2019

P&C Market Outlook

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Introduction

Insurance is one of the most valuable lines of defense for all businesses that want to protect their finances and ensure their ongoing success. And, as policyholders review their budgets and lines of coverage each year, they need to know how their insurance costs will impact their bottom lines.

2018 Market Trends

The catastrophic damage from hurricanes Harvey, Irma and Maria in 2017 caused an estimated $92 billion in damage, and led many experts to believe that insurance carriers would begin to raise rates for property insurance and other lines of coverage throughout 2018 and 2019. However, most insurers were able to spread this cost across global reinsurance and approximately $760 billion in excess capital.

Large property losses continue to be an area of concern for insurance carriers—especially after the extensive damage from the California wildfires and wind damage along the east coast in 2018. Despite this, large rate increases should be limited to businesses with large wind or fire hazards or those with extensive loss histories. Instead, many insurance carriers are shifting their focus from property losses to liability exposures.

Experts estimate disasters caused nearly $80 billion in insured losses in 2018. However, carriers were able to use $760 billion in excess capital to essentially stabilize the P&C market.

Social campaigns, such as the #MeToo movement, have changed how workforces and the general public approach harassment. And, as the strength of the U.S. economy has led employees to feel higher levels of job security, the Equal Employment Opportunity Commission has continued to investigate a record number of claims. Even private organizations have faced growing liability exposures due to the ongoing opioid epidemic and the rising number of lawsuits.

Cyber exposures were also a growing area of concern for insurance carriers in 2018. Not only do losses from data breaches and social engineering schemes continue to rise, businesses also need to consider how data privacy legislation affects their operations. The European Union's General Data Protection Regulation (GDPR) greatly expanded businesses' personal data responsibilities when it came into effect last year, and states such as California and New York have introduced similar requirements for employers. And, as technology continues to be integrated into more operations, some insurance carriers are starting to split cyber coverage among a variety of policies.

Where is the Market Headed in 2019?

If the P&C market demonstrated one thing after the major property losses from 2017 and 2018, it's that insurance carriers are continuing to focus on specific risks. Just as hurricanes, wildfires and other weather events led insurers to focus on fire, wind and flood risks, carriers will also examine an organization's unique cyber and liability exposures.

Underwriters will largely determine insurance rates by looking closely at a business's specific risk exposures and loss prevention strategies, especially as they relate to cyber attacks, data security and

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liability. In fact, many insurance carriers are also working with third-party analytics companies to closely study how businesses react to emerging risks.

Businesses should expect most insurance rates to increase slightly in 2019 as insurers cover losses from high property claims and liability losses. Additionally, businesses with extensive property or liability exposures could see double-digit rate increases and more limited policy language. However, it should be possible to secure flat renewals or even slight premium decreases for other lines of coverage, especially if businesses have good loss histories and implement comprehensive risk management policies.

Over the past two years, the market softened the blow from severe weather losses in part by targeting specific fire, wind and flood risks. In 2019, carriers should also carefully approach cyber and liability exposures.

Despite large property losses and growing liability risks, there's still extensive competition between insurers for most types of coverage. Commercial insurance continues to be profitable for insurers despite the rising cost and frequency of claims, and some businesses are entering the cyber market and other emerging lines of coverage.

Insurance carriers are also engaging in record amounts of merger and acquisition transactions in order to absorb another company's book of business. Although this shouldn't have a noticeable impact on insurance rates, it may impact underwriting processes as larger carriers replace another business's procedures with their own.

Business can also look forward to some positive trends in 2019:

Lower workers' compensation rates—Many states announced lower workers' compensation rates for 2019. Additionally, insurance carriers will continue to compete for business because of a decline in loss rates, lost-time claims and loss severity.

Opportunities for businesses with risk management plans— Businesses traditionally don't want underwriters to look too carefully into their operations, but the increased level of scrutiny in 2019 may help organizations lower their insurance rates if they address their unique risk exposures.

Rising number of coverage options—Insurance carriers may limit a policy's terms if it relates to substantial property or liability risks, but other marketplaces should offer more flexible coverage options. This is especially the case for cyber insurance, as carriers are starting to include coverage both in other types of policies and as a stand-alone package.

