

SENIOR LIVING & SOCIAL SERVICES
INSURANCE MARKET REVIEW


2021



M3 INSURANCE » 800.272.2443 » www.m3ins.com


NATIONAL STATE OF THE MARKET

Nationally, all businesses have been impacted by rate increases. The CIAB's Q4-2020 average rate increases for all industries, and the driving forces behind them, are summarized below by line of coverage. The subsequent pages of this report will dive deeper into the specific impact to the senior living & social services industry.

 **General Liability**


- Social inflation
- Increased underwriting scrutiny
- Carriers in moratorium or exited altogether
- Reinsurance rates

7.3%

 **Automobile**


- Medical & social inflation
- Employee behavior (i.e., inattentive driving, speeding, & hard braking)
- Increased cost for repair

9.1%

 **Property**


- Limited markets writing habitational portfolio's
- Increased cost of construction
- Skilled labor shortage
- Six years of CAT losses + 2020 riots

12.9%

 **Directors & Officers**


- Social inflation
- Steady increase of COVID related lawsuits throughout pandemic
- COVID financial impact concerns

14.7%

 **Workers' Compensation**


- Increased claim duration due to reduced return-to-work opportunities
- Medical cost inflation
- COVID impact will be lagging and treatment of claims still undefined

0.4%

 **Excess/Umbrella Liability**

- Social inflation
- Limited capacity
- Reinsurance rates increases, inclusive of abuse rates
- Reinsurance treaties less favorable

21.3%

 **Cyber Liability**

- Ransomware attacks nearly doubled in 2020
- Gaps in IT infrastructure/security controls

11.1%

Social inflation is leading emerging risk impacting all liability lines. Social inflation is a term used to describe rising costs of insurance claims resulting from increased litigation, plaintiff-friendly judgements, and larger jury awards.

Factors contributing to social inflation include

-  **Distrust of Corporations**
-  **Plaintiff Attorney Strategies**
-  **Juror Emotions (Reptile Theory)**
-  **Statutory Progressions (Reviver Statutes)**

CIAB is The Council of Insurance Agents and Brokers, a Trade Association for 200 of the world's top commercial insurance and employee benefits brokerages.





GENERAL/PROFESSIONAL LIABILITY



PRICING

- M3 National rate forecast: +15 to +300%
- M3 Midwest rate forecast: +15 to +25%



CAPACITY

- Moratorium due to the pandemic
- Limited markets for long term care
- Carriers are inundated with submissions allowing for them to be more selective, resulting in less capacity for accounts with loss activity

COST DRIVERS

- Severity
 - Medical cost inflation
 - Social inflation stirring excess jury awards
 - Sensationalism of abuse cases
- Frequency
 - Turnover of caregivers and management
 - Reimbursement levels
 - Reduced occupancy

COVERAGE REVIEW

- Carriers requiring change in terms including but not limited to:
 - Moving to claims-made form
 - Abuse limitations or exclusions
 - Adding COVID-19 or communicable disease exclusions
- Additional underwriting scrutiny with focus on:
 - Regulatory (survey results, CMS rating, etc.)
 - Abuse policy/procedures
 - Infection control policy/procedures



COVID IMPACT ON UNDERWRITING

- ▶ *Number of positive cases*
- ▶ *Following CMS/CDC Guidelines*
- ▶ *Assessment of residents & staff*
- ▶ *Quarantine procedures*
- ▶ *PPE inventory and accessibility*
- ▶ *Outside vendor policies*
- ▶ *Staffing levels and contingency plans*
- ▶ *Record retention*
- ▶ *Crisis communication plans*

The M3 rate forecast is based upon a market basket of actual rate adjustments from the M3 Senior Living & Social services client base in combination with our insurance carrier relationships who specialize in this industry segment.

