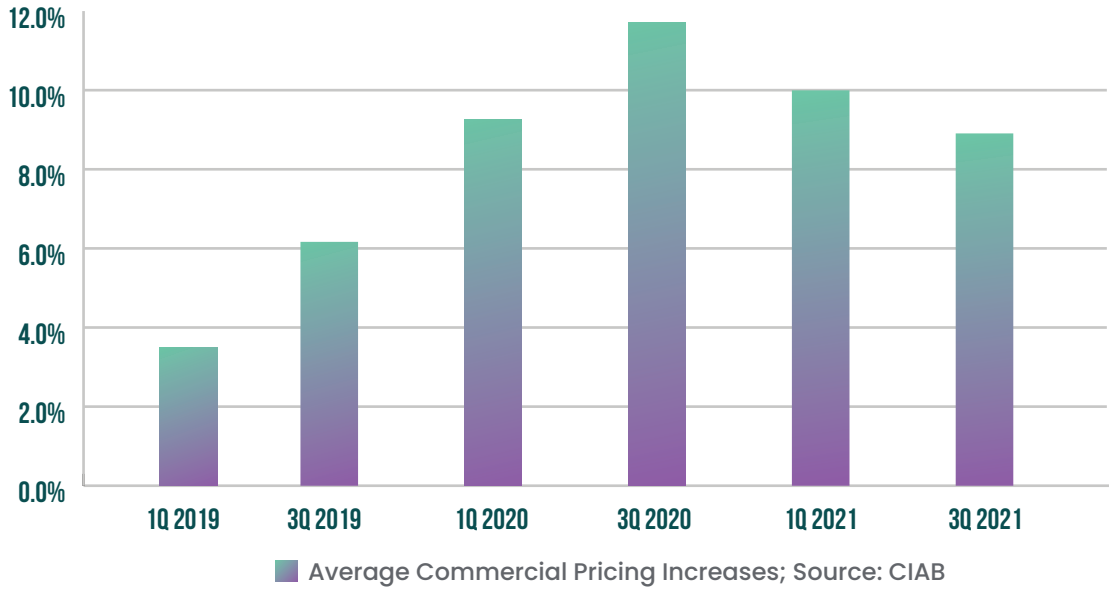
The Insurance Market Cycle:
Understanding Hard vs. Soft Markets

The commercial insurance market typically fluctuates between hard and soft markets. These fluctuations affect the availability, terms and price of commercial insurance, so it's helpful to know what to expect in both a hard and soft insurance market.

A **soft market** is characterized by stable or even a lowering in rates, broader terms of coverage, increased capacity, higher available limits of liability, easier access to excess layers of liability coverage, and competition among insurance carriers for new business. On the other hand, a **hard market** is characterized by higher rates 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. What's more, during hard market cycles, insurance carriers are more likely to exit certain unprofitable lines of insurance.

Average Rate Increases, 2019-2021



In one of the longest soft markets in recent years, businesses enjoyed stable premiums and expanded terms of coverage for a period of about 13 years from 2005-2018. That ended in early 2019 (see chart).

Many factors affect insurance pricing, but the following are common contributors to the hardening market:

Catastrophic (CAT) losses — Floods, hurricanes, wildfires and similar disasters are increasingly common and devastating. Years of costly disasters have compounded losses for insurers, driving up the cost of coverage overall, especially when it comes to commercial property policies.

Inconsistent underwriting profits — Underwriting profits refer to the difference between the premiums an insurer collects and the money it pays out in claims and expenses. When an insurance company collects more in premiums than it pays out in claims and expenses, it will earn an underwriting profit. Conversely, an insurance company that pays more in claims and expenses than it collects in premiums will sustain an underwriting loss. An insurance company's 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 generally do not 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.

Mixed investment returns — Insurance companies also generate income through investments. Commercial insurance companies typically invest in various stocks, bonds, mortgages and real estate investments. Due to regulations, insurance companies invest significantly in bonds. These provide stability against underwriting results, which can vary from year to year. When interest rates are high and returns from other investments are solid, insurance companies can make up underwriting losses through their investment income. But when interest rates are low — as they have been — insurers must pay close attention to their underwriting standards and other investment returns. Because interest rates are expected to climb in 2022, businesses may see further insurance rate stabilization.

The economy — The economy as a whole also 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. A business's revenue and payroll, which factor into how premiums are set, may decline. This creates an environment where there is less premium income for insurers. The economy at the moment is growing, good news for insurers and their clients.

The inflation factor — Prolonged periods of inflation can make it challenging for insurance carriers to maintain coverage pricing and subsequently keep pace with more volatile loss trends. Unanticipated increases in loss expenses can result in higher loss ratios for carriers, particularly as inflation affects key cost factors (e.g., medical care, litigation and construction expenses). In 2021, rising inflation was reflected within the commercial property and auto segments by way of higher costs for building materials, auto parts and skilled labor. These inflation concerns are expected to continue through 2022, potentially contributing to increased coverage costs.

The cost of reinsurance — Reinsurance is coverage insurance companies buy from larger insurers. Carriers often buy reinsurance for risks they can't or don't wish to retain fully, including those for severe weather events like hurricanes and wildfires. It's a way for primary insurers to protect against unforeseen or extraordinary losses. As a result, reinsurance helps stabilize premiums for regular businesses by making it less of a risk for insurance carriers to write a policy. However, reinsurers have exposures to many of the same events and trends affecting insurance companies. For 2022, reinsurance is expected to become more expensive to obtain and that, unfortunately, will be reflected in the overall cost of insurance for businesses.

Additional Factors That Influence Your Insurance Rates

In addition to the above, the following are additional factors that may influence your insurance rates:

The coverage you're seeking — The forms of insurance you're seeking, as well as the details of the coverage (e.g., limits of liability and value of insured property), will affect your insurance pricing.

The size of your business — As a general rule, the more employees your business has and the more revenue you generate, the more you will pay for your insurance.

The industry in which you operate — Certain industries carry more risk than others. Think of construction, for example. In general, businesses in these sectors are more likely to file insurance claims. As a result, businesses involved in risky industries tend to, on average, pay more in insurance premiums.

The location of your business — The location of your business will also influence your commercial insurance rates. If your business is located in an area prone to certain natural disasters, insurers may determine that your facility is more at risk for property damage. This increased risk will translate to higher insurance premiums. Also, some states may be more business-friendly or employee-friendly, so that, too, will influence rates.

Your claims history — Your business's claims history, or your loss history, will also have an impact on insurance rates. If your business has an extensive claims history, then insurance carriers will tend to consider your company more likely to file future claims. This, in turn, means that your business will be viewed as risky to insure, subjecting you to higher premiums.

Your risk management practices — Now more than ever, conducting a careful assessment of your business's unique exposures and establishing effective, well-documented risk management practices can make your business more attractive to insurance carriers. After all, having a robust risk management program in place reduces the likelihood of costly claims occurring, as well as minimizes the potential losses that your business could experience from an unexpected event.

Put simply, during a hard market, insurance buyers may face complex considerations regarding their insurance coverage. Thankfully, businesses are not without recourse in the face of a hard market. Business owners who proactively manage their exposures will be better prepared for a hardening market than those who do not. Furthermore, those who educate themselves on the trends that influence their insurance will better understand what can be done to influence their insurance rates.

Trends to Watch in 2022

Trends to Watch in 2022

Insurance experts often examine how outside influences and trends affect the insurance marketplace, and businesses should follow suit to determine what factors may impact their insurance coverage and costs. For 2022, there are a number of market developments to consider.

Labor Shortages

The past year has seen labor shortages across industry lines. According to a recent study from the Society for Human Resource Management (SHRM), nearly 90% of organizations are having a hard time filling open positions. The industries experiencing the most substantial labor shortages include manufacturing, hospitality, health care and retail. Of the positions currently available, the majority (79%) of organizations are experiencing difficulty filling entry-level positions. Additionally, most (61%) organizations reported that hourly positions have been the hardest to fill.

A variety of factors have contributed to these widespread labor shortages. Primarily, the impact of the COVID-19 pandemic has caused many workers to re-evaluate their employment priorities and made unemployed individuals apprehensive about returning to the workforce — with the proportion of people who have been out of work for six months or longer at its highest point in 60 years. The SHRM study found that nearly one-third (32%) of unemployed individuals have remained out of work due to concerns over COVID-19 exposure on the job, while 27% have done so because of salary issues. Further, over 20% of unemployed individuals with caretaking responsibilities have stayed out of a job because they lack access to reliable care. This issue is especially prevalent among female employees, as 3 million women left the workforce during the pandemic. As such, many individuals are seeking jobs with greater flexibility (e.g., nontraditional hours and remote capabilities), additional paid time off, higher pay and workplace arrangements that promote health and safety.