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These general trends may provide you with an understanding of the commercial insurance market in 2019. However, a number of circumstances can change the development of every line of coverage. Insurance buyers should remember that no two businesses, insurance carriers or policies are alike, and that underwriters consider a number of factors when determining rates. Just as with risk management, the best advice for getting insurance is often to hope for the best and prepare for the worst.

Remember, HUB Colorado is here to help your organization find the coverage you need to protect your business. While we've prepared this market outlook to help you prepare for what 2019 will offer, you can also contact one of our dedicated insurance professionals today to discuss your insurance options.

Trends to Watch in 2019

Insurance experts often examine how outside influences and trends affect the P&C marketplace, and businesses should examine how these factors influence their insurance coverage.

Carriers will continue to focus on trends from the past few years, including large weather events, liability exposures and data breaches. However, there are a number of new market developments to consider:

Continued market surplus—Insurance carriers are still obtaining large amounts of excess capital, which has helped stabilize the market despite the growing number and severity of claims. Although this trend should continue in 2019, some experts worry that if large losses continue or other market conditions emerge, P&C carriers may not be able to rely on their reserved assets.

Delicate political climate—The Trump administration's policies on trade, immigration, taxes and other issues have had a variety of effects on business. New trade deals have changed how organizations import materials and export products, and an extended government shutdown in the beginning of 2019 caused many federal agencies to pause their operations. This climate will likely remain in place for much of 2019, especially as public perception focuses primarily on affiliation with a political party.

Rising motor insurance rates—The growing U.S. economy has put a record number of drivers on the road and led to a rising number of auto claims. Commercial drivers and motor carriers will also continue to face rising demand for freight capacity and regulatory pressure. The Department of Transportation (DOT) has also indicated that it will examine potential changes to its hours-of-service regulations and Compliance, Safety, Accountability (CSA) program.

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Changing perceptions on liability and harassment—The #MeToo movement and other social campaigns have highlighted workplace harassment, and businesses are being held to a higher standard for topics related to their employees' actions and employment procedures. Because of this, many businesses will have increased liability exposures—even if they haven't changed their operations and don't have loss histories.

Region-specific weather risks—Carriers are closely examining how a business's location and loss history affect the chances of future wind, flood and fire damage. Specifically, the catastrophic losses from the 2018 California wildfires are leading insurers to take a close risk at businesses along the Pacific coast and in other fire-prone areas. Underwriters are also looking at businesses with multiple rain and flood claims, especially those along the Gulf and Atlantic coasts.

Flood insurance updates—A short-term renewal of the National Flood Insurance Program (NFIP) was issued just before the start of 2019, but most experts agree that it needs extensive changes to remain a viable option for businesses and homeowners. Many legislatures have suggested the program needs to allow for private insurance options, limit payments to properties that flood repeatedly, create incentives for risk mitigation or improve flood mapping programs.

How are Premiums Determined?

Before examining specific lines of insurance, it's important to understand how carriers determine a policy's premiums. These figures represent the amount of risk an insurer accepts on behalf of a client, and change based on an underwriter's belief of how likely each client will make a claim and how much those claims will cost.

Policyholders control some of the factors that can influence premiums, including risk management plans, selecting policy limits and deductibles, and claims history). However, many external factors can drive insurance rates up or down:

- **The cost of reinsurance**—Simply put, reinsurance is coverage for insurance companies. 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. As a result, reinsurance helps to stabilize the premiums for regular businesses by making it less of a risk for insurance carriers to write a policy. However, insurers often shift the price for reinsurance to their P&C policyholders, raising their rates.
- **Inflation**—Insurers will often adjust premiums to keep pace with inflation. For 2019, the inflation rate across North America is expected to remain steady.
- **Investment income**—Nearly every insurance carrier uses the funds it receives from premiums to invest in other markets, such as real estate and securities that accumulate interest. If these other investments generate large returns, carriers may be more likely to offer lower insurance rates.
- **Underwriting profitability**—Insurers use combined ratios to measure their underwriting profits. These figures are calculated by dividing the sum of incurred losses and operating expenses by premiums. A combined ratio of 100 percent represents a level of total equality between losses and the number of policies an insurer is covering, and a higher or lower ratio respectively means that a carrier is losing or making money. Although the average combined ratio approached 100 percent at the end of 2018, most insurance carriers remained profitable because of high investment returns.

