

STRENGTHMATTERS®

**REIMAGINING
REINVENTING
REBALANCING**

2021 Financial Management Conference

Insurance Market Update: P&C / Cyber & Executive Risk

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Tracy Pride – SVP / Director, Real Estate Practice, IMA, Inc.

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October 26, 2021

Questions

- All participant lines are muted.
- Please use the **Raise Hand** feature if you would like to speak.
 - Raise hand feature is located in the Participant panel.
- You may also use the **Chat** feature to ask questions.
- Send a **Chat** to the Host if you have a technical issue.

Continuing Professional Education Requirements for CPAs

- **Polls are Required for CPEs**
 - If you are seeking CPE credits, please submit ALL polls within each session, and the conference evaluations.
 - If you miss a poll, send a **Chat** message to the Host immediately.
- We use **Polls and the Zoom attendance record** to verify participation throughout the webinar.
 - **Participants must submit ALL polls and be logged in no later than 10 minutes after the scheduled session start time to receive a certificate.**

Continuing Professional Education Credits (CPEs) for CPAs

- **Check your Zoom display name**
 - If the correct name is not shown, email your Zoom display name and your full name to consult.lwells@gmail.com.
- You may **request a certificate of completion via the conference evaluations**.
 - Links to the evaluations are emailed to all registrants.
- For more information on CPE credits, contact Lindsay Wells at consult.lwells@gmail.com.

Getting Started

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- Please use the **Raise Hand** feature if you would like to speak.
 - The Raise Hand feature is located in the Participant panel.
- Any questions not answered during the presentation will be addressed at the end of the session.

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Meet the Presenters

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Agenda

- Overview
- Property & Casualty Insurance Market Update
- How Insurers View Affordable Housing
- Management Liability & Cyber Insurance Market Update
- Explanation of Coverage
- Tools & Resources
- Case Studies




Property & Casualty Market

- It remains a hard market
- Cost of Labor and Cost of Goods
- Deductibles (Water)
- Reinsurance
- Crime Scores – Properties excluded
- Assault & Battery - Sub-limits & Exclusions
- Umbrella Pricing

If I were a professional
wrestler, I'd want a name
that strikes fear in
most people.

Something like,
"The Underwriter".



 /LighterSideOfRealEstate

Market Update

- Expect pricing increases for Property & Casualty
- Size of Increase dependent upon loss history and catastrophe exposure
- The increased cost of labor will likely be lasting and will continue to drive up loss costs for insurers

Insurance Market view of Affordable Housing

- Aging Properties
- Higher Exposure than market rate
- Location of Properties
- Assault & Battery

General Liability and Excess Liability

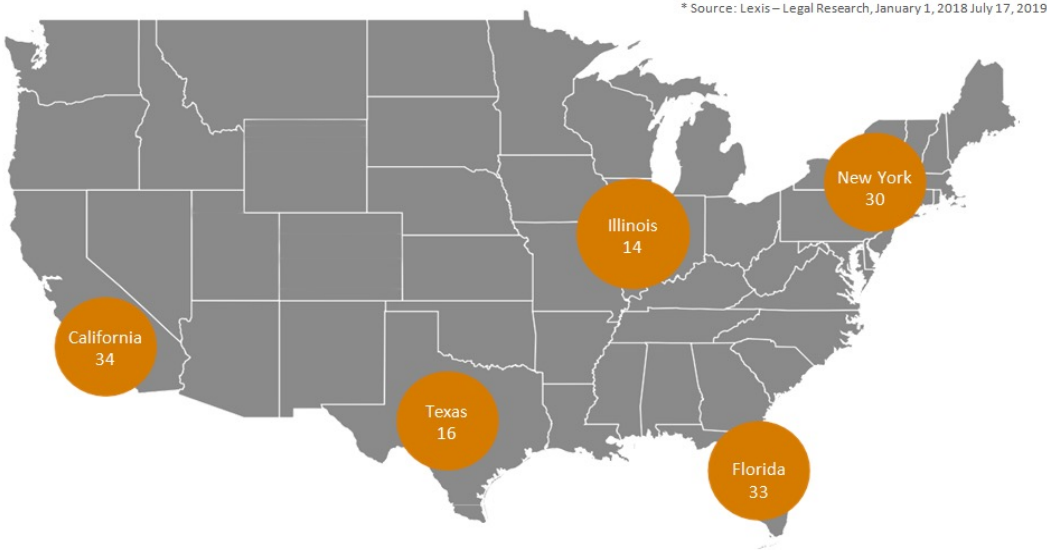
- Higher Claim Settlements
 - Older years keep getting worse
 - Nuclear Verdicts
 - The cost of liability losses continues to outpace rate increases, proving to be unsustainable for the long run
- Crime Scores – Properties Excluded
- Less Competition
- Sub-limits and/or high self-insured retentions/deductibles on Abuse & Molestation and/or Assault & Battery
- Apartment rental housing accounts that include Senior Living, Section 8 or Student Housing are seeing even less capacity than other apartment rental housing accounts.

