

2023 INSURANCE TRENDS

Presented by:
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Ames & Gough, Inc.

Ames & Gough

- Founded in 1992; Owned by 13 active partners & 2 founders
- 60 employees in 5 offices (DC, MA, FL, NC & PA)
- Specialty broker serving only three industry niches:
 - Architects, Engineers, Const. Professionals, Environmental Consultants
 - Law Firms
 - Professional Associations and Non-profits
- 1700+ professional design clients
- Expansive Insurance Market Relationships
- “Client First” Service Approach (e.g., frequent in-person client meetings)

Leading Independent a/e Broker in US!

Agenda

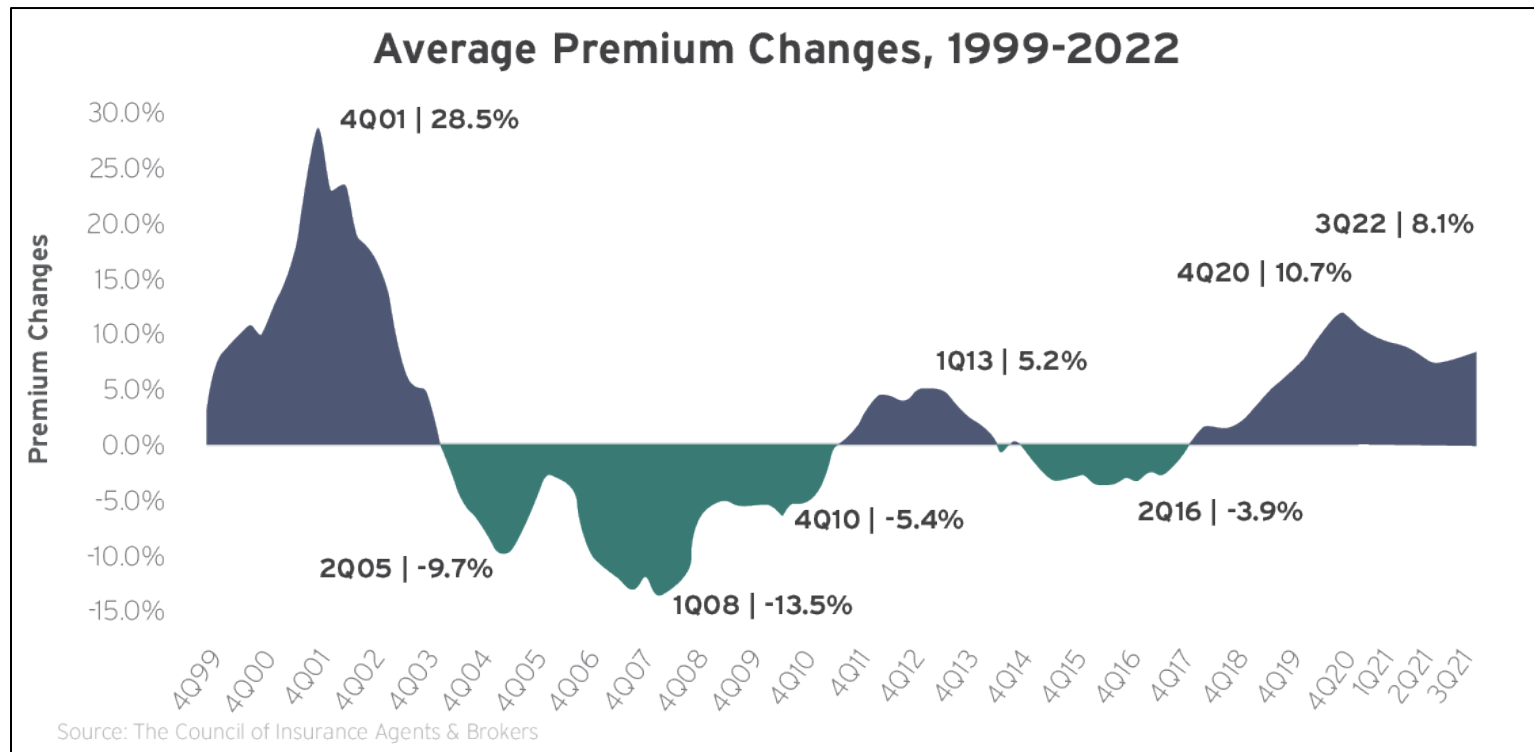
- Discuss The Current Market Cycle
- Review Current Claims Data
- 2023 Market Pricing Forecast
- Market Trends for A&E Firms in 2023