Insurers use combined ratios to measure their profits from their insurance policies, and are calculated with this formula:

$$\frac{\text{Operating expenses} + \text{Losses over a specific time period}}{\text{Premiums collected over the same period of time}}$$

2019 Market Outlook Forecast Trends

Below is a high-level overview of 2019 market trends per line of coverage. For more information on individual topics, please see the dedicated sections for each line of coverage.

LINE OF COVERAGE	FORECAST TRENDS
Property	• **Noncatastrophic:** -2 to +2% • **Catastrophic:** +2.5 to +10% • **Catastrophic with losses:** +10 to +20%
General liability	• **Overall:** Flat to +5%
Commercial Auto	• **Fleets with a good loss history:** 5 to 10% • **Fleets with a poor loss history:** +15%
Workers' compensation	• **Clients with guaranteed cost programs or positive loss experience:** -10% to flat • **Clients with deteriorating loss experience and loss-sensitive programs:** -3 to +3%
Cyber	• **Overall:** Flat to +5%
Directors and officers	• **Private companies:** Flat to +7.5% • **Public/nonprofit companies:** +5 to +15%
Professional liability	• **Overall:** Flat to +10%
Employment practices liability	• **Overall**: +5 to +10%
Fidelity and crime	• **Overall:** Flat • **Businesses adding coverage for social engineering:** Flat to +3%

Property

In 2017, natural disasters caused over $130 million in insured losses and led many experts to believe that the property insurance market would harden accordingly. And although a period of uncertainty did cause rates to rise in the beginning of 2018, the large amount of excess funds in the property market helped stabilize the market and slow price increases.

There were a number of significant natural disasters in 2018, including widespread wildfires along the Pacific coast and two major hurricanes. However, total insured losses were notably lower than 2017, and insurance carriers are focusing on geographical and industry-specific property risks instead of implementing major rate increases for the entire market.

Property insurance rates will likely increase slightly for all types of risks in 2019, although businesses with good loss histories and comprehensive risk management strategies may be able to negotiate for slight decreases. But underwriters will be especially careful when drafting policies for businesses that have significant exposures to wind, flood or fire damage.

2019 Price Prediction

Noncatastrophic: -2 to +2%

Catastrophic: +2.5 to +10%

Catastrophic with losses: +10 to +20%

Trends to Watch in 2019

- Capacity and competition between insurers in the property market remains high, but some carriers are starting to write stricter terms and conditions into policies.
- Congress has issued numerous short-term renewals for the National Flood Insurance Program (NFIP), and experts believe that a major overhaul is likely coming soon.
- Insurance carriers are closely examining how cyber risks can lead to property damage, and some policies may include specific cyber exclusions.

Tips for Insurance Buyers

- Review your business continuity plans so you can resume your normal operations as soon as possible if a disaster strikes.
- Gather all data on any property losses you’ve experienced to identify your biggest risk exposures.
- Draft comprehensive risk management and response plans to reassure underwriters.
- Consider taking on additional risk if you can’t accept rate increases.

General Liability

Lawsuits, wildfires, widespread opioid use and other major issues helped highlight commercial liability risks in 2018, but market capacity remains high and insurers are still competing for new business. However, insurers will continue to examine excess and umbrella policies carefully for risks that could lead to large punitive awards.

Businesses with good loss experiences and well-documented risk management practices can expect good terms during renewals, especially if they can secure multiyear deals. However, there's less market capacity for industries with higher risks, such as pharmaceutical, heavy construction and energy.

Lawsuits and accompanying rewards will continue to be a top concern for insurance carriers in 2019. As employment rates rise and social campaigns like the #MeToo movement gain followers, businesses will face costly liability claims that could raise their rates.