To help combat these labor shortages and attract skilled job candidates, organizations have had to make a number of workplace adjustments. The SHRM study found that 57% of organizations have started offering referral bonuses to fill open positions, while 43% have increased pay and 23% have provided sign-on bonuses for these positions. In addition to monetary offerings, 23% of organizations have begun offering extra workplace benefits, discounts or other incentives (e.g., flexible hours, caretaking support, more advanced technology and remote options) to attract employees. Looking forward, organizations will need to remain innovative in meeting their employees' shifting expectations and attracting talent.

Supply Chain Issues

The pandemic-induced supply-chain disruption isn't going away anytime soon. Aggravating the bottleneck, a severe shortage of warehouse workers and truck drivers that has slowed shipment and delivery times for high-demand goods.

These supply chain disruptions have impacted a number of industries. According to the U.S. Census Bureau, the sectors that have experienced the greatest difficulties include the manufacturing, construction and retail trade industries. Some of the most significant supply chain concerns have included shortages of building materials (e.g., steel and lumber) and vehicle parts (e.g., car chips).

Economy watchers believe these supply chain issues will continue into at least the first half of 2022 before eventually subsiding.

Inflation

Going into 2022, economic experts predict that rising inflation will continue to be a pressing concern. While inflation currently is having the most impact on property and auto insurance rates, a prolonged period of rising prices will likely begin to affect additional segments — such as the workers' compensation and liability insurance spaces — over time.

Indeed, although industry experts predict that surging construction costs will eventually subside during 2022, overall inflation issues are expected to continue, potentially keeping property reconstruction expenses and subsequent claims costs high for years to come.

Social Inflation

The term "social inflation" refers to societal trends that drive up the costs of insurance. They include:

Litigation Funding — Litigation funding occurs when a third party provides financing for a lawsuit. In exchange, the third party receives a portion of the settlement. In the past, the steep cost of attorney fees would often scare plaintiffs away from filing a lawsuit, let alone taking it to trial. But, through litigation funding, most or all of the costs associated with litigation are covered by a third party, which has increased the volume of cases being pursued.

Plaintiff-friendly Legal Decisions and Large Jury Rewards — The overall public sentiment toward large businesses and corporations is increasingly negative, and anti-corporate culture is, in fact, more prevalent than ever. A number of factors are contributing to this increasing distrust, including highly publicized cases related to the mishandling of personal data.

This has had a considerable impact on how businesses are perceived by juries, and organizations are being held to higher standards than ever. In fact, juries are increasingly likely to sympathize with plaintiffs, especially if a business's reputation has been tarnished in some way in the past.

Compounding this issue, there's an increasing public perception that businesses — particularly large ones — can afford the cost of any damages. This means juries are likely to have fewer reservations when it comes to awarding big damages. In the current environment, these so-called nuclear verdicts (awards of $10 million or more) have become more common.

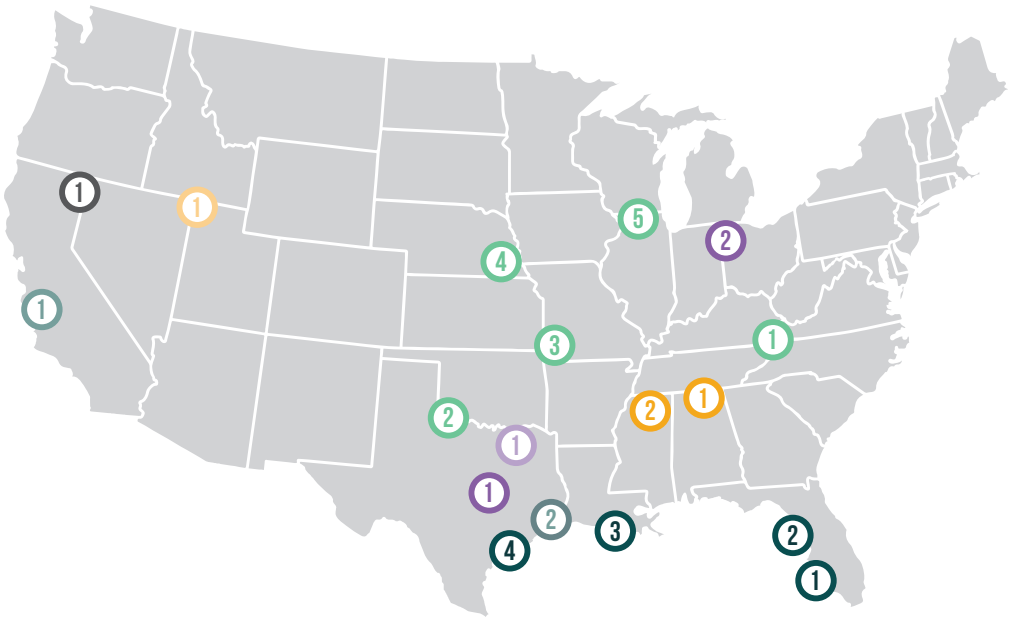
Extreme Weather Events

Extreme weather events — such as hurricanes, tornadoes and hailstorms — continue to make headlines as they become increasingly devastating. Making matters worse, these events aren't limited to one geographic area, impacting businesses and residents across the United States.

As we saw, wildfires also once again plagued the West in 2021, with a year-end total of more than 52,000 wildfires that burned over 6.6 million acres. Widespread drought and several heatwaves in the Western and Central U.S. caused over 200 fatalities and cost billions of dollars in damages. Hundreds of tornadoes wreaked havoc across various Southeastern and Northeastern states, while hailstorms, strong winds and heavy snow impacted the Midwest. On the East Coast, the 2021 hurricane season recorded the third-highest number of storms in history, causing over $70 billion in damages and affecting multiple states along the Atlantic.

Many experts believe severe storms, extreme temperatures, wildfires and flooding are the new norm.

U.S. 2021 Billion-Dollar Weather and Climate Disasters



SERVE WEATHER
1. Eastern | March 27-28
2. Texas & Oklahoma | April 27-28
3. Central Severe Weather | June 24-26
4. Central Severe Weather | July 8-11
5. North Central | August 10-13

FLOODING
1. California | January 24-29
2. Louisiana | May 17-18

TORNADOES
1. Southeast | March 24-25
2. Southern | May 2-4

WILDFIRES
1. Western | Summer-Fall 2021

HAIL STORMS
1. Texas | April 12-15
2. Ohio Valley | June 17-18

DROUGHTS
1. Western Drought & Heatwave | 2021-

COLD WAVE
1. Northwest, Central, Eastern | Summer-Fall 2021

HURRICANES
1. Tropical Storm Elsa | July 7-9
2. Tropical Storm Fred | August 16-18
3. Hurricane Ida | August 29-September 1
4. Hurricane Nicholas | September 14-18

Social Movements

Several social movements – in particular #MeToo and Black Lives Matter – rose to prominence in recent years, elevating the risk of employment-related claims alleging discrimination, harassment or other forms of unfair treatment. Moving forward, employers need to respond accordingly amid such social movements, adjusting organizational practices to deliver a positive, inclusive and diverse work environment. Failing to do so could result in increased losses and subsequent claims, as well as severe reputational damage. Policyholders who take the necessary actions to avoid such claims by documenting workplace inclusivity, diversity and social awareness initiatives may reap the benefits of reduced premiums.

