



**Gallagher**

Insurance | Risk Management | Consulting

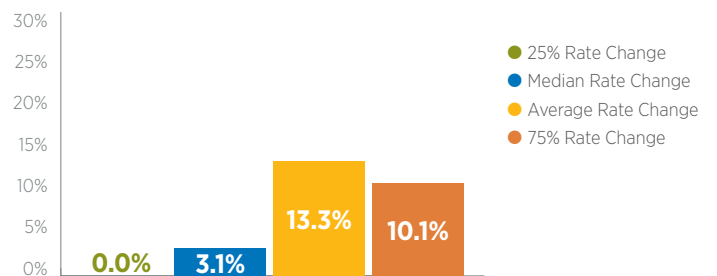
# Mid-Year 2022 Financial Institutions Market Update

While financial institutions experience many of the same insurance renewal challenges as the broader marketplace, there are nuances that do require additional consideration, specifically within some of the management and professional liability coverages. In this report, we will discuss insurance market updates for various coverage lines for the financial institutions industry.

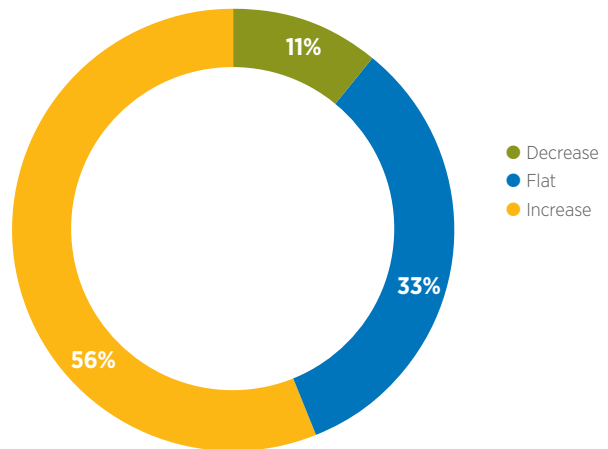
## Property insurance for financial institutions

- Property trends for financial institutions largely mimic the broader marketplace.
- A bifurcated market remains in place:
  - » Areas that aren't prone to catastrophes and haven't had losses can expect modest renewal rate increases.
  - » Areas that are prone to catastrophes or have had losses will see double-digit rate increases.
- As with most industries, the trending topic here is property valuations. The past year has seen significant inflation drive up building reconstruction costs, and, consequently, claims payments.

## Q1 2022 Property Rate Trend



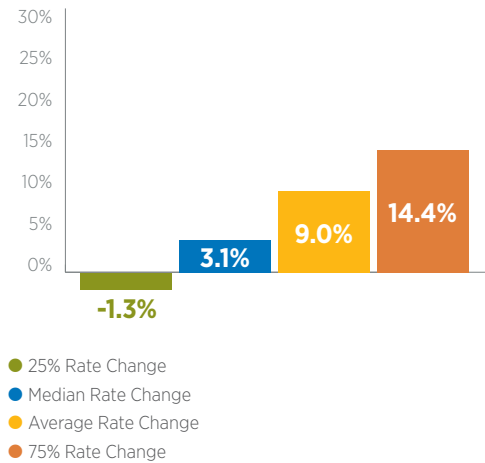
## Q1 2022 Property Rate Change Distribution



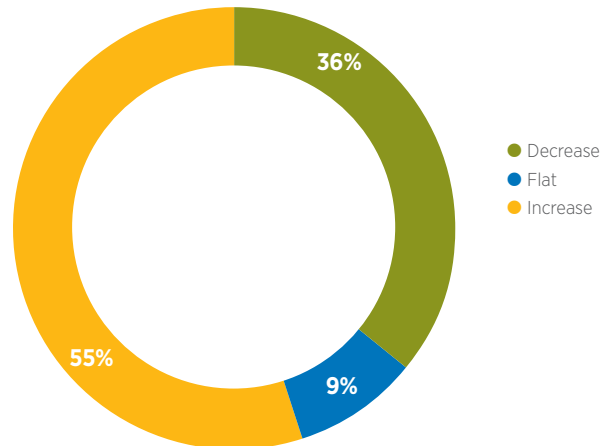
## General liability insurance for financial institutions

- For general liability, renewal rates for financial institutions are similar to other industries, with a median rate increase of 3.1%.
- More significantly, 45.0% of our clients are seeing flat or decreased renewal rates over the prior year.
- Looking ahead, we are monitoring the impact that third-party litigation and inflation has on claims costs, which would potentially cause carriers to be more firm on renewals.