2019 Price Prediction

Overall: Flat to +5%

Tips for Insurance Buyers

- Examine your commercial general liability policy to make sure you don't have any gaps in coverage.
- Review how much umbrella and excess liability coverage your business needs, as large awards from lawsuits have hardened this section of the market.

Commercial Auto

Going into 2019, increased rates will create an ongoing challenge for commercial fleets, and insurance buyers should expect to see some of the highest increases in years. While business itself continues to be prosperous, costs related to labor, maintenance, equipment, licensing and compliance have increased steadily over the last few years, forcing fleets to increase service fees.

Adding to the market pressure, the growing U.S. economy has put more drivers on the road than ever before, and, as a result, auto liability claims have steadily increased in both frequency and severity. What's more, the rising cost of medical care has led to significantly higher claims, and increased premiums aren't enough for insurers to overcome their loss costs.

Insureds should continue to expect upward rate pressure, particularly as jury awards for single plaintiff auto accidents continue to reach well beyond six figures. Distracted driving and increased repair costs will also contribute to an upward trend in costs and claim numbers. Moving forward, insurance carriers will continue to raise rates for businesses with commercial fleets and substantial vehicle risks. Underwriters will also closely examine compliance with Federal Motor Carrier Safety Administration (FMCSA) standards and the Compliance, Safety, Accountability (CSA) program when drafting a policy.

2019 Price Prediction

Fleets with a good loss history: 5 to 10%

Fleets with a poor loss history: +15%

Trends to Watch in 2019

- Because underwriters will be looking closely at safety and compliance standards, thorough risk mitigation practices will be key for businesses looking to lower their rates.
- Jury rewards—which often exceed $10 million or more—will continue to drive transportation insurance losses.
- Organizations with unfavorable loss ratios and CSA alerts should expect to see significant rate increases—some as high as 15 percent. As a result, hiring and retaining quality drivers has never been more important.

Tips for Insurance Buyers

- Regularly train commercial drivers on FMCSA compliance and create a written program to help lower your CSA scores.
- Work with risk specialists to review CSA scores and take corrective action.

Workers' Compensation

For the past few years, positive developments in the workers' compensation market have led to substantial rate reductions, and most businesses should expect lower rates throughout 2019. In particular, declines in loss rates, lost-time claims and loss severity has created a buyer's market as carriers compete for retentions and new business.

Many states announced workers' compensation rate reductions for 2019, but underwriters are expected to carefully examine businesses seeking loss-sensitive programs. Although there is enough market capacity to support these programs, businesses should carefully examine their safety and return to work programs if they want to lower their workers' compensation costs.

2019 Price Prediction

Clients with guaranteed cost programs or positive loss experience: -10% to flat

Clients with deteriorating loss experience and loss-sensitive programs: -3 to +3%

Trends to Watch in 2019

- **Workplace drug tests**—Workplace drug use continues to rise, especially in the construction, retail and real estate industries. These rates can have a large impact on workers' compensation costs, especially if related to the use of medical marijuana.
- **Marijuana**—As more states legalize medical and recreational marijuana use, the drug's dual identity as a legitimate medical treatment and casual psychotropic can lead to significant problems. Court rulings on medical marijuana's use under workers' compensation programs have been inconsistent, and employers need to set clear drug policies that are consistent with state and federal regulations.
- **Opioids**—Many states have updated their workers' compensation prescription drug policies in order to address the ongoing opioid epidemic. However, these substances will continue to be a common concern for businesses in 2019.

Tips for Insurance Buyers

- Implement safety and health programs to address common risks, especially when using a loss-sensitive workers' compensation program.
- Examine how technology such as wearable fitness trackers and exoskeletons can help you identify and address workplace injuries.
- Work with HUB Colorado to take advantage of the buyer's market and compare workers' compensation rates.

Cyber

As workplaces continue to integrate more technology into their operations, new cyber exposures appear across multiple lines of insurance. Insurance carriers created stand-alone cyber polices as a way to set clear distinctions from other types of coverage. However, a large part of the market is now focusing on adding cyber coverage to property, general liability and crime policies in order to address potential gaps.