2022 Rate Forecasts

2022 Rate Forecasts

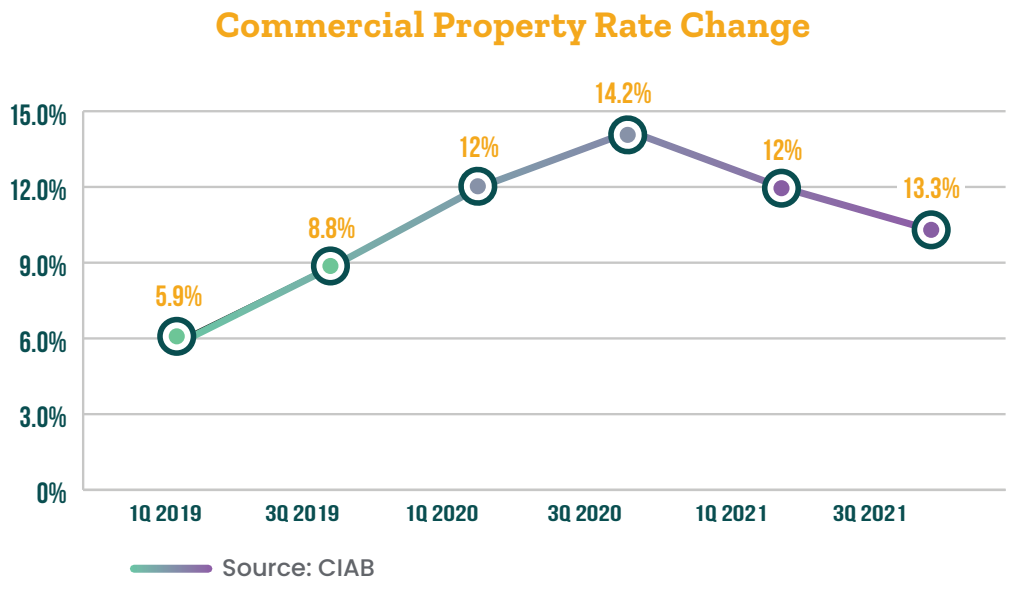
Price forecasts are based on industry reports for individual lines of insurance. Forecasts are subject to change and are not a guarantee of the premiums you pay. Insurance premiums are determined by a multitude of factors and differ per organization. These forecasts should be viewed as general information and not insurance or legal advice

LINE OF COVERAGE	PRICE FORECAST
Commercial property	Overall: **+5 to +15%**
Commercial auto	Overall: **+10 to +25%**
Cyber liability	Overall: **+15 to +50%**
Directors and officers liability	Private/nonprofit entities: **+5 to 35%** Public companies: **+5 to +25%**
Employment practices liability	Overall: **+10 to +25%**
General liability	Overall: **+2.5 to +15%**
Umbrella and excess	Overall: **+10 to +30%**
Workers' compensation	Overall: **-2 to +5%**

Commercial Property Insurance

Commercial Property Insurance

The commercial property insurance market has steadily hardened in recent years, resulting in quarterly rate increases since Q3 2017. Unfortunately, these rate increases — as well as additional policy restrictions — are expected to continue in 2022. Yet, the market may see some signs of moderation compared to 2021's trends.



Such unfavorable market conditions are the result of another intense season of natural disasters (e.g., wildfires, hurricanes, windstorms, hail and floods) and the ongoing COVID-19 pandemic. An uptick in losses stemming from these trends has forced commercial property insurance carriers to raise policyholders' premium costs and implement more restrictive coverage terms.

We predict that many insureds will experience single or double-digit rate increases, lowered available capacity, higher sub-limits, and various policy restrictions or exclusions — especially regarding losses tied to weather events or the COVID-19 pandemic. Policyholders who conduct high-risk operations with poor loss control practices or are located in natural disaster-prone areas may encounter more severe rate changes, higher retentions and decreased coverage limits.

2022 PRICE PREDICTION
Commercial Property Insurance

OVERALL:
+5% TO +15%

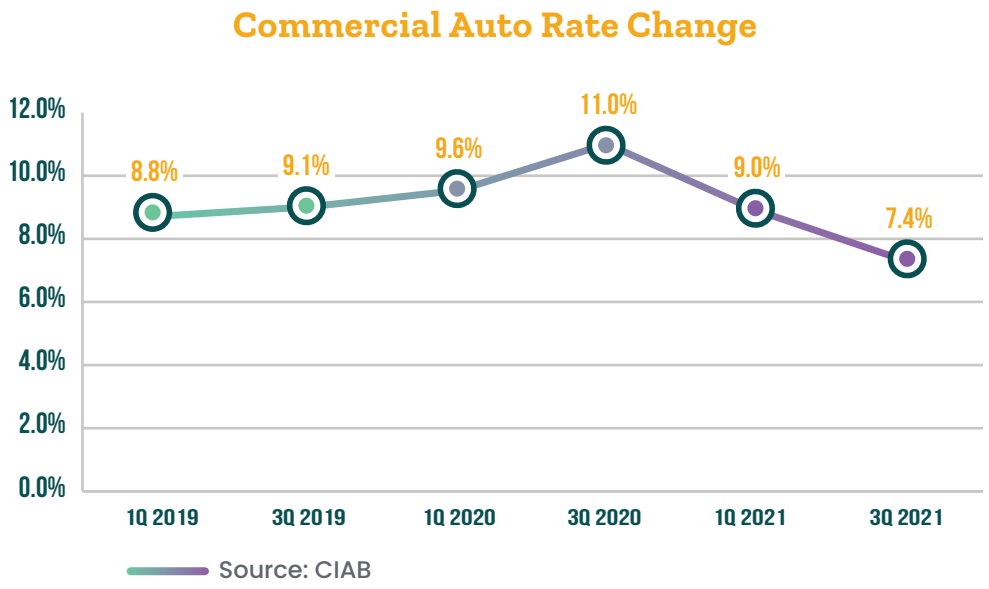
Tips for Insurance Buyers

- Work with your insurance professionals to begin the renewal process early. Many commercial property insurers are seeing an increased submission volume. Timely, complete and quality submissions are vital to ensure your application will be reviewed by underwriters.
- Determine whether you will need to adjust your business' retentions or limits to manage costs.
- Gather as much data as possible regarding your existing risk management techniques. Be sure to work with your insurance professionals to present loss control measures you have in place.
- Conduct a thorough inspection of both your commercial property and the surrounding area for specific risk management concerns. Implement additional mitigation measures as needed.
- Analyze your organization's natural disaster exposures. If your commercial property is located in an area prone to a specific catastrophe, implement mitigation and response measures (e.g., install storm shutters on windows to protect against hurricane damage or utilize fire-resistant roofing materials to protect against wildfire damage) to protect your property as much as possible.
- Develop a documented business continuity plan (BCP) that will help your organization remain operational and minimize damages in the event of an interruption. Test this BCP regularly with various possible scenarios. Make updates when necessary.
- Address insurance carrier recommendations. Insurers will be looking at your loss control initiatives closely. Taking the appropriate steps to reduce your risks whenever possible can make your business more attractive to underwriters.

Commercial Auto Insurance

Commercial Auto Insurance

Over the past decade, the commercial auto space has been largely unprofitable for insurance carriers. According to a recent report from AM Best, commercial auto underwriters saw more than $22 billion in underwriting losses between 2011 and 2020. This is despite underwriters increasing commercial auto premium pricing for 41 consecutive quarters, dating back to Q3 of 2011.



Various factors have led to this poor underwriting performance, including litigation trends, a profound commercial driver shortage, a wide range of driver safety failures, medical treatment inflation, distracted driving, surging accident expenses and a deteriorating public road infrastructure. In this environment, many commercial auto insurance carriers have elevated premium costs — with some policyholders seeing double-digit rate increases. Even amid premium surges, as an industry, insurance carriers have not returned an underwriting profit for commercial auto lines in over a decade.