Excess Liability Nuclear Verdicts

Last 24 Months
(valuation 2/20)

Lower Threshold	Upper Threshold	Count	Average	Largest
\$25,000,000	\$50,000,000	27	\$35,792,593	\$49,000,000
\$50,000,000	\$100,000,000	20	\$65,128,500	\$93,000,000
\$100,000,000	\$200,000,000	14	\$119,892,857	\$165,000,000
\$200,000,000	\$500,000,000	8	\$284,025,000	\$470,000,000
\$500,000,000	\$1,000,000,000	1	\$800,000,000	\$800,000,000
\$1,000,000,000	And Up	6	\$3,388,000,000	\$8,000,000,000
	Overall	118	\$236,715,169	\$8,000,000,000

TOP STATES BY VERDICT VOLUMES:



JUDICIAL HELLHOLES

- 1 Philadelphia Court of Common Pleas
- 2 California
- 3 New York City
- 4 Louisiana
- 5 City of St. Louis, Missouri
- 6 Georgia
- 7 Cook, Madison and St. Clair Counties, Illinois
- 8 Oklahoma
- 9 Minnesota Supreme Court/Twin Cities
- 10 New Jersey Legislature

General Liability and Excess Liability

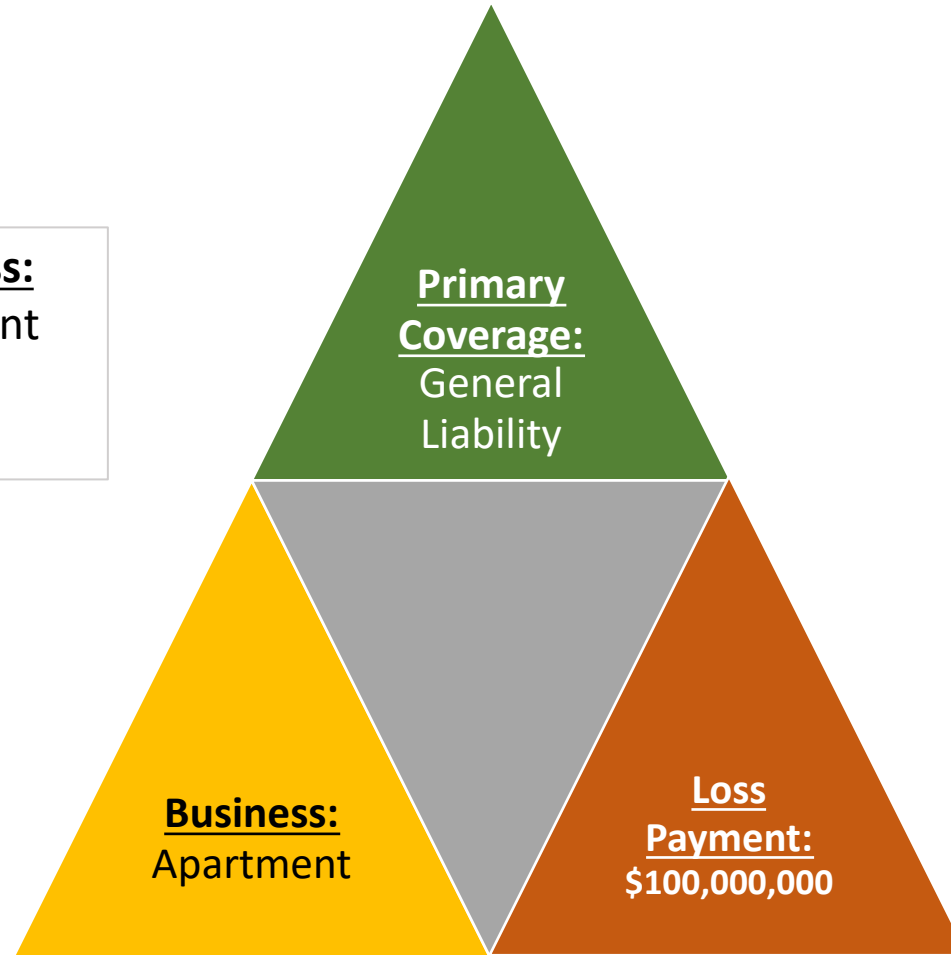
- Claims trends such as habitability claims and tougher litigation venues such as California, Florida, Cook County, IL continue to drive up casualty rates.