Insurance Market Cycle: Hard Versus Soft Markets

Insurance Market Cycle

- The commercial insurance market is cyclical in nature, fluctuating between hard and soft markets. These cycles affect the availability, terms, and price of commercial insurance.
- **A soft market:** sometimes called a buyer's market, is characterized by
 - Stable or even lowering premiums
 - Broader terms of coverage
 - Increased capacity
 - Higher available limits of liability/excess layers
 - Competition among insurance carriers for new business
- **A hard market:** sometimes called a seller's market, is characterized by
 - Increased premium costs for insureds
 - Stricter underwriting criteria
 - Less capacity
 - Restricted terms of coverage
 - Less competition among insurance carriers for new business

Hard Versus Soft Markets



Insurance Market Cycle

➤ Contributors to the hard market:

- Catastrophic Loss
- Inconsistent Underwriting Profits
- Mix Investment Returns
- The Economy
- Inflation
- Cost of Reinsurance

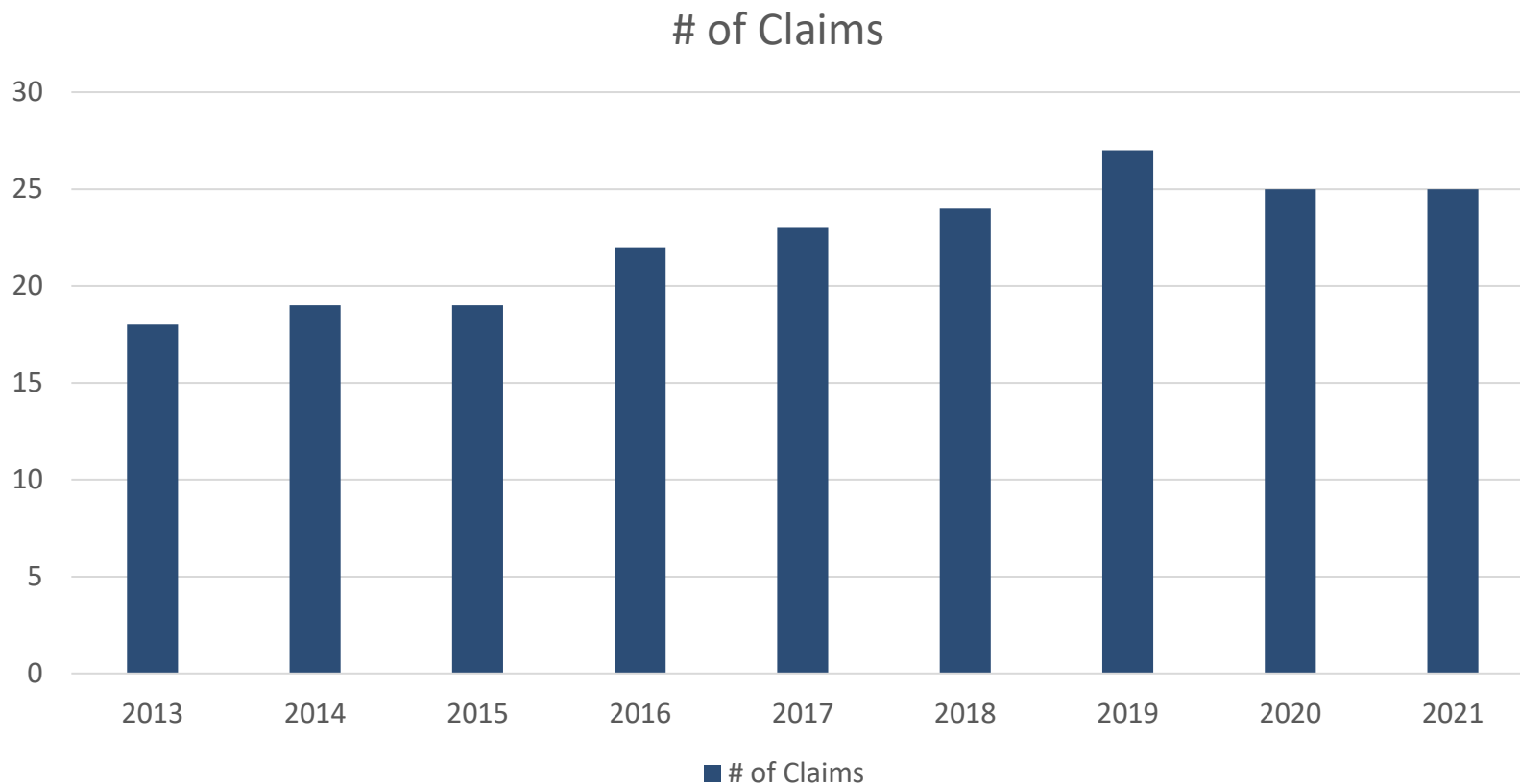
Additional Factors Influencing Insurance Rates

