Fewer options, more fees:
commercial insurance in 2023

Increased claims and expenses for commercial insurers have led to rising premiums, a reduction in coverages from umbrella policies, and greater challenges when obtaining and retaining cyber insurance. Shoshanna Simmons of CIC Services explains the increased complexities in the excess and surplus insurance markets

Driven by increased claims and shrinking profit margins, commercial insurers are paring down their coverage offerings. For businesses, the areas feeling the most impact are those within the excess and surplus insurance markets, cyber security policies and umbrella coverages.

Of course, inflation in 2022 was a contributing factor. However, the increase in premiums was inevitable. Cumulatively, rates have increased by around 50 per cent since 2018 (Lang, 2018). Thankfully, as inflation has calmed so have rate increases. However, the changes in premiums, as well as added limitations in coverages, make it essential to note some key points.

The rising threat of cyber security and the lack of appropriate coverage

In a report for Statista, data journalist Anna Fleck reviewed the cyber security outlook, noting that the global financial impact from cybercrime is expected to jump from US $8.44 trillion in 2022 to $23.84 trillion by 2027. With such a huge jump, and new horror stories of cybercrime being reported every day, it would make sense for commercial insurers to provide extensive coverages and policies. So why are they pulling back?

Carriers have a lessened appetite for the risk. They compensate by increasing their premiums to make up for the lack of incentive to provide the coverage.

This also runs directly into the fact that insurers are aware of the threat that cyber risks pose to businesses of all sizes. This creates a perfect storm where carriers are limiting the coverage they'll provide based on the possible risk of cybercrime against that industry. For instance, if the potential policyholder is in an industry that frequently grapples with hackers and cybercrime, the commercial carrier is far less likely to provide the cyber coverage necessary as the policyholder would likely receive a payout of their policy.

It's therefore no surprise that, according to the Council of Insurance Agents & Brokers, the premium prices increased by a staggering 27.5 per cent in Q1 of last year. This is compared to the previous quarter which saw its own increase of 34.3 per cent in Q4 of 2021.

While insurers keep a discerning eye on where they provide coverages, and to whom they cover, this doesn't negate the fact that the frequency and severity of cybercrime has increased across the board for all businesses.

This fact contributes to commercial insurers' hesitancy to provide coverage when compared to previous years. While the federal Terrorism Risk Insurance Program (TRIP) can cover losses from cybersecurity breaches, the U.S. Government Accountability Office (GAO) found that cyber attacks on businesses usually do not meet the criteria necessary to be covered by TRIP.

Relating back to the reduction in cyber security insurance provided, GAO also reported that U.S. Congress will need to discuss whether increased federal insurance and protections are warranted, given the continued growth in cybercrime. Meanwhile, businesses are stuck between a rock and a hard place when trying to acquire and maintain adequate cyber coverage from traditional insurers.

Umbrella coverages are getting more difficult to obtain

Umbrella coverages offer peace of mind regarding risk to you or your business. In essence, umbrella insurance exists to cover your business where other policies are unable to. For instance, in a lawsuit, your business is covered by liability insurance, to a limit. Once that limit is reached in the policy, any further costs must be paid. That's where umbrella coverage comes in and pays out the remaining total, keeping your money (or your firm's money) and assets safe. Coverage from an umbrella policy usually starts at $1 million.

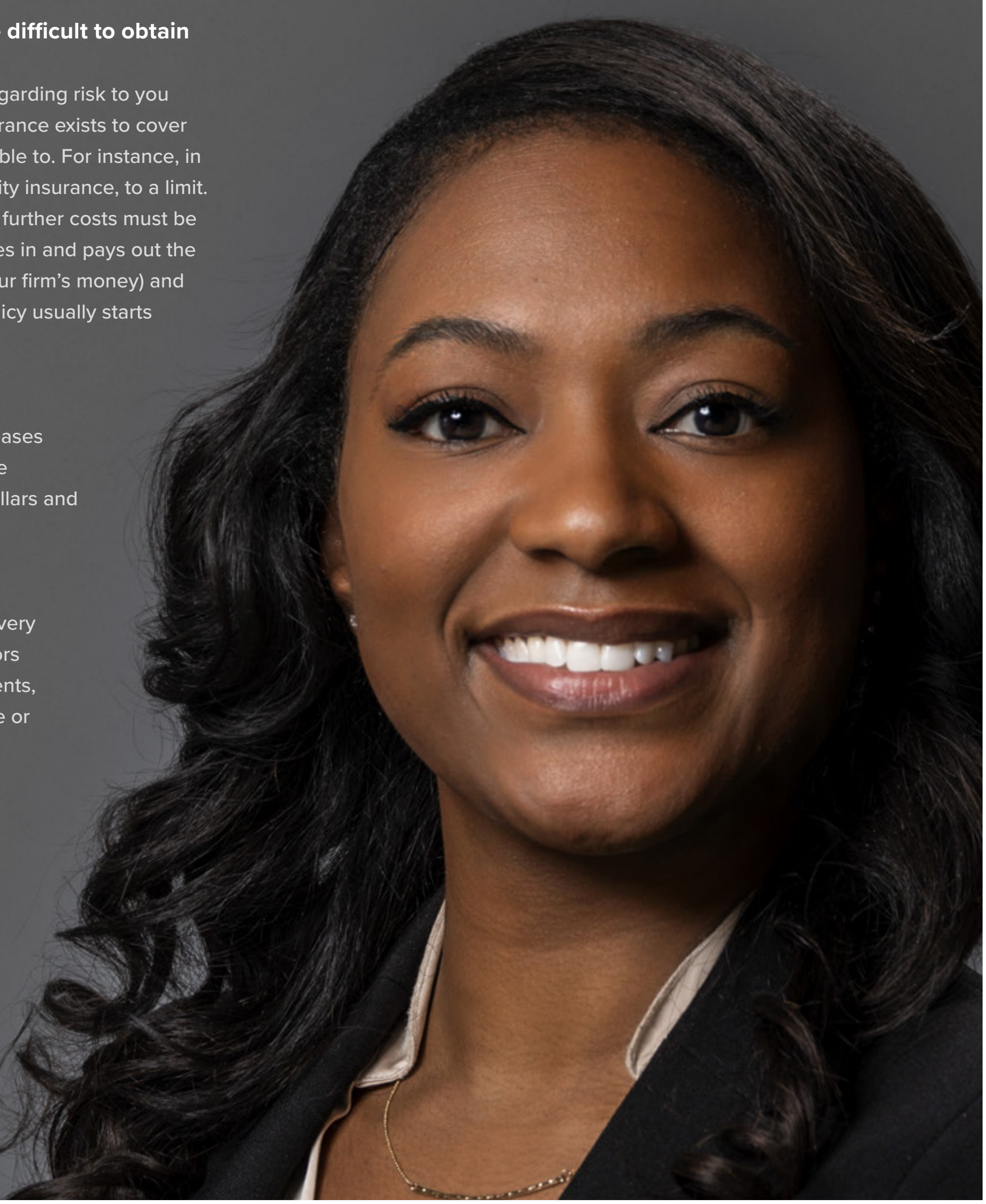
Alarmingly, these policies are experiencing reductions in risks covered, as well as increases in prices to policyholders, as claimants have increasingly had claims above $1 million dollars and insurers have lost money.