- Umbrella capacity continues to shrink with fewer carriers willing to offer lead terms and conditions over habitational.
 - Umbrella towers of 2 years ago with only 1-3 carriers are now being replaced by 6 or more carriers with the placement of the lead \$5m being key.
 - Primary limits of liability may need to increase to accommodate lead Umbrella carrier's minimum attachment point requirements
 - some carriers are requesting \$2m- \$5m as “primary” limits before providing an Umbrella quotation.
 - Some Umbrella carriers will only offer \$1m limit excess of primary General Liability.
- Wholesalers are reporting Umbrella/Excess Liability pricing volatility of between 2x to 10x multiples of expiring premiums.



Source: All Risks, January 2020 – Between a Rock and a Hard Market – The Changing State of Excess Liability.

Excess Liability – Actual Verdict Apartment Owner

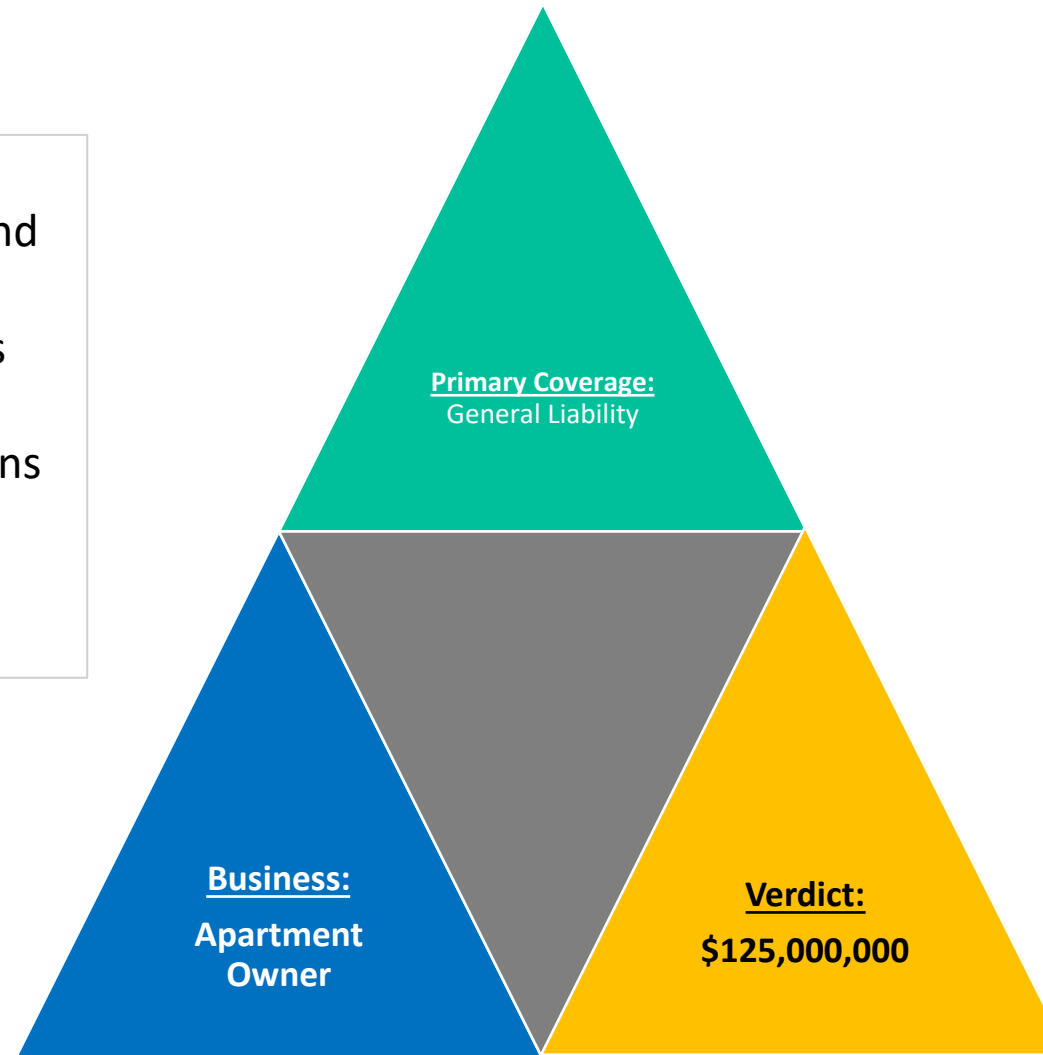
Description of Loss:
Unsupervised Infant
Fell into pool with
Broken Gate