- Coverage the Firm is Seeking
- The Size of Your Firm
- Services/Projects
- Location
- Risk Management Practices
- Claims History

Recent Claims Data

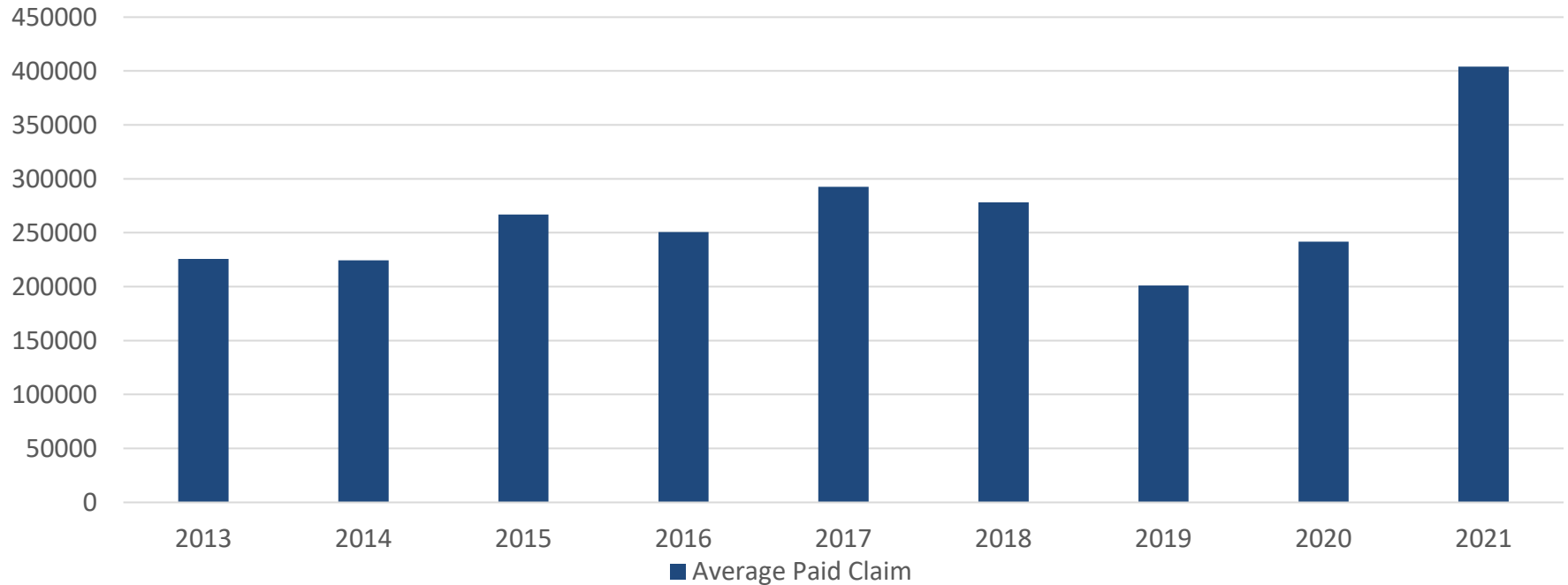
CNA Claims Frequency

per 100 Firms in the Program



CNA Claims Severity

per 100 Firms in the Program



2023 Market Pricing Forecast

2023 Market Pricing Forecast

Line of Coverage	Price Forecast
Commercial Property	CAT-free: +10% to +15% CAT-exposed: +15% to +25%
General Liability	Overall: 0% to +10%
Commercial Auto	Overall: +3% to +15%
Workers' Compensation	Overall: -5% to +5%
Cyber Insurance	Overall: +25% to +100%
Professional Liability	Overall: +5% to +15%
Directors and Officers Liability	Private/nonprofit entities: -10% to +7.5% Public companies: -15% to +2.5%
Employment Practices Liability	Overall: +10% to +15%