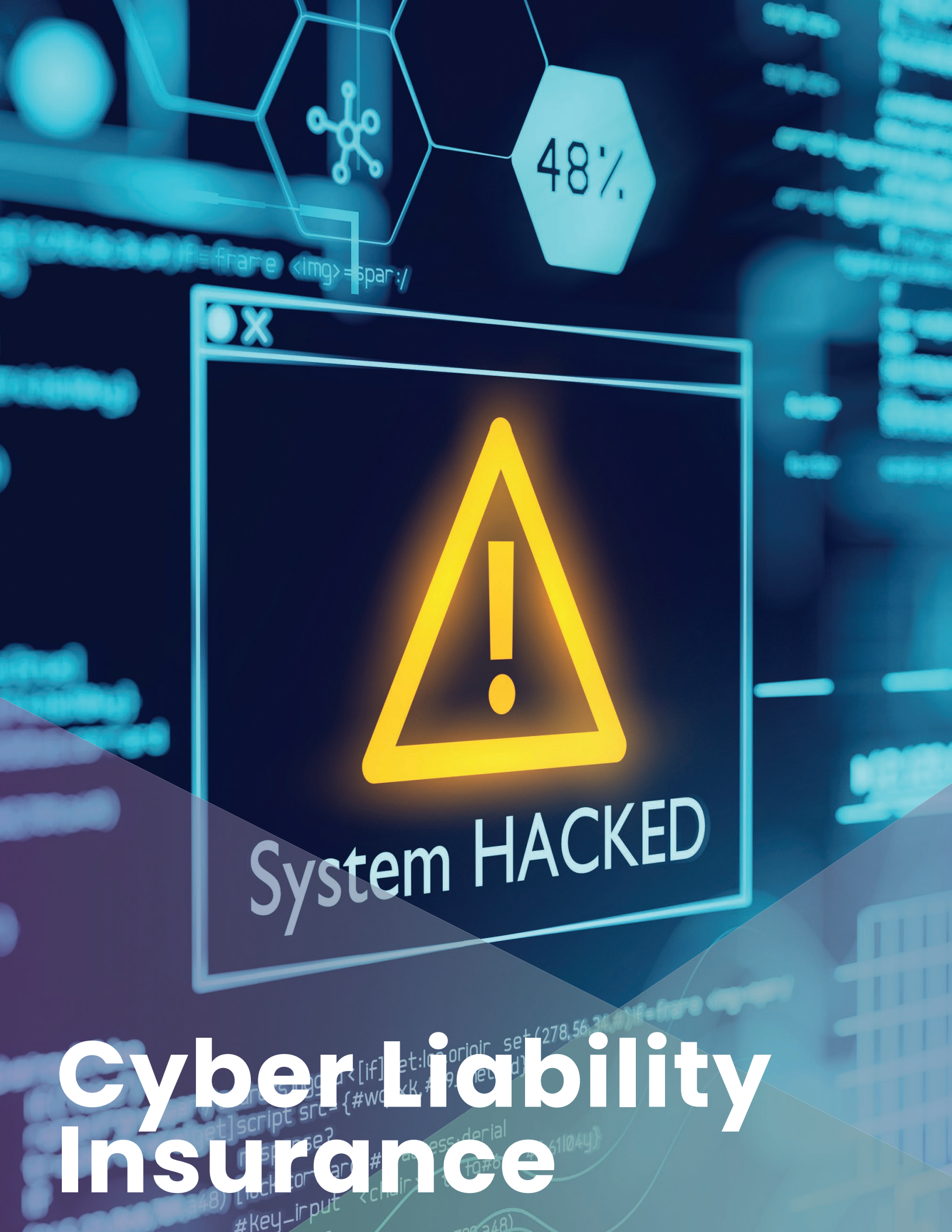
Looking ahead, industry experts predict that this hard market will continue to be a concern in 2022 and beyond. As such, we predict that the majority of businesses with commercial auto exposures — regardless of their industry or vehicle class — will have a more difficult renewal process by way of greater premium rates, lowered capacity and more stringent policy requirements or restrictions. Further, insureds with larger fleets or a poor loss history may experience more significant rate increases.

2022 PRICE PREDICTION
Commercial Auto Insurance

OVERALL:
+10% TO +25%

Tips for Insurance Buyers

- Examine your loss control practices relative to your fleet and drivers. Enhance your driver safety programs by implementing or modifying safe driving and distracted driving policies.
- Design your driver training programs to fit your needs and the exposures facing your business. Regularly retrain drivers on safe driving techniques.
- Establish adequate driving schedules to reduce driver fatigue. Educate employees on driver fatigue and encourage them to take a break if they start experiencing symptoms behind the wheel.
- Assess the risks associated with offering delivery services and implement measures to minimize potential damages (e.g., driver training programs and safe delivery protocols).
- Ensure you hire qualified drivers by using motor vehicle records (MVRs) to vet drivers' experience and moving violations. Disqualify drivers with an unacceptable driving record. Review MVRs regularly to ensure that drivers maintain good driving records. Define the number and types of violations a driver can have before they lose their driving privileges.
- Consider technology solutions, such as telematics, where appropriate to strengthen and supplement other loss control measures.
- Implement a driver- or employee-retention program to maintain experienced drivers.
- Prioritize organizational accident prevention initiatives and establish effective post-accident investigation protocols to prevent future collisions on the road.
- Examine your Federal Motor Carrier Safety Administration BASIC scores to identify gaps in your fleet management programs, if applicable.
- Determine whether you should make structural changes to your commercial |auto policies by speaking with your insurance broker.

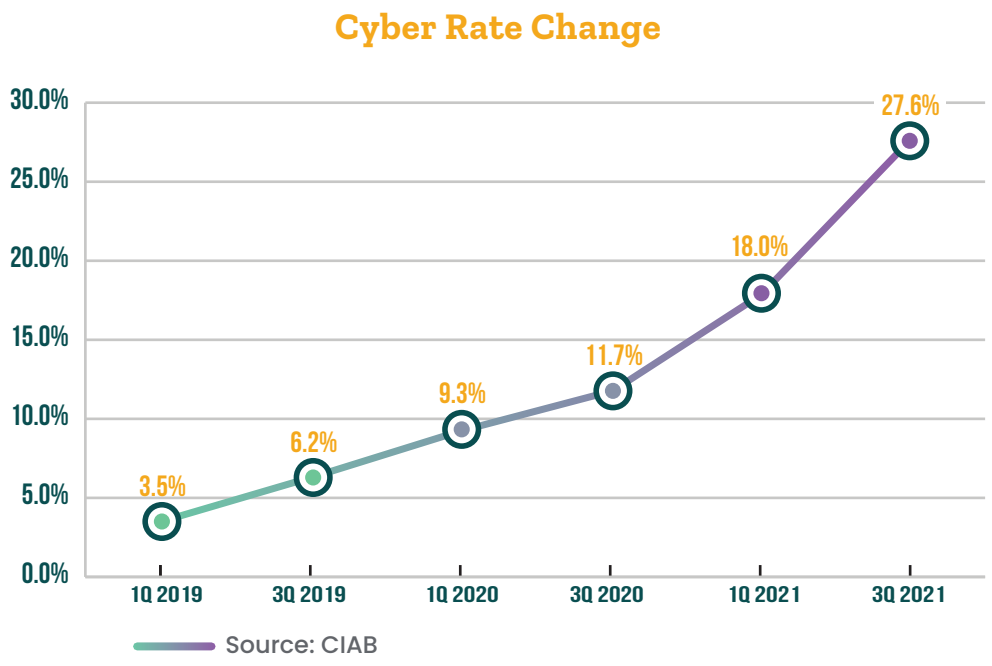


Cyber Liability Insurance

Cyber Liability Insurance

The cyber insurance market is at a critical juncture for both insurance carriers and policyholders. While the last few years have seen increased competition among cyber insurance carriers, higher capacity and expanded coverage terms, both 2020 and 2021 saw a rapidly hardening cyber insurance market. Across industry lines, cyberattacks — namely, ransomware attacks and business email compromise scams — have surged in both cost and frequency. This increase in attacks has, in turn, resulted in a rise in cyber liability claims and subsequent underwriting losses.

At a time when businesses are looking to purchase cyber insurance for the first time or to expand upon their existing coverage, many carriers are taking a more cautious approach to this line of insurance. In particular, carriers are managing the deployment of capacity more stringently than in past years. For example, in instances where insurance carriers previously offered policies with limits of up to $10 million, the market is now seeing smaller layers closer to $5 million. What's more, reinsurers have also begun restricting the capacity they offer to insurance carriers, while pressuring carriers to take a more proactive approach to underwriting cyber liability insurance.



In light of these market conditions, we predict that most policyholders will experience higher cyber liability insurance rates in 2022, with many insureds seeing double-digit rate increases. Apart from increased premium costs, insureds may also encounter coverage restrictions, further scrutiny from underwriters regarding cybersecurity practices, and exclusions or sub-limits for losses stemming from specific types of cyber incidents (e.g., ransomware attacks). Policyholders who operate in industries with more pronounced cyber exposures (e.g., education, technology, health care, finance, retail and hospitality) may experience greater rate increases. If policyholders fail to demonstrate proper cybersecurity protocols or have experienced cyber incidents in the past, coverage will be increasingly difficult to obtain.

2022 PRICE PREDICTION
Cyber Insurance

OVERALL:
+15% TO +50%

Tips for Insurance Buyers

- Work with your insurance professionals to understand the different types of cyber coverage available and secure a policy that suits your unique needs. Carefully determine whether your organization should purchase standalone cyber liability coverage.
- Take advantage of loss control services offered by insurance carriers to help strengthen your cybersecurity measures.
- Provide remote employees with adequate resources, support and software to avoid cybersecurity concerns amid work-from-home or hybrid arrangements.
- Focus on employee training to prevent cybercrime from affecting your operations. Employees should be aware of the latest cyber threats and ways to prevent them from occurring.
- Keep organizational technology secure by utilizing a virtual private network, installing antivirus software, implementing a firewall, restricting employees' administrative controls and encrypting all sensitive data.
- Store backups of critical data in a secure, offline location to minimize losses in the event of a ransomware attack.
- Update workplace software regularly to ensure its effectiveness. Keep employees on a strict software update schedule and consider using a patch management system to assist with updates.
- Establish an effective, documented cyber incident response plan to remain operational and minimize damages in the event of a data breach or cyberattack. Test this plan regularly by running through various scenarios with staff. Make updates to the plan as needed.
- Develop workplace policies that prioritize cybersecurity — including an internet usage policy, a remote work policy, a bring your own device policy and a data breach response policy.
- Be sure to consider potential supply chain exposures when establishing your organization's cybersecurity policies and protocols.