Stand-alone policies are still widely available as insurers continue to enter the market and compete for business. But, now that cyber insurance is relatively common, underwriters will focus on analyzing risk management strategies and defense plans when determining rates. As a result, rates should rise slightly overall in 2019, although businesses with detailed cyber defense strategies may see flat renewals or even slight decreases.

Businesses should also consider their biggest risk exposures when looking at policies, including cyber extortion, social engineering schemes and regulatory compliance. ***According to Cybersecurity Ventures, extortion and social engineering led to over $5 billion in damages in 2017, and the firm expects this figure to rise to $11.5 billion in 2019***. Additionally, the European Union's General Data Protection Regulation (GDPR) greatly expanded businesses' personal data responsibilities when it came into effect last year, and California's Consumer Privacy Act is expected to follow suit in 2020.

2019 Price Prediction

Overall: Flat to +5%

Trends to Watch in 2019

- Insurance carriers may try to shift some cyber coverage to other types of policies.
- Underwriters will use third-party data analytics services to help determine a business's cyber exposures and defense plans.
- Strong competition has led many carriers to include value-added services in policies, such as security risk assessments, employee training and incident response tools.

Tips for Insurance Buyers

- Provide underwriters with details on all of your cyber defense strategies to get the lowest possible rate.
- Examine your other insurance policies to make sure you aren't paying for overlapping cyber coverage.
- Stay updated on your data privacy responsibilities, since the GDPR has led New York, California and other states to introduce additional legislative requirements.

Directors and Officers Liability

In 2019, public and private businesses will experience vastly different marketplaces for directors and officers (D&O) insurance. While public companies will need to manage risks associated with rising lawsuit claims, data privacy and social media movements, private businesses should face a significantly softer market. However, all businesses should expect at least minor rate increases as the number of workplace class-action filings continues to rise.

Private Companies

Although businesses that don't frequently operate around the general public don't face as much pressure from social media campaigns, some significant emerging risks may pressure insurance carriers to raise D&O rates in 2019. The strength of the U.S. economy has also led to increased job security, and employees are less hesitant to file claims related to the Fair Labor Standards Act. Additionally, directors and officers will be held accountable for new data privacy regulations, such as the GDPR and California's upcoming Consumer Privacy Act.

Public Companies

Both publically traded businesses and organizations that frequently work around others should continue to expect a hard market for D&O coverage in 2019 as a result of workplace harassment allegations, merger and acquisition litigations and a general increase in claims. Although there will continue to be competition between insurers, some carriers have left the market and businesses may be left with less negotiation options. However, most insurance carriers haven't restricted their D&O policy terms, which keeps broad coverage widely available.

2019 Price Prediction

Private companies: Flat to +7.5%

Public/nonprofit companies: +5 to +15%

Tips for Insurance Buyers

- Businesses with poor loss histories or in volatile industries should create risk-specific management plans to reassure underwriters.
- Examine your personal information requirements and consider either appointing a data privacy officer at your business or outsourcing the position to a third party.
- Create comprehensive communication programs so directors and officers can have transparent conversations with both employees and customers.

Professional Liability

The market for errors and omissions (E&O) and professional liability insurance should remain competitive for small and midsized businesses in 2019. However, larger companies may see rate increases, and the number of class-action lawsuits due to errors continues to rise.

Although E&O coverage is still profitable for carriers that cover smaller businesses, many of the risks covered by these policies have now been transferred to other lines of insurance. As a result, some insurers have exited the market or fragmented their coverage options according to unique industries or risk exposures.

Underwriters should also examine businesses' loss histories and customer relation programs during the application process. Even companies that only work with other businesses should expect a more detailed underwriting process, as multiple claims can occur form a single error or loss.

2019 Price Prediction

Overall: Flat to +10%

Tips for Insurance Buyers

- Regularly audit your professional liability risks, especially those that relate to the health care and financial industries.
- Conduct regular reviews of your customers' personal and business risks to identify your exposures.
- Review all customer contracts and policies to examine the scope of your business's service and product offerings, especially in relation to personal data.
- Specify what lines of insurance are necessary for your business partners and customers in all contracts.