To compensate, commercial insurers are tightening their umbrella policies or, at the very least, are charging more. Contributing factors to these increases are motor vehicle accidents, attorney involvement, increased cybercrime or cyber damages and market volatility.

The hard insurance market is now softening

During the COVID-19 pandemic, and in the immediate period following it, commercial insurers were more reluctant to issue policies as they were losing money from increased claims. States such as California, New York, New Jersey and Georgia have approved commercial insurers' requests to raise rates. Now, carriers feel more comfortable providing policies to more people, as well as to non-standard customers and consumer segments.

Given that change, it's essential that those seeking additional coverage from carriers or wanting to add policies to their captive insurance subsidiaries look to the excess and surplus



> *“Regardless of what you add to your captive’s current coverages, the customisable nature of your captive is a powerful tool”*

(E&S) markets for the policies their businesses need. Though, for captives, depending on locations and insurance guidelines, some insurers and policy regulatory bodies may need A-brand coverage for policies in cyber. If this applies to your captive, you can apply for an excess line into your coverage, and acquire the necessary policy that way. Although, the E&S market has experienced a drop in commercial insurers.

Complexity in the excess and surplus marketplace

Given the complexities of the past few years, the number of organisations entering the E&S marketplace for policies has increased, subsequently leading to price increases.

AXA XL’s president of global excess casualty, Donnacha Smyth, wrote that pre-COVID-19 loss ratios for commercial providers, and those in the excess space, has been declining since 2012 as the frequency and severity of claims has increased.

Following the pandemic, this has been exacerbated and median award amounts from payouts and legal verdicts are much higher than they were — increasing by tens of percentage points between 2018 and present day. Opportunities to find coverage for captives certainly still exist in the E&S marketplace or in Lloyd’s specialty coverages. However, today’s marketplace necessitates that policyholders and potential policyholders put forward more capital to gain coverage.

Common coverages in the captive insurance segment

With all the shifting that’s occurred across the insurance marketplace, businesses previously on the fence about adding a captive to their portfolio have ample reason to finally make the move. When building out coverages and policies within a captive, there are some major components frequently included.

These items are coverages for general liabilities, cyber, management and professional lines, purchase order, directors and officers, professional liability, commercial crime, exclusive provider organisation coverages and medical stop-loss coverage. Regardless of what you add to your captive’s current coverages, the customisable nature of your captive is a powerful tool.

Looking ahead

Commercial insurers have made major changes to the risks they’re willing to cover, as well as the policies they provide access to. Looking at the unique blend of a softening insurance market, rising premiums and less optimised coverage from umbrella and cyber policies, it has become essential for business owners to look out for themselves and secure the right coverages for protection.

Customising a captive insurance portfolio allows for the perfect blend of coverages tailored to your business. It can mean the difference between having the protections you need versus waiting an average of 12 to 18 months for a traditional provider to create a new policy. ■

Shoshanna Simmons is responsible for evaluating the unique risks of each business insured by CIC Services and its captive clients, as well as recommending coverages to address those risks. She has more than 10 years of risk management and insurance experience.

Prior to joining CIC Services, Simmons served as the risk manager for The Integral Group in Atlanta, Georgia where she created and managed the company’s corporate insurance programme through individualised risk mitigation strategies within enterprise risk management, underwriting, claims management, property management, safety, compliance and regulatory reporting standards.

She holds her property and casualty insurance licence, participates in multiple professional insurance organisations, and is a member of The Risk Management Society. ■