Excess Liability – Actual Verdict Apartment Owner

Description of Loss:

62-year-old male found dead in apartment. Died of heat stroke as HVAC system was inoperable. Allegations were for improper maintenance



Poll Question #1

As respects Umbrella/Excess Liability, please select the number of insurance companies that will most likely be needed to complete a \$50m Liability Tower:

- a. 2 to 3
- b. 4 to 6
- c. 8 to 10
- d. I don't know

Property Insurance

- Hard Market
- Cost of Labor will remain high
- Cost of Materials should lessen as supply chain recovers
- Deductibles
- Sub-Limits
- Excluded Locations



Climate Change

- Increasing amount of heavy storms
- The U.S. disaster costs for the first nine months of 2021 are \$104.8 billion
- 2020 disaster costs \$100.2 billion
- More areas being effected
- Wildfires
 - Wildfire mapping



Builders Risk

- Rates have increased across the board with most Builders Risk Markets.
- Frame Builders Risk continues to be a challenge for the marketplace.
- Deductibles are increasing on all projects with water damage deductibles receiving the most attention as this cause of loss plagues this industry. Most projects will see water damage deductibles starting at \$50,000 or higher.
- Carriers may have concerns about government stoppages of jobsites due to COVID-19.
- Projects over \$50m and higher may run into capacity issues depending on the location, construction type and current history of social and civil unrest.



What Organizations can do

Reduce Claims

1. Analyze Losses – where are losses coming from
 - Fire
 - Water
2. Set up Loss Control Task Force
3. Tenant Education
4. Inspecting the Property & Inspecting Units



What can Strength Matters Members Do to Improve their Insurance Renewal Results?

- Review current Risk Management Practices to ensure they are effectively addressing your potential exposures to claims:
 - Written C-Suite Support of Loss Prevention and Risk Management Strategies
 - Pro-active budgeting for capital expenditures
 - Written and documented Preventive Maintenance Programs
 - Written and documented regular property self-inspections with a focus to safety
 - Written risk management practices regarding COVID-19
 - Background Checks for employees and vendors
 - Vendor Management
 - Strong written contractual risk transfer practices in place
 - Obtain competitive bids on jobs exceeding set amounts
 - Written procedures for incident reporting and accident investigation and prompt claims reporting
 - Pro-active Claims Management Strategies in place
 - Security Vulnerability Assessments
 - Control of your Underwriting data
- Meet with your insurance carriers – whether by video chat or in-person, creating relationships makes a difference

Poll Question #2 – Property Program

What type of Insurance Program are you currently in?