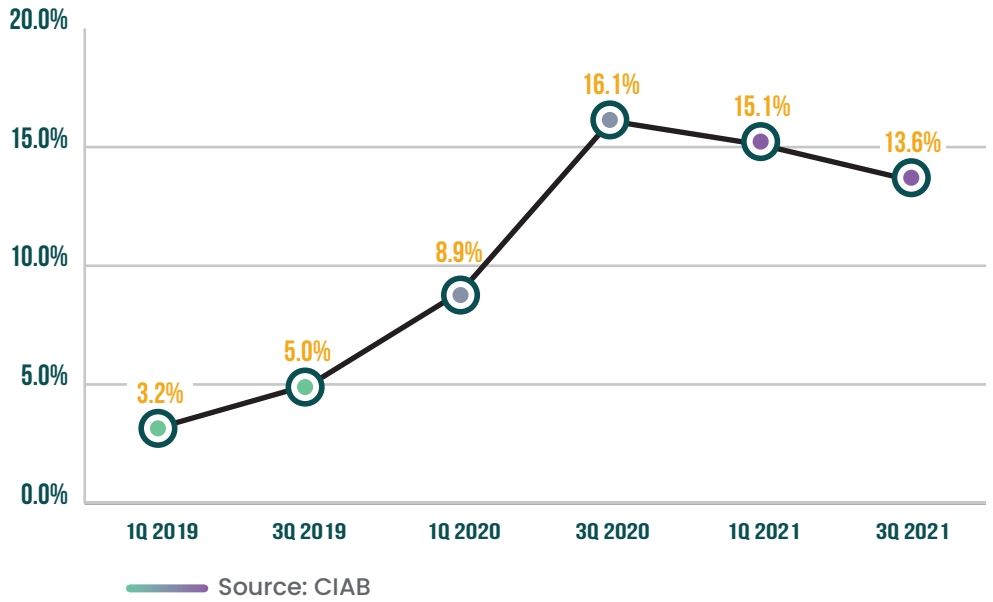
Directors & Officers Liability Insurance

Directors and Officers (D&O) Liability Insurance

Although D&O insurance carriers offered mostly favorable pricing for businesses throughout much of the past 10 years, we're now seeing rising rates and reduced capacity. Indeed, the D&O market has only hardened this decade, with double-digit rate increases becoming the norm for most insureds. Looking forward, insurance experts anticipate that the D&O market will continue to be challenging for many insureds.

In these market conditions, we predict that many businesses will experience rate increases, fewer carrier choices, lower available limits, more robust underwriting and higher retentions in 2022. These rate increases will come on top of the increases that many businesses experienced in previous years for their D&O coverage (both primary and excess layers). Insureds may also encounter various coverage reductions — including costly extended reporting period terms, the elimination of shareholder derivative demand investigative costs coverage, and additional policy restrictions. While this is unwelcome news, there is a silver lining. The pace of these increases appears to be decelerating for 2022 renewals relative to 2021.

Directors and Officers Rate Change



At the same time, any factors that contributed to the initial D&O market shift remain top concerns, including cybersecurity threats and increased litigation. Moreover, a range of additional factors have also emerged — namely special purpose acquisition company (SPAC) issues.

A SPAC is a corporation developed with the primary intention of raising investment capital through an initial public offering (IPO). The secured funds are then utilized to acquire an unspecified business (also called a target company), which is later identified following the IPO. As SPACS have surged in popularity, the U.S. Securities Exchange Commission (SEC) has held senior leaders who conduct these transactions increasingly accountable for potential wrongdoings, such as failing to perform their due diligence on a target company's finances or providing shareholders with misleading information.

2022 PRICE PREDICTION

Director & Officers Insurance

PRIVATE/NONPROFIT ENTITIES:

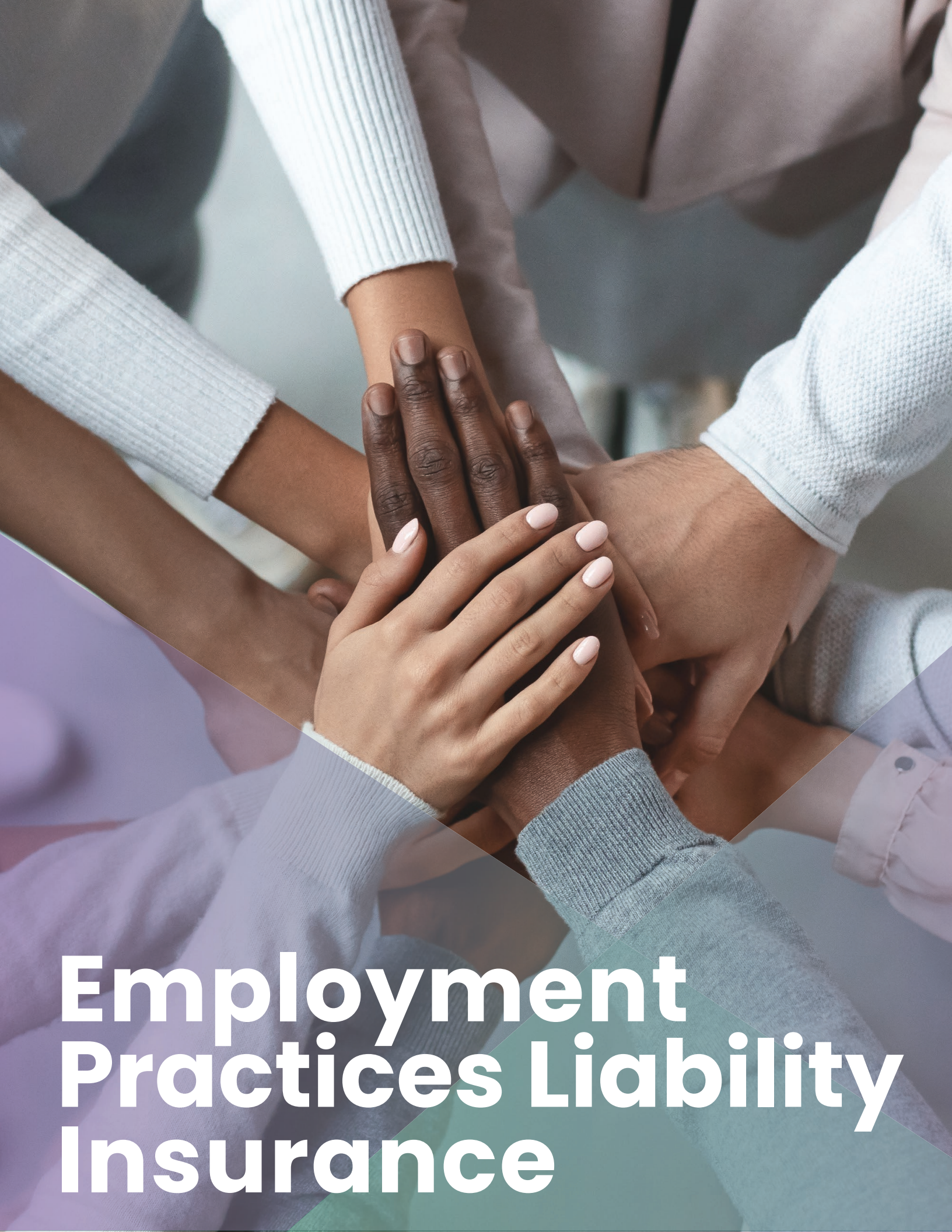
+5% TO +35%

PUBLIC COMPANIES:

+5% TO +25%

Tips for Insurance Buyers

- Examine your D&O program structure and limits alongside your insurance professionals to ensure they are appropriate and take market conditions and trends into account.
- Consult insurance brokers, loss control experts and underwriters to better understand your D&O exposures and cost drivers in the market.
- Work closely with senior leadership to identify any ongoing risks that may arise from the COVID-19 pandemic and determine a course of action that prioritizes the needs of your stakeholders.
- Evaluate workplace adjustments (e.g., back-to-work plans and vaccine mandates) related to COVID-19 prior to implementation to ensure regulatory compliance and minimize legal or financial fallout.
- Make sure your senior leadership team carefully assesses potential exposures and maintains compliant, honest practices amid SPAC transactions. Pay close attention to SEC requirements for such transactions.
- Ensure your senior leaders follow safe financial practices (e.g., timely payments, educated investments, accurate documentation and reasonable reimbursement procedures). Be transparent with stakeholders about your organization's economic state to avoid misrepresentation concerns.
- Make sure your senior leadership team is actively involved in monitoring your organization's unique cyber risks. This can involve implementing proper cybersecurity practices to prevent potential attacks (especially in the realm of remote work arrangements), ensuring compliance with all applicable data security standards and establishing an effective cyber incident response plan to minimize any damages in the event of an attack.
- Prioritize establishing eco-friendly initiatives among your senior leadership team. However, ensure that these initiatives remain realistic to avoid greenwashing concerns. Furthermore, be sure your senior leadership team conducts their due diligence and provides proper reporting as it relates to climate change concerns.
- Implement measures to foster an inclusive workplace and ensure diverse representation within your senior leadership team.