SENIOR LIVING & SOCIAL SERVICES MARKET SUMMARY



PROPERTY

 10-40%

PRICING

- M3 rate forecast: +10 to +40%, or even greater with loss experience
- Still making up from adverse losses
- Carriers focused on creating stability
- Reinsurance rates
- Anticipate significant increase to flood rates
 - FEMA Risk Rating 2.0 to be rolled out October 2021

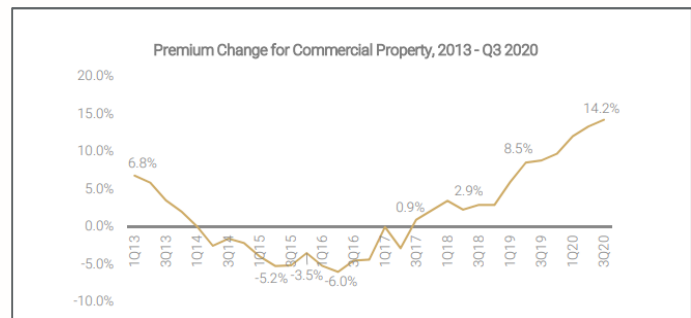
COST DRIVERS

- Increased cost of construction and skilled labor shortage
- CAT losses for six consecutive years with 2020 riots being added
- Record Q1 2021 CAT losses due to winter storms in Texas & Southern states
- Weather patterns
- Derecho causing damage in Midwest, accounting for nearly half of the 2020 weather disaster costs
- Reinsurance costs and restrictions
- Decreased investment profits
- Thousands of COVID-19 related business income suits have been filed, increasing litigation costs
 - Business income claims increased 94% in Q2 2020

CAPACITY

- Moratorium due to the pandemic
- Habitational portfolio's with frame and/or non-sprinklered properties limited in standard markets
- Submission saturation allows carrier selectivity and less capacity for accounts with loss activity
- Underwriting guidelines constantly changing and requiring leadership oversight
- Loss control recommendations now mandates
- Limited markets due to M&A carrier consolidation, withdrawal, and underwriting restrictions
- Carriers looking for higher attachment points

NATIONAL RESULTS



SOURCE: <https://www.ciab.com/resources/q4-p-c-market-survey-2020/>

COVERAGE REVIEW

- Higher deductible/waiting period structures being driven by reinsurance treaties
 - Requirement for separate, increased wind/hail and water damage deductibles
- Carriers will be evaluating limits to ensure adequately stated (i.e. business income worksheets, appraisals, etc.)
- Increased concern over vacant or unoccupied locations

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WORKERS' COMPENSATION



PRICING

- Most states have experienced a decrease in rate due to reduced frequency of claims, efficient reserving using predictive analytics and less severity. With the rate setting model using lagging data, predicting an inflection point as current rates are not sustainable due to medical inflation and the cost of the pandemic.
- COVID-19 claims will not be included in Experience Mod. calculations, but will be included in loss experience

STRATEGY

- Review opportunity to close claims
- Perform class code audits
- Create employee total health and wellness program, which will in turn bring down medical costs

COST DRIVERS

- Wisconsin is still the only state in the nation to not have a medical cost containment strategy resulting in higher medical inflation than states with or without a fee schedule
- COVID-19 created greater uncertainty in defining “the course and scope of employment”
- Safe patient handling, slips/trips/falls, and behavior
- Increased claim duration due to reduced return-to-work opportunities
- Employers paying for light duty that is not captured in the rate

CAPACITY

- Carriers are in moratorium in writing long term care accounts due to COVID-19 risk

COVERAGE REVIEW

- Study increase in telecommuting
- Review employee class codes
- Consider need for additional states on policy as employees' locations change

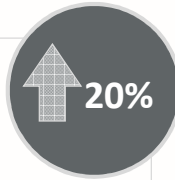


CYBER LIABILITY



PRICING

- M3 rate forecast: +20%
- 2019 & 2020 adverse losses
- Carriers turning to reinsurance markets to share risk
- Rise in claim frequency will require price and coverage restructuring



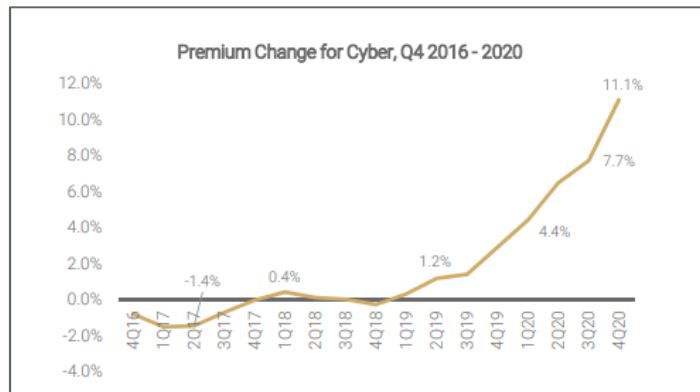
CAPACITY

- With healthcare and education being the highest risks, carriers are reducing capacity for these industries