- a. Traditional Insurance Carrier
- b. Large Deductible - \$100k & above
- c. Captive
- d. Other

Management Liability Market Update

- So far in 2021, we find ourselves squarely in the throes of a hard market. Pricing for the Executive Risk lines of coverage (D&O, EPL, Fiduciary, Crime) and Cyber were already firming in early 2020, and then COVID happened. The pandemic has caused financial pain and comes with a gloomy economic forecast for many industries. Financial uncertainty has heightened insurance underwriting concerns, with the possibility of many companies defaulting on their debt and filing for bankruptcy. Some industries and sectors are obviously being hit harder than others, but universally carriers are taking tough measures across the board. While we see sectors of the market that are rebounding, there is still a great deal of uncertainty as businesses reopen. Courts have been shut down or are very backlogged as well, leaving insurance carriers wondering if there is a backlog of lawsuits that will be coming down the pipeline.

Management Liability Market Update

What the Carriers are Doing

Many insurance carriers have stopped writing new business, while all carriers are being utterly cautious. Getting new business and renewal quotes from an incumbent within 30 days of the effective date can be difficult. When possible, renewals are staying with the incumbent carrier, as it has become significantly more difficult to secure competitive alternative quotes.

- Possible non-renewals, depending on industry or financial condition
- Premium increases (doubling or tripling of premium is not outside the realm of possibility depending on industry or financial jeopardy)
- Retention/deductible increases
- **Reductions of capacity (many carriers are cutting limit, especially if their limit is \$5,000,000 or more)**
- Removal of enhancement endorsements (for instance Wage & Hour sub-limits and additional A-side limits are going away on some accounts)
- Addition of restrictive endorsements (for instance some carriers are adding full/absolute Anti-Trust exclusions, Creditor/Insolvency exclusions, Reduction-in-Force claims related exclusions, Major Shareholder exclusions)
- Extra underwriting questions specific to COVID

Employment Practice Related Claim Trends

- Layoffs/Furloughs
- Bringing Employees Back to Work
- Return to Work vs Work from Home
- Mask Mandates
- Vaccine Mandates for Employees
- Vaccine Mandates for Tenants



Poll Question #3 – Employment Practice Liability

Have you considered implementing vaccine requirements for employees?

- a. Yes, the requirement is already in place
- b. Yes, we are considering but haven't mandated... yet!
- c. No

Can you mandate employee vaccinations in your state?

Information current as of 10/20/2021

Employer Mandates Banned

- Montana
- Utah
- Texas
- Michigan
- Indiana
- Arkansas
- Tennessee
- Georgia

Passports/ Mandates for State Workers

- Passports: New York, Hawaii, CA
- Mandate Vaccines for State Workers:

Washington	Oregon
California	Nevada
Colorado	New Mexico
Minnesota	Wisconsin
Illinois	North Carolina
Maryland	Virginia
New York	Massachusetts

Complications

- Multi-state operations
- Federal Contractors
- Different Rules at County or Municipality Level
- Exemptions

***Contact an Attorney who specializes in employment law in your jurisdiction!



Cyber Liability – An Evolution

How it started:



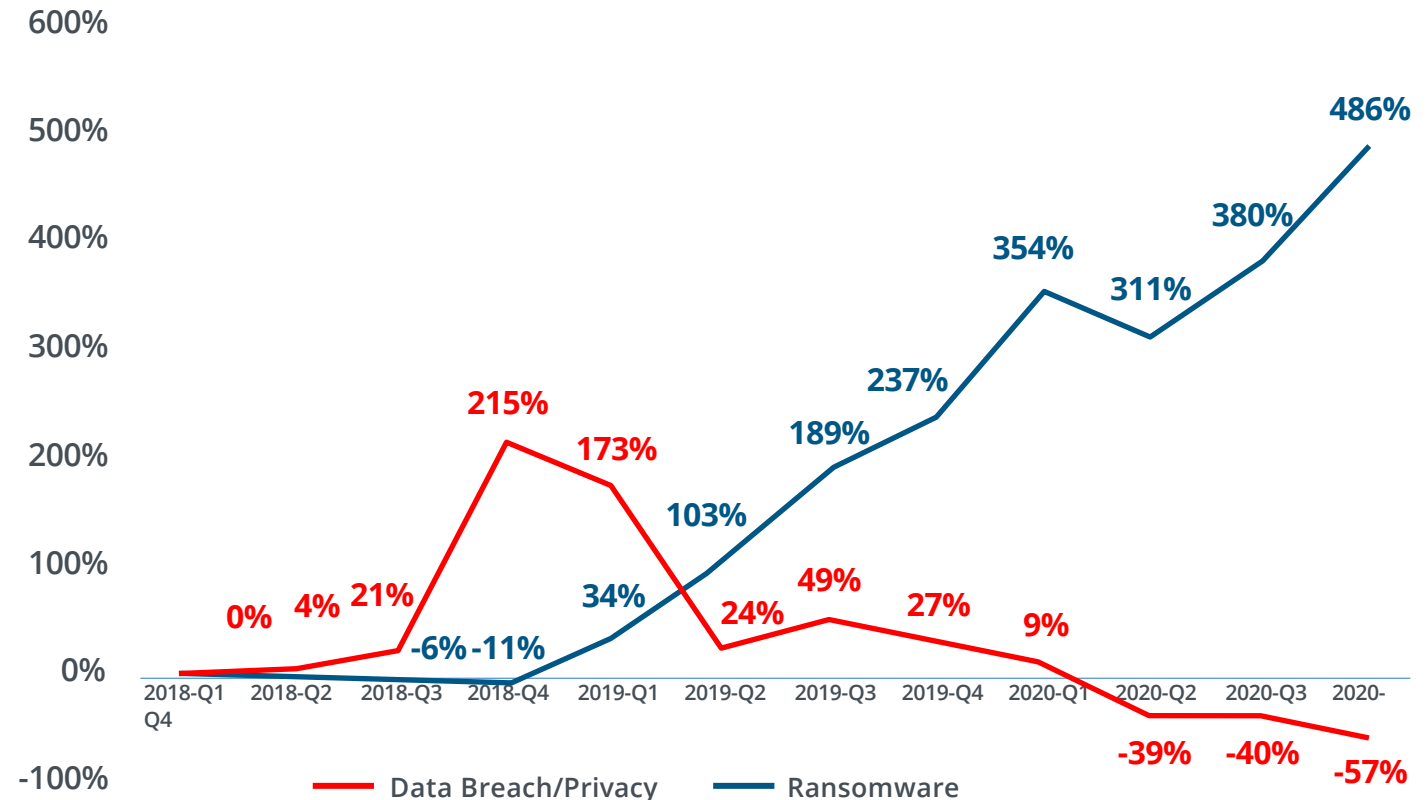
How it's going:



Cyber Incident rates over the past 12 quarters

Key Observations:

- + Ransomware activity has dramatically **outpaced Data Breach/Privacy Event activity over trailing four quarters**
- + **Ransomware up 486%** from Q1 2018 to Q4 2020
- + Cyber Claims intake indicates 2020 will show a compounding **increase of 150%, +300% over trailing two years**
- + Data Breach/Privacy Events tracking to decline in 2020, **first decline in trailing five years**



Source: Risk Based Security. Data as of 1/5/2021;
Ransomware payment per Coveware Ransomware Report as of 11/4/2020

Ransomware Claims



Average downtime
due to ransomware attacks
(Coveware)



Average days it takes a business to
fully recover from an attack
(Emsisoft)



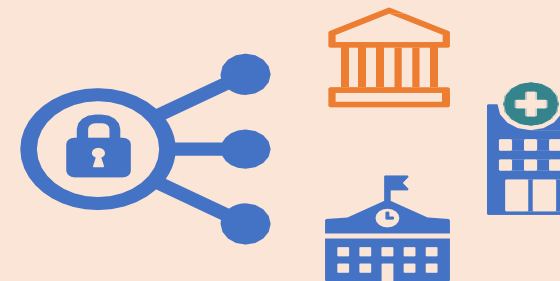
Victims paid in ransom in 2020 – a
311% increase over the prior year
(Palo Alto Networks)