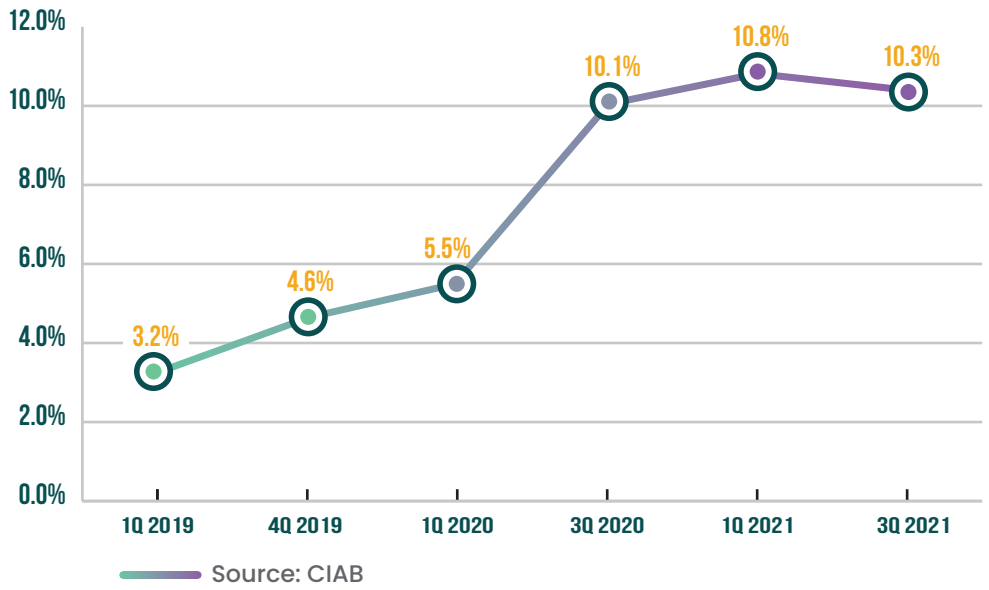


Employment Practices Liability Insurance

Employment Practices Liability (EPL) Insurance

Like many other lines of insurance, the EPL insurance market has also hardened. This is due in part to a higher frequency and severity of claims in recent years, as well as increased legislative activity at both the state and federal levels. What's more, the ongoing impact of the COVID-19 pandemic is a particularly pressing concern in the EPL market. Specifically, pandemic-related remote work operations, return-to-work plans, and furlough or layoff decisions have fueled a variety of EPL claims across industry lines (e.g., discrimination, invasion of privacy and retaliation). What's more, uncertainty regarding COVID-19 and vaccine mandates has challenged EPL further.

EPLI Rate Change



Apart from pandemic-related issues, the EPL market has also seen a recent rise in potential exposures due to a wide range of emerging trends — including an aging workforce, increased LGBTQ protections, social movements, employee privacy laws and widespread marijuana legalization. Moreover, judges and juries seem increasingly sympathetic to plaintiffs in employment-related actions.

Over the past few years, there has been an acceleration of large judgments (more than $5 million) issued against employers for EPL claims. In response, many carriers have shown a dampening appetite to write new EPL business, and fewer carriers are competing for business. Further, insureds can expect increased underwriting scrutiny for EPL coverage, including questions around diversity and inclusion, HR practices, and COVID-19 initiatives (e.g., return-to-office plans and vaccine mandates).

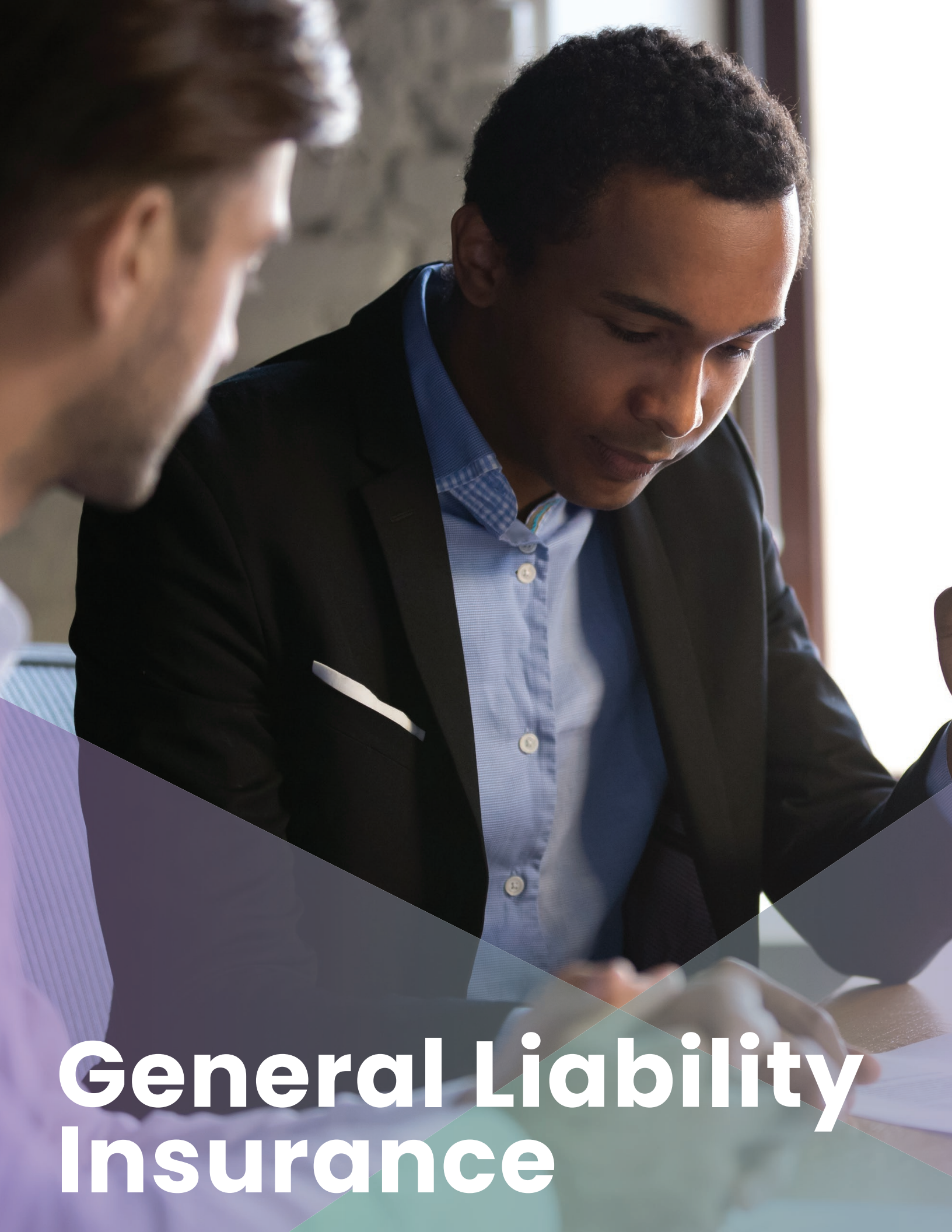
For 2022, we anticipate the EPL rate environment to improve slightly over 2021. Yet, we predict that most policyholders will still experience rate increases in 2022. Larger organizations and insureds operating within riskier states (e.g., California, Illinois, Florida, New York and Texas) or industries (e.g., health care, retail, hospitality and leisure) may encounter larger rate increases.

2022 PRICE PREDICTION
Employment Practices Insurance

OVERALL:
+10% TO +25%

Tips for Insurance Buyers

- Review your employee handbook and related policies. Ensure you have all appropriate policies in place, including language on discrimination, harassment and retaliation.
- Implement effective sexual harassment prevention measures (e.g., a zero-tolerance policy and a sexual harassment awareness program), reporting methods and response protocols.
- Promote diversity, acceptance and inclusion in the workplace through staff education and training. Take any accusations or reports of discrimination seriously.
- Document all evaluations, employee complaints and situations that result in employee termination.
- Consult legal counsel for state-specific employee wage and hour guidance. Pay close attention to workplace issues that could lead to wage and hour complaints.
- Review any state-specific legislation related to marijuana legalization. Consider revising procedures related to conducting workplace drug tests for marijuana or basing employment decisions on an employee's marijuana usage, as these practices could potentially contribute to EPL claims.