### Q1 2022 GL Rate Trend



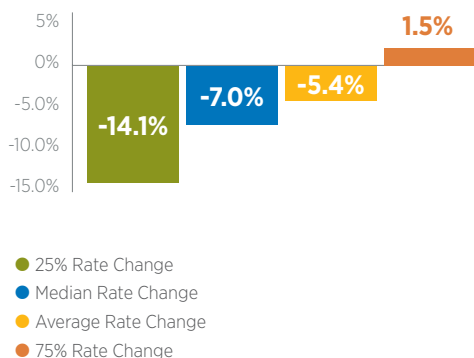
### Q1 2022 GL Rate Change Distribution



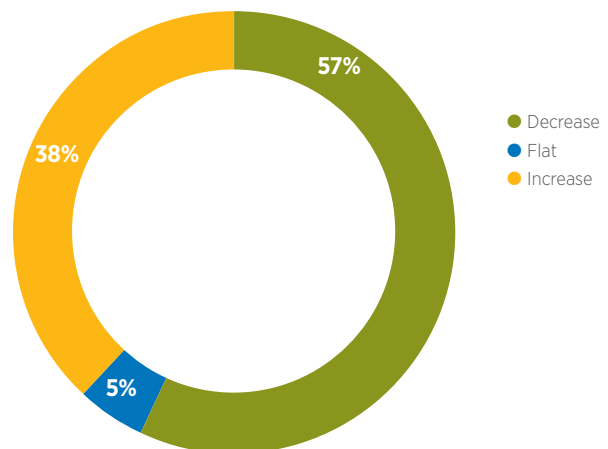
## Workers' compensation insurance for financial institutions

- Workers' compensation has arguably been the one line of coverage that has seen more favorable renewal conditions over the past two years, and that trend has continued for financial institutions through the first quarter of 2022.
- There have been indications in many other industries other than financial institutions that inflation and increased medical costs are causing workers' compensation rates to increase in the near term.
- In Q1, Gallagher's financial institution clients saw a median rate decrease of 7.0%, and only 38.0% of clients saw any rate increases.

### Q1 2022 WC Rate Trend



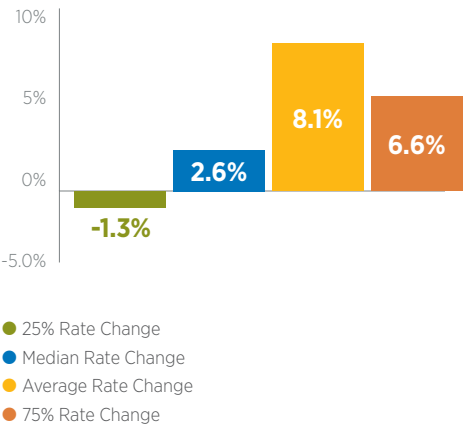
### Q1 2022 WC Rate Change Distribution



Auto liability insurance for financial institutions

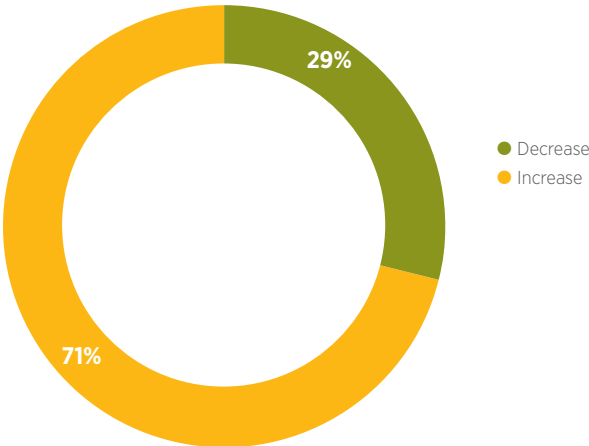
- Auto liability rates for financial institutions in the first quarter of 2022 beat the wider market trends by a slight margin, likely due to the lower exposure, with a median rate increase of 2.6%
- 71.0% of clients are seeing some form of rate increase.
- Inflation’s impact on auto claim costs has the potential to keep rate increases continuing throughout 2022.