COST DRIVERS

- Ransomware attacks doubled during the pandemic with cyber criminals capitalizing on people working remotely and gaps in IT infrastructure
- Ransomware is continuously evolving
- Data lost or stolen
- Employee mistake(s)
- Hacking
- Confidential info disposal (not purging appropriately)
- Schools, manufacturers and healthcare facilities targeted profile for hackers
- Regulatory mandates driving increase in claim frequency (GDPR & CCPA)

NATIONAL RESULTS



SOURCE: <https://www.ciab.com/resources/q4-p-c-market-survey-2020/>

COVERAGE REVIEW

- Higher deductible structures
- Sub-limiting coverage if proper controls are not in place
- Carriers will be looking for additional underwriting information on cyber controls and internal policies/procedures in place:
 - Encryption
 - Multi-factor authentication
 - Continuous data backup
 - Patching
 - Endpoint protections
 - Employee education

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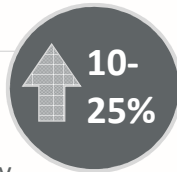
SENIOR LIVING & SOCIAL SERVICES MARKET SUMMARY



AUTOMOBILE

PRICING

- M3 rate forecast: +10 to +25%,
- Despite annual pricing increases, auto liability line remains unprofitable due to adverse losses



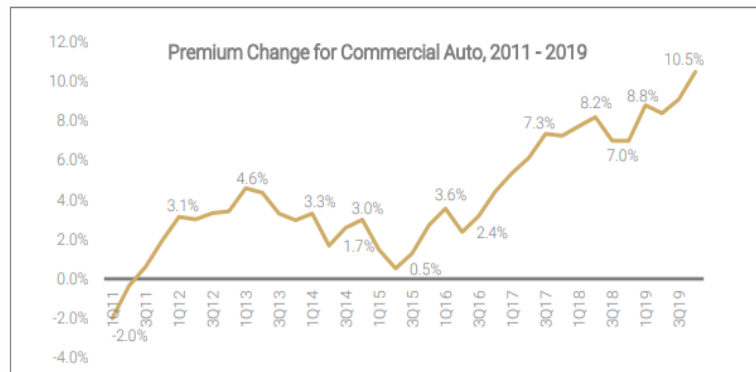
CAPACITY

- Limited markets for resident transport

COST DRIVERS

- Medical cost inflation
- Social inflation impacting volatility with the courts and legislation
- AM Best reports 2019 as worst accident year in 10 years
- Increased cost of vehicle repair/replacement
- Employee behavior including, inattentive driving, speeding and hard braking
- Number of vehicles on the road has increased since beginning of pandemic but still less vehicles overall when comparing to 2019 auto usage
 - Less frequency but no change to severity
- COVID-19 creating significant delays in claim settlements

NATIONAL RESULTS



SOURCE: <https://www.ciab.com/resources/q4-p-c-market-survey-2019/>

COVERAGE REVIEW

- Livery exclusion
- Temp agency personnel excluded
- Push for higher deductibles

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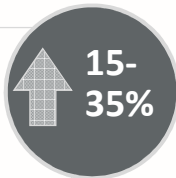


DIRECTORS & OFFICERS

+ Employment Practices Liability (EPL), Fiduciary Liability, and Crime

PRICING

- M3 rate forecast: +15% to +35%
- Market correction in response to years of low premiums while providing broad terms