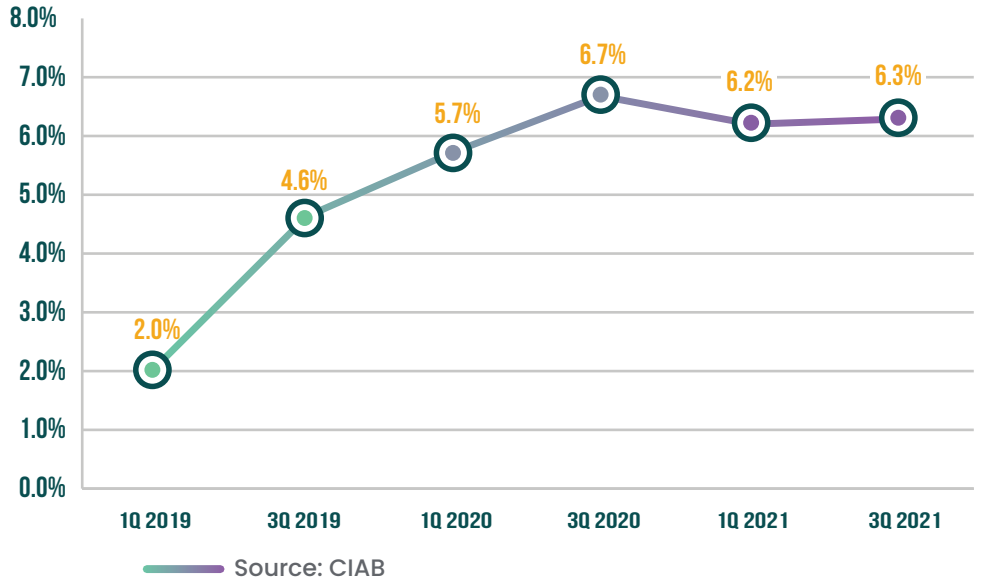


General Liability Insurance

General Liability Insurance

In recent years, the general liability market has consistently underperformed for insurance carriers. As claims have increased in frequency and severity, insurance carriers have responded by tightening underwriting standards, deploying less capacity and seeking rate increases. Despite recent trends, carriers have begun to see modest improvement in general liability results.

Commercial General Liability Rate Change



In 2022, we predict that most policyholders will encounter another year of modest rate increases for general liability coverage. Renewal results will likely depend on an organization's exposures, class and loss history. Policyholders who operate in sectors with elevated general liability exposures (e.g., real estate, construction, manufacturing, retail, hospitality and contracting) may be more prone to double-digit rate increases and increasingly restrictive underwriting standards, as well as experience significant difficulties securing or maintaining higher coverage limits.

Tips for Insurance Buyers

- Work with your insurance broker to educate yourself on key market changes affecting your rates and how to respond using loss control measures.
- Ensure your business has measures in place to reduce the potential for customer or visitor injuries (e.g., maintaining safe walking surfaces and promoting proper housekeeping).
- Consult federal, state and local guidance to establish a safe reopening plan for your business with adequate COVID-19 prevention protocols.
- Reach out to your insurance broker to review pandemic-related coverage restrictions.
- Examine your general liability coverage with your insurance broker to ensure limits match up with your insurance needs.

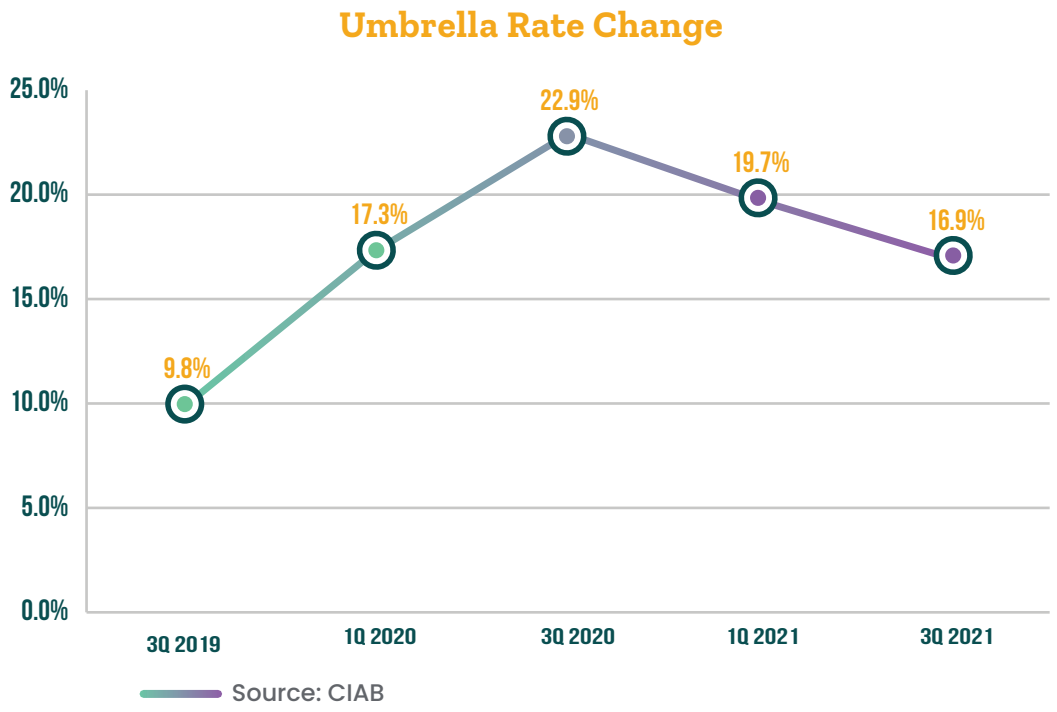
2022 PRICE PREDICTION
General Liability Insurance

OVERALL:
+2.5% TO +15%

Umbrella and Excess

Umbrella and Excess

Imagine seeing increases between 30 percent to 60 percent. That's exactly what has happened to large and complex risks buying umbrella or excess coverage this decade. The year ahead could see more of the same, though things are settling a bit.



As a reminder, excess liability extends the limits of your existing insurance policy. It does not expand your coverage but simply offers a higher dollar limit to protect your business in case of a catastrophic claim.

As in the past few years, we can blame those nuclear verdicts – those disproportionate, grossly punitive jury awards fed by a growing anti-corporate sentiment – for driving most of the increases in rates. Meanwhile, losses in the reinsurance market, as well as years of underpricing, also have played a role in the rate spikes we're now seeing.

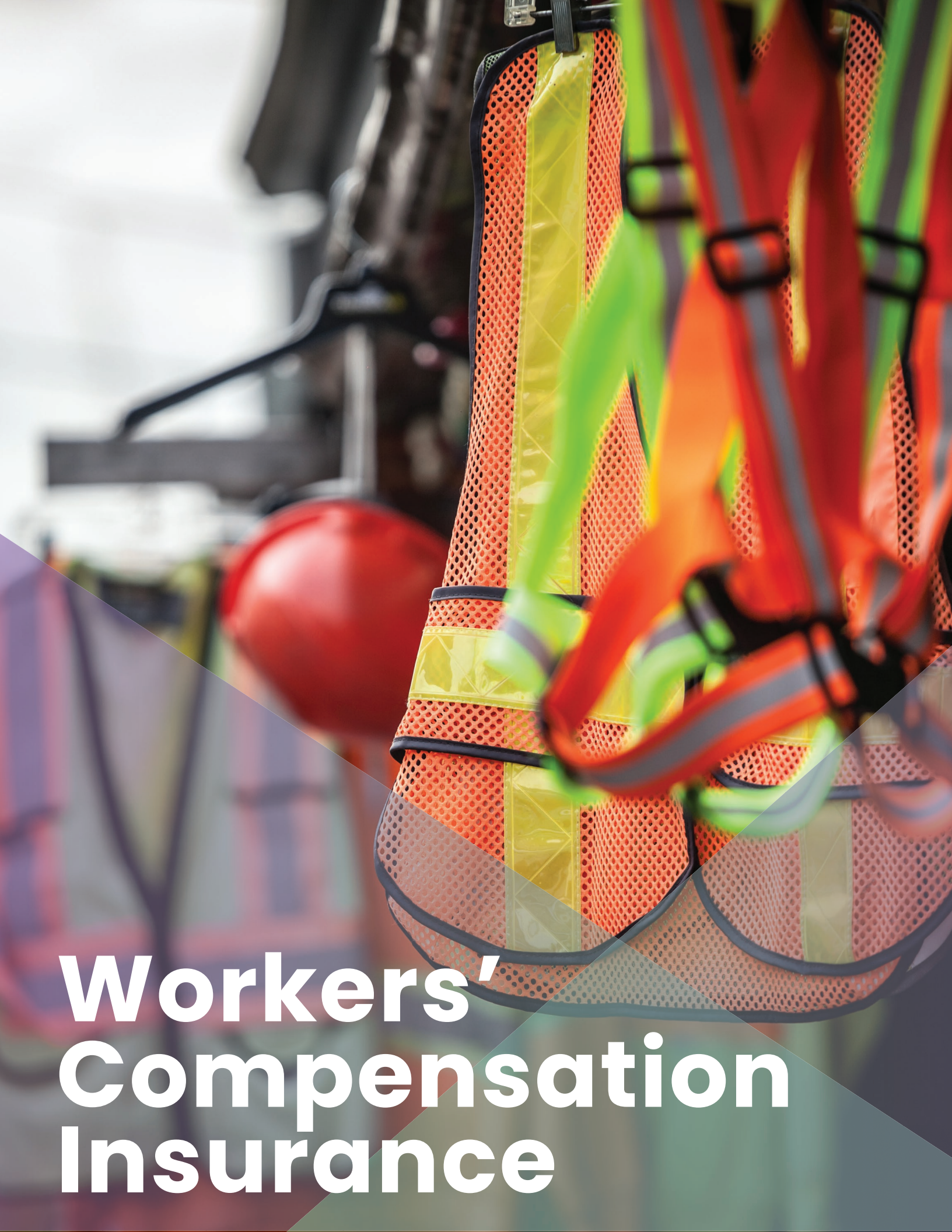
There is good news to share on this front: New competition is entering the excess market, which could help temper rate increases overall.