Q1 2022 Auto Rate Trend



Source: Gallagher Drive

Q1 2022 Auto Rate Change Distribution

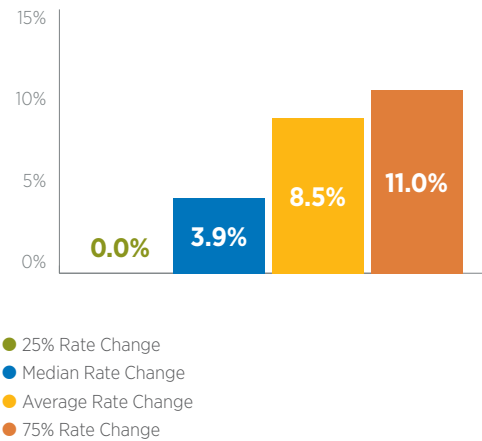


Source: Gallagher Drive

Umbrella insurance for financial institutions

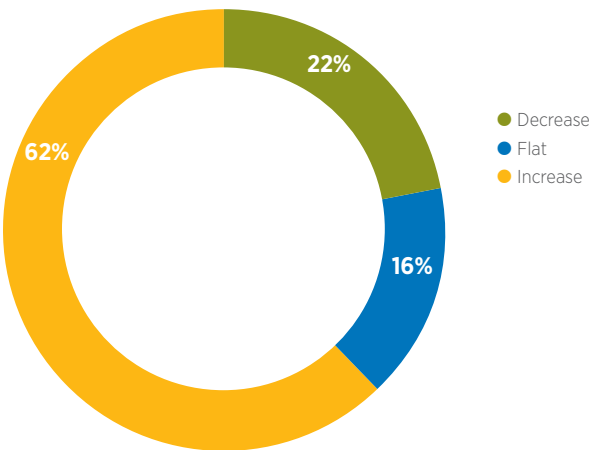
- Social inflation, nuclear verdicts, increased plaintiff activity and litigation funding continue to drive up umbrella and excess liability rates for financial institutions.
- Q1 2022 saw a median rate increase of 3.9%, which is better than most other industries.
- 62.0% of clients saw some form of rate increase at renewal and these trends are expected to continue throughout 2022.

Q1 2022 Umbrella Rate Trend



Source: Gallagher Drive

Q1 2022 Umbrella Rate Change Distribution



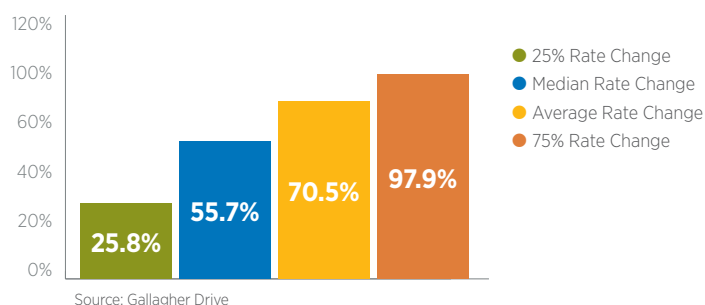
Source: Gallagher Drive



## Cyber insurance for financial institutions

- We are reserving the term “hard market” for the cyber liability marketplace, as the firm market conditions we have seen over the past 18 months have persisted. Continued claims activity among all industry groups and ongoing geopolitical tensions have prevented this market from softening.
- We are seeing 30.0% to 100.0% increases in premium for most financial institutions, with higher increases for those the market deems “below average” risks. Falling into this category are those with claims activity (frequency or severity) and those with below-market-standard cybersecurity controls.
- Coupled with premium increases, we continue to see pressure on retentions as well, with most being pushed upward at renewal.
- The cyber insurance market continues to scrutinize risks, putting all insureds under a microscope from a controls standpoint. Top of mind for underwriters are requirements like full multifactor authentication (MFA), endpoint detection and response, patch management, data backups and, of course, employee training. Underwriting responses are highly contingent upon these controls, as underwriters look to manage their own exposure to risk. As underwriters manage their exposure, we have seen some carriers restrict coverage relative to ransomware or cyber extortion, offering only a sublimit of the aggregate policy limit and sometimes applying coinsurance as well.