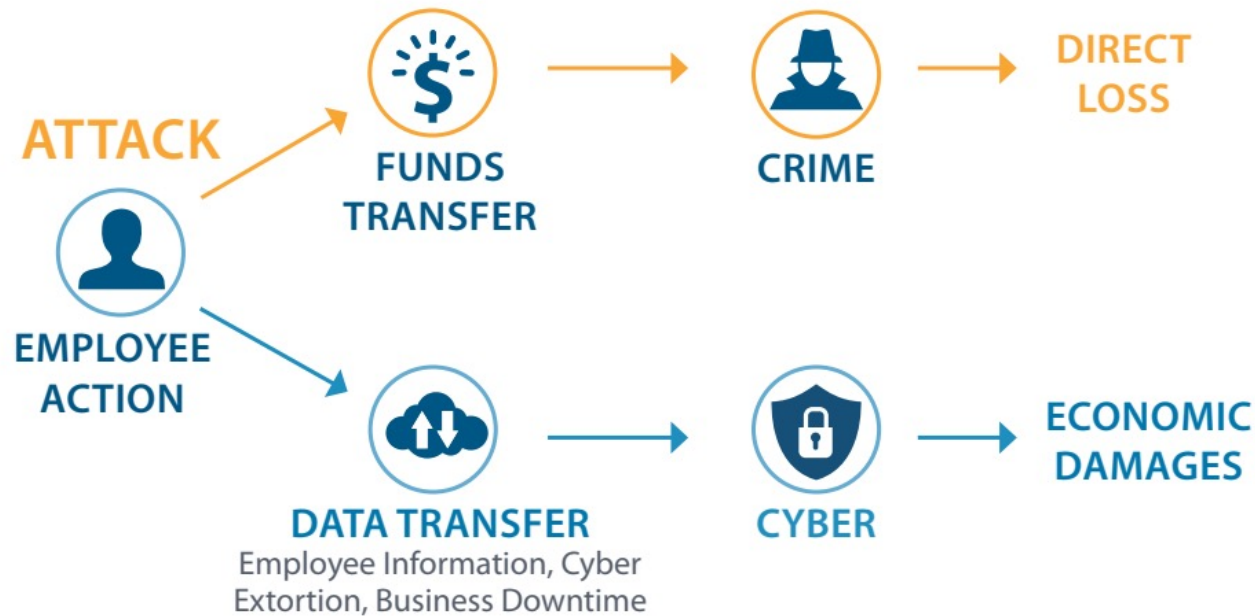
The average payment in 2020 – a 171%
increase compared to 2019
(Palo Alto Networks)

In 2020, nearly
2,400

U.S.-based governments, healthcare
facilities, and schools were victims of
ransomware



Cyber Crime and Social Engineering



CRIME	RISK	CYBER
X	Data Breach Management Expense	✓
X	Legal Liability & Defense Cost	✓
X	Regulatory Investigation	✓
X	Loss of Income Due to Network Interruption	✓
X	Loss of Information Assets Due to Security Failure	✓
X	Cyber Extortion	✓
✓	Fraudulent Funds Transfers	✓
✓	Social Engineering (leading to loss of funds)	X
✓	Employee Theft	X
✓	Forgery	X

Poll Question #4 – Cyber Liability Insurance

Does your organization currently purchase cyber liability insurance?

- a. Yes
- b. No
- c. I don't know

Current State of the Cyber Liability Insurance Market

- We are in the throes of a HARD MARKET!
- Premium increases of 25% to 500% for accounts without claims
- Increased scrutiny from underwriters
- Changes in the way underwriters assess risk
- “Would be nice controls to have” has become:

“MUST HAVE – or you are no longer an insurable risk!”