Employment Practices Liability

Social initiatives such as the #MeToo movement have put more pressure on businesses, and rates for employment practices liability insurance (EPLI) should increase in 2019. Additionally, rising employment levels have caused employees to be more comfortable when they consider if they should make a claim.

There will be ample market capacity and competition for EPLI coverage in 2019. However, many insurance carriers are underwriting risks separately, which will make risk management for these exposures even more important for business. Additionally, small businesses may need to purchase more EPLI coverage to account for the rising frequency of employment-related losses.

Employers should have more options for addressing class-action filings filed by employees, as the Supreme Court ruled in 2018 that businesses can negotiate with each individual included in a lawsuit. Although this ruling doesn't impact initiatives started by federal agencies or state laws that allow employees to take collective action, businesses can address employee lawsuits more easily.

2019 Price Prediction

Overall: +5 to +10%

Trends to Watch in 2019

- The Equal Employment Opportunity Commission should continue to investigate claims aggressively, as the agency has filed an average of nearly 90,000 complaints over the past five years.
- Equal compensation is becoming a hot topic for both state governments and insurance carriers. As legislation broadening equal pay regulations continues to be introduced, businesses should take care to re-evaluate their practices. The Department of Labor (DOL) has also stated that it will introduce a new salary threshold for paying overtime in 2019.
- A lack of qualified job candidates in 2019 may lead some businesses to hire individuals who don't meet all of an open position's criteria. As a result, organizations should focus on comprehensive screening processes and employee training programs to prevent losses.

Tips for Insurance Buyers

- Examine all of your HR practices regularly to ensure you're treating all employees and applicants fairly.
- Collaborate with management, employees and HR specialists to promote a workplace culture that discourages any form of harassment.
- Take extra care when hiring or terminating employees.
- Provide underwriters with all of your EPLI risk management plans, including the initiatives noted above.

Fidelity & Crime

While fidelity and crime insurance generally covers losses involving funds and physical assets, the rising prevalence of social engineering schemes has been an important topic for insurers. Recent court cases have ruled that the computer fraud provision that's common in many crime policies covers social engineering losses, but this finding isn't consistent in every state. As a result, many insurance carriers are adding language to exclude social engineering losses, or to include coverage along with increased premiums.

Generally, the fidelity and crime market will remain stable and employee theft should continue to be the largest risk exposure. However, the rising number of all liability claims may lead to small rate increases overall. Additionally, the fragmentation of cyber coverage among many forms of insurance may allow some businesses to secure flat, multiyear renewals for policies that address the loss of tangible assets.

2019 Price Prediction

Overall: Flat

Businesses adding coverage for social engineering: Flat to +3%

Trends to Watch in 2019

- Social engineering will be a key topic in 2019, and insurance carriers must determine how to cover these risks in either crime policies or another form of coverage.
- Cryptocurrencies blur the line between cyber and financial losses, and are becoming a large emerging risk exposure.
- Insurance carriers will determine premiums based on the number of employees being covered, business revenues and loss histories.

Tips for Insurance Buyers

- Implement careful screening processes during the hiring process to check your applicants' honesty and the possibility of employee fraud.
- Train employees on avoiding fraud when dealing with customers and third parties, especially when working with online platforms and personal data.
- Create programs to verify financial transactions that aren't requested in person.
- Pay attention to how advances in technology and current trends in cyber attacks can create new risk exposures.

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:

1. Pinpoint your exposures and cost drivers.
2. Identify the best loss control solutions to address your unique risks.
3. Create a solid business continuity plan to account for disasters and other unpredictable risks.
4. Build a company culture focused on safety.
5. 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 brokers 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.

Moreover, insurance brokers understand the market inside and out and can negotiate competitive premiums on a company's behalf. 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 provisional and subject to change. Fortunately, your partners at HUB Colorado are diligently monitoring the market throughout the year and will keep you informed of any changes that might affect your business.

More Information

For more details regarding the information contained in this report, contact HUB Colorado today.

In addition to helping you navigate the insurance market, HUB Colorado 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.