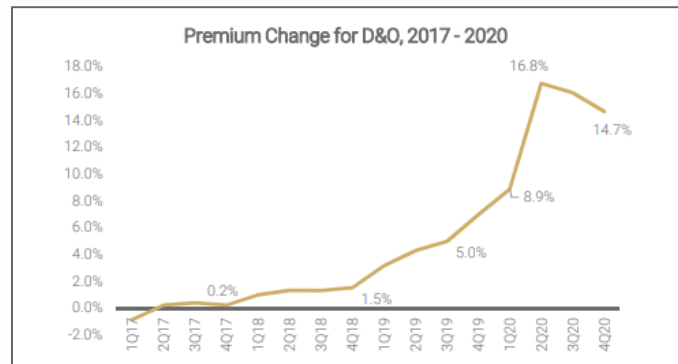
CAPACITY

- Limited capacity for healthcare
- Carriers seeking higher attachment points
- COVID-19 concerns of disruption to financial position, operational challenges and increased mismanagement allegation

COST DRIVERS

- Social inflation
- An increase in class actions suits are driving the greater severity
 - Wage and hour
 - BIPA (Biometric Information Privacy Act)
- COVID-19 related lawsuits have increased since the pandemic started
- Statutory progressions and public sentiments involving #METOO laws, Reviver Statutes, BIPA & LGBTQ protection under Title VII of Civil Rights Act
- Discrimination and retaliation allegations, including whistleblower claims
- Increased counsel hourly rates to defend claims
- Increased claims against retirement plan sponsors alleging excessive plan fees in violation of ERISA

NATIONAL RESULTS



SOURCE: <https://www.ciab.com/resources/q4-p-c-market-survey-2020/>

COVERAGE REVIEW

- Class Action sub-limits
- Side A coverage limitations
- Excluding wage & hour
- Underwriting scrutiny due to COVID. Areas of Focus
 - Furloughs, reduction in workforce or locations closing
 - Financial stability including liquidity & loan/debt covenant compliance (e.g., CARES Act or additional grants)
 - PPE availability
 - Workplace safety
 - Continuity & succession planning

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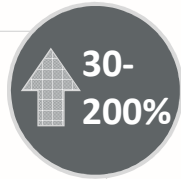


UMBRELLA/EXCESS LIABILITY



PRICING

- M3 rate forecast: +30% to +200%
- Reinsurance rates
- Increased cost per \$1 million layer
- Function of underlying pricing



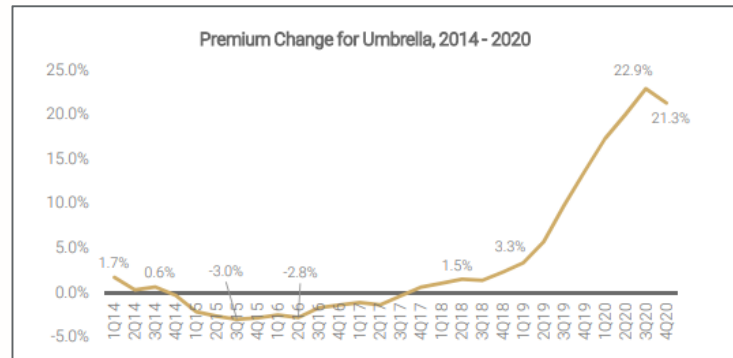
CAPACITY

- Moratorium due to pandemic
- Limited markets due to M&A carrier consolidation, withdrawal and underwriting restrictions
- Higher attachment points
- Reinsurance rates outpacing primary line rates, causing carriers to purchase less reinsurance.

COST DRIVERS

- Social inflation
 - Increasing wealth disparity
 - Millennials feel corporations put profits above safety
 - Desensitized to value
 - Advertising misleads perception of insurance companies
- Catastrophic losses
 - Wildfires, active shooter, traumatic brain injury, auto, opioids and abuse/molestation
- Reviver statutes
- 2020 reinsurance underwriting losses, inclusive of reserves for pandemic claims and large legacy claims (i.e. environmental, asbestos & other undeveloped liability claims).
- Low investment income

NATIONAL RESULTS



SOURCE: <https://www.ciab.com/resources/q4-p-c-market-survey-2020/>

COVERAGE REVIEW

- Carriers requiring change in terms including but not limited to:
 - Abuse limitations or exclusions
 - COVID-19 or Communicable Disease Exclusions
 - Punitive damages exclusions
 - Moving to claims-made forms

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