Guide to becoming an “Insurable Cyber Risk”

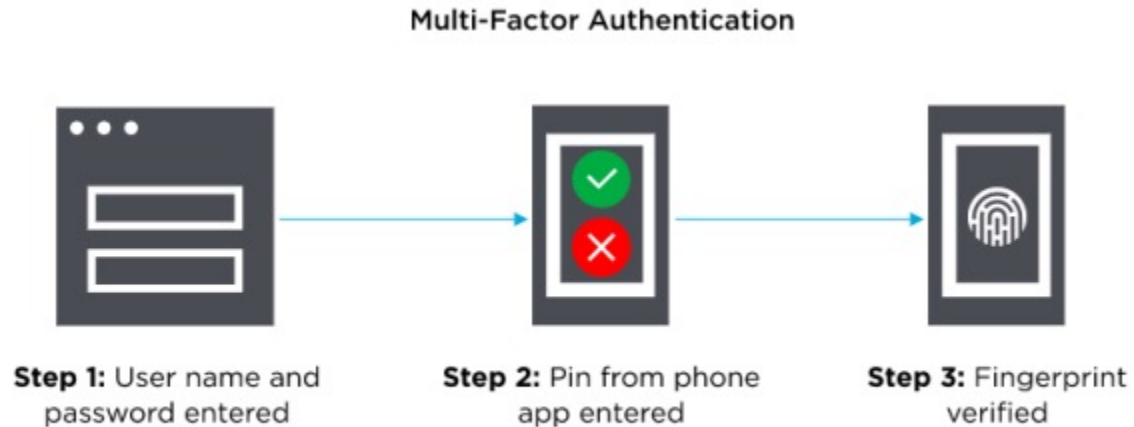
REQUIRED SECURITY CONTROLS

Carriers have been looking at recent cyber claims and notice that the use of these security controls could have prevented most of recent cyber incidents.

Insureds that do not have satisfactory controls in place may see non-renewals or a reduction in coverage for ransomware claims. This reduction may come in the form of sub-limits or co-insurance provisions.

- MFA for privileged access
- MFA for remote access (including email)
- MFA for cloud access
- Endpoint Detection and/or NGAV
- Secured RDP
- Patch Management

What is MFA and why do you keep asking me about it?!?



MFA authentication methods (common)

The more common types of additional information required for MFA authentication are:

1. Something you (KNOW), like a password or PIN
2. Something you (HAVE), like a badge, smartphone, hard token, OTP (One Time Password), etc.
3. Something you (ARE), like fingerprints, facial recognition, or voice recognition

Other Types of MFA

With the integration of machine learning (ML) and artificial intelligence (AI), MFA authentication becomes more sophisticated.

Location-based MFA can look at an IP address and/or geo-location to determine if a user should be challenged with another factor.

Adaptive Authentication aka Risk-based Authentication can analyze several factors by contextualizing behavior when authenticating a user. Specific values are assigned risk levels such as:

1. (WHERE) users are trying to access information from?
2. (WHEN) users try to access data? off-hours?
3. (WHAT) device is being used? Is it NEW or SAME?
4. (HOW) users are connecting? private or public network?

Poll Question #5

Have you implemented MFA?

- a. Yes, we have it enterprise wide
- b. Yes, we have implemented for some email and remote operations
- c. Not yet, but we now understand how important it is in protecting our systems and securing cyber insurance coverage
- d. I don't know

Cyber Liability Strategy Discussion!

- Talk about it - Early and Often
Engage with your insurance broker AT LEAST 90 days in advance
- Plan for it – Get a baseline of where you are with your cyber hygiene and what you need to do going forward. Remember, this year's hot button topic (MFA) will not be next year's hot button topic.
- Budget for it – the IT security budget needs to be front and center and include some room for contingencies
- Practice for it – Restoration, Mitigation Plan, Employee Phishing Campaigns

Nerd on Nerd



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Questions?

CPE Feedback Poll

- If you are seeking CPEs, please complete this brief feedback poll.
- Note: All registrants will receive links to the conference evaluations via email.
 - Please complete the conference evaluations to request CPE credit and to provide qualitative feedback.