Tips for Insurance Buyers

- Consider a higher self-insured retention, or SIR.
- Consider a lower limit to lower your cost.
- Work with your insurance broker to develop a details narrative of your risk management and loss controls to present to underwriters.

2022 PRICE PREDICTION
Umbrella and Excess

OVERALL:
+10% TO +30%

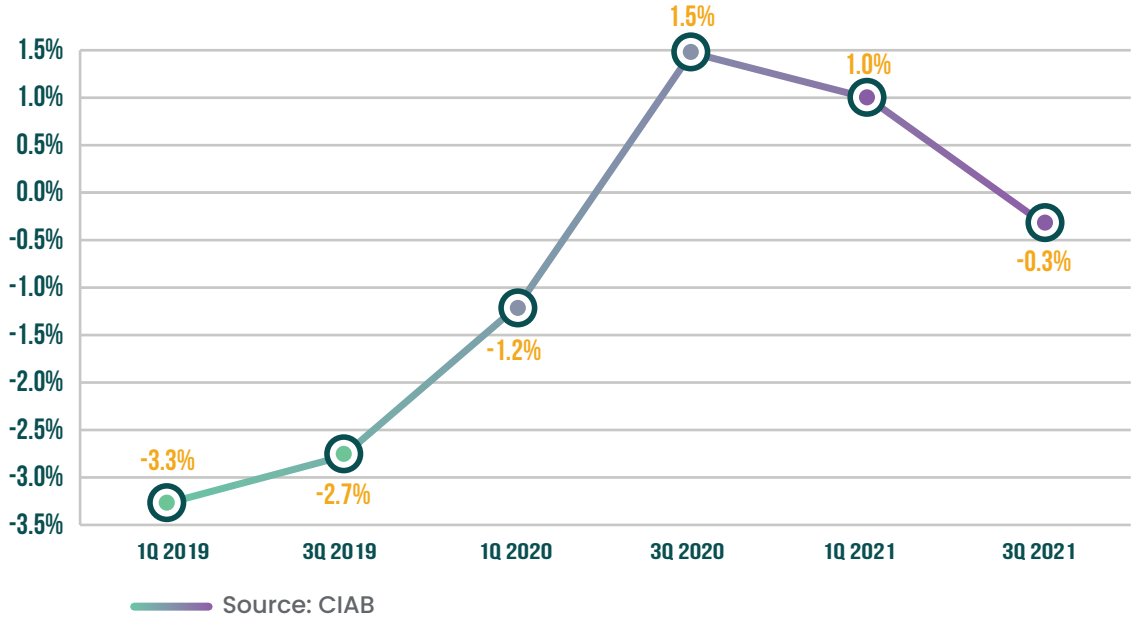


Workers' Compensation Insurance

Workers' Compensation Insurance

Unlike other commercial insurance coverages, the market for workers' compensation insurance has remained stable across most states and industries, performing as an outlier by producing profitable underwriting results. According to the National Council on Compensation Insurance (NCCI), the private carrier combined ratio for workers' compensation in 2020 carriers was 87, up from 85 in 2019, marking the seventh consecutive year of underwriting profit.

Workers' Compensation Rate Change



Because the COVID-19 pandemic resulted in many organizations transitioning to remote work operations, many employees across industry lines have been less prone to illness and injury within their work-from-home arrangements. In fact, despite initial concerns about the COVID-19 pandemic, workers' compensation losses do not appear to have been materially affected by the pandemic. Further, the emergence of telemedicine has helped many organizations supply more immediate and cost-effective treatment options for any employees that get injured on the job — thus providing the potential to minimize workers' compensation claim costs.

Nevertheless, there are still trends that could pose concerns within the market for 2022. Various workforce trends — including a rise in comorbidities, labor shortages and an aging population — are also expected to impact workplace injuries and illnesses and subsequent claims. For 2022, we predict that workers' compensation rates will remain stable, with some organizations experiencing rate decreases and others seeing minimal rate increases.

2022 PRICE PREDICTION
Workers' Compensation Insurance

OVERALL:
-2.% TO +5%

Tips for Insurance Buyers

- Enforce workplace health and safety measures to help protect your staff from COVID-19 exposure and limit the likelihood of related claims. Review guidance from your state workers' compensation board and speak with an insurance professional to learn more about how your coverage may or may not respond to COVID-19 claims.
- Implement safety and health programs to address common risks, especially when using a loss-sensitive workers' compensation program.
- Re-evaluate the effectiveness of pre-loss safety initiatives and post-loss claims handling procedures.
- Conduct routine safety training for employees of all ages and experience levels.
- Consider telemedicine options for your workforce.
- Consider implementing various digital solutions — such as wearable safety technology and telemedicine — to help prevent and treat injuries within your workers' compensation program.
- Consult with legal counsel to determine how medical and recreational marijuana legalization could impact your workers' compensation program. Make adjustments as needed.
- Establish workplace wellness initiatives aimed at preventing or treating chronic health conditions and improving the overall well-being of your staff. These initiatives can help reduce the risk of your workforce developing comorbidities.
- 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 their recovery.
- Ramp up your organizational safety efforts and injury-prevention methods — particularly when it comes to preventing falls, motor vehicle accidents and struck-by incidents, as these types of accidents are most likely to result in big claims.
- Provide guidance on how remote employees can make their workspaces more ergonomic in order to prevent injuries at home.

Moving Forward

It can sometimes seem as if the forces determining your insurance rates are beyond your control. But, as an insurance buyer, it's important to know how your premiums are calculated, what trends influence the market and what you can do to get the best price.

Your claims history — which you can control — has an enormous impact on whether your rates go up or down. That's where implementing a solid risk management plan will help steer your pricing in a more favorable direction, both now and in future renewal periods.

The following are five key components of a successful risk management strategy:

01 Pinpoint your exposures and cost drivers.

02 Identify the best loss control solutions to address your unique risks.

03 Create a solid business continuity plan to account for disasters and other unpredictable risks.

04 Build a company culture focused on safety.

05 Manage claims efficiently to keep costs down.

In addition to implementing the above risk management strategies, working alongside an experienced insurance broker is equally crucial. Qualified insurance professionals can help their clients analyze their business, understand their exposures and establish a suite of customized insurance policies that act as a last line of defense against claims. A broker will also thoroughly explain your policies, notifying you of any additional considerations to keep in mind.

Remember, the insurance landscape is complex, and while the predictions found in this outlook are based on expert research, they are subject to change. Fortunately, your partners at The Mahoney Group are diligently monitoring the market throughout the year and will keep you informed of any changes that might affect your business.

For More Information

For more details regarding the information contained in this report, contact The Mahoney Group at 480-730-4920 or visit mahoneygroup.com.

THE MAHONEY GROUP®

In addition to helping you navigate the insurance market, The Mahoney Group has resources to assist in your risk management efforts. Business owners who proactively address risk, control losses and manage exposures will be adequately prepared for changes in the market and will get the most out of each insurance dollar spent