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

MARKET TRENDS FOR A&E FIRMS IN 2023

Labor Shortages

- 2021 and 2022 saw the Great Resignation and the Great Reshuffle
 - Reevaluate employment priorities due to Covid-19 Pandemic
 - Work-life balance
 - Higher pay
 - Flexible/remote work
 - More expansive benefits

Impact of Labor Shortages

- Economists expect labor shortages to continue throughout 2023 and beyond
- Shortages could contribute to
 - Overworked Employees
 - Diminished Staff Morale and Well-Being;
 - Reduced Productivity and Project Delays
 - Widespread Skills Gaps
 - Project Quality Concerns
- Managing the Risk:
 - Leveraging Technology to Enhance QC
 - Greater Communication
 - Rigorous Documentation
 - Strong Working Relationships

Supply Chain Disruptions

- According to the U.S. Census Bureau, the sectors that have experienced the greatest supply chain difficulties include manufacturing, construction, and retail
- Rising fuel and energy costs shortage of warehouse workers and truck drivers have slowed shipment and delivery
- Experts believe these supply chain issues will continue into the summer of 2023
- Managing the Risk:
 - Pay close attention to internal quality control procedures;
 - Clearly spell out the contractor's responsibility for the means, methods, techniques, sequences, and procedures of the project
 - Limit exposure to uncontrollable consequential damages created by supply chain disruptions.

Inflation Issues

- Widespread labor shortages and supply chain issues has largely contributed to rising inflation concerns in the commercial insurance space
 - Surging consumer price index (CPI) to a 40-year high in 2022
- The costs to repair, replace or rebuild structures have soared
 - prompted by increased labor and material expenses
- Social Inflation Concerns
 - Refers to societal trends that influence the ever-rising costs of insurance claims and lawsuits above the overall inflation rate
 - **Third-Party Litigation Funding** - refers to when a third party provides financing for a lawsuit. In exchange, the third party receives a portion of the settlement
 - **Tort Reform** - is used to prevent frivolous lawsuits and preserve laws that prevent abusive practices against businesses
 - Plaintiff-Friendly Legal Decisions and Large Jury Rewards

Social Inflation Impact



! Insurance Information Institute, <https://www.iii.org/insuranceindustryblog/author/jeff-dunsavage/>.
! https://www.adv:sen.com/tools/fpnproc/fpns/articles_new_1/P/362243669.html?rid=362243669&list_id=1.

Renewed Focus on Health & Safety

- The COVID-19 crisis has likely changed how projects are designed and implemented
- Firms are facing unprecedented new situations that demand innovative thinking and problem-solving
- Consider: Architectural and engineering firms responsible for indoor air quality need to educate their clients about the known science of how airborne viruses spread indoors and the design mitigation measures that can be implemented to reduce that risk
 - Managing the Risk
 - Educate the Client on the benefits, costs, and risks
 - Document Client decision/approval and the options provided
 - Conform with Good Professional Practice

Environmental Stewardship

- Between building materials, construction processes, and building operations, 40% of all global carbon emissions come from the built environment.
- Half of all US state jurisdictions use 2009 or older energy code
 - Building codes have a tremendous impact in raising the bar for institutionalizing energy-efficient performance
 - Without requirements to go above code standards, the facilities that are constructed to last 60+ years will continue to have built-in weaknesses from day one of occupancy
- To remain competitive in a marketplace with increased scrutiny and climate consciousness, design firms must keep pace with design strategies aligned with sustainability objectives.

Climate Resiliency

- Global warming, because of its instability, will continue to increase at least until 2050
- Severe weather should be expected for at least the next 30 years
 - Implications on the built environment emphasize the need to prepare physical assets.
- Scientific findings may make their way into the courts in claims of negligence.
- Important that design firms seriously consider weather impacts to the physical assets they are designing, regardless of project type or size
- Managing the Risk:
 - Discussing climate risks with clients early in the process
 - Document, especially when a client declines investment
 - Favorable Contract Provision

Questions?

Thank you for your time!!

Jared Maxwell

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