## Q1 2022 Cyber Rate Trend



## Directors and Officers (D&O) insurance for financial institutions

- The Directors and Officers (D&O) market for publicly traded financial institutions has seen stabilization and a continued moderation of rate increases as we moved through the first quarter of 2022.
- Most segments within the financial institutions arena are seeing low rate increases, from 5.0% to just below 10.0%, with some even flat.
- Greater capacity in the public company D&O market in general has led to diminished rates, but not all carriers underwrite financial institutions.
- Excess D&O capacity is abundant, including for Side A Difference in Conditions (DIC).
- The underwriting focus for public financial institution accounts rests heavily on financial performance, as well as environmental, social, and governance (ESG) initiatives and cybersecurity planning.
- Privately held financial institutions are experiencing slightly higher rate increases than their public counterparts, driven largely by carriers continuing to see costly entity claims (Side C). Insurers are more detailed in their underwriting approach, seeking updates for such items as return to work and vaccine mandates. Separate applications on some of these topics are common.
- Certain segments in the financial services space are continuing to see firmer conditions than others, such as special purpose acquisition companies (SPACs) and DeSPACs.
- Multiyear term policies for banks continue to be available on a limited basis, with a handful of carriers offering these policies for the smaller community bank segment. In some niche competition in the large community bank/regional bank space, a handful of markets will offer multiyear terms for these risks, but they are quick to disappear with bank growth over the \$5 billion to \$10 billion asset range. They're less available for publicly traded banks as well.

## Employment Practices Liability (EPL) insurance for financial institutions

- The Employment Practices Liability (EPL) market for financial institutions has seen a moderation in rate increases, with most risks seeing 5.0% to 15.0% increases. Those with California exposures or claims activity fall above this range, as do those adversely affected by COVID-19.
- Bifurcated retentions continue to be a trend in the market, with carriers often pursuing a separate, higher retention for claims involving highly compensated employees. This trend has hit hard with financial institutions given the propensity for greater compensation levels within many segments of the industry.

## Professional liability/Errors & Omissions (E&O) insurance for financial institutions

- Professional liability or Errors and Omissions (E&O) coverage varies in scope across the many segments of the financial institutions industry, with some carrying greater risk and thus higher premium than others.

- In general, we have not seen shock rates in segments of the financial institutions industry, but some areas trend higher, like broker-dealer E&O, bankers professional liability (aside from community banks under \$1 billion in assets) and insurance company professional liability (ICPL), with rates for asset management (hedge, mutual funds, etc.) falling on the lower end of the spectrum.
- Premium increases are, at times, 15.0% or more, especially for those with claims activity, impaired financials or regulatory issues.
- There is consistent pressure on policy retentions across most segments of the financial institutions industry as well.

## Financial institutions bond

- Insurers continue to see claims across the financial institution bond line of coverage, ranging from employee dishonesty matters to forgery/alteration, wire transfer fraud and more.
- Ongoing activity continues to result in consistent but moderate pressure on rates, with 10.0% to 25.0% increases for most, with changes in deductibles driven both by claims activity and growth of the organization itself.
- Brokers should pay particular attention to the availability of limits for social engineering fraud within the Financial Institution Bond and to working with the Cyber Liability coverage form to negotiate any crossover issues in the various Financial Institution Bond insuring agreements.

Because of the highly nuanced nature of this market, it is imperative that you are working with an insurance broker who specializes in the financial institutions industry or the particular line of coverage. Gallagher has a vast network of specialists that understand your industry and business, along with the best solutions in the marketplace for your specific challenges. Visit our [financial institutions page](#) for more information.

## About our data

Gallagher Drive® is our premier data and analytics platform that combines market condition, claims history and industry benchmark information to give our clients and carriers the real-time data they need to optimize risk management programs. When used as part of **CORE360®**, our unique comprehensive approach to evaluating our client's risk management program, Gallagher Drive creates meaningful insights to help them make more informed risk management decisions, find efficient use of capital, and identify the top markets with the best solutions for their risks.

Rate changes in this report were calculated by using the changes in premium and exposure of Gallagher clients renewing in Q1 of 2022. Due to the variability that we are seeing in this market and specific account characteristics, individual rates may vary.





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